EVANS BANCORP INC
Form 10-K
March 09, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[X]ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2014

[ ]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 incorporation or organization)	(I.R.S. Employer Identification No.)

One Grimsby Drive, Hamburg, New York	14075
(Address of principal executive offices)	(Zip Code)

(716) 926-2000
Registrant's telephone number (including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value $.50 per share	NYSE MKT LLC

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

None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No X

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 X No

Indicate by checkmark 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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 a smaller reporting company)	Smaller reporting company X

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

Yes No X

On June 30, 2014, the aggregate market value of the registrant's common stock held by non-affiliates was approximately $64.7 million, based upon the closing sale price of a share of the registrant's common stock on the NYSE MKT LLC.

As of February 27, 2015, 4,212,608 shares of the registrant's common stock were outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to the registrant's 2015 Annual Meeting of Shareholders, to be held on April 30, 2015, which will be subsequently filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates, are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

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PART I

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K 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,” “goal,” and similar expressions identify such forward-looking statements. These forward-looking statements include statements regarding the business plans, prospects, growth and operating strategies of Evans Bancorp, Inc. (the “Company"), 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 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 (“FASB”) and the Public Company Accounting Oversight Board; changes in the financial performance and/or condition of the Company’s borrowers; 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 Annual Report on Form 10-K including the risk factors described in Item 1A, as well as in the Company’s periodic reports filed with the Securities and Exchange Commission (the “SEC”). 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.

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Item 1.BUSINESS

EVANS BANCORP, INC.

Evans Bancorp, Inc. (the "Company") is a New York business corporation which is registered as a financial holding company under the Bank Holding Company Act of 1956, as amended (the "BHCA"). The principal office of the Company is located at One Grimsby Drive, Hamburg, NY 14075 and its telephone number is (716) 926-2000. This facility is occupied by the Office of the President and Chief Executive Officer of the Company, as well as the Administrative and Loan Divisions of Evans Bank. The Company was incorporated on October 28, 1988, but the continuity of its banking business is traced to the organization of the Evans National Bank of Angola on January 20, 1920. 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 Company's common stock is traded on the NYSE MKT under the symbol "EVBN."

At December 31, 2014, the Company had consolidated total assets of $846.8 million, deposits of $707.6 million and stockholders' equity of $85.8 million.

The Company's primary business is the operation of its subsidiaries. It does not engage in any other substantial business activities. The Company has two direct wholly-owned subsidiaries: (1) Evans Bank, N.A. (the "Bank"), which provides a full range of banking services to consumer and commercial customers in Western New York; and (2) Evans National Financial Services, LLC ("ENFS"), which owns 100% of the membership interests in The Evans Agency, LLC ("TEA"), which sells various premium-based insurance policies on a commission basis. At December 31, 2014, the Bank represented 99.0% and ENFS represented 1.0% of the consolidated assets of the Company. Further discussion of our segments is included in Note 18 to the Company's Consolidated Financial Statements included under Item 8 of this Annual Report on Form 10-K.

Evans Bank

The Bank is a nationally chartered bank that has its headquarters at One Grimsby Drive, Hamburg, NY, and a total of 13 full-service banking offices in Erie County and Chautauqua County, NY.

At December 31, 2014, the Bank had total assets of $837.9 million, investment securities of $100.1 million, net loans of $683.1 million, deposits of $707.6 million and stockholders' equity of $77.3 million, compared to total assets of

$824.0 million, investment securities of $104.9 million, net loans of $635.5 million, deposits of $713.8 million and stockholders' equity of $71.7 million at December 31, 2013. The Bank offers deposit products, which include checking and NOW accounts, savings accounts, and certificates of deposit, as its principal source of funding. The Bank's deposits are insured up to the maximum permitted by the Bank Insurance Fund (the "Insurance Fund") of the Federal Deposit Insurance Corporation ("FDIC"). The Bank offers a variety of loan products to its customers, including commercial and consumer loans and commercial and residential mortgage loans.

As is the case with banking institutions generally, the Bank's operations are significantly influenced by general economic conditions and by related monetary and fiscal policies of banking regulatory agencies, including the Federal Reserve Board ("FRB") and FDIC. The Bank is also subject to the supervision, regulation and examination of the Office of the Comptroller of the Currency of the United States of America (the "OCC").

The Evans Agency, LLC

TEA, a property and casualty insurance agency, is a wholly-owned subsidiary of ENFS. TEA is headquartered in Hamburg, NY, with offices located throughout Western New York. TEA is a full-service insurance agency offering personal, commercial and financial services products. For the year ended December 31, 2014, TEA had total revenue of $6.5 million.

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TEA's primary market area is Erie, Chautauqua, Cattaraugus and Niagara counties. Most lines of personal insurance are provided, including automobile, homeowners, boat, recreational vehicle, landlord, and umbrella coverage. Commercial insurance products are also provided, consisting of property, liability, automobile, inland marine, workers compensation, bonds, crop and umbrella insurance. TEA also provides the following financial services products: life and disability insurance, Medicare supplements, long term care, annuities, mutual funds, retirement programs and New York State Disability.

Other Subsidiaries

In addition to the Bank and TEA, the Company has the following direct and indirect wholly-owned subsidiaries:

Evans National Holding Corp. ("ENHC"). ENHC, a wholly-owned subsidiary of the Bank, operates as a real estate investment trust that holds commercial real estate loans and residential mortgages, providing additional flexibility and planning opportunities for the business of the Bank.

Suchak Data Systems, LLC ("SDS"). SDS, a wholly-owned subsidiary of the Bank, serves the data processing needs of financial institutions with customized solutions and consulting services. SDS hosts the Bank's core and primary banking systems and provides product development and programming services. SDS's products and services for its other customers include online banking systems, check imaging, item processing, and automated teller machine ("ATM") services.

Evans National Financial Services, LLC ("ENFS"). ENFS is a wholly-owned subsidiary of the Company. ENFS's primary business is to own the business and assets of the Company's non-banking financial services subsidiaries.

Frontier Claims Services, Inc. ("FCS"). FCS is a wholly-owned subsidiary of TEA and provides claims adjusting services to various insurance companies.

Evans National Leasing, Inc. ("ENL"). ENL, a wholly-owned subsidiary of the Bank, provided direct financing leasing of commercial small-ticket general business equipment to companies located throughout the contiguous 48 United States. The Company exited the leasing business in 2009 and is currently servicing the leasing portfolio through to maturity.

The Company also has two special purpose entities: Evans Capital Trust I, a statutory trust formed in September 2004 under the Delaware Statutory Trust Act, solely for the purpose of issuing and selling certain securities representing undivided beneficial interests in the assets of the trust, investing the proceeds thereof in certain debentures of the Company and engaging in those activities necessary, advisable or incidental thereto; and ENB Employers Insurance Trust, a Delaware trust company formed in February 2003 for the sole purpose of holding life insurance policies under the Bank's bank-owned life insurance ("BOLI") program.

The Company operates in two operating segments – banking activities and insurance agency activities. See Note 18 to the Company's Consolidated Financial Statements included under Item 8 of this Annual Report on Form 10-K for more information on the Company's operating segments.

MARKET AREA

The Company's primary market area is Erie County, Niagara County, northern Chautauqua County and northwestern Cattaraugus County, NY. This primary market area is the area where the Bank principally receives deposits and makes loans and TEA sells insurance.

MARKET RISK

For information about, and a discussion of, the Company's "Market Risk," see Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk" of this Annual Report on Form 10-K.

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COMPETITION

All phases of the Company's business are highly competitive. The Company competes actively with local, regional and national financial institutions, as well as with bank branches and insurance agency offices in the Company's primary market area of Erie County, Niagara County, northern Chautauqua County, and northwestern Cattaraugus County, NY. These Western New York counties have a high density of financial institutions, many of which are significantly larger and have greater financial resources than the Company. The Company faces competition for loans and deposits from other commercial banks, savings banks, internet banks, savings and loan associations, mortgage banking companies, credit unions, insurance companies and other financial services companies. The Company faces additional competition for deposits and insurance business from non-depository competitors such as the mutual fund industry, securities and brokerage firms, and insurance companies and brokerages. In the personal insurance area, the majority of TEA's competition comes from direct writers, as well as some small local agencies located in the same towns and villages in which TEA has offices. In the commercial business segment, the majority of the competition comes from larger agencies located in and around Buffalo, NY. By offering the large number of carriers which it has available to its customers, TEA has attempted to remain competitive in all aspects of its business.

As an approximate indication of the Company's competitive position, in Erie County, NY, where 13 of the Company's banking offices are located, the Bank had the sixth most deposits according to the FDIC's annual deposit market share report as of June 30, 2014 with 1.8% of the total market's deposits of $36.3 billion. By comparison, the market leaders, M&T Bank and First Niagara Financial Group, have 76.7% of the county's deposits combined. The Company attempts to be generally competitive with all financial institutions in its service area with respect to interest rates paid on time and savings deposits, service charges on deposit accounts, and interest rates charged on loans.

SUPERVISION AND REGULATION

Bank holding companies and banks are extensively regulated under both federal and state laws and regulations that are intended to protect depositors and investors. Because the Company is a public company with shares traded on the NYSE MKT, it is subject to regulation by the Securities and Exchange Commission, as well as the listing standards required by NYSE MKT. To the extent that the following summary describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in the applicable law or regulation, or a change in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material adverse effect on the Company's business, financial condition and results of operations.

Bank Holding Company Regulation (BHCA)

As a financial holding company registered under the BHCA, the Company and its non-banking subsidiaries are subject to regulation and supervision under the BHCA by the FRB. The FRB requires periodic reports from the

Company, and is authorized by the BHCA to make regular examinations of the Company and its subsidiaries. Under Regulation Y, a bank holding company must serve as a source of financial and managerial strength for its subsidiary banks and must not conduct its operations in an unsafe or unsound manner.

The Company is required to obtain the prior approval of the FRB before merging with or acquiring all or substantially all of the assets of, or direct or indirect ownership or control of more than 5% of the voting shares of, a bank or bank holding company. The FRB will not approve any acquisition, merger or consolidation that would have a substantial anti-competitive result, unless the anti-competitive effects of the proposed transaction are outweighed by a greater public interest in meeting the needs and convenience of the public.

The FRB also considers managerial, capital and other financial factors in acting on acquisition or merger applications. A bank holding company may not engage in, or acquire direct or indirect control of more than 5% of the voting shares of any company engaged in any non-banking activity, unless such activity has been determined by the FRB to be closely related to banking or managing banks. The FRB has identified by regulation various non-banking activities in which a bank holding company may engage with notice to, or prior approval by, the FRB.

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The FRB has enforcement powers over financial holding companies and their subsidiaries, among other things, to interdict activities that represent unsafe or unsound practices or constitute violations of law, rule, regulation, administrative orders, or written agreements with a federal bank regulator. These powers may be exercised through the issuance of cease and desist orders, civil monetary penalties or other actions.

Bank holding companies and their subsidiary banks are also subject to the provisions of the Community Reinvestment Act ("CRA"). Under the terms of the CRA, the FRB (or other appropriate bank regulatory agency, in the case of the Bank, the OCC) is required, in connection with its examination of a bank, to assess such bank's record in meeting the credit needs of the communities served by that bank, including low and moderate-income neighborhoods. Furthermore, such assessment is taken into account in evaluating any application made by a bank holding company or a bank for, among other things, approval of a branch or other deposit facility, office relocation, a merger or an acquisition of bank shares.

Supervision and Regulation of Bank Subsidiaries

The Bank is a nationally chartered banking corporation subject to supervision, examination and regulation by the FRB, the FDIC and the OCC. These regulators have the power to enjoin "unsafe or unsound practices," require affirmative action to correct any conditions resulting from any violation or practice, issue an administrative order that can be judicially enforced, direct an increase in capital, restrict the growth of a bank, assess civil monetary penalties, and remove a bank's officers and directors.

The operations of the Bank are subject to numerous statutes and regulations. Such statutes and regulations relate to required reserves against deposits, investments, loans, mergers and consolidations, issuance of securities, payment of dividends, establishment of branches, and other aspects of the Bank's operations. Various consumer laws and regulations also affect the operations of the Bank, including state usury laws, laws relating to fiduciaries, consumer credit and equal credit, fair credit reporting, and privacy of non-public financial information.

The Bank is subject to Sections 23A and 23B of the Federal Reserve Act and Regulation W thereunder, which govern certain transactions, such as loans, extensions of credit, investments and purchases of assets between member banks and their affiliates, including their parent holding companies. These restrictions limit the transfer from its subsidiaries, including the Bank, of funds to the Company in the form of loans, extensions of credit, investments or purchases of assets (collectively, "Transfers"), and they require that the Bank's transactions with the Company be on terms no less favorable to the Bank than comparable transactions between the Bank and unrelated third parties. Transfers by the Bank to any affiliate (including the Company) are limited in amount to 10% of the Bank's capital and surplus, and transfers to all affiliates are limited in the aggregate to 20% of the Bank's capital and surplus. Furthermore, such loans and extensions of credit are also subject to various collateral requirements. These regulations and restrictions may limit the Company's ability to obtain funds from the Bank for its cash needs, including funds for acquisitions, and the payment of dividends, interest and operating expenses.

The Bank is prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property or furnishing of services. For example, the Bank may not generally require a customer to obtain other services from the Bank or the Company, and may not require the customer to promise not to obtain other services from a competitor as a condition to an extension of credit. The Bank is also subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to executive officers, directors, principal stockholders or any related interest of such persons. Extensions of credit: (i) must be made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for, and following credit underwriting procedures that are not less stringent than those applicable to, comparable transactions with persons not covered above and who are not employees, and (ii) must not involve more than the normal risk of repayment or present other unfavorable features. The Bank is also subject to certain lending limits and restrictions on overdrafts to such persons. A violation of these restrictions may result in the assessment of substantial civil monetary penalties on the Bank or any officer, director, employee, agent or other person participating in the conduct of the affairs of the Bank or the imposition of a cease and desist order.

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As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by, insured institutions. It may also prohibit an insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the FDIC. The FDIC also has the authority to initiate enforcement actions against insured institutions. The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC.

The FDIC has adopted a risk-based premium system that provides for quarterly assessments based on an insured institution's ranking in one of four risk categories based on their examination ratings and capital ratios. In addition, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), a mixed-ownership Federal government corporation established to recapitalize the Federal Savings and Loan Insurance Corporation. The current annualized assessment rate is 0.62 basis points, or approximately 0.16 basis points per quarter. These assessments will continue until the Financing Corporation bonds mature in 2019. Pursuant to the Dodd-Frank Act, the deposit insurance assessment base was redefined in 2011 to reflect consolidated total assets less average tangible equity. The result is that larger financial institutions, which have more assets leveraged with non-deposit wholesale funds, generally have paid a greater percentage of the aggregate insurance assessment and smaller banks, including the Bank, have paid less.

Regulations promulgated by the FDIC pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 place limitations on the ability of certain insured depository institutions to accept, renew or rollover deposits by offering rates of interest which are significantly higher than the prevailing rates of interest on deposits offered by other depository institutions having the same type of charter in such depository institutions' normal market area. Under these regulations, well-capitalized institutions may accept, renew or rollover such deposits without restriction, while adequately capitalized institutions may accept, renew or rollover such deposits with a waiver from the FDIC (subject to certain restrictions on payment of rates). Undercapitalized institutions may not accept, renew or rollover such deposits.

Under the Financial Institutions Reform, Recovery and Enforcement Act of 1989, a depository institution insured by the FDIC can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with: (i) the default of a commonly controlled FDIC-insured depository institution, or (ii) any assistance provided by the FDIC to a commonly controlled FDIC-insured institution in danger of default. "Default" is defined generally as the appointment of a conservator or receiver, and "in danger of default" is defined generally as the existence of certain conditions indicating that, in the opinion of the appropriate banking agency, a "default" is likely to occur in the absence of regulatory assistance.

In addition to the foregoing, federal regulators have adopted regulations and examination procedures promoting the safety and soundness of institutions by specifically addressing, among other things: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate exposure; (v) asset growth; (vi) ratio of classified assets to capital; (vii) minimum earnings; and (viii) compensation and benefits standards for management officials. FRB regulations, for example, generally require a bank holding company to give the FRB prior notice of any redemption or repurchase of the bank holding company's equity securities, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board has broad authority to prohibit activities of bank holding companies and their non-banking subsidiaries which represent unsafe

and unsound banking practices or which constitute violations of laws or regulations, and can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution.

Dividends paid by the Bank have been the Company's primary source of operating funds and are expected to be for the foreseeable future. Capital adequacy requirements serve to limit the amount of dividends that may be paid by the Bank. Under OCC regulations, the Bank may not pay a dividend, without prior OCC approval, if the total amount of all dividends declared during the calendar year, including the proposed dividend, exceed the sum of its retained net income to date during the calendar year and its retained net income over the preceding two years. As of December 31, 2014, approximately $16.1 million was available for the payment of dividends without prior OCC approval. The Bank’s ability to pay dividends is also subject to the Bank being in compliance with regulatory capital requirements. As indicated below, at December 31, 2014, the Bank was in compliance with these requirements.

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Because the Company is a legal entity separate and distinct from the Bank, the Company's right to participate in the distribution of assets of the Bank in the event of the Bank's liquidation or reorganization would be subject to the prior claims of the Bank's creditors. In the event of a liquidation or other resolution of an insured depository institution, the claims of depositors and other general or subordinated creditors are entitled to a priority of payment over the claims of unsecured, non-deposit creditors, including a parent bank holding company (such as the Company) or any shareholder or creditor thereof.

The FRB, the OCC and other federal banking agencies have broad enforcement powers, including the power to terminate deposit insurance, to impose substantial fines and other civil and criminal penalties, and to appoint a conservator or receiver for the assets of a regulated entity. Failure to comply with applicable laws, regulations and supervisory agreements could subject the Company or its subsidiaries, as well as officers, directors and other institution-affiliated parties of these organizations, to administrative sanctions and potential civil monetary penalties.

Capital Adequacy

The FRB, the FDIC and the OCC have adopted risk-based capital adequacy guidelines for bank holding companies and banks under their supervision. These capital adequacy guidelines will be modified pursuant to the Basel III reform measures, described below. Under existing guidelines, the so-called “Tier 1 capital” and “Total capital” as a percentage of risk-weighted assets and certain off-balance sheet instruments must be at least 4% and 8%, respectively.

The FRB, the FDIC and the OCC have also imposed a leverage standard to supplement their risk-based ratios. This leverage standard focuses on a banking institution’s ratio of Tier 1 capital to average total assets, adjusted for goodwill and certain other items. Under these guidelines, banking institutions that meet certain criteria, including excellent asset quality, high liquidity, low interest rate exposure and good earnings, and that have received the highest regulatory rating must maintain a ratio of Tier 1 capital to total adjusted average assets of at least 3%.

Institutions not meeting these criteria, as well as institutions with supervisory, financial or operational weaknesses, along with those experiencing or anticipating significant growth, are expected to maintain a Tier 1 capital to total adjusted average assets ratio equal to at least 4%. As reflected in the following table, the risk-based capital ratios and leverage ratios of the Company and the Bank as of December 31, 2014 and 2013 exceeded the required capital ratios for classification as “well capitalized,” the highest classification under the regulatory capital guidelines.

Capital Components and Ratios

	December 31, 2014 (dollars in thousands)							
	Company		Bank		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Risk-Based Capital (to Risk Weighted Assets)	$ 98,782	14.9 %	$ 98,317	14.9 %	$ 53,227	8.0 %	$ 66,533	10.0 %
Tier I Capital (to Risk Weighted Assets)	$ 90,473	13.6 %	$ 90,021	13.7 %	$ 26,613	4.0 %	$ 39,920	6.0 %
Tier I Capital (to Average Assets)	$ 90,473	10.8 %	$ 90,021	10.8 %	$ 33,726	4.0 %	$ 42,157	5.0 %

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	December 31, 2013 (dollars in thousands)							
	Company		Bank		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Risk-Based Capital (to Risk Weighted Assets)	$ 92,789	14.9 %	$ 86,757	13.9 %	$ 49,864	8.0 %	$ 62,330	10.0 %
Tier I Capital (to Risk Weighted Assets)	$ 85,044	13.6 %	$ 78,932	12.7 %	$ 24,932	4.0 %	$ 37,398	6.0 %
Tier I Capital (to Average Assets)	$ 85,044	10.4 %	$ 78,932	9.6 %	$ 32,823	4.0 %	$ 41,029	5.0 %

The federal banking agencies, including the FRB and the OCC, maintain risk-based capital standards in order to ensure that those standards take adequate account of interest rate risk, concentration of credit risk, the risk of non-traditional activities and equity investments in non-financial companies, as well as reflect the actual performance and expected risk of loss on certain multifamily housing loans. Bank regulators periodically propose amendments to the risk-based capital guidelines and related regulatory framework, and consider changes to the risk-based capital standards that could significantly increase the amount of capital needed to meet the requirements for the capital tiers described below. While the Company's management studies such proposals, the timing of adoption, ultimate form and effect of any such proposed amendments on the Company's capital requirements and operations cannot be predicted.

The federal banking agencies are required to take "prompt corrective action" in respect of depository institutions and their bank holding companies that do not meet minimum capital requirements. The Federal Deposit Insurance Act established five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A depository institution's capital tier, or that of its bank holding company, depends upon where its capital levels are in relation to various relevant capital measures, including a risk-based capital measure and a leverage ratio capital measure, and certain other factors.

Under the implementing regulations adopted by the federal banking agencies, a bank holding company or bank is considered "well capitalized" if it has: (i) a total risk-based capital ratio of 10% or greater; (ii) a Tier 1 risk-based capital ratio of 6% or greater; and (iii) a leverage ratio of 5% or greater; and is not subject to any order or written directive to

meet and maintain a specific capital level for a capital measure. An "adequately capitalized" bank holding company or bank is defined as one that has: (i) a total risk-based capital ratio of 8% or greater; (ii) a Tier 1 risk-based capital ratio of 4% or greater; and (iii) a leverage ratio of 4% or greater (or 3% or greater in the case of a bank with a composite CAMELS rating of (1)). A bank holding company or bank is considered (A) "undercapitalized" if it has: (i) a total risk-based capital ratio of less than 8%; (ii) a Tier 1 risk-based capital ratio of less than 4%; or (iii) a leverage ratio of less than 4% (or 3% in the case of a bank with a composite CAMELS rating of (1)); (B) "significantly undercapitalized" if it has: (i) a total risk-based capital ratio of less than 6%; or (ii) a Tier 1 risk-based capital ratio of less than 3%; or (iii) a leverage ratio of less than 3%; and (C) "critically undercapitalized" if it has a ratio of tangible equity to total assets equal to or less than 2%. The FRB may reclassify a "well capitalized" bank holding company or bank as "adequately capitalized" or subject an "adequately capitalized" or "undercapitalized" institution to the supervisory actions applicable to the next lower capital category if it determines that the bank holding company or bank is in an unsafe or unsound condition or deems the bank holding company or bank to be engaged in an unsafe or unsound practice and not to have corrected the deficiency. As of December 31, 2014, the Company and the Bank met the definition of "well capitalized" institutions.

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"Undercapitalized" depository institutions, among other things: are subject to growth limitations; are prohibited, with certain exceptions, from making capital distributions; are limited in their ability to obtain funding from a Federal Reserve Bank; and are required to submit a capital restoration plan. The federal banking agencies may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. In addition, for a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such capital restoration plan and provide appropriate assurances of performance. If a depository institution fails to submit an acceptable plan, including if the holding company refuses or is unable to make the guarantee described in the previous sentence, it is treated as if it is "significantly undercapitalized." Failure to submit or implement an acceptable capital plan also is grounds for the appointment of a conservator or a receiver. "Significantly undercapitalized" depository institutions may be subject to a number of additional requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Moreover, the parent holding company of a "significantly undercapitalized" depository institution may be ordered to divest itself of the institution or of non-bank subsidiaries of the holding company. "Critically undercapitalized" institutions, among other things, are prohibited from making any payments of principal and interest on subordinated debt, and are subject to the appointment of a receiver or conservator.

Each federal banking agency prescribes standards for depository institutions and depository institution holding companies relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, a maximum ratio of classified assets to capital, minimum earnings sufficient to absorb losses, a minimum ratio of market value to book value for publicly traded shares and other standards as they deem appropriate. The FRB and the OCC have adopted such standards.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") was signed into law by President Obama on July 21, 2010. It is widely regarded as the most sweeping change to financial regulation since the Great Depression. The law is intended to achieve the following objectives: promote robust supervision and regulation of financial firms; establish comprehensive supervision of financial markets; protect consumers and investors from financial abuse; provide the government with the tools to manage a financial crisis; and raise international regulatory standards and improve international cooperation. The Dodd-Frank Act requires more than 60 studies to be conducted and more than 200 regulations to be written. The true impact of the legislation will be unknown until these are complete. Some of the most significant aspects of The Dodd-Frank Act include:

I. The creation of a new oversight regulator, the Financial Stability Oversight Council. The council of regulators monitors the financial system for systemic risk and will determine which entities pose significant systemic risk and should be subject to greater federal regulation and oversight.

II. The Collins Amendment, which requires the federal banking agencies to establish minimum leverage capital and risk-based capital requirements for insured depository institutions, depository institution holding companies and non-bank financial companies supervised by the FRB (also known as systemically significant financial institutions). The Collins Amendment provides that certain hybrid financial instruments, such as trust preferred

securities, issued on or after May 19, 2010, will be excluded from Tier 1 capital. For certain large depository institution holding companies (greater than $15 billion in assets), hybrid financial instruments issued before May 19, 2010 must be phased out of Tier 1 capital over a three-year period beginning January 1, 2013. The Company was well below this threshold at December 31, 2014. At December 31, 2014, the Company had $11.3 million in trust preferred securities included in Tier 1 capital.

III. The Durbin Amendment, which provided that interchange fees that a card issuer or payment network receives or charges for debit transactions will now be regulated by the FRB and must be "reasonable and proportional" to the cost incurred by the card issuer in authorizing, clearing and settling the transaction. The pricing provisions of the Durbin Amendment apply to card issuing financial institutions with more than $10 billion in assets. The Durbin Amendment also prohibits all issuers and networks from restricting the number of networks over which electronic debit transactions may be processed to less than two unaffiliated networks, and prohibits issuers and networks from inhibiting a merchant's ability to direct the routing of the electronic debit transaction

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over any network that the issuer has enabled to process them. Although the Bank is exempt from the pricing provisions of the Durbin Amendment, it may be impacted by this provision if it has to match the reduced rates being offered by larger competitors. Such a result could have a material adverse effect on the Company's results of operations and cash flows.

IV. A number of deposit insurance reforms, which have generally benefitted the Bank. First, the Dodd-Frank Act redefined the deposit insurance assessment base to reflect consolidated total assets less average tangible equity. The result is that larger financial institutions, which have more assets leveraged with non-deposit wholesale funds, have paid a greater percentage of the aggregate insurance assessment, while smaller banks (such as the Bank) have paid less than they would have under the prior rules. The Dodd-Frank Act also increased the minimum reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35%, but exempted institutions with assets less than $10 billion from funding the cost of the increase. The title also permanently increased deposit insurance coverage to $250,000 per account (subject to certain limitations).

V. A permanent exemption from the provisions of Section 404(b) of the Sarbanes-Oxley Act ("SOX"), which requires that public companies receive an opinion from their external auditors as to the effectiveness of their internal control over financial reporting, for companies with a public market capitalization under $75 million. As a smaller reporting company, the Company qualifies for this exemption. However, the Audit Committee of the Board of Directors and the Company's management have decided to continue to voluntarily comply with SOX 404(b) as they believe it is in the best interest of the Company and its shareholders.

VI. Establishment of the Consumer Financial Protection Bureau (the "CFPB"), an independent agency with the authority to prohibit practices that it finds to be unfair, deceptive, or abusive, in addition to requiring certain disclosures.

VII. The imposition of new regulations on mortgage loan originators, including the imposition of new disclosure requirements and appraisal reforms, such as: the creation of a mortgage originator duty of care; the establishment of certain underwriting requirements designed to ensure that at the time of origination the consumer has a reasonable ability to repay the loan; the creation of document requirements intended to eliminate "no document" and "low document" loans; the prohibition of steering incentives for mortgage originators; a prohibition on yield spread premiums and prepayment penalties in some cases; and a provision that allows borrowers to assert as a foreclosure defense a contention that the lender violated the anti-steering restrictions or the reasonable repayment requirements.

VIII. In December 2013, five federal agencies (including the FRB and the OCC) adopted a final regulation implementing the "Volcker Rule" provision of the Dodd-Frank Act. The Volcker Rule generally prohibits insured banks and their affiliates from proprietary trading or from acquiring or retaining any equity, partnership or other ownership interest in, sponsoring or having certain other relationships with a hedge fund or a private equity fund, subject to certain exceptions. Although we are continuing to evaluate the impact of the Volcker Rule, we do not currently anticipate that it will have a material effect on the operations of the Company or the Bank, as we generally do not engage in the activities prohibited by the Volcker Rule.

Basel III

In addition to the Dodd-Frank Act, the international oversight body of the Basel Committee on Banking Supervision reached agreements to require more and higher-quality capital, known as Basel III, in July 2010. Basel III is a comprehensive set of reform measures designed to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance, and strengthen banks' transparency and disclosures. The federal banking agencies issued a final rule to implement Basel III as well as the minimum leverage and risk-based capital requirements of the Dodd-Frank Act in July 2013.

The Basel III Rules apply to both depository institutions and (subject to certain exceptions not applicable to the Company) their holding companies. Basel III constitutes a fundamental redefinition of bank capital requirements, and increases the minimum requirements for both the quantity and quality of capital held by the Company and the Bank.

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The minimum capital level requirements applicable to the Company and the Bank under the Basel III rules are: a new common equity Tier 1 risk-based capital ratio requirement of 4.5%, a Tier 1 risk-based capital ratio of 6.0% (increased from 4.0%), a total risk-based capital ratio of 8.0% (unchanged from current rules), and a Tier 1 leverage ratio of 4.0%. Common equity Tier 1 capital consists of common stock instruments that meet the eligibility criteria in the final rules, retained earnings, accumulated other comprehensive income and common equity Tier 1 minority interest.

The rule also requires a capital conservation buffer composed of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets. The capital conservation buffer will be phased in over three years beginning in 2016. The capital buffer requirement effectively raises the minimum required common equity Tier 1 capital ratio to 7.0%, the Tier 1 capital ratio to 8.5%, and the total capital ratio to 10.5% on a fully phased-in basis. Institutions that do not maintain the required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management.

The final rules also increase the required capital for certain categories of assets, including higher-risk construction real estate loans and certain exposures related to securitizations, but retain the historical approach to capital requirements for residential mortgages under prior general risk-based capital rules.

In addition, the final rule includes certain exemptions to address concerns about the regulatory burden on community banks. For example, as indicated above, banking organizations with less than $15 billion in consolidated assets as of December 31, 2009 are permitted to include in Tier 1 capital trust preferred securities and cumulative perpetual preferred stock issued and included in Tier 1 capital prior to May 19, 2010 on a permanent basis, without any phase out (subject to a limit of 25% of Tier 1 capital). Community banks may also elect on a one time basis in their March 31, 2015 quarterly filings to opt-out of the onerous requirement to include most accumulated other comprehensive income (“AOCI”) components in the calculation of common equity Tier 1 capital and, in effect, retain the AOCI treatment under the current capital rules. Under the final rule, the Company will make a one-time, permanent election to continue to exclude AOCI from capital.

The new minimum capital ratios became effective for us on January 1, 2015 and will be fully phased-in on January 1, 2019. Management believes that, as of December 31, 2014, the Company and the Bank would have met all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements had been in effect on that date.

Potential risks of Basel III to the Company are detailed in the Risk Factors section.

Regulation of Insurance Agency Subsidiary

TEA is regulated by the New York State Insurance Department. As of the date of this report, TEA meets and maintains all licensing and continuing education requirements required by the State of New York.

Monetary Policy and Economic Control

The commercial banking business is affected not only by general economic conditions, but also by the monetary policies of the FRB. Changes in the discount rate on member bank borrowing, availability of borrowing at the "discount window," open market operations, the imposition of changes in reserve requirements against member banks' deposits and assets of foreign branches and the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates are some of the instruments of monetary policy available to the FRB. These monetary policies are used in varying combinations to influence overall growth and distributions of bank loans, investments and deposits, and this use may affect interest rates charged on loans or paid on deposits. The monetary policies of the FRB have had a significant effect on the operating results of commercial banks and are expected to continue to do so in the future. The monetary policies of these agencies are influenced by various factors, including inflation, unemployment, and short-term and long-term changes in the international trade balance and in the fiscal policies of the United States Government. Future monetary policies and the effect of such policies on the future business and earnings of the Company cannot be predicted.

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Consumer Laws and Regulations

In addition to the laws and regulations discussed herein, the Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. These laws and regulations include, but are not limited to, the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, Federal Financial Privacy Laws, Interagency Guidelines Establishing Information Security Standards, the Right to Financial Privacy Act, and the Fair and Accurate Credit Transactions Reporting Act. These laws and regulations regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers.

EMPLOYEES

As of December 31, 2014, the Company had no direct employees. As of December 31, 2014, the following table summarizes the employment rosters of the Company's subsidiaries using full-time equivalent employees ("FTE"):

	2014	2013	2012	2011	2010
Bank	201	196	183	186	164
ENL	-	-	2	2	4
TEA	46	41	49	50	52
FCS	4	4	4	4	4
	251	241	238	242	224

Management believes that the Company's subsidiaries have good relationships with their employees.

AVAILABLE INFORMATION

The Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished by the Company pursuant to Section 13(a) or 15(d) of the Exchange

Act are available without charge on the Company's website, www.evansbancorp.com - SEC filings section, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. The Company is providing the address to its Internet site solely for the information of investors. The Company does not intend its Internet address to be an active link or to otherwise incorporate the contents of the website into this Annual Report on Form 10-K or into any other report filed with or furnished to the SEC.

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Item 1A.RISK FACTORS

The following factors identified by the Company's management represent significant potential risks that the Company faces in its operations.

The Company’s Business May Be Adversely Affected by Conditions in the Financial Markets and Economic Conditions Generally

The Company’s financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and leases and the value of collateral securing those loans and leases, is highly dependent upon the business environment in the markets where the Company operates, in Western New York and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by: declines in economic growth, declines in housing and real estate valuations, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; natural disasters; or a combination of these or other factors.

Economic conditions in the United States continued to improve in 2014 following the deep recession of 2007 through 2009. Overall, during 2014, the business environment showed signs of modest improvement, which included national and state unemployment rates dropping from 6.7% and 7.1%, respectively, as of December 31, 2013 to 5.6% and 5.8%, respectively, as of December 31, 2014. Although conditions in Western New York and the United States remain positive, a slowdown of the economic conditions in other parts of the world, particularly Europe and China, may begin to affect the United States economically. Such conditions could materially adversely affect the credit quality of the Company’s loans and leases, and therefore, the Company’s results of operations and financial condition.

Commercial Real Estate and Commercial Business Loans Expose the Company to Increased Credit Risks

At December 31, 2014, the Company's portfolio of commercial real estate loans totaled $404.2 million, or 58.1% of total loans and leases outstanding, and the Company's portfolio of commercial and industrial (“C&I”) loans totaled $129.5 million, or 18.6% of total loans and leases outstanding. The Company plans to continue to emphasize the origination of commercial loans as they generally earn a higher rate of interest than other loan products offered by the Bank. Commercial loans generally expose a lender to greater risk of non-payment and loss than one-to four-family residential mortgage loans because repayment of commercial real estate and C&I loans often depends on the successful operations and the income stream of the borrowers. Commercial mortgages are collateralized by real property while C&I loans are typically secured by business assets such as equipment and accounts receivable. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one-to four-family residential mortgage loans. Also, many of the Company's commercial borrowers have more than one commercial real estate or C&I loan outstanding with the Company. Consequently, an adverse development with respect to one loan or one credit relationship can expose the Company to a significantly greater risk of loss compared to an adverse development with respect to a one-to four-family residential mortgage loan. Commercial real estate

loans in non-accrual status at December 31, 2014 were $3.2 million, compared with $8.9 million at December 31, 2013. C&I loans in non-accrual status at December 31, 2014 were $5.5 million, compared with $3.0 million at December 31, 2013. Increases in the delinquency levels of commercial real estate and C&I loans could result in an increase in non-performing loans and the provision for loan and lease losses, which could have a material adverse effect on our results of operations and financial condition.

Continuing Concentration of Loans in the Company's Primary Market Area May Increase the Company's Risk

Unlike larger banks that are more geographically diversified, the Company provides banking and financial services to customers located primarily in western New York State (“WNY”). Therefore, the Company's success depends primarily on the general economic conditions in WNY. The Company's business lending and marketing strategies focus on loans to small and medium-sized businesses in this geographic region. Moreover, the Company's assets are heavily concentrated in mortgages on properties located in WNY. Accordingly, the Company's business and operations are vulnerable to downturns in the economy of WNY. The concentration of the Company's loans in this geographic region subjects the Company to the risk that a downturn in the economy or recession in this region could result in a decrease in loan originations and increases in delinquencies and foreclosures, which would more greatly affect the Company than if the Company's lending were more geographically diversified. In addition, the Company may suffer losses if there is a decline in the value of properties underlying the Company's mortgage loans which would have a material adverse impact on the Company's operations.

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In the Event the Company's Allowance for Loan and Lease Losses is Not Sufficient to Cover Actual Loan and Lease Losses, the Company's Earnings Could Decrease

The Company maintains an allowance for loan and lease losses in order to capture the probable losses inherent in its loan and lease portfolio. There is a risk that the Company may experience significant loan and lease losses which could exceed the allowance for loan and lease losses. In determining the amount of the Company's recorded allowance, the Company makes various assumptions and judgments about the collectability of its loan and lease portfolio, including the creditworthiness of its borrowers, the effect of changes in the local economy on the value of the real estate and other assets serving as collateral for the repayment of loans, the effects on the Company's loan and lease portfolio of current economic indicators and their probable impact on borrowers, and the Company's loan quality reviews. The emphasis on the origination of commercial real estate and C&I loans is a significant factor in evaluating an allowance for loan and lease losses. As the Company continues to increase the amount of these loans in the portfolio, additional or increased provisions for loan and lease losses may be necessary and would adversely affect the results of operations. In addition, bank regulators periodically review the Company's loan and lease portfolio and credit underwriting procedures, as well as its allowance for loan and lease losses, and may require the Company to increase its provision for loan and lease losses or recognize further loan and lease charge-offs. At December 31, 2014, the Company had a gross loan portfolio of approximately $695.7 million and the allowance for loan and lease losses was approximately $12.5 million, which represented 1.80% of the total amount of gross loans and leases. If the Company's assumptions and judgments prove to be incorrect or bank regulators require the Company to increase its provision for loan and lease losses or recognize further loan and lease charge-offs, the Company may have to increase its allowance for loan and lease losses or loan and lease charge-offs which could have an adverse effect on the Company's operating results and financial condition. There can be no assurances that the Company's allowance for loan and lease losses will be adequate to protect the Company against loan and lease losses that it may incur.

Changes in Interest Rates Could Adversely Affect the Company's Business, Results of Operations and Financial Condition

The Company's results of operations and financial condition are significantly affected by changes in interest rates. The Company's results of operations depend substantially on its net interest income, which is the difference between the interest income earned on its interest-earning assets and the interest expense paid on its interest-bearing liabilities. Because the Company's interest-bearing liabilities generally re-price or mature more quickly than its interest-earning assets, an increase in interest rates generally would tend to result in a decrease in its net interest income.

Changes in interest rates also affect the value of the Company's interest-earning assets, and in particular, the Company's securities portfolio. Generally, the value of securities fluctuates inversely with changes in interest rates. At December 31, 2014, the Company's securities available for sale totaled $95.5 million. Net unrealized gains on securities available for sale, net of tax, amounted to $0.9 million and are reported as a separate component of stockholders' equity. Decreases in the fair value of securities available for sale, therefore, could have an adverse effect

on stockholders' equity or earnings.

The Company also is subject to reinvestment risk associated with changes in interest rates. Changes in interest rates may affect the average life of loans and mortgage-related securities. Decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce borrowing costs. Under these circumstances, the Company is subject to reinvestment risk to the extent that it is unable to reinvest the cash received from such prepayments at rates that are comparable to the rates on existing loans and securities. Additionally, increases in interest rates may decrease loan demand and make it more difficult for borrowers to repay adjustable rate loans.

Consistent with its statutory mandate to foster maximum employment and price stability, the Federal Open Market Committee (the “Fed”) had practiced policy accommodation by purchasing additional agency mortgage-backed securities throughout 2012 and 2013. During 2014, the Fed discontinued its purchase of agency mortgage-backed securities (“MBS”) based on improvement in the labor market. At its December 2014 meeting, the Fed indicated it will continue to maintain its targeted federal funds rate near zero. The length of this accommodating policy will be dependent on the Fed’s projected long term inflation rate goal of 2%.

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Easy monetary policy by the FRB may increase the interest rate risk for the Company by lowering interest rates over the near term, but also by inadvertently causing inflation to rise at a rapid pace once the economy more fully rebounds from the recession. High inflation rates are usually accompanied by an increase in interest rates.

The Fed's current accommodative stance has resulted in extraordinarily low interest rates during the past five years and played a part in compressing the Company's net interest margin from 4.16% in 2010 to 3.99% in 2011, 3.84% in 2012 and 3.74% in 2013. However, in 2014, as the Fed discontinued its MBS purchase program and as labor conditions continued to improve, the Company benefited from an increase in longer term rates as the market's expectation of increasing rates prevailed. The Company's net interest margin for 2014 was 4.01%. Compression of the Company's net interest margin could reoccur as a result of the Fed's accommodative monetary policy, which could have a material adverse effect on the Company's results of operations and financial condition.

The Company May Be Adversely Affected by the Soundness of Other Financial Institutions

Financial services institutions are interrelated as a result of counterparty relationships. The Company has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, could lead to losses or defaults by us or by other institutions and impact our business. Many of these transactions expose us to credit risk in the event of default of our counterparty or customer. In addition, our credit risk may be further increased when the collateral held by us cannot be relied upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due to us. Any such losses could materially and adversely affect our results of operations.

The most important counterparty for the Company, in terms of liquidity, is the Federal Home Loan Bank of New York ("FHLBNY"). The Company uses FHLBNY as its primary source of borrowed overnight funds and also has several long-term advances with FHLBNY. At December 31, 2014, the Company had a total of $13.7 million in borrowed funds with FHLBNY. The Company has placed sufficient collateral in the form of commercial and residential real estate loans at FHLBNY. As a member of the Federal Home Loan Bank System, the Bank is required to hold stock in FHLBNY. The Bank held FHLBNY stock with a fair value of $1.4 million as of December 31, 2014. The Bank's FHLBNY stock average yield in 2014 was 4.4%.

There are 12 branches of the FHLB, including New York. If a member was at risk of breaching risk-based capital requirements, it could suspend dividends, cut dividend payments, and/or not buy back excess FHLB stock that members hold. FHLBNY has stated that they expect to be able to continue to pay dividends, redeem excess capital stock, and provide competitively priced advances in the future. Nonetheless, the 12 FHLB branches are jointly liable for the consolidated obligations of the FHLB system. To the extent that one FHLB branch cannot meet its obligations to pay its share of the system's debt; other FHLB branches can be called upon to make the payment.

Systemic weakness in the FHLB could result in higher costs of FHLB borrowings, reduced value of FHLB stock, and increased demand for alternative sources of liquidity that are more expensive, such as brokered time deposits, the discount window at the Federal Reserve, or lines of credit with correspondent banks First Tennessee Bank and M&T

Bank.

Strong Competition Within the Company's Market Area May Limit its Growth and Profitability

Competition in the banking and financial services industry is intense. The Company competes with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally within the Company's market area and elsewhere. Many of these competitors (whether regional or national institutions) have substantially greater resources and lending limits than the Company does, and may offer certain services that the Company does not or cannot provide. The Company's profitability depends upon its continued ability to successfully compete in this market area.

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Expansion of the Company’s Branch Network May Adversely Affect its Financial Results

The Company cannot assure that the opening of new branches will be accretive to earnings or that it will be accretive to earnings within a reasonable period of time. Numerous factors contribute to the performance of a new branch, such as suitable location, qualified personnel, and an effective marketing strategy. Additionally, it takes time for a new branch to gather sufficient loans and deposits to generate income sufficient to cover its operating expenses. Difficulties the Company experiences in opening new branches may have a material adverse effect on the Company’s financial condition and results of operations.

The Company Operates in a Highly Regulated Environment and May Be Adversely Affected By Changes in Laws and Regulations

The Company and its subsidiaries are subject to regulation, supervision and examination by the OCC, FRB, and by the FDIC, as insurer of its deposits. Such regulation and supervision govern the activities in which a bank and its holding company may engage and are intended primarily for the protection of the deposit insurance funds and depositors. Regulatory requirements affect the Company's lending practices, capital structure, investment practices, dividend policy and growth. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of a bank, the imposition of deposit insurance premiums and other assessments, the classification of assets by a bank and the adequacy of a bank's allowance for loan and lease losses. Any change in such regulation and oversight, particularly through the new rules and regulations expected to be established by the Dodd-Frank Act and Basel III, could have a material adverse impact on the Bank, the Company and its business, financial condition and results of operations.

The impending capital requirement changes from Basel III discussed in Item 1 could have a material adverse impact on the Company. Even though the Bank exceeds current and proposed minimum regulatory capital levels, adverse changes to residential mortgage risk weights, new requirements for common equity capital, the inclusion of accumulated other comprehensive income in regulatory capital, along with the adoption of new capital conservation buffers, over time could cause the Bank to fail to meet minimum regulatory requirements. These positions are subject to volatility due to changes in interest rates and credit spreads. The current positive balance is a product of the continued ultra low interest rate environment, which could change in the future. Rapid increases in interest rates and credit spreads could reverse the gain position and force the Company’s accumulated other comprehensive income to become negative and have an adverse impact on the Bank’s regulatory capital. Although there is a phase-in period in the proposed rules, other challenges such as the ultra-low interest rate environment, fragile economic recovery, possible recession, and further constraints on profitability by regulators could impact the Bank’s ability to meet the new regulatory minimums once the phase-in periods have ended.

Lack of System Integrity or Credit Quality Related to Funds Settlement could Result in a Financial Loss

The Bank settles funds on behalf of financial institutions, other businesses and consumers and receives funds from clients, card issuers, payment networks and consumers on a daily basis for a variety of transaction types. Transactions facilitated by the Bank include debit card, credit card and electronic bill payment transactions, supporting consumers, financial institutions and other businesses. These payment activities rely upon the technology infrastructure that facilitates the verification of activity with counterparties and the facilitation of the payment. If the continuity of operations or integrity of processing were compromised this could result in a financial loss to the Bank, and therefore the Company, due to a failure in payment facilitation. In addition, the Bank may issue credit to consumers, financial institutions or other businesses as part of the funds settlement. A default on this credit by a counterparty could result in a financial loss to the Bank, and therefore to the Company.

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Financial Services Companies Depend on the Accuracy and Completeness of Information about Customers and Counterparties

In deciding whether to extend credit or enter into other transactions, the Company may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports, and other financial information. The Company may also rely on representations of those customers, counterparties, or other third parties, such as independent auditors, as to the accuracy and completeness of that information. While management generally engages only third parties that it knows or believes to be reputable, reliance on inaccurate or misleading financial statements, credit reports, or other financial information could cause the Company to enter into unfavorable transactions, which could have a material adverse effect on the Company's financial condition and results of operations.

Loss of Key Employees May Disrupt Relationships with Certain Customers

The Company's business is primarily relationship-driven in that many of the Company's key employees have extensive customer relationships. Loss of a key employee with such customer relationships may lead to the loss of business if the customers were to follow that employee to a competitor. While management believes that the Company's relationships with its key business producers are good, the Company cannot guarantee that all of its key personnel will remain with the organization. Loss of such key personnel, should they enter into an employment relationship with one of the Company's competitors, could result in the loss of some of the Company's customers. Such losses could have a material adverse effect on the Company's business, financial condition and results of operations.

Future FDIC Insurance Premium Increases May Adversely Affect the Company's Earnings

The Company is generally unable to control the amount of premiums that it is required to pay for FDIC insurance. If there are additional bank or financial institution failures or other similar occurrences, the FDIC may again increase the premiums assessed upon insured institutions. Such increases and any future increases or required prepayments of FDIC insurance premiums may adversely impact the Company's results of operations.

The Company is a Financial Holding Company and Depends on Its Subsidiaries for Dividends, Distributions and Other Payments

The Company is a legal entity separate and distinct from its banking and other subsidiaries. The Company's principal source of cash flow, including cash flow to pay dividends to the Company's stockholders and principal and interest on its outstanding debt, is dividends from the Bank. There are statutory and regulatory limitations on the payment of dividends by the Bank, as well as the payment of dividends by the Company to its stockholders. Regulations of the OCC affect the ability of the Bank to pay dividends and other distributions and to make loans to the Company. If the Bank is unable to make dividend payments and sufficient capital is not otherwise available, the Company may not be able to make dividend payments to its common stockholders or principal and interest payments on its outstanding debt.

Because the Nature of the Financial Services Business Involves a High Volume of Transactions, the Company Faces Significant Operational Risks

The Company operates in diverse markets and relies on the ability of its employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from the Company's operations, including but not limited to, the risk of fraud by employees or persons outside of the Company, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and compliance requirements, and business continuation and disaster recovery. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. In the event of a breakdown in the internal control system, improper operation of systems or improper employee actions, the Company could suffer financial loss, face regulatory action and suffer damage to its reputation.

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The Company's Information Systems may Experience an Interruption or Breach in Security

The Company relies heavily on communications and information systems to conduct its business. Any failure, interruption, or breach in security or operational integrity of these systems could result in failures or disruptions in the Company's customer relationship management, general ledger, deposit, loan, and other systems. While the Company has policies and procedures designed to prevent or limit the effect of the failure, interruption, or security breach of its information systems, there can be no assurance that any such failures, interruptions, or security breaches will not occur or, if they do occur, that they will be adequately addressed. If personal, nonpublic, confidential, or proprietary information of customers in the Company's possession were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage, and financial loss. Such mishandling or misuse could include, for example, if such information were erroneously provided to parties who are not permitted to have the information, either by fault of the Company's systems, employees or counterparties, or where such information is intercepted or otherwise inappropriately taken by third parties. The occurrence of any failures, interruptions, or security breaches of the Company's information systems could damage the Company's reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's financial condition and results of operations.

The Potential for Business Interruption Exists Throughout the Company's Organization

Integral to the Company's performance is the continued efficacy of our technical systems, operational infrastructure, relationships with third parties and the vast array of associates and key executives in the Company's day-to-day and ongoing operations. Failure by any or all of these resources subjects the Company to risks that may vary in size, scale and scope. This includes, but is not limited to, operational or technical failures, pandemics, ineffectiveness or exposure due to interruption in third party support as expected, as well as the loss of key individuals or failure on the part of key individuals to perform properly. Although management has established policies and procedures to address such failures, the occurrence of any such event could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on its financial condition and results of operations.

Environmental Factors May Create Liability

In the course of its business, the Bank has acquired and may acquire in the future, property securing loans that are in default. There is a risk that the Bank could be required to investigate and clean-up hazardous or toxic substances or chemical releases at such properties after acquisition by the Bank in a foreclosure action, and that the Bank may be held liable to a governmental entity or third parties for property damage, personal injury and investigation and clean-up costs incurred by such parties in connection with such contamination. In addition, the owner or former owners of contaminated sites may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from such property. To date, the Bank has not been required to perform any investigation or clean-up activities, nor has it been subject to any environmental claims. There can be no assurance, however, that this will remain the case in the future.

Anti-takeover Laws and Certain Agreements and Charter Provisions May Adversely Affect Share Value

Certain provisions of the Company's certificate of incorporation and state and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire control of the Company without approval of the Company's board of directors. Under federal law, subject to certain exemptions, a person, entity or group must notify the FRB before acquiring control of a bank holding company. Acquisition of 10% or more of any class of voting stock of a bank holding company, including shares of the Company's common stock, creates a rebuttable presumption that the acquiror "controls" the bank holding company. Also, a bank holding company must obtain the prior approval of the FRB before, among other things, acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, including the Bank. There also are provisions in the Company's certificate of incorporation that may be used to delay or block a takeover attempt. Taken as a whole, these statutory provisions and provisions in the Company's certificate of incorporation could result in the Company being less attractive to a potential acquiror and thus could adversely affect the market price of the Company's common stock.

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Damage to our Reputation Could Adversely Impact our Business

Our business reputation is important to our success. Our ability to attract and retain customers, investors, employees and advisors may depend upon external perceptions of our Company. Damage to our reputation could cause significant harm to our business and prospects and may arise from numerous sources, including litigation or regulatory actions, failing to deliver minimum standards of service and quality, compliance failures, unethical behavior and the misconduct of employees, advisors and counterparties. Negative perceptions or publicity regarding these matters could damage our reputation among existing and potential customers, investors, employees and advisors. Adverse developments with respect to our industry may also, by association, negatively impact our reputation or result in greater regulatory or legislative scrutiny or litigation against us. Preserving and enhancing our reputation also depends on maintaining systems and procedures that address known risks and regulatory requirements, as well as our ability to identify and mitigate additional risks that arise due to changes in our businesses and the marketplaces in which we operate, the regulatory environment and client expectations. If any of these developments has a material effect on our reputation, our business could suffer.

Item 1B.UNRESOLVED STAFF COMMENTS

None.

Item 2.PROPERTIES

At December 31, 2014, the Bank conducted its business from its administrative office and 13 branch offices. The Bank's administrative office is located at One Grimsby Drive in Hamburg, NY. The administrative office facility is 26,000 square feet and is owned by the Bank. This facility is occupied by the Office of the President and Chief Executive Officer of the Company, as well as the Administrative and Loan Divisions of the Bank. The Bank also owns a building on Sunset Drive in Hamburg, NY that houses its Operations Center.

The Bank has 13 branch locations. The Bank owns the building and land for five locations. The Bank owns the building but leases the land for four locations. Four other locations are leased.

TEA operates from a 10,000 square foot office located at 6834 Erie Road, Derby, NY, which is owned by the Bank. TEA has 7 retail locations. TEA leases 4 of the locations. The Bank owns two of the locations and TEA owns the remaining building.

The Company owned $10.2 million in properties and equipment, net of depreciation at December 31, 2014, compared with $11.2 million at December 31, 2013.

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Item 3.LEGAL PROCEEDINGS

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

Additionally, as previously reported, on September 2, 2014, the Office of the Attorney General for the State of New York (the "NYAG") filed a formal complaint in the U.S. District Court for the Western District of New York against the Company and the Bank regarding residential lending practices. The complaint seeks unspecified monetary damages and injunctive relief.

The Company and the Bank believe that they have meritorious defenses to the NYAG's claims, deny any wrongdoing, and will defend against the NYAG's allegations. However, the outcome of this action may not be assured. If this action is decided unfavorably to the Company and the Bank, we could be required to pay a civil penalty and make other expenditures. Despite management's views of the merits of this litigation, or the reasonableness of our estimates and reserves, our financial statements could nonetheless be materially affected by an adverse judgment.

Under applicable accounting guidance, we accrue for litigation and claims where the potential loss from any claim or legal proceeding is considered probable and a range of possible losses can be estimated. Accordingly, based on the advice of counsel and management review of the existing facts and circumstances, we recorded a reserve relating to the NYAG investigation totaling $1 million in the second quarter of 2014. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based only on the best information available at the time. As additional information becomes available, we will reassess the potential liability related to this investigation and may revise this estimate.

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.

Item 4.MINE SAFETY DISCLOSURES

Not applicable.

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PART II

Item 5.MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED

STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information. The Company's common stock is listed on the NYSE MKT under the symbol EVBN.

The following table shows, for the periods indicated, the high and low sales prices per share of the Company's common stock for fiscal 2014 and 2013 as reported on the NYSE MKT.

	2014		2013	
QUARTER	High	Low	High	Low
FIRST	$ 24.50	$ 21.00	$ 18.29	$ 15.50
SECOND	$ 23.70	$ 22.50	$ 18.15	$ 17.20
THIRD	$ 23.52	$ 22.92	$ 19.87	$ 17.57
FOURTH	$ 25.01	$ 22.80	$ 21.20	$ 19.75

Holders. The approximate number of holders of record of the Company's common stock as of February 27, 2015 was 1,271.

Cash Dividends. The Company paid the following cash dividends on shares of the Company's common stock during fiscal 2014 and 2013:

- A cash dividend of $0.26 per share on October 9, 2013 to holders of record on September 18, 2013.
- A cash dividend of $0.31 per share on April 8, 2014 to holders of record on March 18, 2014.
- A cash dividend of $0.34 per share on October 7, 2014 to holders of record on September 16, 2014.

In 2012, the Company decided it was appropriate to move up the normal semi-annual dividend for April 2013 to December 2012. At the time of the Company's decision, there was much uncertainty around the income tax rates on dividend income. These rates were expiring on December 31, 2012 and it was expected that these rates would increase in 2013. Therefore, in an effort to reduce the tax burden on shareholders, management and the Board of Directors determined that it would be appropriate and in the best interests of the Company's shareholders to pay a third dividend in 2012 in lieu of the first semi-annual dividend in 2013.

The amount and type (cash or stock), if any, of future dividends will be determined by the Company's Board of Directors and will depend upon the Company's earnings, financial conditions and other factors considered by the Board of Directors to be relevant. The Bank pays a dividend to the Company to provide funds for: debt service on the junior subordinated debentures, a portion of the proceeds of which were contributed to the Bank as capital; dividends the Company pays; treasury stock repurchases; and other Company expenses. As discussed above under "Item 1A. Risk Factors," the Company is dependent upon cash flow from its subsidiaries in order to fund its dividend payments. There are various legal limitations with respect to the Bank's ability to supply funds to the Company. In particular, under Federal banking law, the approval of the FRB and OCC may be required in certain circumstances, prior to the payment of dividends by the Company or the Bank. See Note 20 to the Company's Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for additional information concerning contractual and regulatory restrictions on the payment of dividends.

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PERFORMANCE GRAPH

The following Performance Graph compares the Company's cumulative total stockholder return on its common stock for a five-year period (December 31, 2009 to December 31, 2014) with the cumulative total return of the NYSE MKT Composite Index and the NASDAQ Bank Index. The comparison for each of the periods assumes that $100 was invested on December 31, 2009 in each of the Company's common stock and the stocks included in the NYSE MKT Composite Index and NASDAQ Bank Index, and that all dividends were reinvested without commissions. This table does not forecast future performance of the Company's stock.

Compare 5-Year Cumulative Total Return Among

Evans Bancorp, Inc.,

NYSE MKT Composite Index and NASDAQ Bank Index

	Period Ending					
Index	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
Evans Bancorp, Inc.	100.00	129.29	111.42	151.48	209.05	247.65
NYSE MKT - Composite Index	100.00	125.60	133.49	142.32	151.80	157.50
NASDAQ Bank	100.00	114.16	102.17	121.26	171.86	180.31

In accordance with and to the extent permitted by applicable law or regulation, the information set forth above under the heading "Performance Graph" shall not be deemed to be "soliciting material" or to be "filed" with the SEC under the Securities Act or the Exchange Act, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically request that such information be treated as soliciting material or specifically incorporate it by reference into such a filing.

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Purchases of Equity Securities by the Issuer and Affiliated Purchasers. 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. The Company repurchased 59,800 shares pursuant to this repurchase program during 2014. During the fourth quarter of 2014, the Company did not purchase any shares of its common stock.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs
October 2014:				
October 1, 2014 - October 31, 2014	-	$ -	-	27,168
November 2014:				
November 1, 2014 - November 30, 2014	-	$ -	-	27,168
December 2014:				
December 1, 2014 - December 31, 2014	-	$ -	-	27,168
Total:	-	$ -	-	27,168

(1)

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Item 6.SELECTED FINANCIAL DATA

	As of and for the year ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands, except for per share data)				
Balance Sheet Data					
Assets	$ 846,809	$ 833,498	$ 809,676	$ 740,902	$ 671,523
Interest-earning assets	785,302	767,629	750,287	682,140	611,141
Investment securities	100,057	104,880	95,807	103,783	89,562
Loans and leases, net	683,131	635,493	573,163	571,910	517,554
Deposits	707,635	706,612	678,992	616,203	544,457
Borrowings	38,808	33,681	42,441	42,340	52,226
Stockholders' equity	85,788	80,712	74,828	68,988	63,064
Income Statement Data					
Net interest income	$ 31,099	$ 28,347	$ 27,780	$ 25,988	$ 24,495
Non-interest income	10,273	12,161	12,823	12,432	12,633
Non-interest expense	31,252	29,380	28,792	27,241	26,107
Net income	8,187	7,857	8,132	6,112	4,840
Per Share Data					
Earnings per share - basic	$ 1.95	$ 1.88	$ 1.96	$ 1.49	$ 1.34
Earnings per share - diluted	1.92	1.85	1.95	1.49	1.34
Cash dividends	0.65	0.26	0.68	0.40	0.40
Book value	20.41	19.18	17.94	16.72	15.45
Performance Ratios					
Return on average assets	0.98 %	0.96 %	1.04 %	0.86 %	0.75 %
Return on average equity	9.84 %	10.06 %	11.20 %	9.17 %	8.35 %
Net interest margin	4.01 %	3.74 %	3.84 %	3.99 %	4.16 %
Efficiency ratio *	70.83 %	71.98 %	70.05 %	69.68 %	67.90 %
Dividend payout ratio	33.33 %	13.83 %	34.69 %	26.85 %	29.85 %
Capital Ratios					
Tier 1 capital to average assets	10.84 %	10.36 %	9.69 %	9.71 %	9.93 %
Equity to assets	10.13 %	9.68 %	9.24 %	9.31 %	9.39 %
Asset Quality Ratios					
Total non-performing assets to total assets	1.25 %	1.65 %	1.02 %	2.05 %	2.07 %

Total non-performing loans and leases to total loans and leases	1.52	%	2.12	%	1.41	%	2.60	%	2.64	%
Net charge-offs (recoveries) to average loans and leases	0.03	%	(0.04)	%	0.29	%	0.26	%	0.10	%
Allowance for loan and lease losses to total loans and leases	1.80	%	1.78	%	1.67	%	1.97	%	1.97	%

See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Item 8, “Consolidated Financial Statements and Supplementary Data,” of this Report on Form 10-K for further information and analysis of changes in the Company's financial condition and results of operations.

* The calculation of the efficiency ratio excludes amortization of intangibles, goodwill impairment, and gains and losses on sales and calls of securities, for comparative purposes.

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Item 7.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

This discussion is intended to compare the performance of the Company for the years ended December 31, 2014, 2013 and 2012. The review of the information presented should be read in conjunction with Part I, Item 1: "Business" and Part II, Item 6: "Selected Financial Data" and Item 8: "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

The Company is a financial holding company registered under the BHCA. The Company currently conducts its business through its two direct wholly-owned subsidiaries: the Bank and the Bank's subsidiaries, ENL and ENHC; and ENFS and its subsidiary, TEA. The Company does not engage in any other substantial business. Unless the context otherwise requires, the term "Company" refers collectively to Evans Bancorp, Inc. and its subsidiaries.

Summary

In 2014, the Company experienced strong core earnings results moderated by a $1.0 million litigation expense. The Company's goal is to continue to grow to increase market share and achieve scale while improving profitability and returning value to shareholders. Net income in 2014 was $8.2 million, a 4.2% increase from 2013 net income of $7.9 million, and a slight 0.7% increase from 2012 net income of $8.1 million. The Company's net interest income in 2014 was $31.1 million, or 9.7%, higher than 2013 of $28.3 million, and 12.0% higher than 2012 net interest income. The strong core earnings in the recent three years demonstrate the solid growth in the Company's commercial loan portfolio and demand deposit balances, as evidenced by a net interest margin of 4.01%, 3.74%, and 3.84% in 2014, 2013, and 2012, respectively. As of December 31, 2014, average net loans and lease balances of $657.5 million increased $60.7 million, or 10.2%, from $596.8 million at December 31, 2013. The Company's record core earnings in 2014 were tempered by a $1.0 million litigation expense, due to a formal complaint filed against the Company by the Office of the Attorney General for the State of New York, further described in Item 3 of Part I of this Annual Report on Form 10-K.

The Company's performance in 2014 was also marked by stringent cost control and strategic investments in community-based projects. Excluding the $1.0 million ligation expense recognized in 2014, non-interest expenses increased 3.0%, as compared with a 2.0% increase in 2013. One of the Company's goals includes continuous improvement operational efficiency and cost control. As a result of tax credit investments in community-based projects in 2014 and 2013, the Company realized losses of $2.6 million and $1.6 million, respectively. The losses in

both periods were offset by corresponding tax credit benefits of $3.0 million and $1.8 million in 2014 and 2013, respectively. The Company's income tax provision for 2014 was $1.0 million, or 59.3%, lower than income tax provision of $1.7 million in 2013, and $3.0 million, or 81.2%, lower than income tax provision of $3.7 million in 2012.

Strategy

To sustain future growth and to meet the Company's financial objectives, the Company has defined a number of strategies. Six of the more important strategies are:

- Continuing to differentiate through proactively building and maintaining customer relationships;
- Continuing growth of non-interest income through financial services revenues, employee benefits insurance and retirement programs sales, and cash management;
- Continuing to develop opportunities with a segmented market approach to develop a more diversified portfolio and strengthen presence with community investment initiatives;
- Leveraging our resources and capabilities to continuously improve operational efficiency and to utilize technology effectively;
- Maintaining a balanced risk appetite within a risk management framework that drives shareholder value.

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The Company's strategies are designed to direct tactical investment decisions supporting its financial objectives. While the Company intends to focus its efforts on the pursuit of these strategies, there can be no assurance that the Company will successfully implement these strategies or that the strategies will produce the desired results. The Company's most significant revenue source continues to be net interest income, defined as total interest income less interest expense. Net interest income accounted for approximately 75% of total revenue in 2014. To produce net interest income and consistent earnings growth over the long-term, the Company must generate loan and deposit growth at acceptable margins within its market area. To generate and grow loans and deposits, the Company must focus on a number of areas including, but not limited to, opportunistic branch expansion, sales practices, customer and employee satisfaction and retention, competition, evolving customer behavior, technology, product innovation, interest rates, credit performance of its customers and vendor relationships.

The Company also considers non-interest income important to its continued financial success. Fee income generation is partly related to the Company's loan and deposit operations, such as deposit service charges, as well as to its financial products, such as commercial and personal insurance sold through TEA. Improved performance in non-interest income can help increase capital ratios because most of the non-interest income is generated without recording assets on the balance sheet. The Company has and will continue to face challenges in increasing its non-interest income as the regulatory environment changes.

While the Company reviews and manages all customer units, it has focused increased efforts on targeted segments in its community such as (1) smaller businesses with smaller credit needs but rich in deposits and other service needs; (2) middle market commercial businesses; (3) commercial real estate lending; and (4) retail customers. The overarching goal is to cross-sell between our insurance, financial services and banking lines of business to deepen our relationships with all of our customers. The Company believes that these efforts resulted in growth in the commercial loan portfolio and core deposits during fiscal 2014 and 2013.

With all branches, the Company has strived to provide a personal touch to customer service and is committed to maintaining a local community based philosophy. The Bank has emphasized hiring local branch and lending personnel with strong ties to the specific local communities it enters and serves.

The Bank serves its market through 14 banking offices in Western New York, located in Amherst, Buffalo, Clarence, Derby, Evans, Forestville, Hamburg, Lancaster, North Boston, Tonawanda, West Seneca, and Williamsville. The Company's principal source of funding is through deposits, which it reinvests in the community in the form of loans and investments. Deposits are insured up to the maximum permitted by the Deposit Insurance Fund of the FDIC. The Bank is regulated by the OCC.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The Company’s Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles (“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 Consolidated Financial Statements and Notes. These estimates, assumptions and judgments are based on information available as of the date of the Consolidated Financial Statements. Accordingly, as this information changes, the 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.

The most significant accounting policies followed by the Company are presented in Note 1 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. These policies, along with the disclosures presented in the other Notes to the Company's Consolidated Financial Statements contained in this Annual Report on Form 10-K and in this financial review, provide information on how significant assets and liabilities are valued in the Company’s Consolidated Financial Statements and how those values are determined.

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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.

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 and lease 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.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses represents management's estimate of probable losses in the Bank's loan and lease portfolio. Determining the amount of the allowance for loan and lease 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 and leases, estimated losses on pools of homogeneous loans and leases 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 consolidated balance sheets.

On a quarterly basis, management of the Bank meets to review and determine the adequacy of the allowance for loan and lease losses. In making this determination, the Bank's management analyzes the ultimate collectability of the loans in its portfolio by incorporating feedback provided by the Bank's internal loan staff, an independent internal loan review function and information provided by examinations performed by regulatory agencies.

The analysis of the allowance for loan and lease losses is composed of two components: specific credit allocation and general portfolio allocation. The specific credit allocation includes a detailed review of each impaired loan and an allocation is made based on this analysis. Factors may include the appraisal value of the collateral, the age of the appraisal, the type of collateral, the performance of the loan to date, the performance of the borrower's business based on financial statements, and legal judgments involving the borrower. The Company has an appraisal policy in which appraisals are obtained upon a loan being downgraded on the Company's 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 loans are either graded a 6 or 7 on the internal loan rating scale, unless the loan was otherwise classified as impaired due to a troubled debt restructuring and is currently performing. Subsequent to the downgrade, 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. The general portfolio allocation consists of an assigned reserve percentage based on the historical loss experience, the loss emergence period, and other quantitative and qualitative factors of the loan category.

The general portfolio allocation is segmented into pools of loans with similar characteristics. Separate pools of loans include loans pooled by loan grade and by portfolio segment. Loans graded a 5 or worse ("criticized loans") that exceed an exposure threshold are evaluated by the Company's credit department to determine if the collateral for the loan is worth less than the loan. All of these "shortfalls" are added together and divided by the respective loan pool to calculate a current quantitative factor applied to the respective pool, as this represents a potential loss exposure. The current quantitative factor is then included within an analysis of historical quantitative factors, and a weighted average and loss emergence period multiplier is applied against these loan pools. These loans are not considered individually impaired because the cash flow of the customer and the payment history of the loan suggest that it is not probable that the Company will be unable to collect the full amount of principal and interest as contracted and are thus still accruing interest.

Loans that are graded 4 or better ("non-criticized loans") are reserved in separate loan pools in the general portfolio allocation. A weighted average 5-year historical charge-off ratio and a loss emergence period by portfolio segment is calculated and applied against these loan pools.

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For both the criticized and non-criticized loan pools in the general portfolio allocation, additional qualitative factors are applied. The qualitative factors applied to the general portfolio allocation reflect management's evaluation of the impact of various conditions on the portfolio. The conditions evaluated include the following: industry and regional conditions; seasoning of the loan portfolio and changes in the composition of and growth in the loan portfolio; the strength and duration of the business cycle; existing general economic and business conditions in the lending areas; credit quality trends in non-accruing loans; timing of the identification of downgrades; historical loan charge-off experience; and the results of bank regulatory examinations. Due to the nature of the loans, the criticized loan pools carry significantly higher qualitative factors than the non-criticized pools.

For further discussion on the allowance for loan and lease losses, please see Note 1 and Note 3 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Goodwill and Intangible Assets

The amount of goodwill reflected in the Company's Consolidated Financial Statements is required to be tested by management for impairment on at least an annual basis. The test for impairment of goodwill in an 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. As of December 31, 2014, TEA had $8.1 million in goodwill. The banking reporting unit does not have any goodwill. All of the goodwill at TEA stems from the acquisition of various insurances agencies, not the purchase of diverse companies in which goodwill was subjectively allocated to different reporting units. Therefore, total market capitalization reconciliation was not performed because not all of the reporting units had goodwill. As a result, such an analysis would not be meaningful.

Management valued TEA, the reporting unit with goodwill, using cash flow modeling and earnings multiple techniques. When using the cash flow models, management considered historical information, the operating budget for 2015, economic and insurance market cycles, and strategic goals in projecting net income and cash flows for the next five years. The fair value calculated substantially exceeded the book value of TEA. The value based on a multiple to earnings before interest, taxes, depreciation, and amortization ("EBITDA") was higher, a result of conservative growth assumptions used by the Company in the cash flow model as well as an implied control premium in the multiple. The multiple used was based on historical industry data and consistent with the previous year's assumption.

While the fair values determined in the impairment tests were substantially higher than the carrying value for TEA, the risk of a future impairment charge still exists. Management used growth rates that are achievable over the long run through both soft and hard insurance cycles. As experienced producers focused on retaining their maturing portfolios of business, TEA experienced a slight decrease in revenue of 1.1% in 2014 compared with 2013.

For further discussion of the Company's accounting for goodwill and other intangible assets, see Note 1 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

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RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

Note 1 to the Company's Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K discusses new accounting policies adopted by the Company during fiscal 2014. Below are accounting policies recently issued or proposed but not yet required to be adopted. To the extent management believes the adoption of new accounting standards materially affects the Company's financial condition, results of operations, or liquidity, the impacts are discussed below.

Accounting Standards Update ("ASU") 2014-04, Reclassification of Collateralized Mortgage Loans upon a Troubled Debt Restructuring. The objective of this proposed 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 becomes effective for the Company in fiscal years and interim periods within those years, beginning after December 15, 2014. The Company has not early adopted this guidance and does not expect this guidance to have a significant 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.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2014 AND DECEMBER 31, 2013

Net Income

Net income of $8.2 million in 2014 consisted of $7.0 million related to the Company's banking activities and $1.2 million in net income related to the Company's insurance agency activities. The total net income of $8.2 million was a 4.2% increase from $7.9 million in 2013. Earnings per diluted share for 2014 of $1.92 showed an increase of 3.8%

from $1.85 per diluted share for 2013.

Net Interest Income

Net interest income, the difference between interest income and fee income on earning assets, such as loans and securities, and interest expense on deposits and borrowings, provides the primary basis for the Company’s results of operations.

Net interest income is dependent on the amounts and yields earned on interest earning assets as compared to the amounts of and rates paid on interest bearing liabilities.

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AVERAGE BALANCE SHEET INFORMATION

The following table presents the significant categories of the assets and liabilities of the Bank, interest income and interest expense, and the corresponding yields earned and rates paid in 2014, 2013 and 2012. The assets and liabilities are presented as daily averages. The average loan balances include both performing and non-performing loans. Interest income on loans does not include interest on loans for which the Bank has ceased to accrue interest. Securities are stated at fair value. Interest and yield are not presented on a tax-equivalent basis.

	2014			2013			2012		
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate
	(dollars in thousands)			(dollars in thousands)			(dollars in thousands)		
ASSETS									
Interest-earning assets:									
Loans and leases, net	$ 657,494	$ 31,899	4.85 %	$ 596,783	$ 29,546	4.95 %	$ 579,586	$ 30,300	5.23 %
Taxable securities	71,508	1,816	2.54 %	63,890	1,666	2.61 %	67,679	1,870	2.76 %
Tax-exempt securities	32,766	967	2.95 %	35,255	1,060	3.01 %	34,104	1,153	3.38 %
Interest bearing deposits at banks	14,100	33	0.23 %	62,286	132	0.21 %	42,817	53	0.12 %
Total interest-earning assets	775,868	$ 34,715	4.47 %	758,214	$ 32,404	4.27 %	724,186	$ 33,376	4.61 %
Non interest-earning assets:									
Cash and due from banks	12,365			14,481			11,634		
Premises and equipment, net	10,982			11,250			10,748		
Other assets	39,971			36,702			36,009		

Total Assets	$ 839,186			$ 820,647			$ 782,577		
LIABILITIES & STOCKHOLDERS' EQUITY									
Interest-bearing liabilities:									
NOW	$ 72,034	$ 316	0.44 %	$ 67,548	$ 357	0.53 %	$ 59,811	$ 615	1.03 %
Regular savings	345,236	941	0.27 %	357,098	1,097	0.31 %	341,739	1,931	0.57 %
Muni-vest savings	33,011	70	0.21 %	26,052	60	0.23 %	24,937	79	0.32 %
Time deposits	111,521	1,730	1.55 %	111,165	1,782	1.60 %	109,508	1,921	1.75 %
Other borrowed funds	8,579	212	2.47 %	11,617	407	3.50 %	20,161	681	3.38 %
Junior subordinated debentures	11,330	322	2.84 %	11,330	325	2.87 %	11,331	348	3.07 %
Securities sold U/A to repurchase	13,956	26	0.19 %	14,767	29	0.20 %	10,009	22	0.22 %
Total interest-bearing liabilities	595,667	$ 3,617	0.61 %	599,577	$ 4,057	0.68 %	577,496	$ 5,597	0.97 %
Noninterest-bearing liabilities:									
Demand deposits	148,827			131,041			119,805		
Other	11,529			11,955			12,381		
Total liabilities	$ 756,023			$ 742,573			$ 709,682		
Stockholders' equity	83,163			78,074			72,895		
Total Liabilities and Equity	$ 839,186			$ 820,647			$ 782,577		
Net interest earnings		$ 31,098			$ 28,347			$ 27,779	
Net interest margin			4.01 %			3.74 %			3.84 %
Interest rate spread			3.86 %			3.59 %			3.64 %

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The following table segregates changes in interest earned and paid for the past two years into amounts attributable to changes in volume and changes in rates by major categories of assets and liabilities. The change in interest income and expense due to both volume and rate has been allocated in the table to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

	2014 Compared to 2013 Increase (Decrease) Due to (in thousands)			2013 Compared to 2012 Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest earned on:						
Loans	$ 2,955	$ (602)	$ 2,353	$ 884	$ (1,638)	$ (754)
Taxable securities	194	(44)	150	(100)	(104)	(204)
Tax-exempt securities	(74)	(19)	(93)	38	(131)	(93)
Federal funds sold	(112)	13	(99)	31	47	78
Total interest-earning assets	$ 2,963	$ (652)	$ 2,311	$ 853	$ (1,826)	$ (973)
Interest paid on:						
NOW accounts	$ 14	$ (55)	$ (41)	$ 75	$ (333)	$ (258)
Savings deposits	(36)	(120)	(156)	81	(915)	(834)
Muni-vest	15	(5)	10	4	(23)	(19)
Time deposits	6	(58)	(52)	29	(168)	(139)
Fed funds purchased & other borrowings	(73)	(129)	(202)	(88)	(202)	(290)
Total interest-bearing liabilities	$ (74)	$ (367)	$ (441)	$ 101	$ (1,641)	$ (1,540)

Net interest income increased by $2.8 million, or 9.7%, to $31.1 million in 2014 from $28.3 million in 2013. As indicated in the preceding table, rates earned and paid on interest-earning assets and interest-bearing liabilities negatively impacted net interest income by $0.3 million, while the volume on those respective assets and liabilities offset these changes in rates, resulting in a positive impact of $2.9 million on net interest income.

The FRB has executed on a monetary policy designed to keep interest rates at all time lows for the past five years. The target overnight rate has been between 0.00% and 0.25% since the end of 2008. The FRB has also executed on other quantitative easing strategies, including the purchase of mortgage-backed securities, in an attempt to depress longer-term market interest rates. Although the Fed has stopped its asset purchases, its accommodation policy kept rates historically low during 2014. This interest rate environment resulted in lower interest yields earned on assets as well as lower rates paid on liabilities. Assets continue to re-price into lower yields as older loans and

securities mature, and new loans are originated and securities purchased at much lower yields than those they are replacing.

The Company has invested in adding to its commercial loan portfolio significantly in the past several years by adding several commercial loan officers while existing loan officers have successfully increased production. Total commercial loan portfolio balance, including commercial real estate and commercial and industrial loans, increased $43.6 million, or 9.4%, from a $465.6 million average balance in 2013 to a $509.2 million average balance in 2014. Consumer loans increased 13.5% from a $140.4 million average balance in 2013 to $159.4 million in 2014.

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On the funding side, the Company has continued to be successful in attracting new deposit customers, with most of that success coming from growth in the commercial and retail demand deposit products. Due to customer preference for liquid deposits with long-term rates at all-time lows, the strong growth in the Company's demand deposit balances was marked by a $17.8 million increase in average demand deposit balances during 2014 compared with 2013.

Net interest spread, or the difference between yield on interest-earning assets and rate on interest-bearing liabilities, increased to 3.86% in 2014, compared with 3.59% in 2013. The yield on interest-earning assets increased 20 basis points from 4.27% in 2013 to 4.47% in 2014, and the cost of interest-bearing liabilities decreased 7 basis points, from 0.68% in 2013 to 0.61% in 2014. Net interest spread increased as the yield curve, or the difference between long-term rates and short-term rates, widened throughout most of 2014. Banks traditionally benefit from a steep yield curve because the duration of interest-earnings assets is typically longer than the duration of interest-bearing liabilities. In 2014, the Company's commercial loan growth at higher interest rates contributed to the widened net interest rate spread, while continuing to tighten pricing on the liability side. The Company also benefited from an increase in the proportion of higher yielding commercial loans to total interest-earning assets in 2014, when compared with 2013.

The Company's net interest margin increased from 3.74% in 2013 to 4.01% in 2014, reflecting the changes to the net interest spread. It should be noted that several factors could put additional pressure on the Company's net interest margin in the future, including further flattening of the yield curve and increased pricing competition for loans and deposits.

The Bank regularly monitors its exposure to interest rate risk. Management believes that the proper management of interest-sensitive funds will help protect the Bank's earnings against changes in interest rates. The Bank's Asset/Liability Management Committee ("ALCO") meets monthly for the purpose of evaluating the Bank's short-term and long-term liquidity position and the potential impact on capital and earnings of changes in interest rates. The Bank has adopted an asset/liability policy that specifies minimum limits for liquidity and capital ratios. This policy includes setting ranges for the negative impact acceptable on net interest income and on the fair value of equity as a result of a shift in interest rates. The asset/liability policy also includes guidelines for investment activities and funds management. At its monthly meetings, ALCO reviews the Bank's status and formulates its strategies based on current economic conditions, interest rate forecasts, loan demand, deposit volatility and the Bank's earnings objectives.

Provision for Loan and Lease Losses

The Company's provision for loan and lease losses decreased $0.3 million from $1.5 million in 2013 to $1.2 million in 2014. The overall decrease was a result of quantitative and qualitative improvements in the loan portfolio, somewhat offset by leasing recoveries from continued run-off of the leasing portfolio and the recognition of additional provision for previously covered loans under the FDIC loss sharing agreement in 2013. The decrease in the provision for loan losses relative to the quantitative and qualitative improvements in 2014 was driven mostly by the Company's low

historical losses and overall improvement in qualitative considerations such as the composition of the loan portfolio, favorable credit quality trends, and improvement in the general economic and business conditions in the Company's lending areas. As noted in Note 1 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, the Company reserves a specific allocation on impaired loans and a higher percentage on criticized loans, or those loans risk rated 5 or higher. The Company had $1.3 million in specific reserve credit allocation on impaired loans at December 31, 2014, compared with $1.2 million at December 31, 2013. The slight increase was driven by the impairment of one criticized commercial loan relationship in 2014 that required a significant specific reserve, offset by other individually impaired commercial loans with specific reserves that had paid off during the year. At December 31, 2014, criticized loans (loans risk-rated 5 or higher) were down $1.5 million to $29.3 million, compared with $30.8 million at December 31, 2013, mostly driven by one large commercial and multi-family relationship moved into a pass rated category and paid off, partially offset by another large commercial and industrial relationship which was classified as a criticized loan during 2014. Additionally, total loans collectively evaluated for impairment increased $52.6 million to $679.9 million in 2014, compared with $627.3 million as of December 31, 2013.

The ratio of non-performing loans and leases to total loans and leases decreased from 2.12% at December 31, 2013 to 1.52% at December 31, 2014. The decrease is attributable to one large commercial and multi-family relationship that had demonstrated a period of performance and moved into accrual status in 2014. The positive trend in the ratio of non-performing loans and leases to total loans and leases over the past year is consistent with the historical trend from the years preceding 2013, from 2.64% at December 31, 2010 to 2.60% at December 31, 2011 and 1.41% at December 31, 2012. Trends in non-performing loans and charge-offs are good indicators of credit quality and provide context for the movement in

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the provision for loan and lease losses, and are presented and discussed in the next section. A description of how the allowance for loan and lease losses is determined along with tabular data depicting the key factors in calculating the allowance is set forth in Notes 1 and 3 of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Non-accrual, Past Due and Restructured Loans and Leases

The following table summarizes the Bank's non-accrual and accruing loans and leases 90 days or more past due as of the dates listed below. See Note 3 of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for further information about the Company's non-accrual, past due and restructured loans and leases.

	At December 31,				
	2014	2013	2012	2011	2010
	(in thousands)				
Non-accruing loans and leases:					
Mortgage loans on real estate:					
Residential mortgages	$ 1,296	$ 1,376	$ 1,443	$ 1,048	$ 742
Commercial and multi-family	3,162	8,873	4,309	6,858	5,724
Construction-residential	-	-	-	167	186
Construction-commercial	-	-	729	1,442	850
Home equities	415	447	618	946	256
Total mortgage loans on real estate	4,873	10,696	7,099	10,461	7,758
Direct financing leases	-	47	171	1,160	2,930
Commercial and industrial loans	5,500	2,970	914	2,180	2,203
Consumer installment loans	17	20	44	76	230
Other	-	-	-	-	-
Total non-accruing loans and leases	$ 10,390	$ 13,733	$ 8,228	$ 13,877	$ 13,121
Accruing loans 90+ days past due	201	-	-	1,299	806
Total non-performing loans and leases	$ 10,591	$ 13,733	$ 8,228	$ 15,176	$ 13,927

Total non-performing loans and leases to total assets	1.25	%	1.65	%	1.02	%	2.05	%	2.07	%
Total non-performing loans and leases to total loans and leases	1.52	%	2.12	%	1.41	%	2.60	%	2.64	%

Non-performing loans and leases decreased $3.1 million from $13.7 million at December 31, 2013 to $10.6 million at December 31, 2014. The decrease in 2014 was driven by one large non-performing commercial and multi-family loan relationship with a demonstrated period of repayment performance, which was partially offset by one large commercial and industrial loan relationship which was moved into non-accrual status during the year.

Non-accruing loans and leases decreased $3.3 million from $13.7 million at December 31, 2013 to $10.4 million at December 31, 2014. Accruing loans categorized as 90 days past due increased from $0 to $0.2 million from December 31, 2013 to December 31, 2014. The commercial and industrial loans portfolio represents the largest portion of non-accruing loans and leases. The decrease in non-accruing real estate loans since December 31, 2013 was due to one large commercial real estate loan relationship, totaling $7.8 million at December 31, 2013, that moved into accrual status and paid off in 2014.

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The increase in non-accruing commercial and industrial loans since December 31, 2013 was due to a large commercial and industrial loan relationship, totaling $5.2 million at December 31, 2014, moved into non-accrual during the year, partially off-set by a partial charge-off and pay-off of one large commercial loan, totaling $2.4 million at December 31, 2013.

Non-accruing consumer real estate loans, including residential mortgages and home equity loans and lines of credit, decreased from $1.8 million at December 31, 2013 to $1.7 million at December 31, 2014. Historical losses in these portfolios have been relatively low as the Company has typically loaned at conservative loan-to-value ratios, resulting in fewer losses.

The Company had $6.6 million in loans and leases that were restructured and deemed to be a troubled debt restructuring ("TDR") at December 31, 2014 with $1.9 million of those balances in non-accrual status. Any TDR that is placed on non-accrual is not returned 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 restructurings were allowed in an effort to maximize the Company's ability to collect on loans and leases where borrowers were experiencing financial difficulty. Modifications made to loans in a troubled debt restructuring did not have a material impact on the Company's net income for the years ended December 31, 2014 and 2013. 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.

The following table presents the Company's TDR loans and leases as of December 31, 2014:

	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 and leases	$ 6,586	$ 1,948	$ 4,638	$ 237

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Allowance for Loan and Lease Losses

The following table summarizes the Bank's allowance for loan and lease losses and changes in the allowance for loan and lease losses by categories:

ANALYSIS OF THE ALLOWANCE FOR LOAN AND LEASE LOSSES

	2014	2013	2012	2011	2010
	(in thousands)				
BALANCE AT THE BEGINNING OF THE YEAR	$ 11,503	$ 9,732	$ 11,495	$ 10,424	$ 6,971
CHARGE-OFFS:					
Residential mortgages	-	(39)	(12)	-	-
Commercial and multi-family	(57)	(460)	(900)	(189)	-
Construction-residential	-	-	-	-	-
Construction-commercial	-	-	-	-	(104)
Home equities	(2)	(128)	(114)	-	-
Direct financing leases	-	-	-	-	-
Commercial and industrial loans	(957)	(20)	(862)	(1,305)	(388)
Consumer installment loans	(46)	(64)	(32)	(2)	(4)
Other	-	-	-	(26)	(53)
TOTAL CHARGE-OFFS	(1,062)	(711)	(1,920)	(1,522)	(549)
RECOVERIES:					
Residential mortgages	18	2	1	-	-
Commercial and multi-family	58	444	15	57	-
Construction-residential	-	-	-	-	-
Construction-commercial	-	-	-	-	30
Home equities	-	1	6	2	1
Direct financing leases	173	242	-	-	-
Commercial and industrial loans	574	240	184	39	4
Consumer installment loans	40	13	19	1	-
Other	-	-	-	10	24
TOTAL RECOVERIES	863	942	225	109	59
NET (CHARGE-OFFS) RECOVERIES	(199)	231	(1,695)	(1,413)	(490)
PROVISION FOR LOAN AND LEASE LOSSES	1,229	1,540	(68)	2,484	3,943
BALANCE AT THE END OF YEAR	$ 12,533	$ 11,503	$ 9,732	$ 11,495	$ 10,424

RATIO OF NET CHARGE-OFFS (RECOVERIES) TO AVERAGE NET LOANS AND LEASES OUTSTANDING	0.03	%	(0.04)	%	0.29	%	0.26	%	0.10	%
RATIO OF ALLOWANCE FOR LOAN AND LEASE LOSSES TO TOTAL LOANS AND LEASES	1.80	%	1.78	%	1.67	%	1.97	%	1.97	%

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Net charge-offs (net recoveries) increased from ($0.2) million in 2013 to $0.2 million in 2014. The ratio of net charge-offs (net recoveries) to average net loans and leases outstanding correspondingly increased from (0.04)% at December 31, 2013 to 0.03% at December 31, 2014. The largest net charge-offs occurred in the commercial and industrial loan portfolio due to one commercial loan relationship that was partially charged-off and partially paid-off during the year. Excluding the $0.5 million impact of this one commercial loan relationship, total net charge-offs (net recoveries) for 2014 would reflect a $0.1 million increase in recoveries to ($0.3) million in net recoveries for the year, as compared with ($0.2) million in 2013.

An allocation of the allowance for loan and lease losses by portfolio type over the past five years follows (dollars in thousands):

	Balance at 12/31/2014 to:	Percent of loans in each category to Total loans:	Balance at 12/31/2013 to:	Percent of loans in each category to Total loans:	Balance at 12/31/2012 to:	Percent of loans in each category to Total loans:	Balance at 12/31/2011 to:	Percent of loans in each category to Total loans:	Balance at 12/31/2010 to:	Percent of loans in each category to Total loans:
Residential mortgages *	$ 941	14.24 %	$ 1,038	14.77 %	$ 662	11.84 %	$ 793	13.00 %	$ 548	13.50
Commercial mortgages *	5,650	58.11 %	4,912	59.53 %	4,493	60.58 %	4,670	57.30 %	4,252	55.60
Home equities	819	8.62 %	878	8.85 %	746	9.68 %	768	9.40 %	540	10.10
Commercial loans	4,896	18.61 %	4,489	16.53 %	3,617	17.17 %	4,085	18.80 %	3,435	17.30
Consumer loans **	78	0.42 %	37	0.32 %	18	0.45 %	36	0.50 %	29	0.60
Direct financing leases	-	- %	-	- %	47	0.28 %	994	1.00 %	1,471	2.90
Unallocated	149	- %	149	- %	149	- %	149	- %	149	-
	$ 12,533	100.00 %	$ 11,503	100.00 %	$ 9,732	100.00 %	$ 11,495	100.00 %	$ 10,424	100.00

* includes construction loans

** includes other loans

The proportion of the allowance allocated to commercial mortgages comprises 45.1% of the allowance for loan and lease losses, and correspondingly, the commercial mortgage portfolio made up the largest proportion, or 58.1%, of the total loan and lease portfolio as of December 31, 2014, as compared with 42.7% of the allowance and 59.5% of the total loan and lease portfolio at December 31, 2013. The increase in the percentage of the allowance attributed to commercial mortgages was due to a $25.3 million, or 6.8%, increase in commercial mortgages collectively evaluated in both the criticized and non-criticized commercial mortgage loan pools.

C&I loans comprise 39.1% of the allowance for loan and lease losses despite being only 18.6% of the loan and lease portfolio. Although the commercial mortgage portfolio experienced greater losses than the C&I loan portfolio in 2013, C&I loans experienced greater losses during the previous four years, as well as during 2014. Therefore, the percentage of the allowance attributable to C&I loans comprises a significant portion of the allowance.

Overall, the ratio of the allowance for loan and lease losses to total loans and leases increased slightly from 1.78% at December 31, 2013 to 1.80% on December 31, 2014. The increase is a reflection of an increase in the ratio of total specific reserves to total individually evaluated loans of 8.7% at December 31, 2014, compared with 8.0% as of December 31, 2013.

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The Company's coverage ratio of the allowance for loan and lease losses to non-performing loans and leases increased from 84% at December 31, 2013 to 118% at December 31, 2014, due to $3.1 million decrease in non-performing loans and leases from $13.7 million at December 31, 2013 to $10.6 million at December 31, 2014.

The Company maintains a robust loan review process to ensure that specific credits are appropriately graded and reserved. Management believes that commercial real estate values may be more susceptible to decline than the collateral supporting other types of loans in an adverse economy. Management believes that the allowance for loan and lease losses is reflective of a fair assessment of the current environment and credit quality trends.

Non-Interest Income

Total non-interest income decreased by $1.9 million, or 15.5%, from 2013 to 2014. The primary factor driving the decrease was a $2.6 million loss on a tax credit investment in 2014, as compared with a $1.6 million loss on a tax credit investment in 2013. Additionally, a $0.7 million one-time gain was realized from the termination of the FDIC loss sharing agreement in 2013. With the tax credit investments and corresponding tax credit benefit, the Company was able to reduce its overall tax provision in 2014 by $3.0 million to $0.7 million, or 59.3%, less than prior year tax provision of $1.7 million, as described more below.

Gains from premiums on loans sold to FNMA increased $0.2 million from 2013, as a result of the Company selling off more residential mortgages originated in a higher interest rate environment. In addition, income from bank-owned life insurance increased by $0.1 million, or 13.0%, to $0.6 million during 2014 due to additional purchases made in 2013, and interchange fee income increased $0.1 million, 7.8%, to $1.1 million in 2014. These increases were offset by decreases in bank service charges on deposits and insurance service and fee revenue. Bank charges on deposits decreased $0.2 million, or 9.8%, from $2.0 million at December 31, 2013 to $1.8 million at December 31, 2014. This is attributable to a decrease in customer overdraft activity in deposits. Insurance service and fee revenue decreased $0.1 million, or 1.1%, to $7.1 million at December 31, 2014. TEA's revenue remains the largest component of non-interest income at 69.4% of total non-interest income. TEA is a source of diversification in the earnings of the Company and helps generate income not directly impacted by difficult credit or interest rate environments.

Non-Interest Expense

Total non-interest expense increased $1.9 million, or 6.4%, from $29.4 million in 2013 to $31.3 million in 2014. The largest increase in non-interest expense was salaries and employee benefits, which increased $1.1 million, or 6.1%, in comparison to 2013, and litigation expense, which increased $1.0 million in comparison to 2013. The increase in salaries and employee benefits stems from merit increases, rising health care costs, and the addition of new employees

as a part of the Company’s planned growth strategy. The $1.0 million in litigation expense relates to an accrual for a legal matter with the New York Attorney General over the Bank’s residential mortgage lending practices, as discussed in greater detail in Part I, Item 3 of this Annual Report on Form 10-K.

Advertising and public relations expenses increased $0.1 million, or 10.3%, from prior year due to an increase in advertising campaigns and community involvement. A $0.2 million, or 6.3%, increase in other expenses in 2014 was driven by an increase in Community Reinvestment Act loan closings and charitable contributions.

Technology and communications expense decreased $0.2 million, or 11.9%, to $1.1 million in 2014. The decrease was primarily attributable to technology cost savings as a result of building consolidations in late 2013 and renegotiation of a contract with a primary service provider.

In 2014, the Company benefited from the expiration of the amortization of intangibles related to its purchase of an insurance agency in 2008. Amortization expense declined from $0.2 million in 2013 to $0.1 million in 2014.

The efficiency ratio expresses the relationship of operating expenses to revenues. The Company's efficiency ratio, or non-interest operating expenses (exclusive of non-cash goodwill impairment and intangible amortization) divided by the sum of net interest income and non-interest income (exclusive of gains and losses from investment securities), was 70.83% in 2014, 71.98% in 2013, and 70.05% in 2012. The improvement in 2014 from 2013 is a result of the increase in Company’s net interest margin in 2014.

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Taxes

The provision for income taxes in 2014 was $0.7 million on pre-tax income of $8.9 million for an effective tax rate of 7.9%, compared with an effective tax rate of 18.1% in 2013. Both periods benefited from a tax credit due to investing in community projects which generated historic tax credits. In 2014, the project was larger and generated a $3.0 million tax credit which was $1.2 million greater than tax credit of $1.8 million recognized in 2013. Excluding the impact of the historic tax credit and write-off of the tax credit investments recognized in non-interest income as of December 31, 2014 and 2013, the provision for income taxes would have been $3.7 million and $3.5 million, respectively, on pre-tax income of $11.5 million and $11.1 million, respectively, yielding an effective rate of 32.2% and 31.7%, respectively.

RESULTS OF OPERATIONS FOR YEARS ENDED DECEMBER 31, 2013 AND DECEMBER 31, 2012

Net Income

Net income of $7.9 million in 2013 consisted of $6.6 million related to the Company's banking activities and $1.3 million in net income related to the Company's insurance agency activities. The total net income of $7.9 million was a 3.4% decrease from $8.1 million in 2012. Earnings per diluted share for 2013 of $1.85 decreased 5.2% from $1.95 per diluted share for 2012.

Net Interest Income

Net interest income increased by $0.6 million, or 2.0%, to $28.3 million in 2013 from $27.8 million in 2012. Interest rates earned and paid on interest-earning assets and interest-bearing liabilities negatively impacted net interest income by $0.2 million, while the volume on those respective assets and liabilities positively impacted net interest income by $0.8 million. Overall, the volume in loans and securities along with the benefit of lower rates paid on deposits were partially offset by a decrease in interest earned on loans and securities.

The Company has invested in adding to its commercial loan portfolio significantly in the past several years by adding several commercial loan officers while existing loan officers have successfully increased production. Total commercial loan portfolio balance, including commercial real estate and commercial and industrial loans, increased $9.1 million, or 2.0%, from a $456.5 million average balance in 2012 to a $465.6 million average balance in 2013. Consumer loans increased 8.1% from a $130.0 million average balance in 2012 to $140.4 million in 2013.

On the funding side, the Company has been successful in attracting new deposit customers, with most of that success coming from growth in the regular savings products, such as Better Savings, Statement Savings, and business money market accounts. These products have begun to mature in their product life cycle and competitors have reduced rates on virtually all deposit products, creating an opportunity for the Company to reduce rates on these products while remaining competitive and retaining core customers. Due to customer preference for liquid deposits with long-term rates at all-time lows, there was strong growth in the Company's demand deposit balances, marked by an $11.5 million increase in average demand deposit balances during 2013 compared with 2012.

Net interest spread, or the difference between yield on interest-earning assets and rate on interest-bearing liabilities, declined to 3.59% in 2013, compared with 3.64% in 2012. The yield on interest-earning assets decreased 34 basis points from 4.61% in 2012 to 4.27% in 2013, and the cost of interest-bearing liabilities decreased 29 basis points, from 0.97% in 2012 to 0.68% in 2013. Net interest spread decreased as the yield curve, or the difference between long-term rates and short-term rates, flattened throughout 2013. Banks traditionally benefit from a steep yield curve because the duration of interest-earnings assets is typically longer than the duration of interest-bearing liabilities. In addition, the Company's opportunities to re-price on the liability side during 2013 were not enough to make up for the steeper decrease in asset yields from re-pricing.

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Provision for Loan and Lease Losses

The Company's provision for loan and lease losses increased $1.6 million from ($0.1) million in 2012 to $1.5 million in 2013. The overall increase was a result of increases in impaired commercial loans, commercial loans classified as criticized loans, and the growth in the general loan portfolio, as well as recognition of provision for previously covered loans under the FDIC loss sharing agreement and continued run-off of the leasing portfolio. The increase in the provision for loan losses in 2013 was driven mostly by increases in loans, impaired commercial loans and commercial loans classified as criticized loans. As noted in Note 1 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, the Company reserves a specific allocation on impaired loans and a higher percentage on criticized loans, or those loans risk rated 5 or higher. The Company had $1.2 million in specific reserve credit allocation on impaired loans at December 31, 2013, compared with $1.0 million at December 31, 2012. There was one criticized commercial loan relationship that became impaired in 2013 and required a significant specific reserve. At December 31, 2013, loans risk rated 5 or higher were up $10.6 million to $30.8 million, compared with $20.2 million at December 31, 2012, mostly driven by one large commercial and multi-family relationship classified as a criticized loan during the year. Additionally, total loans collectively evaluated for impairment increased $58.0 million to $629.2 million in 2013, compared with $571.2 million as of December 31, 2012. In addition, upon termination of the FDIC loss sharing agreement in 2013, the Company recognized $0.6 million in provision on loans previously referred to as "covered" due to the FDIC guarantee governing those acquired loans. Termination of the loss sharing agreement with the FDIC eliminated the guarantee on the losses associated with the acquired portfolio, and required the Company to realize $0.6 million provision on those loans previously covered under the FDIC guarantee. The Company's provision for lease losses benefitted from a negative provision of $0.9 million in 2012, as the portfolio demonstrated improved performance, compared with a negative provision of $0.1 million in 2013. As the leasing portfolio significantly declined and existing leases continued to perform in 2013, the benefit from additional releases in the provision for lease losses in the current year had been exhausted. The increases in the provision for loan and lease losses was partially offset by $0.2 million in net recoveries in 2013, compared with net charge-offs of $1.7 million in 2012.

The ratio of non-performing loans and leases to total loans and leases increased significantly from 1.41% at December 31, 2012 to 2.12% at December 31, 2013. The Company experienced a positive trend in the ratio of non-performing loans and leases to total loans and leases over the previous three years from 2.64% at December 31, 2010 to 2.60% at December 31, 2011 and 1.41% at December 31, 2012.

Non-Interest Income

Total non-interest income decreased by $0.7 million, or 5.2%, from 2012 to 2013. The primary factor driving the decrease was a non-routine loss on a tax credit investment of $1.6 million. The loss was moderated by a $0.7 million one-time gain realized from the termination of the FDIC loss sharing agreement. The Company was able to reduce its overall tax provision by $2.0 million, or 53.8%, from prior year tax provision of $3.7 million, largely as a result of investing in a community project in 2013 which generated historic tax credits. Conversely, the $0.7 million gain on termination of the FDIC loss sharing agreement was offset by a $0.6 million increase in provision for loan and lease losses.

In addition, Bank charges on deposits increased $0.2 million, or 9.7%, from $1.8 million at December 31, 2012 to $2.0 million at December 31, 2013, along with an increase of $0.1 million, or 12.2%, in interchange fee income from $0.9 million at December 31, 2012 to $1.0 million at December 31, 2013. This is attributable to the growth in deposits and the Company's strategic focus on increasing fee revenue on commercial checking accounts and customer card activity. Insurance service and fee revenue increased $0.2 million, or 3.5%, to $7.2 million at December 31, 2013. TEA's revenue remains the largest component of non-interest income at 59.3% of total non-interest income. TEA is a source of diversification in the earnings of the Company and helps generate income not directly impacted by difficult credit or interest rate environments. Despite a soft insurance market environment in recent years, the Company continued gradual growth in insurance revenue. These increases were somewhat offset by a decrease in gains from premiums on loans sold to FNMA of $0.4 million. In 2013, market interest rates continued to decline and compressed the margin on gains that could be realized on selling residential mortgages to FNMA. As a result, the Company was able to originate and hold more residential mortgages, as reflected in the $26.6 million increase in residential mortgages loans.

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Non-Interest Expense

Total non-interest expense increased $0.6 million, or 2.0%, from $28.8 million in 2012 to $29.4 million in 2013. The largest increase in non-interest expense was in salaries and employee benefits, which increased $0.5 million, or 2.6%, in comparison to 2012. Excluding a $0.6 million severance cost in 2012, salaries and employee benefits increased $1.0 million, or 6.0%, from 2012. The increase stems from merit increases, rising health care costs, and the addition of new employees as a part of the Company's planned growth strategy.

Occupancy expenses increased $0.2 million, or 8.1%, from prior year, primarily due to a write-off of capitalized software costs on a discontinued project and expenses related to the new Williamsville branch opened in 2012.

Technology and communications expense increased $0.1 million, or 7.2%, to $1.3 million in 2013. The increase is entirely attributable to an increase in ATM and debit card processing fees paid by the Company as customer usage of ATM and debit cards continued to rise.

FDIC insurance costs also increased $0.1 million, or 10.6%, from 2012 due to an increase in the assessment from deposit growth.

In 2013, the Company benefited from the expiration of the amortization of intangibles related to its purchase of an insurance agency in 2008. Amortization expense declined from $0.3 million in 2012 to $0.2 million in 2013.

Repairs and maintenance and advertising expenses decreased $0.1 million in 2013. The 6.0% reduction in repairs and maintenance from 2012 relates to efficiencies gained due to consolidation of the Company's offices and business operations. Advertising costs were reduced 3.4% due to more stringent expense control.

The efficiency ratio expresses the relationship of operating expenses to revenues. The Company's efficiency ratio, or non-interest operating expenses (exclusive of non-cash goodwill impairment and intangible amortization) divided by the sum of net interest income and non-interest income (exclusive of gains and losses from investment securities), was 71.98% in 2013, an increase from 70.05% in 2012 and 69.68% in 2011. The increase was a product of the Company's declining net interest margin and investments in additional employees and infrastructure.

FINANCIAL CONDITION

The Company had total assets of $846.8 million at December 31, 2014, an increase of $13.3 million, or 1.6%, from $833.5 million at December 31, 2013. Net loans of $683.1 million increased $47.6 million, or 7.5%, from $635.5 million at December 31, 2013. Securities decreased $4.9 million or 4.8% in 2014, and deposits increased by $1.0 million or 0.14%. Stockholders' equity increased $5.1 million or 6.3% from 2013.

Securities Activities

The primary objectives of the Bank's securities portfolio are to provide liquidity and maximize income while preserving safety of principal. Secondary objectives include: providing collateral to secure local municipal deposits, the investment of funds during periods of decreased loan demand, interest rate sensitivity considerations, supporting local communities through the purchase of tax-exempt securities and tax planning considerations. The Bank's Board of Directors is responsible for establishing overall policy and reviewing performance of the Bank's investments.

Under the Bank's policy, acceptable portfolio investments include: United States Government obligations, obligations of federal agencies or U.S. Government-sponsored enterprises, mortgage backed securities, municipal obligations (general obligations, revenue obligations, school districts and non-rated issues from the Bank's general market area), banker's acceptances, certificates of deposit, Industrial Development Authority Bonds, Public Housing Authority Bonds, corporate bonds (each corporation limited to the Bank's legal lending limit), collateralized mortgage obligations, Small Business Investment Companies (SBIC), Federal Reserve stock and Federal Home Loan Bank stock.

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In regard to municipal securities, the Company's general investment policy is that in-state securities must be rated at least Moody's Baa (or equivalent) at the time of purchase. The Company reviews the ratings report and municipality financial statements and prepares a pre-purchase analysis report before the purchase of any municipal securities. Out-of-state issues must be rated by Moody's at least Aa (or equivalent) at the time of purchase. The Company did not own any out-of-state municipal bonds at December 31, 2014 or December 31, 2013. Bonds rated below A are reviewed periodically to ensure their continued credit worthiness. While purchase of non-rated municipal securities is permitted, such purchases are limited to bonds issued by municipalities in the Company's general market area. Those municipalities are typically customers of the Bank whose financial situation is familiar to management. The financial statements of the issuers of non-rated securities are reviewed by the Bank and a credit file of the issuers is kept on each non-rated municipal security with relevant financial information.

Although concerns have been raised in the marketplace recently about the health of municipal bonds, the Company has not experienced any credit troubles in this portfolio and does not believe any credit troubles are imminent. Aside from the non-rated municipal securities to local municipalities discussed above that are considered held-to-maturity, all of the Company's available-for-sale municipal bonds are investment-grade government obligation ("G.O.") bonds. G.O. bonds are generally considered safer than revenue bonds because they are backed by the full faith and credit of the government while revenue bonds rely on the revenue produced by a particular project. All of the Company's municipal bonds are to municipalities in New York State. To the Company's knowledge, there has never been a default of a NY G.O. in the history of the state. The Company believes that its risk of loss on default of a G.O. municipal bond for the Company is relatively low. However, historical performance does not guarantee future performance

Pursuant to FASB Accounting Standards Codification ("ASC") 320, "Investments – Debt and Equity Securities," which establishes accounting treatment for investments in securities, all securities in the Bank's investment portfolio are either designated as "held to maturity" or "available for sale."

Fair values for available for sale securities are determined using independent pricing services and market-participating brokers. The Company utilizes a third-party for these pricing services. The third-party 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 third-party service provider's 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, our third-party pricing service provider uses model processes, such as the Option Adjusted Spread model, 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 third party, at times, may 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, as submitted by our third-party pricing service provider, in the market value of its securities 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 securities portfolio priced by a second pricing service to determine consistency with another market evaluator. If, on the Company's review or in comparing with another servicer, a material difference between pricing evaluations were to exist, the Company may submit an inquiry to our third party pricing 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 our third-party pricing service provider's evaluation it can submit a challenge for a change to that security's valuation. There were no material differences in valuations noted in 2014 or 2013.

Securities and interest-bearing deposits at banks made up 15.3% of the Company's total average interest-earning assets in 2014 compared with 21.3% in 2013. These assets provide the Company with additional sources of liquidity and income and act as collateral for the Bank's municipal deposits. The Company's securities portfolio outstanding balances decreased 4.8% from $102.0 million at December 31, 2013 to $97.1 million at December 31, 2014, and the Company's interest-bearing deposits at banks also decreased from $27.3 million to $2.1 million over the same time period. The interest-bearing deposits are liquid interest-bearing cash accounts at correspondent banks. The $25.1 million decrease in the Company's cash position

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was a result of the loan growth in 2014 and minimal growth in total deposits of $1.0 million or 0.1% in 2014. With long-term rates at historic lows, the Company did not make significant investments from the limited liquidity in non-core assets such as long-term bonds. In 2014, $9.0 million in FHLB borrowings matured, and were replaced by overnight borrowings with the FHLB. At December 31, 2014, the Company's concentration in U.S. government-sponsored agency bonds was 27.5% of the total securities balance versus 31.3% at December 31, 2013. Government-sponsored mortgage-backed securities made up 38.9% of the portfolio at December 31, 2014, compared with 35.1% of the portfolio at December 31, 2013, and tax-advantaged municipal bonds made up 32.0% of the portfolio at December 31, 2014 versus 31.2% of the portfolio at December 31, 2013.

As a member of both the Federal Reserve System and the FHLB, the Bank is required to hold stock in those entities. The Bank held $1.4 million in FHLB stock as of December 31, 2014 and 2013, and $1.5 million in FRB stock at December 31, 2014 and 2013.

All fixed and adjustable rate mortgage pools contain a certain amount of risk related to the uncertainty of prepayments of the underlying mortgages. Interest rate changes have a direct impact on prepayment rates. The Company uses a third-party developed model to monitor the average life and yield volatility of mortgage pools under various interest rate assumptions.

The Company designates all securities at the time of purchase as either "held to maturity" or "available for sale." Securities designated as held to maturity are stated on the Company's Consolidated Balance Sheets included under Item 8 of this Annual Report on Form 10-K at amortized cost. Those designated as available for sale are reported at fair market value. At December 31, 2014, $1.6 million in securities were designated as held to maturity. These bonds are primarily municipal investments that the Bank has made in its local market area.

The available for sale portfolio totaled $95.5 million or approximately 98.4% of the Company's securities portfolio at December 31, 2014. Net unrealized gains and losses on available for sale securities resulted in a net unrealized gain of $1.5 million at December 31, 2014, as compared with a net unrealized gain of $0.3 million at December 31, 2013. Unrealized gains and losses on available-for-sale securities are reported, net of taxes, as a separate component of stockholders' equity. For the year ended December 31, 2014, the impact on stockholders' equity was a net unrealized gain, net of taxes, of approximately $0.7 million.

Certain securities available for sale were in an unrealized loss position at December 31, 2014. Management has assessed those securities available for sale in an unrealized loss position at 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, the financial condition of the issuer (primarily government or government-sponsored enterprises) and the Company's ability and intent to hold these securities until their fair value recovers to 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 issuer.

Income from securities held in the Bank's investment portfolio represented approximately 8.0% of total interest income of the Company in 2014 as compared with 8.8% in 2013 and 9.2% in 2012. At December 31, 2014, the Bank's securities portfolio of $97.1 million consisted primarily of state and municipal securities, mortgage-backed securities issued by the Federal National Mortgage Association ("FNMA") and Federal Home Loan Mortgage Corp ("FHLMC"), and U.S. and federal agency obligations. The $0.1 million and $0.2 million decrease in investment securities income in 2014 and 2013, respectively, was a result of a significant decline in investment yields as sustained stimulus by the FRB continued to drive down bond yields to all-time lows. Taxable investment yields dropped from 2.61% in 2013 to 2.54% in 2014, and tax-exempt security yields fell from 3.01% in 2013 to 2.95% in 2014.

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

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The following table summarizes the Bank's securities with those designated as available for sale valued at fair value and securities designated as held to maturity at amortized cost as of December 31, 2014, 2013 and 2012:

	At December 31,		
	2014	2013	2012
	(in thousands)		
Available for Sale:			
Debt securities			
U.S. government agencies	$ 26,717	$ 31,992	$ 28,332
States and local subdivisions	31,060	31,880	31,469
Total debt securities	$ 57,777	$ 63,872	$ 59,801
Mortgage-backed securities			
FNMA	$ 15,154	$ 13,501	$ 16,077
FHLMC	5,958	7,118	6,481
GNMA	6,130	7,573	8,013
CMO's	10,514	7,601	1,691
Total mortgage-backed securities	$ 37,756	$ 35,793	$ 32,262
Total available for sale securities	$ 95,533	$ 99,665	$ 92,063
Held to Maturity:			
Debt securities			
States and local subdivisions	$ 1,599	$ 2,384	$ 3,744
Total held to maturity securities	$ 1,599	$ 2,384	$ 3,744

The following table sets forth the contractual maturities and weighted average interest yields of the Bank's securities portfolio (yields on tax-exempt obligations are not presented on a tax-equivalent basis) as of December 31, 2014. Expected maturities will differ from contracted maturities since issuers may have the right to call or prepay obligations without penalties.

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	Maturing Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(dollars in thousands)							
Available for Sale:								
Debt Securities								
U.S. Government agencies	$ 5,058	2.88 %	$ 5,224	3.21 %	$ 13,377	1.96 %	$ 3,058	2.96 %
States and political subdivisions	3,198	3.87 %	17,373	3.37 %	7,212	3.61 %	3,277	4.24 %
Total debt securities	$ 8,256	3.26 %	$ 22,597	3.33 %	$ 20,589	2.54 %	$ 6,335	3.63 %
Mortgage-backed securities								
FNMA	$ -	- %	$ 451	5.00 %	$ 6,718	3.55 %	$ 7,986	3.48 %
FHLMC	-	- %	232	5.00 %	950	4.14 %	4,776	2.68 %
GNMA	-	- %	-	- %	-	- %	6,130	3.16 %
CMO's	-	- %	7	4.25 %	-	- %	10,506	1.91 %
Total mortgage-backed securities	$ -	- %	$ 690	4.99 %	$ 7,668	3.62 %	$ 29,398	2.72 %
Total available for sale	$ 8,256	3.26 %	$ 23,287	3.38 %	$ 28,257	2.83 %	$ 35,733	2.88 %
Held to Maturity:								
Debt Securities								
U.S. Government agencies	$ -	- %	$ -	- %	$ -	- %	$ -	- %
States and political subdivisions	478	1.78 %	77	3.35 %	932	2.91 %	112	2.80 %
Total held to maturity	$ 478	1.78 %	$ 77	3.35 %	$ 932	2.91 %	$ 112	2.80 %
Total securities	$ 8,734	3.18 %	$ 23,364	3.38 %	$ 29,189	2.84 %	$ 35,845	2.88 %

LENDING AND LEASING ACTIVITIES

The Bank has a loan and lease policy which is approved by its Board of Directors on an annual basis. The loan and lease policy governs the conditions under which loans and leases may be made, addresses the lending authority of Bank officers, documentation requirements, appraisal policy, charge-off policies and desired portfolio mix. The

Bank's lending limit to any one borrower is subject to regulation by the OCC. The Bank continually monitors its loan portfolio to review compliance with new and existing regulations.

The Bank offers a variety of loan products to its customers, including residential and commercial real estate mortgage loans, commercial loans, and installment loans. The Bank primarily extends loans to customers located within the Western New York area. Interest income on loans and leases represented approximately 91.9% of the total interest income of the Company in 2014 and approximately 91.2% and 90.8% of total interest income in 2013 and 2012, respectively. The Bank's loan and lease portfolio, net of the allowances for loan and lease losses, totaled $683.1 million and $635.5 million at December 31, 2014 and December 31, 2013, respectively. The net loan and lease portfolio represented approximately 80.7% and 76.2% of the Company's total assets at December 31, 2014 and December 31, 2013, respectively.

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The following table summarizes the major classifications of the Bank's loans and leases as of the dates indicated:

	December 31,				
	2014	2013	2012	2011	2010
	(in thousands)				
Mortgage loans on real estate:					
Residential Mortgages	$ 98,374	$ 94,027	$ 68,135	$ 73,579	$ 69,958
Commercial and multi-family	363,252	361,247	323,777	306,683	261,371
Construction-Residential	721	1,509	811	2,392	1,320
Construction-Commercial	40,986	23,902	28,941	27,887	32,332
Home equities	59,948	57,228	56,366	54,673	53,120
Total real estate loans	563,281	537,913	478,030	465,214	418,101
Direct financing leases	-	-	1,612	6,021	15,475
Commercial and industrial loans	129,456	106,952	99,951	109,513	91,445
Consumer loans	1,764	938	1,294	1,677	2,458
Other	404	323	1,342	586	252
Net deferred loan origination costs	759	870	666	394	247
Total gross loans and leases	695,664	646,996	582,895	583,405	527,978
Allowance for loan and lease losses	(12,533)	(11,503)	(9,732)	(11,495)	(10,424)
Loans and leases, net	$ 683,131	$ 635,493	$ 573,163	$ 571,910	$ 517,554

Real Estate Loans

Approximately 81.0% of the Bank's total loan and lease portfolio at December 31, 2014 consisted of real estate loans or loans collateralized by mortgages on real estate, including residential mortgages, commercial mortgages and other types of real estate loans. The Bank's real estate loan portfolio was $563.3 million at December 31, 2014, compared with $537.9 million at December 31, 2013. The real estate loan portfolio increased by approximately 4.7% in 2014

over 2013 compared with an increase of 12.5% in 2013 over 2012.

The Bank offers fixed rate residential mortgage loans with terms of 10 to 30 years with, typically, up to an 80% loan-to-value ("LTV") ratio. Any loans with a greater than 80% LTV have private mortgage insurance. Fixed rate residential mortgage loans outstanding totaled $90.8 million at December 31, 2014, which was approximately 13.1% of total loans and leases outstanding, compared with $85.7 million and 13.2%, respectively, at December 31, 2013. This balance did not include any construction residential mortgage loans, which are discussed below. The Bank has a contractual arrangement with FNMA, pursuant to which the Bank sells certain mortgage loans to FNMA and the Bank retains the servicing rights to those loans. The Bank determines with each origination of residential real estate loans which desired maturities, within the context of overall maturities in the loan portfolio, provide the appropriate mix to optimize the Bank's ability to absorb the corresponding interest rate risk within the Company's tolerance ranges.

In 2014, the Bank sold $15.3 million in mortgages to FNMA under this arrangement, compared with $0.8 million in mortgages sold in 2013. The rise in mortgages sold to FNMA was due to an increase in interest rates in 2014, which provided an opportunity to realize gains on sales to FNMA.

The Bank currently retains the servicing rights on $71.6 million in mortgages sold to FNMA at December 31, 2014, compared with $63.5 million in mortgages sold to FNMA at December 31, 2013. The Company has recorded a net servicing asset for such loans of $0.5 million at December 31, 2014 and 2013. The value of the mortgage servicing rights remained the same, despite a 12.8% increase in the size of the servicing portfolio, due to the Company's valuation model projecting higher

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prepayment speeds and additional assumption changes based on current attributes of recently originated loans in the servicing portfolio, such as decreased late charges and increased costs to service.

The Bank offers adjustable rate residential mortgage loans with terms of up to 30 years. Rates on these mortgage loans remain fixed for a predetermined time and are adjusted annually thereafter. The Bank's outstanding adjustable rate residential mortgage loans were $6.5 million or 0.9% of total loans and leases outstanding at December 31, 2014 as compared with $7.2 million or 1.1% at December 31, 2013. With rates on fixed rate mortgage products at all-time lows, there has been little demand for variable-rate products which has resulted in a decline in variable rate mortgage loan balances.

Overall, residential real estate loans increased $4.3 million, or 4.6%, from $94.0 million at December 31, 2013 to $98.4 million at December 31, 2014.

The Bank also offers commercial mortgage loans with up to an 80% LTV ratio for up to 20 years on a variable and fixed rate basis. To the extent required, loans exceeding an 80% LTV are reported on an exception report to the Board of Directors. Many of these mortgage loans either mature or are subject to a rate call after three to five years. The Bank's outstanding commercial mortgage loans were $363.3 million at December 31, 2014, which was 52.2% of total loans and leases outstanding, compared with $361.2 million and 55.8% at December 31, 2013. The Company believes that the strong relationships with customers in the local community that have been fostered over the years with its loan officers resulted in sustained loan production in 2014. The balance at December 31, 2014 included $117.4 million in fixed rate and $245.9 million in variable rate commercial mortgage loans, which include interest rate calls.

The Bank also offers other types of loans collateralized by real estate, such as home equity loans. The Bank offers home equity loans at variable and fixed interest rates with terms of up to 15 years and up to an 85% combined LTV ratio. To the extent required, loans exceeding an 85% LTV ratio are reported on an exception report to the Board of Directors. At December 31, 2014, the real estate loan portfolio included $59.9 million of home equity loans outstanding, which represented 8.6% of total loans and leases outstanding, compared with $57.2 million and 8.8% at December 31, 2013, respectively. The total home equity portfolio included $54.1 million in variable rate loans and $5.8 million in fixed rate loans.

The Bank also offers both residential and commercial real estate construction loans at up to an 80% LTV ratio at fixed interest or adjustable interest rates and multiple maturities. At December 31, 2014, fixed rate real estate construction loans outstanding totaled $3.2 million, or 0.5% of total loans and leases outstanding, and adjustable rate construction loans outstanding totaled $38.5 million, or 5.5% of total loans and leases outstanding. At December 31, 2013, fixed rate real estate construction loans outstanding totaled $3.2 million, or 0.5% of total loans and leases outstanding, and adjustable rate construction loans outstanding totaled $22.2 million, or 3.4% of total loans and leases outstanding.

Commercial and Industrial Loans

The Bank offers commercial and industrial ("C&I") loans on a secured and unsecured basis, including lines of credit and term loans at fixed and variable interest rates and multiple maturities. The Bank's C&I loan portfolio totaled $129.5 million at December 31, 2014, compared with $107.0 million at December 31, 2013, a 21.0% increase. The growth is attributable to an increased number of C&I loan officers and good results achieved through the Bank's community-focused and relationship-based lending approach in the local market. Commercial loans represented 18.6% and 16.5% of the Bank's total loans at December 31, 2014 and 2013, respectively.

Collateral for C&I loans, where applicable, may consist of inventory, receivables, equipment and other business assets. At December 31, 2014, 52.3% of the Bank's C&I loans were at variable rates which are typically tied to the prime rate. The Company has a small number of loans that are tied to LIBOR.

Consumer Loans

The Bank's consumer installment loan portfolio totaled $1.8 million and $0.9 million at December 31, 2014 and 2013, respectively, representing 0.3% and 0.1% of the Bank's total loans and leases outstanding at December 31, 2014 and 2013, respectively. Traditional installment loans are offered at fixed interest rates with various maturities of up to 60 months, on a secured and unsecured basis. This segment of the portfolio is done on an accommodation basis for customers. The Company does not actively try to grow the portfolio in a significant way.

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Other Loans

Other loans totaled $0.4 million and $0.3 million at December 31, 2014 and December 31, 2013, respectively. Other loans consisted primarily of overdrafts and loan clearing accounts.

Loan Maturities and Sensitivities of Loans to Changes in Interest Rates

The following table shows the maturities of commercial loans and real estate construction loans outstanding as of December 31, 2014 and the classification of such loans due after one year according to sensitivity to changes in interest rates.

	Within One Year	After One But Within Five Years	After Five Years	Total
	(in thousands)			
Commercial	$ 6,210	$ 45,124	$ 78,122	$ 129,456
Real estate construction	20,434	15,487	5,065	40,986
	$ 26,644	$ 60,611	$ 83,187	$ 170,442
Loans maturing after one year with:				
Fixed Rates		$ 39,468	$ 79,284	
Variable Rates		21,143	3,903	
		$ 60,611	$ 83,187	

SOURCES OF FUNDS

General

Customer deposits represent the primary source of the Bank's funds for lending and other investment purposes. In addition to deposits, other sources of funds include loan and lease repayments, loan sales on the secondary market, interest and dividend income from investments, matured investments, and borrowings from the Federal Home Loan Bank ("FHLB") and from correspondent banks First Tennessee Bank and M&T Bank.

Deposits

The Bank offers a variety of deposit products, including checking, savings, NOW accounts, certificates of deposit and jumbo certificates of deposit. Bank deposits are insured up to the limits provided by the FDIC. The following table details the Bank's deposits as of the dates indicated:

	December 31,		
	2014	2013	2012
	(in thousands)		
Demand deposits	$ 158,631	$ 139,973	$ 123,405
NOW accounts	72,670	65,927	65,753
Regular savings	336,363	362,440	357,741
Muni-vest savings	27,179	28,135	23,183
Time deposits, $100,000 and over	47,748	45,201	42,083
Other time deposits	65,044	64,936	66,827
Total	$ 707,635	$ 706,612	$ 678,992

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The following schedule sets forth the maturities of the Bank's time deposits as of December 31, 2014:

	Time Deposit Maturity Schedule				
	0-3 Mos.	3-6 Mos.	6-12 Mos.	Over 12 Mos.	Total
	(in thousands)				
Time deposits - $100,000 and over	$ 5,629	$ 13,674	$ 6,627	$ 21,818	$ 47,748
Other time deposits	8,203	14,897	11,638	30,306	65,044
Total time deposits	$ 13,832	$ 28,571	$ 18,265	$ 52,124	$ 112,792

Total deposits increased $1.0 million or 0.1% in 2014 from 2013. The Company grew core transactional checking accounts, including non-interest bearing demand deposits and NOW accounts, by 12.3% to $231.3 million at December 31, 2014. Non-interest bearing demand deposits increased by $18.7 million, or 13.3%, to $158.6 million as the Company was able to attract new core customers and some current commercial customers kept higher cash balances due to uncertain economic conditions.

At December 31, 2014, regular savings decreased $26.1 million, or 7.2%, since December 31, 2013. In prior years, much of the growth in savings deposits was due to the Better Savings account offered by the Bank, however, as rates on the Better Savings product were reduced in 2014, more price-sensitive customers moved their funds into other products.

Time deposits increased $2.7 million, or 2.4%, from $110.1 million at December 31, 2013 to $112.8 million as of December 31, 2014. Because the interest rate environment continues to remain low, the average rate paid on time deposits decreased from 1.60% in 2013 to 1.55% in 2014.

The following table shows daily average deposits and average rates paid on significant deposit categories by the Bank (dollars in thousands):

	2014		2013		2012	
	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
	(dollars in thousands)					
Demand deposits	$ 148,827	- %	$ 131,041	- %	$ 119,805	- %
NOW accounts	72,034	0.44 %	67,549	0.53 %	59,811	1.03 %
Regular savings	345,236	0.27 %	357,098	0.31 %	341,739	0.57 %
Muni-vest savings	33,011	0.21 %	26,052	0.23 %	24,937	0.32 %
Time deposits	111,521	1.55 %	111,165	1.60 %	109,508	1.75 %
Total	$ 710,629	0.43 %	$ 692,905	0.48 %	$ 655,800	0.69 %

Federal Funds Purchased and Other Borrowed Funds. Another source of the Bank’s funds for lending and investing activities is short term borrowings from the Federal Home Loan Bank. The Bank had no short term borrowings outstanding, other than overnight funding, from the FHLB at December 31, 2014.

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Securities Sold Under Agreements to Repurchase

The Bank enters into agreements with certain customers to sell securities owned by the Bank to those customers and repurchase the identical security, generally within one day. No physical movement of the securities is involved. The customer is informed that the securities are held in safekeeping by the Bank on behalf of the customer. Securities sold under agreements to repurchase totaled $13.8 million at December 31, 2014 compared to $13.4 million at December 31, 2013. Balances can vary day to day based on customer needs.

Pension

The Bank maintains a qualified defined benefit pension plan (the “Pension Plan”), which covered substantially all employees of the Company at the time the Pension Plan was frozen on January 31, 2008. All benefits eligible participants accrued in the Pension Plan to the freeze date have been retained. Employees have not accrued additional benefits in the Pension Plan from that date. Employees will be eligible to receive these benefits at normal retirement age. Additionally, the Company has entered into individual retirement agreements with certain of its executive officers providing for unfunded supplemental pension benefits under the Company’s Supplemental Executive Retirement Plan and Senior Executive Supplemental Executive Retirement Plan (collectively, the “SERP plans”). The Company’s pension expense for the Pension Plan and the SERP plans approximated $0.4 million, $0.6 million, and $0.6 million for each of the years ended December 31, 2014, 2013, and 2012, respectively, and is calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on the Company’s plan assets of 7.50% for 2014, 2013 and 2012 for the Pension Plan; no compensation rate increases for 2014, 2013, and 2012 for the Pension Plan and compensation rate increases of 3.50% in 2014, 2013 and 2012 for the SERP plans.

The expected long-term rate of return on pension plan assets assumption was determined based on historical returns earned by equity and fixed income securities, adjusted to reflect future return expectations based on pension plan targeted asset allocation. The SERP Plans are unfunded so there is no return on plan assets assumption. In evaluating compensation rate increases, the Company evaluated historical salary data, as well as expected future increases. The compensation rate increase assumption is zero for the Pension Plan because the Pension Plan has been frozen and employees can no longer accrue additional benefits. The Company will continue to evaluate its actuarial assumptions, including its expected rate of return and compensation rate increases at least annually, and will adjust as necessary.

The Company bases its determination of pension expense or income on a market-related valuation of assets, which reduces year-to-year volatility. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the market-related value of assets.

The discount rate utilized by the Company for determining future pension obligations is based on a review of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. The discount rate determined on this basis decreased from 4.78% at December 31, 2013 to 3.83% at December 31, 2014 for the Company's Pension Plan and from 4.15% at December 31, 2013 to 3.30% at December 31, 2014 for the SERP plans.

Management tested the sensitivity of the pension expense to changes in two key assumptions: return on plan assets and the discount rate. A 0.25% decrease in the rate of return on plan assets would have resulted in a decrease in pension expense of 12.97% or $10 thousand. A 0.25% decrease in the discount rate would have resulted in a decrease in pension expense of 3.76% or $3 thousand. The SERP has no plan assets; therefore there is no rate of return on plan assets. A 0.25% decrease in the discount rate would have resulted in an increase in SERP expense of 1.28% or $6 thousand. A 0.25% increase in the discount rate would have resulted in a 3.79%, or $3 thousand, increase in pension expense, and a 1.26%, or $6 thousand, decrease in SERP expense. Since the Pension Plan has been frozen, pension expense is not sensitive to compensation scale increases or decreases.

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As of December 31, 2014, the Company had cumulative actuarial losses of approximately $3.7 million that will result in an increase in the Company's future pension expense because such losses at each measurement date exceed 10% of the greater of the projected benefit obligation or the market-related value of plan assets. In accordance with GAAP, net unrecognized gains or losses that exceed that threshold are required to be amortized over the expected service period of active employees, and are included as a component of net pension cost. Amortization of these net actuarial losses had the effect of increasing the Company's pension expense by approximately $105 thousand in 2014, $176 thousand in 2013, and $171 thousand in 2012.

The Company contributed $110 thousand to the Pension Plan in 2014.

Liquidity

The Company utilizes cash flows from its investment portfolio and federal funds sold balances to manage the liquidity requirements it experiences due 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. Given the current collateral available, advances of up to $185.5 million can be drawn on the FHLB via the Bank’s Overnight Line of Credit Agreement. 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 also borrow at the FRB’s discount window. The Company’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. Additionally, the Company has access to capital markets as a funding source.

The cash flows from the Company’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, so that securities are available for sale from time-to-time without the need to incur significant losses. At December 31, 2014, approximately 9.0% of the Company’s debt securities had maturity dates of one year or less, and approximately 32.3% had maturity dates of five years or less. In addition, the Company receives regular cash flows on its mortgage-backed securities.

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 closing and investment purchases. At December 31, 2014, in the stress test, the Bank had net short-term liquidity available of $214.6 million as compared with $121.8 million at December 31, 2013. Available assets of $102.8 million divided by public and purchased funds of $117.3

million, resulted in a long-term liquidity ratio of 88% at December 31, 2014, compared with 119% at December 31, 2013.

Management does not anticipate engaging in any activities, either currently or over the long-term, for which adequate funding would not be available and which would therefore result in significant pressure on liquidity. However, continued economic recession could negatively impact the Company's liquidity. The Bank relies heavily on FHLBNY as a source of funds, particularly with its overnight line of credit. To conserve capital, some FHLB branches have suspended dividends, cut dividend payments, and not bought back excess FHLB stock that members hold. FHLBNY has stated that they expect to be able to continue to pay dividends, redeem excess capital stock, and provide competitively priced advances in the future. The most severe problems in FHLB have been at some of the other FHLB branches. Nonetheless, the 12 FHLB branches are jointly liable for the consolidated obligations of the FHLB system. To the extent that one FHLB branch cannot meet its obligations to pay its share of the system's debt, other FHLB branches can be called upon to make the payment.

Systemic weakness in the FHLB could result in higher costs of FHLB borrowings and increased demand for alternative sources of liquidity that are more expensive, such as brokered time deposits, the discount window at the Federal Reserve, or lines of credit with correspondent banks First Tennessee Bank and M&T Bank.

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Contractual Obligations

The Company is party to contractual financial obligations, including repayment of borrowings, operating lease payments and commitments to extend credit. The table below presents certain future financial obligations.

	Payments due within time period at December 31, 2014 (in thousands)				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Contractual Obligations:					
Securities sold under agreement to repurchase	$ 13,778	$ 13,778	$ -	$ -	$ -
Operating lease obligations	6,144	519	1,411	1,417	2,797
Other borrowed funds	13,700	13,700	-	-	-
Junior subordinated debentures	11,330	-	-	-	11,330
Total	$ 44,952	$ 27,997	$ 1,411	$ 1,417	$ 14,127
Interest expense on fixed rate debt	$ -	$ -	$ -	$ -	$ -

The Company's variable rate debt included in other borrowed funds is related to short-term funding which is used only to cover seasonal funding needs, which are subject to fluctuation.

At December 31, 2014, the Company had commitments to extend credit of $200.7 million compared to $177.0 million at December 31, 2013. For additional information regarding future financial commitments, this disclosure should be read in conjunction with Note 16 to the Company's Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Capital

The Company and the Bank have consistently maintained regulatory capital ratios above well capitalized standards. The Company's financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent on the business environment in the markets where the Company operates, in Western New York and in the United States as a whole. Some banks experienced such a sharp drop-off in financial performance due to the deteriorating economy that they were forced to raise capital with the U.S. government through the Troubled Asset Relief Program ("TARP") in order to maintain appropriate capital ratios. The Bank applied for and was approved for funds under TARP but declined the offer after determining that the Bank's capital position was more than sufficient and that the restrictions on capital management imposed by TARP were too onerous.

Overall, during 2014, the business environment continues to be adverse for many households and businesses in Western New York, in the United States and worldwide. There can be no assurance that these conditions will improve in the near term. Such conditions could materially adversely affect the credit quality of the Company's loans and leases, and therefore, the Company's results of operations, financial condition, and capital position.

For further detail on capital and capital ratios, see Note 20 to the Company's Consolidated Financial Statements included under Item 8 of this Annual Report on Form 10-K.

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Total Company stockholders' equity was $85.8 million at December 31, 2014, an increase from $80.7 million at December 31, 2013. Equity as a percentage of assets was 10.1% at December 31, 2014, compared to 9.7% at December 31, 2013. Book value per share of common stock increased to $20.41 at December 31, 2014 from $19.18 at December 31, 2013. The reason for the increase in stockholders' equity and book value per share was $8.2 million in net income, offset by $2.7 million in dividends to common stockholders.

The dividend payment of $0.65 per share in 2014 was $0.39 higher per share than dividends paid in 2013. The Company typically pays a semi-annual dividend in April and October of each year. In 2012, the Company decided it was appropriate to move up the first semi-annual dividend planned for April 2013 to December 2012. At the time of the Company's decision, there was much uncertainty around the income tax rates on dividend income. These rates were scheduled to expire on December 31, 2012 and it was expected that these rates would increase in 2013. Therefore, in an effort to reduce the tax burden on stockholders, management and the Board of Directors agreed that it would be appropriate to pay a third dividend in 2012 in lieu of the first semi-annual dividend in 2013.

Management and the Board of Directors of the Company believe that the dividend level is prudent to maintain available capital to support the continued growth of the Company, as well as to manage the Company's and the Bank's capital ratios, while providing a dividend yield (dividend per share divided by stock price) competitive with peers in the industry at an annualized rate of 2.67% at December 31, 2014.

Included in stockholders' equity was accumulated other comprehensive income which includes the net after-tax impact of unrealized gains or losses on investment securities classified as available for sale. Net unrealized gains after tax were $0.9 million, or $0.22 per share of common stock, at December 31, 2014, as compared to net unrealized gains on available-for-sale investment securities after tax of $0.2 million, and $0.05 per share of common stock, at December 31, 2013. Such unrealized gains and losses are generally due to changes in interest rates and represent the difference, net of applicable income tax effect, between the estimated fair value and amortized cost of investment securities classified as available-for-sale. The Company had no other-than-temporary impairment charges in its investment portfolio in 2014 or 2013.

Market Risk

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 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 re-price 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 the 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. The balances of financial instruments used in the projections are based on expected growth from forecasted business opportunities, anticipated prepayments of loans and investment

securities and expected maturities of investment securities, loans and deposits. Management supplements the modeling technique described above with the analysis of market values of the Bank's financial instruments and changes to such market values given changes in interest rates.

ALCO, which includes members of the Bank's senior management, monitors the Bank's interest rate sensitivity with the aid of a model that considers the impact of ongoing lending and deposit gathering activities, as well as the interrelationships between the magnitude and timing of the re-pricing of financial instruments, including the effect of changing interest rates on expected prepayments and maturities. When deemed prudent, the Bank's management has taken actions and intends to do so in the future, to mitigate the Bank's exposure to interest rate risk through the use of on or off-balance sheet financial instruments. Possible actions include, but are not limited to, changes in the pricing of loan and deposit products, modifying the composition of interest-earning assets and interest-bearing liabilities, and the purchase of other financial instruments used for interest rate risk management purposes. In 2013 and 2014, the Bank did not use off-balance sheet financial instruments to manage interest rate risk.

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SENSITIVITY OF NET INTEREST INCOME TO CHANGES IN INTEREST RATES

	Calculated increase in projected annual net interest income (in thousands)	
Changes in interest rates	December 31, 2014	December 31, 2013
+200 basis points	$ 531	$ 789
+100 basis points	1,149	1,263
-100 basis points	NM	NM
-200 basis points	NM	NM

Many assumptions are utilized by the Bank to calculate the impact that changes in interest rates may have on net interest income. The more significant assumptions relate to the rate of prepayments of mortgage-related assets, loan and deposit volumes and pricing, and deposit maturities. The Bank also assumes immediate changes in rates, including 100 and 200 basis point rate changes. In the event that a 100 or 200 basis point rate change 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/re-pricing categories, as well as any actions, such as those previously described, which management may take to counter such changes. At December 31, 2014 the Bank's projected net interest income benefitted more from a 100 basis point increase in market rates compared with a 200 basis point increase in rates. This relationship was due in part to expected increases in deposit rates needed to retain deposit customers if rates moved up 200 basis points but were not required if rates only moved 100 basis points higher. Continued decreases in market interest rates during 2014 produced a greater sensitivity of customers to any level of market interest rate increases, therefore projecting a more proportional relationship to increased changes in rates at December 31, 2014. In regards to the declining rate scenarios, management believes that projections using such significant decreases in interest rates is not meaningful based on the current low interest rate environment. 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.

Financial instruments with off-balance sheet risk at December 31, 2014 included $155.0 million in undisbursed lines of credit at an average interest rate of 3.95%; $11.2 million in fixed rate loan origination commitments at 4.47%; $34.5 million in adjustable rate loan origination commitments at 2.90%; and $2.4 million in adjustable rate letters of credit, which if drawn upon, would typically earn an interest rate equal to the prime lending rate plus 2%. Unused

overdraft protection lines totaled $11.5 million, which if drawn upon, would also typically earn an interest rate equal to the prime lending rate plus 2%.

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The following table represents expected maturities of interest-bearing assets and liabilities and their corresponding average interest rates.

Expected maturity year ended December 31,																				
	2015		2016		2017		2018		2019		Thereafter		Total		Fair V					
	(in thousands)																			
Interest - Assets																				
Gross loan and lease receivables	$ 42,611		$ 49,482		$ 32,040		$ 38,809		$ 58,181		$ 474,541		$ 695,664		$ 68					
Average interest	4.37	%	4.56	%	4.52	%	4.68	%	4.76	%	4.55	%	4.56	%	4.5					
Investment securities	$ 8,734		$ 4,761		$ 3,626		$ 7,639		$ 8,268		$ 64,105		$ 97,133		$ 97,					
Average interest	3.18	%	4.23	%	3.12	%	3.27	%	3.25	%	2.84	%	3.01	%	3.0					
Interest -Liabilities																				
Interest bearing deposits	$ 496,883		$ 21,297		$ 11,218		$ 6,304		$ 13,302		$ -		$ 549,004		$ 568					
Average interest	0.61	%	1.59	%	1.12	%	1.09	%	1.91	%	-	%	0.78	%	0.7					
Borrowed funds & securities sold under agreements to repurchase	$ 13,700		$ -		$ -		$ -		$ -		$ -		$ 13,700		$ 13,					
Average interest	0.32	%	-	%	-	%	-	%	-	%	-	%	0.32	%	0.3					
Junior subordinated debt	$ -		$ -		$ -		$ -		$ -		$ 11,330		$ 11,330		$ 11,					
Average interest	-	%	-	%	-	%	-	%	-	%	2.96	%	2.96	%	2.9					

When rates rise or fall, the market value of the Company's rate-sensitive assets and liabilities, increases or decreases. As a part of the Company's asset/liability policy, the Company has set limitations on the acceptable level of the negative impact of such rate fluctuations on the market value of the Company's balance sheet. The Bank's securities portfolio is priced monthly and adjustments are made on the balance sheet to reflect the market value of the available for sale portfolio per ASC Topic 320 "Investments – Debt and Equity Securities." At December 31, 2014, the impact to equity, net of tax, as a result of marking available for sale securities to market was an unrealized gain of $0.9 million. On a monthly basis, the available for sale portfolio is shocked for immediate rate increases of 200 basis points. At December 31, 2014, the Company determined it would take an immediate increase in rates in excess of 200 basis points to eliminate the current capital cushion in excess of regulatory requirements. The Company's and the Bank's capital ratios are also reviewed by management on a quarterly basis.

Capital Expenditures

Significant planned expenditures for 2015 include the purchase of technology to improve workflow automation and operational efficiency. The Company believes it has a sufficient capital base to support these known and potential capital expenditures, currently expected to total $1.5 million, with current assets.

Impact of Inflation and Changing Prices

There will continually be economic events, such as changes in the economic policies of the FRB, which will have an impact on the profitability of the Company. Inflation may result in impaired asset growth, reduced earnings and substandard capital ratios. The net interest margin can be adversely impacted by the volatility of interest rates throughout the year. Since these factors are unknown, management attempts to structure the balance sheet and re-pricing frequency of assets and liabilities to avoid a significant concentration that could result in a negative impact on earnings.

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Segment Information

In accordance with the provisions of ASC 280, “Segment Reporting,” the Company’s operating segments have been determined based upon its internal profitability reporting. The Company’s operating segments consist of banking activities and insurance agency activities.

The banking activities segment includes all of the activities of the Bank in its function as a full-service commercial bank. This includes the operations of SDS and ENL. The net income from banking activities was $6.9 million in 2014 compared with $6.6 million in 2013. The increase in net income from banking activities was driven primarily by the net interest income, which increased from $28.7 million in 2013 to $31.2 million in 2014. Total assets of the banking activities segment increased $13.9 million or 1.7% during 2014 to $837.9 million at December 31, 2014, due primarily to strong loan growth.

The insurance activities segment includes activities of TEA, a property and casualty insurance agency with locations in the Western New York area. Net income from insurance activities was $1.3 million in 2014, flat when compared with 2013 net income from insurance activities of $1.3 million as a result a decrease in insurance service and fees and an offsetting decrease in amortization expense. TEA’s total assets were $8.9 million at December 31, 2014, compared with $9.5 million at December 31, 2013.

Fourth Quarter Results

Net income of $2.3 million in the fourth quarter of 2014 was up from $1.7 million in the fourth quarter of 2013, due to increased net interest income from our core business. Return on average equity was 10.79% for the fourth quarter of 2014 compared with 8.35% in the fourth quarter of 2013.

Net interest income was $8.4 million for the fourth quarter, an increase of $1.1 million, or 14.9%, from the prior-year period and up $0.8 million, or 9.9%, from the trailing third quarter of 2014. Approximately $0.6 million of accelerated fee income due to two commercial loan payoffs was recognized in the fourth quarter. Growth in loans drove the remaining increase over both the prior-year period and the trailing quarter.

Net interest margin of 4.32% improved 47 basis points over the 2013 fourth quarter rate of 3.85%, and 35 basis points over the trailing third quarter rate of 3.97%. Excluding the loan fees of $0.6 million mentioned previously, the adjusted fourth quarter net interest margin was 4.03%. This adjusted increase in net interest margin from the prior-year period was due to a 4 basis point decrease in pricing on the Bank’s interest bearing liabilities, combined with a 13 basis point increase in the yield on interest-earning assets as lower interest-earning fed funds were invested into

higher yielding loans.

The provision for loan and lease losses was $0.6 million in the 2014 fourth quarter, up from $0.2 million in the prior-year period. When compared with the trailing third quarter of 2014, the provision increased by $248 thousand. The increase over both periods was due to growth in the commercial loan portfolio and an increase in non-performing loans.

Fourth quarter non-interest income was $0.3 million, down $2.7 million from the prior-year period, primarily due to a $2.6 million loss on a tax credit investment in a community-based project. The loss on the tax credit investment was offset by a corresponding tax reduction of $3.0 million, resulting in a net benefit of $0.4 million realized in the quarter. Insurance agency revenue of $1.5 million was down 3.4% from the 2013 fourth quarter, due mostly to decreases in personal insurance revenue.

Total non-interest expense was $7.8 million for the fourth quarter, an increase of 1.5% from the prior-year period. Personnel expenses, the largest expense item for the Company, were up $0.2 million, or 4.1%, from the last year’s fourth quarter, and reflect annual merit increases and personnel hires to support the Company’s growth strategy. Disciplined expense management resulted in an aggregated decrease in all other expense categories of $72 thousand compared with the 2013 fourth quarter.

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An income tax benefit of $1.9 million was recognized for the fourth quarter, compared to an income tax expense of $0.8 million in the prior-year period. The difference was driven by a $3.0 million tax credit benefit realized in the fourth quarter of 2014 relating to the historic tax credit investment in a community project, as discussed above. Excluding the impact of the historic tax credit and the write-off of the tax credit investment recognized in non-interest income, the current quarter effective tax rate was 35.6% compared with an effective tax rate of 31.3% in the fourth quarter of 2013. The increase in tax rate was primarily due to lower tax exempt income as a percentage of total income.

Total assets grew 1.6% to $846.8 million at December 31, 2014 from $833.5 million on December 31, 2013, and were up 0.7% from $841.4 million at the end of the 2014 third quarter. Loans of $695.7 million grew 7.5% from $647.0 million at December 31, 2013 and were up 1.5% from $685.3 million at September 30, 2014. The increase over both periods was mostly due to growth in the commercial real estate and commercial and industrial loan portfolios.

Investment securities were $100.1 million at December 31, 2014, down 4.6% from the end of fourth quarter 2013 and down 4.0% from the trailing 2014 third quarter.

Total deposits increased $1.0 million, or 0.1%, to $707.6 million at December 31, 2014 from $706.6 million at December 31, 2013, but decreased $2.2 million, or 0.3%, from the 2014 third quarter-end mainly due to decreases in savings and time deposit balances. The year-over-year growth was mainly attributable to increases in demand deposits and NOW accounts, which increased $18.7 million, or 13.3%, and $6.7 million, or 10.2%, respectively, over the prior year-end. This growth was largely offset by a $27 million decrease in savings deposits in the same period.

The ratio of non-performing loans and leases to total loans and leases decreased to 1.52% at December 31, 2014 from 2.12% at December 31, 2013, but was up from 0.79% at September 30, 2014. The increase in the fourth quarter of 2014 was due to a $5.2 million increase in non-performing loans and leases due to a single large commercial loan.

There were net recoveries in the fourth quarter, resulting in a negligible ratio of net charge offs to average total loans and leases. This was a change from net recoveries of 0.15% in the fourth quarter of 2013 and from net recoveries of 0.06% in the third quarter of 2014.

The ratio of the allowance for loan and lease losses to total loans and leases was 1.80% at December 31, 2014 compared with 1.74% at September 30, 2014 and 1.78% at December 31, 2013. The coverage ratio was 118.3% at December 31, 2014 compared with 221.7% at the end of the trailing third quarter and 83.8% at the end of the 2013 fourth quarter. The increase from the trailing third quarter was driven by a $5.2 million increase in non-performing loans during the fourth quarter of 2014.

Item 7A.QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this Item is incorporated by reference to the discussion of "Liquidity" and "Market Risk," including the discussion under the caption "Sensitivity of Net Interest Income to Changes in Interest Rates" included in Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K.

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Item 8.FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial Statements and Supplementary Data consist of the financial statements as indexed and presented below and the Unaudited Quarterly Financial Data presented in Note 22 to our Consolidated Financial Statements.

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Management's Annual Report on Internal Control Over Financial Reporting	61
Report of Independent Registered Public Accounting Firm (consolidated financial statements)	62
Report of Independent Registered Public Accounting Firm (internal control over financial reporting)	63
Consolidated Balance Sheets – December 31, 2014 and 2013	64
Consolidated Statements of Income – Years Ended December 31, 2014, 2013 and 2012	65
Consolidated Statements of Comprehensive Income – Years Ended December 31, 2014, 2013 and 2012	66
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Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for Evans Bancorp, Inc. and subsidiaries (the “Company”). Management has assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2014 based on criteria established in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that assessment, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2014.

The Company's consolidated financial statements for the fiscal year ended December 31, 2014 were audited by KPMG LLP, an independent registered public accounting firm. KPMG LLP also audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2014, as stated in their report, which appears in the "Report of Independent Registered Public Accounting Firm" immediately following this annual report of management.

EVANS BANCORP, INC. AND SUBSIDIARIES

/s/ David J. Nasca

David J. Nasca

President and Chief Executive Officer

/s/ Gary A. Kajtoch

Gary A. Kajtoch

Treasurer

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Evans Bancorp, Inc.:

We have audited the accompanying consolidated balance sheets of Evans Bancorp, Inc. and subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Evans Bancorp, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 9, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Buffalo, NY
March 9, 2015

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Evans Bancorp, Inc.:

We have audited Evans Bancorp, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three year period ended December 31, 2014, and our report dated March 9, 2015 expressed an unqualified opinion on those consolidated financial statements.

Buffalo, NY
March 9, 2015

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EVANS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014 and 2013
(in thousands, except share and per share amounts)

	December 31, 2014	December 31, 2013
ASSETS		
Cash and due from banks	$ 8,784	$ 14,698
Interest-bearing deposits at banks	2,114	27,256
Securities:		
Available for sale, at fair value (amortized cost: $94,048 at December 31, 2014; $99,353 at December 31, 2013)	95,533	99,665
Held to maturity, at amortized cost (fair value: $1,574 at December 31, 2014; $2,319 at December 31, 2013)	1,599	2,384
Federal Home Loan Bank common stock, at amortized cost	1,439	1,364
Federal Reserve Bank common stock, at amortized cost	1,486	1,467
Loans and leases, net of allowance for loan and lease losses of $12,533 at December 31, 2014 and $11,503 at December 31, 2013	683,131	635,493
Properties and equipment, net of accumulated depreciation of $15,129 at December 31, 2014 and $14,226 at December 31, 2013	10,224	11,163
Goodwill	8,101	8,101
Intangible assets	-	108
Bank-owned life insurance	20,415	19,840
Other assets	13,983	11,959
TOTAL ASSETS	$ 846,809	$ 833,498
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand	$ 158,631	$ 139,973
NOW	72,670	65,927
Regular savings	363,542	390,575
Time	112,792	110,137
Total deposits	707,635	706,612
Securities sold under agreement to repurchase	13,778	13,351
Other short term borrowings	13,700	9,000

Other liabilities	14,578	12,493
Junior subordinated debentures	11,330	11,330
Total liabilities	761,021	752,786
CONTINGENT LIABILITIES AND COMMITMENTS		
STOCKHOLDERS' EQUITY:		
Common stock, $.50 par value, 10,000,000 shares authorized; 4,241,797 and 4,208,459 shares issued at December 31, 2014 and December 31, 2013, respectively, and 4,203,684 and 4,201,362 outstanding at December 31, 2014 and December 31, 2013, respectively	2,123	2,106
Capital surplus	43,102	42,619
Treasury stock, at cost, 38,113 shares and 4,906 at December 31, 2014 and December 31, 2013, respectively	(751)	(120)
Retained earnings	42,822	37,370
Accumulated other comprehensive loss, net of tax	(1,508)	(1,263)
Total stockholders' equity	85,788	80,712
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 846,809	$ 833,498

See Notes to Consolidated Financial Statements

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EVANS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2014, 2013, AND 2012
(in thousands, except share and per share amounts)

	2014	2013	2012
INTEREST INCOME			
Loans and leases	$ 31,899	$ 29,546	$ 30,300
Interest bearing deposits at banks	33	132	53
Securities:			
Taxable	1,816	1,666	1,871
Non-taxable	967	1,060	1,153
Total interest income	34,715	32,404	33,377
INTEREST EXPENSE			
Deposits	3,058	3,296	4,546
Other borrowings	237	436	703
Junior subordinated debentures	321	325	348
Total interest expense	3,616	4,057	5,597
NET INTEREST INCOME	31,099	28,347	27,780
PROVISION (CREDIT) FOR LOAN AND LEASE LOSSES	1,229	1,540	(68)
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	29,870	26,807	27,848
NON-INTEREST INCOME			
Bank charges	1,839	2,039	1,858
Insurance service and fees	7,131	7,211	6,966
Data center income	348	464	456
Gain on loans sold	203	25	464
Bank-owned life insurance	574	508	489
Loss on tax credit investments	(2,596)	(1,555)	-
Interchange fee income	1,142	1,059	944
Gain on termination of loss sharing agreement	-	716	-
Other	1,632	1,694	1,646
Total non-interest income	10,273	12,161	12,823
NON-INTEREST EXPENSE			
Salaries and employee benefits	18,844	17,755	17,304
Occupancy	2,868	3,010	2,785
Repairs and maintenance	732	723	769
Advertising and public relations	867	786	814

Professional services	1,819	1,892	1,925
Technology and communications	1,130	1,283	1,197
Litigation expense	1,000	-	-
Amortization of intangibles	108	221	349
FDIC insurance	553	576	521
Other	3,331	3,134	3,128
Total non-interest expense	31,252	29,380	28,792
INCOME BEFORE INCOME TAXES	8,891	9,588	11,879
INCOME TAX PROVISION	704	1,731	3,747
NET INCOME	$ 8,187	$ 7,857	$ 8,132
Net income per common share-basic	$ 1.96	$ 1.88	$ 1.96
Net income per common share-diluted	$ 1.92	$ 1.85	$ 1.95
Cash dividends per common share	$ 0.65	$ 0.26	$ 0.68
Weighted average number of common shares outstanding	4,186,786	4,189,769	4,144,322
Weighted average number of diluted shares outstanding	4,264,406	4,239,037	4,159,690

See Notes to Consolidated Financial Statements

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EVANS BANCORP, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2014, 2013, AND 2012
(in thousands, except share and per share amounts)

	2014	2013	2012
NET INCOME	$ 8,187	$ 7,857	$ 8,132
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Unrealized gain (loss) on available-for-sale securities:			
Unrealized gain (loss) on available-for-sale securities	720	(2,266)	(77)
Less: Reclassification of gain on sale of securities	-	-	-
	720	(2,266)	(77)
Defined benefit pension plans:			
Amortization of prior service cost	19	42	53
Amortization of actuarial assumptions	64	108	105
Actuarial gains (losses)	(1,048)	752	(326)
Total	(965)	902	(168)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(245)	(1,364)	(245)
COMPREHENSIVE INCOME	$ 7,942	$ 6,493	$ 7,887

See Notes to Consolidated Financial Statements

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EVANS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(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, 2011	$ 2,063	$ 41,275	$ 25,304	$ 346	$ -	$ 68,988
Net Income			8,132			8,132
Other comprehensive income				(245)		(245)
Cash dividends ($0.68 per common share)			(2,825)			(2,825)
Stock options and restricted stock expense		305				305
Excess tax benefit from stock-based compensation		6				6
Issued 1,439 shares through stock option exercise	1	(1)				-
Issued 17,785 and reissued 380 shares under dividend reinvestment plan	9	268				277
Issued 10,145 restricted shares, net of 1,348 forfeitures	6	(6)				
Issued 16,831 shares under Employee Stock Purchase Plan	8	182				190
Balance, December 31, 2012	$ 2,087	$ 42,029	$ 30,611	$ 101	$ -	$ 74,828
Net Income			7,857			7,857
Other comprehensive (loss)				(1,364)		(1,364)
Cash dividends ($0.26 per common share)			(1,098)			(1,098)
Stock options and restricted stock expense		352				352
Excess tax expense from stock-based compensation		(9)				(9)
Issued 19,431 restricted shares, net of 2,191 forfeitures	9	(9)				-
Issued 13,455 shares under Employee Stock Purchase Plan	7	184				191
Issued 4,100 shares through stock option exercise	2	55				57
Repurchased 13,032 shares into Treasury					(250)	(250)
Reissued 5,126 shares under dividend reinvestment plan		3			99	102
Reissued 3,000 shares through stock						

option exercise	1	14			31	46
Balance, December 31, 2013	$ 2,106	$ 42,619	$ 37,370	$ (1,263)	$ (120)	$ 80,712
Net Income			8,187			8,187
Other comprehensive income (loss)				(245)		(245)
Cash dividends ($0.65 per common share)			(2,735)			(2,735)
Stock options and restricted stock expense		465				465
Excess tax benefit from stock-based compensation		87				87
Issued 20,517 restricted shares, net of 5,998 forfeitures	11	(11)				-
Issued 12,821 shares in Employee Stock Purchase Plan	6	232				238
Repurchased 59,800 shares in Treasury stock					(1,436)	(1,436)
Reissued 186 restricted shares		(4)			4	-
Reissued 11,265 shares under dividend reinvestment plan		3			255	258
Reissued 23,331 shares through stock option exercise		(289)			546	257
Balance, December 31, 2014	$ 2,123	$ 43,102	$ 42,822	$ (1,508)	$ (751)	$ 85,788

See Notes to Consolidated Financial Statements

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EVANS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(in thousands)

	2014	2013	2012
OPERATING ACTIVITIES:			
Interest received	$ 34,707	$ 32,176	$ 33,281
Fees received	12,505	14,786	12,004
Interest paid	(3,607)	(4,070)	(5,630)
Cash paid to employees and vendors	(29,418)	(28,667)	(26,603)
Cash contributed to pension plan	(110)	(185)	(370)
Income taxes paid	(2,858)	(1,902)	(3,200)
Proceeds from sale of loans held for resale	15,471	776	24,035
Originations of loans held for resale	(15,669)	187	(20,915)
Net cash provided by operating activities	11,021	13,101	12,602
INVESTING ACTIVITIES:			
Available for sales securities:			
Purchases	(15,379)	(27,055)	(32,767)
Proceeds from maturities, calls, and payments	20,217	15,750	40,349
Held to maturity securities:			
Purchases	(618)	(941)	(3,118)
Proceeds from maturities, calls, and payments	1,403	2,302	3,176
Cash paid for bank owned life insurance	-	(4,000)	-
Additions to properties and equipment	(580)	(1,448)	(2,002)
Proceeds from sales of fixed assets	-	365	-
Purchase of tax credit investment	(1,912)	(225)	-
Net (increase) decrease in loans	(47,941)	(64,280)	(2,974)
Net cash (used in) provided by investing activities	(44,810)	(79,532)	2,664
FINANCING ACTIVITIES:			
Proceeds from (repayments of) borrowings, net	5,128	(8,760)	101
Net increase in deposits	1,023	27,620	62,790
Dividends paid	(2,735)	(1,098)	(2,825)
Repurchase of treasury stock	(1,436)	(124)	-
Issuance of common stock	238	270	467
Reissuance of treasury stock	515	-	-

Net cash provided by financing activities	2,733	17,908	60,533
Net (decrease) increase in cash and equivalents	(31,056)	(48,523)	75,799
CASH AND CASH EQUIVALENTS:			
Beginning of period	41,954	90,477	14,678
End of period	$ 10,898	$ 41,954	$ 90,477

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EVANS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(in thousands)

	2014	2013	2012
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net income	$ 8,187	$ 7,857	$ 8,132
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,573	1,996	2,125
Deferred tax (benefit) expense	(1,460)	(372)	539
Provision (credit) for loan and lease losses	1,229	1,540	(68)
Loss on tax credit investment	2,596	1,555	-
Gain on loans sold	(203)	(25)	(464)
Stock options and restricted stock expense	465	352	305
Proceeds from sale of loans held for resale	15,471	776	24,035
Originations of loans held for resale	(15,669)	187	(20,915)
Changes in assets and liabilities affecting cash flow:			
Other assets	(2,919)	(2,119)	(1,062)
Other liabilities	1,751	1,354	(25)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 11,021	$ 13,101	$ 12,602

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EVANS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and General

Evans Bancorp, Inc. (the "Company") was organized as a New York business corporation and incorporated under the laws of the State of New York on October 28, 1988 for the purpose of becoming a bank holding company. Through August 2004, the Company was registered with the Federal Reserve Board ("FRB") as a bank holding company under the Bank Holding Company Act of 1956, as amended. In August 2004, the Company filed for, and was approved as, a Financial Holding Company under the Bank Holding Company Act. The Company currently conducts its business through its two subsidiaries: Evans Bank, N.A. (the "Bank"), a nationally chartered bank, and its subsidiaries, Suchak Data Systems, LLC ("SDS"), Evans National Leasing, Inc. ("ENL") and Evans National Holding Corp. ("ENHC"); and Evans National Financial Services, LLC ("ENFS") and its subsidiary, The Evans Agency LLC ("TEA"). Unless the context otherwise requires, the term "Company" refers collectively to Evans Bancorp, Inc. and its subsidiaries. The Company conducts its business through its subsidiaries. It does not engage in any other substantial business.

During the twelve-month period ended December 31, 2014, the Company revised the Consolidated Statement of Cash Flows

for the twelve-month period ended December 31, 2013 to correct errors of $1.7 million within the "Cash paid to employees and vendors", "Net cash provided by operating activities", "Net (increase)decrease in loans" and "Net cash (used in) provided by investing activities, $147 thousand in "Depreciation and amortization", $1.8 million in "Change in other assets affecting cash flow" and $34 thousand in "Change in liabilities effecting cash flow" line items. In addition, the Company revised the Consolidated Statement of Cash Flows for the twelve-month period ended December 31, 2012 to correct errors of $1.5 million within the "Cash paid to employees and vendors", "Net cash provided by operating activities", "Net (increase) decrease in loans" and "Net cash (used in) provided by investing activities, $110 thousand in "Depreciation and amortization", $2.2 million in "Change in other assets affecting cash flow" and $579 thousand in "Change in liabilities effecting 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.

Regulatory Requirements

The Company is subject to the rules, regulations, and reporting requirements of various regulatory bodies, including the FRB, the Federal Deposit Insurance Corporation ("FDIC"), the Office of the Comptroller of the Currency ("OCC"), and the SEC.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Bank, ENFS and their subsidiaries. All material inter-company accounts and transactions are eliminated in consolidation.

Accounting Estimates

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and disclosure of contingent assets and liabilities in order to prepare these consolidated financial statements in conformity with U.S. generally accepted accounting principles. The estimates and assumptions that management deems to be critical involve our accounting policies relating to the determination of our allowance for loan and lease losses and the valuation of goodwill. These estimates and assumptions are based on management's best estimates and judgment and management evaluates them on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. We adjust our estimates and assumptions when facts and circumstances dictate. The current economic recession increases the uncertainty inherent in our estimates and assumptions. As future events cannot be determined with precision, actual results could differ significantly from our estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in periods as they occur.

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Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks and interest-bearing deposits at banks.

Securities

Securities which the Bank has the positive intent and ability to hold to maturity are classified as held to maturity and are stated at cost, adjusted for discounts and premiums that are recognized in interest income over the period to the earlier of the call date or maturity using the level yield method. These securities represent debt issuances of local municipalities in the Bank's market area for which market prices are not readily available. Management periodically evaluates the financial condition of the municipalities to see if there is any cause for impairment in their bonds.

Securities classified as available for sale are stated at fair value with unrealized gains and losses excluded from earnings and reported, net of deferred income taxes, in accumulated other comprehensive income or loss, a component of stockholders' equity. Gains and losses on sales of securities are computed using the specific identification method.

Securities which experience an other-than-temporary decline in fair value are written down to a new cost basis with the amount of the write-down, due to credit problems, included in earnings as a realized loss. The new cost basis is not changed for subsequent recoveries in fair value. Factors which management considers in determining whether an impairment in value of an investment is other than temporary include the period of time the securities were in a loss position, management's intent and ability to hold securities until fair values recover to amortized cost or if it is considered more likely than not that the Company will have to sell the security, the extent to which fair value is less than amortized cost, the issuer's financial performance and near term prospects, the financial condition and prospects for the issuer's geographic region and industry, and recoveries or declines in fair value subsequent to the balance sheet date. There were no charges associated with other-than-temporary impairment declines in fair value of securities in 2014 or 2013.

The Bank does not engage in securities trading activities.

Loans

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, generally are reported at their outstanding unpaid principal balances adjusted for unamortized deferred fees or costs. Interest income is accrued on the unpaid principal balance and is recognized using the interest method. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the effective yield method of accounting.

Loans become past due when the payment date has been missed. If payment has not been received within 30 days, then the loan is delinquent. Delinquent loans are placed into three categories; 30-59 days past due, 60-89 days past due, or 90+ days past due. Loans 90 or more days past due are considered non-performing.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent, unless the credit is well secured and in process of collection. If the credit is not well secured and in the process of collection, the loan is placed on non-accrual status and is subject to charge-off if collection of principal or interest is considered doubtful. A loan can also be placed on nonaccrual before it is 90 days delinquent if management determines that it is probable that the Bank will be unable to collect principal or interest due according to the contractual terms of the loan.

All interest due but not collected for loans that are placed on non-accrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cost-recovery method, until it again qualifies for an accrual basis. Any cash receipts on non-accrual loans reduce the carrying value of the loans. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current, the adverse circumstances which resulted in the delinquent payment status are resolved, and payments are made in a timely manner for a period of time sufficient to reasonably assure their future dependability.

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The Bank considers a loan impaired when, based on current information and events, it is probable that it will be unable to collect principal or interest due according to the contractual terms of the loan. These loans are individually assessed for any impairment. Loan impairment is measured based on the present value of expected cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral, less costs to sell, if the loan is collateral dependent. 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. The Company has an appraisal policy in which appraisals are obtained upon a loan being downgraded on the Company's 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 loans are either graded a 6 or 7 on the internal loan rating scale. Subsequent to the downgrade, 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. Consumer installment loans and direct financing leases are collectively evaluated for impairment. Since these loans and leases are not individually identified and evaluated, they are not considered impaired loans. The one exception is for consumer loans and direct financing leases that are considered troubled debt restructurings ("TDR") since all TDR loans and leases are considered impaired.

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: Risk Rated 1-3 loans are loans with a slight risk of loss. The loan is secured by collateral of sufficient value to cover the loan by an acceptable margin. The financial statements of the company demonstrate sufficient net worth and repayment ability. The company has established an acceptable credit history with the bank and typically has a proven track record of performance. Management is experienced, and has an at least average ability to manage the company. The industry has an average or less than average susceptibility to wide fluctuations in business cycles.

- 4-Watch: Although generally acceptable, a higher degree of risk is evident in these watch credits. Obligor assessment factors may have elements which reflect marginally acceptable conditions warranting more careful review and analysis and monitoring.

The obligor's balance sheet reflects generally acceptable asset quality with some elements weak or marginally acceptable. Liquidity may be somewhat strained, but is at an acceptable level to support operations. Obligor may be fully leveraged with ratios higher than industry averages. High leverage is negatively impacting the company, leaving it vulnerable to adverse change. Inconsistent or declining capability to service existing debt requirements evidenced by debt service coverage temporarily below or near acceptable level. The margin of collateral may be adequate, but declining or fluctuating in value. Company management may be unproven, but capable. Rapid expansion or acquisition may increase leverage or reduce cash flow.

Negative industry conditions or weaker management could also be characteristic. Proper consideration should be given to companies in a high growth phase or in development business segments that may not have achieved sustainable earnings.

Obligors demonstrate sufficient financial flexibility to react to and positively address the root cause of the adverse financial trends without significant deviations from their current business strategy. The rating is also used for borrowers that have made significant progress in resolving their financial weaknesses.

· 5-O.A.E.M. (Other Assets Especially Mentioned): Special Mention ("SM") – A special mention asset has potential weaknesses that warrant management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. SM assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

SM assets have potential weaknesses that may, if not checked or corrected, weaken the asset or inadequately protect the institution's position at some future date. These assets pose elevated risk, but their weakness does not yet justify

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a substandard classification. Borrowers may be experiencing adverse operating trends (declining revenues or margins) or an ill proportioned balance sheet (e.g. increasing inventory without an increase in sales, high leverage, tight liquidity).

Adverse economic or market conditions, such as interest rate increases or the entry of a new competitor, may also support a special mention rating.

Nonfinancial reasons for rating a credit exposure special mention include management problems, pending litigation, an ineffective loan agreement or other material structural weakness, and any other significant deviation from prudent lending practices.

The SM rating is designed to identify a specific level of risk and concern about asset quality. Although an SM asset has a higher profitability of default than a pass asset, its default is not imminent.

· 6-Substandard: A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Substandard assets have a high probability of payment default, or they have other well-defined weaknesses. They require more intensive supervision by Bank management.

Substandard assets are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization. Repayment may depend on collateral or other credit risk subsidies. For some substandard assets, the likelihood of full collection of interest and principal may be in doubt; such assets should be placed on non-accrual. Although substandard assets in the aggregate will have distinct potential for loss, an individual asset's loss potential does not have to be distinct for the asset to be rated substandard. These loans are periodically reviewed and tested for impairment.

· 7-Doubtful: An asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

A doubtful asset has a high probability of total or substantial loss, but because of specific pending events that may strengthen the asset, its classification of loss is deferred.

Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity. Pending events can include mergers, acquisitions, liquidations, capital injections, the perfection of liens on additional collateral, the valuation of collateral, and refinancing.

Generally, pending events should be resolved within a relatively short period and the ratings will be adjusted based on the new information. Because of high probability of loss, non-accrual accounting treatment is required for doubtful assets.

· 8-Loss: Assets classified loss are considered uncollectable and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the assets have absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

With loss assets, the underlying borrowers are often in bankruptcy, have formally suspended debt repayments, or have otherwise ceased normal business operations. Once an asset is classified loss, there is little prospect of collecting either its principal or interest. When access to collateral, rather than the value of the collateral, is a problem, a less severe classification may be appropriate. Losses are to be recorded in the period an obligation becomes uncollectible.

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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 is a commercial customer. Consumer loans also carry smaller balances. Given the lack of updated information since the initial underwriting of the loan and small size of individual loans, the Company does not have credit risk ratings for consumer loans and instead uses delinquency status as the credit quality indicator for consumer loans. However, once a consumer loan is identified as impaired, it is individually evaluated for impairment.

Allowance for Loan and Lease Losses

The provision for loan and lease losses represents the amount charged against the Bank's earnings to maintain an allowance for probable loan and lease losses inherent in the portfolio based on management's evaluation of the loan and lease portfolio at the balance sheet date. Factors considered by the Bank's management in establishing the allowance include: the collectability of individual loans, current loan concentrations, charge-off history, delinquent loan percentages, the fair value of the collateral, input from regulatory agencies, and general economic conditions.

On a quarterly basis, management of the Bank meets to review and determine the adequacy of the allowance for loan and lease losses. In making this determination, the Bank's management analyzes the ultimate collectability of the loans in its portfolio by incorporating feedback provided by the Bank's internal loan staff, an independent internal loan review function and information provided by examinations performed by regulatory agencies.

The analysis of the allowance for loan and lease losses is composed of two components: specific credit allocation and general portfolio allocation. The specific credit allocation includes a detailed review of each impaired loan and allocation is made based on this analysis. Factors may include the appraisal value of the collateral, the age of the appraisal, the type of collateral, the performance of the loan to date, the performance of the borrower's business based on financial statements, and legal judgments involving the borrower. The general portfolio allocation consists of an assigned reserve percentage based on the historical loss experience, the loss emergence period, and other quantitative and qualitative factors of the loan category.

The general portfolio allocation is segmented into pools of loans with similar characteristics. Separate pools of loans include loans pooled by loan grade and by portfolio segment. Loans graded a 5 or worse ("criticized loans") that exceed an exposure threshold are evaluated by the Company's credit department to determine if the collateral for the loan is worth less than the loan. All of these "shortfalls" are added together and divided by the respective loan pool to calculate a current quantitative factor applied to the respective pool, as this represents a potential loss exposure. The current quantitative factor is then included within an analysis of historical quantitative factors, and a weighted average and loss emergence period multiplier is applied against these loan pools. These loans are not considered individually impaired because the cash flow of the customer and the payment history of the loan suggest that it is not probable that the Company will be unable to collect the full amount of principal and interest as contracted and are thus still accruing interest.

Loans that are graded 4 or better (“non-criticized loans”) are reserved in separate loan pools in the general portfolio allocation. A weighted average 5-year historical charge-off ratio and a loss emergence period by portfolio segment is calculated and applied against these loan pools.

For both the criticized and non-criticized loan pools in the general portfolio allocation, additional qualitative factors are applied. The qualitative factors applied to the general portfolio allocation reflect management’s evaluation of various conditions. The conditions evaluated include the following: industry and regional conditions; seasoning of the loan portfolio and changes in the composition of and growth in the loan portfolio; the strength and duration of the business cycle; existing general economic and business conditions in the lending areas; credit quality trends in non-accruing loans; timing of the identification of downgrades; historical loan charge-off experience; and the results of bank regulatory examinations. Due to the nature of the loans, the criticized loan pools carry significantly higher qualitative factors than the non-criticized pools.

Foreclosed Real Estate

Foreclosed real estate is initially recorded at the lower of carrying or fair value (net of costs of disposal) at the date of foreclosure. Costs relating to development and improvement of property are capitalized, whereas costs relating to the holding of property are expensed. Assessments are periodically performed by management, and an allowance for losses is established through a charge to operations if the carrying value of a property exceeds fair value. The Company held no foreclosed real estate at December 31, 2014 or December 31, 2013.

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Insurance Commissions and Fees

Commission revenue is recognized as of the effective date of the insurance policy or the date the customer is billed, whichever is later. The Company also receives contingent commissions from insurance companies which are based on the overall profitability of their relationship based primarily on the loss experience of the insurance placed by the Company. Contingent commissions from insurance companies are recognized when determinable.

Goodwill and Other Intangible Assets

The Company accounts for goodwill and other intangible assets in accordance with ASC Topic 350, "Intangibles – Goodwill and Other." The Company records the excess of the cost of acquired entities over the fair value of identifiable tangible and intangible assets acquired, less liabilities assumed, as goodwill. The Company amortizes acquired intangible assets with definite useful economic lives over their useful economic lives utilizing the straight-line method. On a periodic basis, management assesses whether events or changes in circumstances indicate that the carrying amounts of the intangible assets may be impaired. The Company does not amortize goodwill and any acquired intangible asset with an indefinite useful economic life, but reviews them for impairment at a reporting unit level on an annual basis, or when events or changes in circumstances indicate that the carrying amounts may be impaired. A reporting unit is defined as any distinct, separately identifiable component of one of our operating segments for which complete, discrete financial information is available and reviewed regularly by the segment’s management. The only reporting unit with goodwill as of December 31, 2014 was the insurance agency activities reporting unit.

The fair value of the insurance agency activities reporting unit is measured annually as of December 31st utilizing the average of a discounted cash flow model and a market value based on a multiple to earnings before interest, taxes, depreciation, and amortization (“EBITDA”) for similar companies. The calculated value of the insurance agency reporting unit was substantially in excess of the carrying amount at December 31, 2014. A review of the period subsequent to the measurement date is performed to determine if there were any significant adverse changes in operations or events that would alter our determination as of the measurement date. The Company has performed the required goodwill impairment tests and has determined that goodwill was not impaired as of December 31, 2014.

Bank-Owned Life Insurance

The Bank has purchased insurance on the lives of Company directors and certain members of the Bank's and TEA's management. The policies accumulate asset values to meet future liabilities, including the payment of employee benefits, such as retirement benefits. Increases in the cash surrender value are recorded as other income in the

Company's Consolidated Statements of Income.

Properties and Equipment

Properties and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 years. Impairment losses on properties and equipment are realized if the carrying amount is not recoverable from its undiscounted cash flows and exceeds its fair value in accordance with ASC Topic 360, "Property, Plant, and Equipment."

Income Taxes

Income taxes are accounted for under the asset and liability method under ASC Topic 740, "Income Taxes." Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the periods in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through income tax expense.

Net Income Per Share

Net income per common share is determined by dividing net income by the weighted average number of shares outstanding during the period. Diluted earnings per common share is based on increasing the weighted-average number of shares of common stock by the number of shares of common stock that would be issued assuming the exercise of stock options and

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immediate vesting of restricted shares. Such adjustments to weighted-average number of shares of common stock outstanding are made only when such adjustments are expected to dilute earnings per common share. There were 77,620, 49,268, and 15,368 potentially dilutive shares of common stock included in calculating diluted earnings per share for the years ended December 31, 2014, 2013, and 2012, respectively. Potential common shares that would have the effect of increasing diluted earnings per share are considered to be anti-dilutive. In accordance with ASC Topic 260, "Earnings Per Share," these shares were not included in calculating diluted earnings per share. As of December 31, 2014, 2013, and 2012, there were 9 thousand, 42 thousand, and 157 thousand shares, respectively, that are not included in calculating diluted earnings per share because their effect was anti-dilutive.

Treasury Stock

Repurchases of shares of Evans Bancorp, Inc. stock are recorded at cost as a reduction of shareholders' equity. Reissuances of shares of treasury stock are recorded at market value.

Comprehensive Income

Comprehensive income includes both net income and other comprehensive income, including the change in unrealized gains and losses on securities available for sale, and the change in the liability related to pension costs, net of tax.

Employee Benefits

The Bank maintains a non-contributory, qualified, defined benefit pension plan (the "Pension Plan") that covered substantially all employees before it was frozen on January 31, 2008. All benefits eligible participants had accrued in the Pension Plan until the freeze date have been retained. Employees have not accrued additional benefits in the Pension Plan from that date. The actuarially determined pension benefit in the form of a life annuity is based on the employee's combined years of service, age and compensation. The Bank's policy is to fund the minimum amount required by government regulations. Employees are eligible to receive these benefits at normal retirement age.

The Bank maintains a defined contribution 401(k) plan and accrues contributions due under this plan as earned by employees. In addition, the Bank maintains a non-qualified Supplemental Executive Retirement Plan for certain members of senior management, a non-qualified Deferred Compensation Plan for directors and certain members of management, and a non-qualified Executive Incentive Retirement Plan for certain members of management, as described more fully in Note 11 to these Consolidated Financial Statements, "Employee Benefits and Deferred Compensation Plans."

Stock-based Compensation

Stock-based compensation expense is recognized over the vesting period of the stock-based grant based on the estimated grant date value of the stock-based compensation that is expected to vest. Information on the determination of the estimated value of stock-based awards used to calculate stock-based compensation expense is included in Note 12 to these Consolidated Financial Statements, “Stock-Based Compensation.”

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Financial Instruments with Off-Balance Sheet Risk

In the ordinary course of business, the Bank has entered into off-balance sheet financial arrangements consisting of commitments to extend credit and standby letters of credit. The Bank has not incurred any losses on its commitments during the past three years and has not recorded a reserve for its commitments.

Advertising costs

Advertising costs are expensed as incurred.

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New Accounting Standards

The following significant accounting pronouncements effective for the Company in 2014:

Accounting Standards Update ("ASU") 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The objective of this ASU is to eliminate diversity in practice for presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The main provision states that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. This ASU is effective for fiscal years and interim periods within those years, beginning after December 15, 2013 and did not have a material impact on the Company's financial statements.

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2.SECURITIES

The amortized cost of securities and their approximate fair value at December 31 were as follows:

	2014 (in thousands)			
	Amortized Cost	Unrealized Gains	Losses	Fair Value
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

2013

(in thousands)

	Amortized Cost	Unrealized Gains	Losses	Fair Value
Available for Sale:				
Debt securities:				
U.S. government agencies	$ 32,176	$ 439	$ (623)	$ 31,992
States and political subdivisions	31,266	802	(188)	31,880
Total debt securities	$ 63,442	$ 1,241	$ (811)	$ 63,872
Mortgage-backed securities:				
FNMA	$ 13,204	$ 354	$ (57)	$ 13,501
FHLMC	7,156	109	(147)	7,118
GNMA	7,570	99	(96)	7,573
CMO	7,981	9	(389)	7,601
Total mortgage-backed securities	$ 35,911	$ 571	$ (689)	$ 35,793
Total securities designated as available for sale	$ 99,353	$ 1,812	$ (1,500)	$ 99,665
Held to Maturity:				
Debt securities				
States and political subdivisions	$ 2,384	$ 6	$ (71)	$ 2,319
Total securities designated as held to maturity	$ 2,384	$ 6	$ (71)	$ 2,319

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Available for sale securities with a total fair value of $68.8 million and $71.1 million were pledged as collateral to secure public deposits and for other purposes required or permitted by law at December 31, 2014 and 2013, respectively.

The scheduled maturity of debt and mortgage-backed securities at December 31st of the respective years is 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.

	2014		2013	
	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	$ 8,172	$ 8,256	$ 447	$ 454
Due after one year through five years	22,118	22,597	23,732	24,419
Due after five years through ten years	20,517	20,589	31,450	30,946
Due after ten years	6,062	6,335	7,813	8,053
	56,869	57,777	63,442	63,872
Mortgage-backed securities available for sale	37,179	37,756	35,911	35,793
Total available for sale securities	$ 94,048	$ 95,533	$ 99,353	$ 99,665
Debt securities held to maturity:				
Due in one year or less	$ 478	$ 477	$ 1,023	$ 1,020
Due after one year through five years	77	78	178	179
Due after five years through ten years	932	914	1,064	1,015
Due after ten years	112	105	119	105

	1,599	1,574	2,384	2,319
Total held to maturity securities	$ 1,599	$ 1,574	$ 2,384	$ 2,319

Contractual maturities of the Company's mortgage-backed securities generally exceed ten years, however, the effective lives may be significantly shorter due to prepayments of the underlying loans and due to the nature of these securities.

There were no realized gains and losses from gross sales of securities in 2014, 2013 or 2012.

Information regarding unrealized losses within the Company's available for sale securities at December 31st of the respective years 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.

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	2014					
	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)

	2013					
	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	$ 10,553	$ (486)	$ 1,863	$ (137)	$ 12,416	$ (623)
States and political subdivisions	7,953	(150)	590	(38)	8,543	(188)
Total debt securities	$ 18,506	$ (636)	$ 2,453	$ (175)	$ 20,959	$ (811)
Mortgage-backed securities:						
FNMA	$ 4,819	$ (57)	$ 21	$ -	$ 4,840	$ (57)
FHLMC	2,677	(46)	1,700	(101)	4,377	(147)
GNMA	2,751	(96)	-	-	2,751	(96)
CMO'S	6,466	(389)	-	-	6,466	(389)

Total mortgage-backed securities	$ 16,713	$ (588)	$ 1,721	$ (101)	$ 18,434	$ (689)
Held To Maturity:						
Debt securities:						
States and political subdivisions	$ 1,210	$ (24)	$ 504	$ (47)	$ 1,714	$ (71)
Total temporarily impaired securities	$ 36,429	$ (1,248)	$ 4,678	$ (323)	$ 41,107	$ (1,571)

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Management has assessed the securities available for sale in an unrealized loss position at December 31, 2014 and 2013 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 we 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 holds no securities backed by sub-prime or Alt-A residential mortgages or commercial mortgages and also does not hold any trust-preferred securities.

The Company did not record any other-than-temporary impairment charges in 2014 or 2013, and gross unrealized losses amounted to only $0.6 million at December 31, 2014. The credit worthiness of the Company's portfolio is largely reliant on the ability of U.S. government agencies such as the Federal Home Loan Bank ("FHLB"), Federal National Mortgage Association ("FNMA"), and the 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 stable past performance is not a guarantee for similar performance going forward.

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. At December 31, 2014, the Company had a total of $13.7 million in borrowed funds with FHLBNY. The Company has sufficient collateral in the form of residential real estate loans at FHLBNY. As a member of the Federal Home Loan Bank System, the Bank is required to hold stock in FHLBNY. The Bank held FHLBNY stock with a carrying value of $1.4 million as of December 31, 2014 and December 31, 2013, respectively.

3.LOANS AND LEASES, NET

Major categories of loans and leases at December 31, 2014 and 2013 are summarized as follows:

	2014	2013

Mortgage loans on real estate:	(in thousands)	
Residential Mortgages	$ 98,374	$ 94,027
Commercial and multi-family	363,252	361,247
Construction-Residential	721	1,509
Construction-Commercial	40,986	23,902
Home equities	59,948	57,228
Total real estate loans	563,281	537,913
Commercial and industrial loans	129,456	106,952
Consumer loans	1,764	938
Other	404	323
Net deferred loan origination costs	759	870
Total gross loans	695,664	646,996
Allowance for loan losses	(12,533)	(11,503)
Loans, net	$ 683,131	$ 635,493

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Residential Mortgages: The Company originates adjustable-rate and fixed-rate, one-to-four-family residential real estate loans for the construction, purchase or refinancing of a mortgage. These loans are collateralized by owner-occupied properties located in the Company's market area. They are amortized over 10 to 30 years. Loans on one-to-four-family residential real estate are mostly originated in amounts of no more than 80% of appraised value or have private mortgage insurance. Mortgage title insurance and hazard insurance are normally required. Construction loans have a unique risk, because they are secured by an incomplete dwelling.

The Bank, in its normal course of business, sells certain residential mortgages which it originates to FNMA. The Company maintains servicing rights on the loans that it sells to FNMA and earns a fee thereon. The Bank determines with each origination of residential real estate loans which desired maturities, within the context of overall maturities in the loan portfolio, provide the appropriate mix to optimize the Bank's ability to absorb the corresponding interest rate risk within the Company's tolerance ranges. This practice allows the Company to manage interest rate risk, liquidity risk, and credit risk. At December 31, 2014 and 2013, the Company had approximately $71.6 million and $63.5 million, respectively, in unpaid principal balances of loans that it services for FNMA. For the years ended December 31, 2014 and 2013, the Company sold $15.3 million and $0.8 million, respectively, in loans to FNMA and realized gains on those sales of $203 thousand and $25 thousand, respectively. Gains or losses recognized upon the sale of loans are determined on a specific identification basis. The Company had a related asset of approximately $0.5 million for the servicing portfolio rights as of December 31, 2014 and 2013. There were $0.4 million in loans held for sale at December 31, 2014 compared with no loans held for sale at December 31, 2013. Loans held for sale are typically in the portfolio for less than a month. As a result, the carrying value approximates fair value. The Company has never been contacted by FNMA to repurchase any loans due to improper documentation or fraud.

Due to the lack of foreclosure activity and absence of any ongoing litigation at December 31, 2014 and 2013, the Company had no accrual for loss contingencies or potential costs associated with foreclosure-related activities at those dates.

Commercial and Multi-Family Mortgages and Commercial Construction Loans: Commercial real estate loans are made to finance the purchases of real estate with completed structures or in the midst of being constructed. These commercial real estate loans are secured by first liens on the real estate, which may include apartments, hotels, retail stores or plazas, healthcare facilities, and other non-owner-occupied facilities. These loans are generally less risky than commercial and industrial loans, since they are secured by real estate and buildings. The Company offers commercial mortgage loans with up to an 80% LTV ratio for up to 20 years on a variable and fixed rate basis. Many of these mortgage loans either mature or are subject to a rate call after three to five years. The Company's underwriting analysis includes credit verification, independent appraisals, a review of the borrower's financial condition, and the underlying cash flows. These loans are typically originated in amounts of no more than 80% of the appraised value of the property. Construction loans have a unique risk, because they are secured by an incomplete dwelling.

As of December 31, 2014, there were $179.1 million in residential and commercial mortgage loans pledged to FHLBNY to serve as collateral for borrowings.

Home Equities: The Company originates home equity lines of credit and second mortgage loans (loans secured by a second lien position on one-to-four-family residential real estate). These loans carry a higher risk than first mortgage residential loans as they are in a second position relating to collateral. Risk is reduced through underwriting criteria, which include credit verification, appraisals, a review of the borrower's financial condition, and personal cash flows. A security interest, with title insurance when necessary, is taken in the underlying real estate.

Commercial and Industrial Loans: These loans generally include term loans and lines of credit. Such loans are made available to businesses for working capital (including inventory and receivables), business expansion (including acquisition of real estate, expansion and improvements) and equipment purchases. As a general practice, a collateral lien is placed on equipment or other assets owned by the borrower. These loans generally carry a higher risk than commercial real estate loans based on the nature of the underlying collateral, which can be business assets such as equipment and accounts receivable. To reduce the risk, management also attempts to secure real estate as collateral and obtain personal guarantees of the borrowers. To further reduce risk and enhance liquidity, these loans generally carry variable rates of interest, re-pricing in three- to five-year periods, and have a maturity of five years or less. Lines of credit generally carry floating rates of interest (e.g., prime plus a margin).

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Consumer Loans: The Company funds a variety of consumer loans, including direct automobile loans, recreational vehicle loans, boat loans, aircraft loans, home improvement loans, and personal loans (collateralized and uncollateralized). Most of these loans carry a fixed rate of interest with principal repayment terms typically ranging up to five years, based upon the nature of the collateral and the size of the loan. The majority of consumer loans are underwritten on a secured basis using the underlying collateral being financed. A minimal amount of loans are unsecured, which carry a higher risk of loss.

Other Loans: These loans included $0.1 million at December 31, 2014 and $0.2 million at December 31, 2013 of overdrawn deposit accounts classified as loans.

Net loan commitment fees are deferred and amortized into fee income or other expense on a straight-line basis over the commitment period.

The Company maintains an allowance for loan and lease losses in order to capture the probable losses inherent in its loan and lease portfolio. There is a risk that the Company may experience significant loan and lease losses in 2015 and beyond which could exceed the allowance for loan and lease losses. This risk is heightened by the current uncertain and adverse economic conditions. If the Company's assumptions and judgments prove to be incorrect or bank regulators require the Company to increase its provision for loan and lease losses or recognize further loan and lease charge-offs, the Company may have to increase its allowance for loan and lease losses or loan and lease charge-offs which could have a material adverse effect on the Company's operating results and financial condition. There can be no assurance that the Company's allowance for loan and lease losses will be adequate to protect the Company against loan and lease losses that it may incur.

Changes in the allowance for loan and lease losses for the years ended December 31, 2014, 2013 and 2012 follow:

	2014	2013	2012
	(in thousands)		
Balance, beginning of year	$ 11,503	$ 9,732	$ 11,495
Provisions for loan and lease losses	1,229	1,540	(68)
Recoveries	863	942	225
Loans and leases charged off	(1,062)	(711)	(1,920)
Balance, end of year	$ 12,533	$ 11,503	$ 9,732

The following tables summarize the allowance for loan and lease losses, as of December 31, 2014 and 2013, respectively, by portfolio segments. The segments presented are at the level management uses to assess and monitor the risk and performance of the portfolio. The Company does not currently consider other factors such as industry and geography in assessing the loan portfolio.

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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	$ 4,489	$ 4,912	$ 37	$ 1,038	$ 878	$ -	$ 149	$ 11,503
Charge-offs	(957)	(57)	(46)	-	(2)	-	-	(1,062)
Recoveries	574	58	40	18	-	173	-	863
Provision	790	737	47	(115)	(57)	(173)	-	1,229
Ending balance	$ 4,896	$ 5,650	$ 78	$ 941	$ 819	$ -	$ 149	$ 12,533
Allowance for loan and lease losses:								
Ending balance: Individually evaluated for impairment	$ 988	$ 274	$ 48	$ 3	$ -	$ -	$ -	$ 1,313
Collectively evaluated for impairment	3,908	5,376	30	938	819	-	149	11,220
Total	$ 4,896	$ 5,650	$ 78	$ 941	$ 819	$ -	$ 149	$ 12,533
Loans and leases:								
Ending balance: Individually evaluated for impairment	$ 5,718	$ 5,817	$ 48	$ 2,535	$ 911	$ -	$ -	$ 15,029
Collectively evaluated for impairment	123,738	398,421	2,120	96,560	59,037	-	-	679,876
Total	$ 129,456	$ 404,238	$ 2,168	$ 99,095	$ 59,948	$ -	$ -	$ 694,905

Note: Loan and lease balances do not include $759 thousand in net deferred loan and lease originations as of December 31, 2014.

* includes construction loans

** includes other loans

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2013

(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	$ 3,617	$ 4,493	$ 18	$ 662	$ 746	$ 47	$ 149	$ 9,732
Charge-offs	(20)	(460)	(64)	(39)	(128)	-	-	(711)
Recoveries	240	444	13	2	1	242	-	942
Provision	652	435	70	413	259	(289)	-	1,540
Ending balance	$ 4,489	$ 4,912	$ 37	$ 1,038	$ 878	$ -	$ 149	$ 11,503
Allowance for loan and lease losses:								
Ending balance: Individually evaluated for impairment	$ 1,187	$ 216	$ 20	$ 47	$ 39	$ -	$ -	$ 1,509
Collectively evaluated for impairment	3,302	4,696	17	991	839	-	149	9,994
Total	$ 4,489	$ 4,912	$ 37	$ 1,038	$ 878	$ -	$ 149	$ 11,503
Loans and leases:								
Ending balance: Individually evaluated for impairment	$ 4,388	$ 12,054	$ 20	$ 1,952	$ 447	$ -	$ -	$ 18,861
Collectively evaluated for impairment	102,564	373,095	1,241	93,584	56,781	-	-	627,265
Total	$ 106,952	$ 385,149	$ 1,261	$ 95,536	$ 57,228	$ -	$ -	$ 646,126

Note: Loan and lease balances do not include $870 thousand in net deferred loan and lease originations as of December 31, 2013.

* includes construction loans

** includes other loans

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The national economy continued to slowly shows signs of improvement in 2014, with national and state unemployment improving from 6.7% and 7.1%, respectively, as of December 31, 2013 to 5.6% and 5.8%, respectively, as of December 31, 2014. However, the unemployment rate remains above historical standards and other economic indicators such as GDP growth continue to reflect gradual improvement in the economy. Although the economy has yielded signs of improvement, management did not significantly impact the provision for loan losses specifically related to the current economic environment. The current year provision for loans was primarily driven by loan growth and an increase in criticized commercial real estate loans in 2014.

The following table provides data, at the class level, of credit quality indicators of certain loans and leases, as of December 31, 2014 and 2013, respectively:

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

December 31, 2013
(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	$ 19,086	$ 297,819	$ 316,905	$ 78,294
4	3,283	47,584	50,867	15,194

5	-	4,028	4,028	9,468
6	1,533	11,479	13,012	3,744
7	-	337	337	252
Total	$ 23,902	$ 361,247	$ 385,149	$ 106,952

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The Company's risk ratings are monitored by the individual relationship managers and changed as deemed appropriate after receiving updated financial information from the borrowers or deterioration or improvement in the performance of a loan is evident in the customer's payment history. Each commercial relationship is individually assigned a risk rating. The Company also maintains a loan review process that monitors the management of the Company's commercial loan portfolio by the relationship managers. The Company's loan review function reviews at least 40% of the commercial and commercial mortgage portfolio annually.

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 differentiated from the requirements for the Company's commercial customers. Consumer loans are also smaller in balances. Given the lack of updated information since the initial underwriting of the loan and small size of individual loans, the Company uses the delinquency status as the credit quality indicator for consumer loans. The delinquency table is shown below. The Company does not lend to sub-prime borrowers. Unless the loan is well secured and in the process of collection, all consumer loans that are more than 90 days past due are placed in non-accrual status.

Once a consumer loan reaches 60 days past due, management orders an appraisal and runs a credit report on the borrower. If the loan is placed in nonaccrual status, an impairment test is performed. The book value of the loan is compared to the collateral value as determined by an independent appraisal, discounted for potential selling costs, appraisal age, or other factors particular to the property or borrower. In order to perform the impairment test, management determines the amount of the senior liens held by other lenders in the cases in which the Company holds a junior lien. When the Company is not in the first lien position, the collateral value is more heavily discounted to account for the increased risk.

The following table provides an analysis of the age of the recorded investment in loans and leases that were past due as of December 31, 2014 and 2013, respectively:

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 and Leases
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
Direct financing leases	-	-	-	-	-	-	-	-
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

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December 31, 2013
(in thousands)

	30-59 days	60-89 days	90+ days	Total Past Due	Current Balance	Total Balance	90+ Days Accruing	Non-accruing Loans and Leases
Commercial and industrial	$ 197	$ 447	$ 358	$ 1,002	$ 105,950	$ 106,952	$ -	$ 2,970
Residential real estate:								
Residential	392	72	915	1,379	92,648	94,027	-	1,376
Construction	-	-	-	-	1,509	1,509	-	-
Commercial real estate:								
Commercial	6,976	1,050	75	8,101	353,146	361,247	-	8,873
Construction	-	-	-	-	23,902	23,902	-	-
Home equities	100	267	76	443	56,785	57,228	-	447
Direct financing leases	1	2	47	50	-	-	-	47
Consumer	1	21	-	22	916	938	-	20
Other	-	-	-	-	323	323	-	-
Total Loans	$ 7,667	$ 1,859	$ 1,471	$ 10,997	$ 635,179	$ 646,126	$ -	$ 13,733

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The following table provides data, at the class level, of impaired loans and leases:

	At December 31, 2014					
	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	$ 1,017	$ 1,022	$ -	$ 1,096	$ 9	$ 66
Residential real estate:						
Residential	2,264	2,435	-	2,271	37	68
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
Direct financing leases	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total impaired loans and leases	$ 7,369	$ 7,689	$ -	$ 7,592	$ 96	$ 291

	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)					
	$ 4,701	$ 4,734	$ 988	$ 4,701	$ 64	$ 234

Commercial and industrial						
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	-	-	-	-	-	-
Direct financing leases	-	-	-	-	-	-
Consumer	48	60	48	49	5	6
Other	-	-	-	-	-	-
Total impaired loans and leases	$ 7,660	$ 7,864	$ 1,313	$ 7,729	$ 185	$ 290

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	At December 31, 2014					
Total:	Recorded Investment (in thousands)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
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
	-	-	-	-	-	-
Direct financing leases	-	-	-	-	-	-
	-	-	-	-	-	-
Consumer	48	60	48	49	5	6
	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total impaired loans and leases	$ 15,029	$ 15,553	$ 1,313	$ 15,321	$ 281	$ 581

	At December 31, 2013					
	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	$ 1,247	$ 1,352	$ -	$ 1,405	$ 100	$ 59
Residential real estate:						
Residential	1,331	1,460	-	1,388	61	9
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	9,937	10,288	-	9,832	302	109
Construction	599	599	-	707	-	26
Home equities	408	438	-	402	19	4
Direct financing leases	26	27	-	29	-	-
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total impaired loans and leases	$ 13,548	$ 14,164	$ -	$ 13,763	$ 482	$ 207

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	At December 31, 2013					
	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	$ 3,141	$ 3,191	$ 1,187	$ 3,577	$ 60	$ 108
Residential real estate:						
Residential	621	624	47	622	10	27
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	584	650	70	604	6	26
Construction	934	934	146	934	-	33
Home equities	39	39	39	39	-	2
Direct financing leases	-	-	-	-	-	-
Consumer	20	29	20	11	3	2
Other	-	-	-	-	-	-
Total impaired loans and leases	$ 5,339	$ 5,467	$ 1,509	$ 5,787	$ 79	$ 198

	At December 31, 2013					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
Total:	(in thousands)					
Commercial and industrial	$ 4,388	$ 4,543	$ 1,187	$ 4,982	$ 160	$ 167
	-	-	-	-	-	-
Residential real estate:						
Residential	1,952	2,084	47	2,010	71	36
Construction	-	-	-	-	-	-
	-	-	-	-	-	-

Commercial real estate:						
Commercial	10,521	10,938	70	10,436	308	135
Construction	1,533	1,533	146	1,641	-	59
	-	-	-	-	-	-
Home equities	447	477	39	441	19	6
	-	-	-	-	-	-
Direct financing leases	26	27	-	29	-	-
	-	-	-	-	-	-
Consumer	20	29	20	11	3	2
	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total impaired loans and leases	$ 18,887	$ 19,631	$ 1,509	$ 19,550	$ 561	$ 405

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There were $7.4 million in impaired loans with no related allowance at December 31, 2014, and $13.5 million in impaired loans with no related allowance at December 31, 2013. As management identifies impaired loans that are collateral dependent, new appraisals are ordered to determine the fair value of the collateral. It should also be noted that when estimating the fair value of collateral for the purpose of performing an impairment test, management further reduces the appraised value of the collateral to account for estimated selling or carrying costs, age of the appraisal if applicable, or any other perceived market or borrower-specific risks to the value of the collateral.

The majority of the interest income in the preceding table was interest income recognized prior to these loans and leases being identified as impaired and placed on non-accrual. The interest income foregone in the preceding table represents interest income that the Company did not recognize on those loans and leases while they were on non-accrual and impaired.

The following table summarizes the Bank's non-accrual loans and leases and loans and leases 90 days or more past due and still accruing:

	December 31, 2014	December 31, 2013
	(in thousands)	
Non-accruing loans and leases:		
Commercial and industrial loans	$ 5,500	$ 2,970
Residential real estate:		
Residential	1,296	1,376
Construction	-	-
Commercial real estate:		
Commercial and multi-family	3,162	8,873
Construction	-	-
Home equities	415	447
Direct financing leases	-	47
Consumer loans	17	20
Other	-	-
Total non-accruing loans and leases	$ 10,390	$ 13,733
Accruing loans 90+ days past due	201	-
Total non-performing loans and leases	$ 10,591	$ 13,733
Total non-performing loans and leases to total assets	1.25 %	1.65 %
Total non-performing loans and leases to total loans and leases	1.52 %	2.12 %

The Bank had no loan commitments to borrowers in non-accrual status at December 31, 2014 and 2013.

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Troubled debt restructurings ("TDRs")

The Company had $6.6 million in loans and leases that were restructured and deemed to be TDR's at December 31, 2014 with $1.9 million of those balances in non-accrual status. Any TDR that is placed on non-accrual is not returned 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 restructurings were allowed in an effort to maximize the Company's ability to collect on loans and leases where borrowers were experiencing financial difficulty. 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.

The following table presents the Company's TDR loans and leases as of December 31, 2014, and 2013, respectively:

	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	-
Direct financing leases	-	-	-	-
Consumer loans	31	-	31	31
Other	-	-	-	-
Total troubled restructured loans and leases	$ 6,586	$ 1,948	$ 4,638	$ 237

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	December 31, 2013 ($ in thousands)			
	Total	Nonaccruing	Accruing	Related Allowance
Commercial and industrial	$ 4,262	$ 2,903	$ 1,359	$ 983
Residential real estate:				
Residential	1,031	454	577	-
Construction	-	-	-	-
Commercial real estate:				
Commercial and multi family	10,211	8,563	1,648	33
Construction	1,533	-	1,533	-
				-
Home equities	56	56	-	-
Direct financing leases	26	12	14	-
Consumer loans	-	-	-	-
Other	-	-	-	-
Total troubled restructured loans and leases	$ 17,119	$ 11,988	$ 5,131	$ 1,016

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.

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The following tables show the data for TDR activity by type of concession granted to the borrower during 2014 and 2013:

	Year ended December 31, 2014 ($ in thousands)			Year ended December 31, 2013 ($ 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	1	$ 16	$ 16	6	$ 2,400	$ 2,400
Interest rate reduction	-	-	-	2	330	330
Extension of maturity and interest rate reduction	-	-	-	5	361	361
Combination of concessions	-	-	-	1	250	250
Residential Real Estate & Construction:						
Extension of maturity	2	615	615	4	583	583
Extension of maturity and interest rate reduction	1	208	208	-	-	-
Commercial Real Estate & Construction:						
Deferral of principal	-	-	-	2	6,438	7,963
Extension of maturity	-	-	-	2	739	739
Extension of maturity and						

interest rate reduction	1	250	250	-	-	-
Home Equities:						
Extension of maturity	9	592	592	-	-	-
Extension of maturity and interest rate reduction	2	84	84	1	136	136
Term out line of credit	-	-	-	1	57	57
Consumer loans						
Rate reduction	1	31	31	-	-	-
Other	-	-	-	-	-	-

Modifications made to loans in a troubled debt restructuring did not have a material impact on the Company's net income for the years ended December 31, 2014 and 2013. All of the C&I and commercial real estate TDR's were already considered impaired and sufficiently reserved for before being identified as a TDR.

The reserve for a TDR loan 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. At December 31, 2014, there were no commitments to lend additional funds to debtors owing loans or leases whose terms have been modified in TDRs.

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The general practice of the Bank is to work with borrowers so that they are able to pay back their loan or lease in full. If a borrower continues to be delinquent or cannot meet the terms of a TDR and the loan or lease is determined to be uncollectible, the loan or lease will be charged off to its collateral value. A loan or lease is considered in default when the loan or lease is 90 days past due or is charged off. The following table presents loans and leases which were classified as TDR's during the previous twelve months which have subsequently defaulted during the twelve month periods ended December 31:

	Year Ended December 31, 2014 ($ in thousands)		Year Ended December 31, 2013 ($ in thousands)	
Troubled Debt Restructurings That Subsequently Defaulted	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial and Industrial	3	$ 191	7	$ 224
Residential Real Estate:				
Residential	-	-	-	-
Construction	-	-	-	-
Commercial Real Estate:				
Commercial and Multi-Family	1	250	1	160
Construction	-	-	-	-
Home Equities	1	54	-	-
Direct financing leases	-	-	-	-
Consumer loans	-	-	-	-
Other	-	-	-	-

4.PROPERTIES AND EQUIPMENT

Properties and equipment at December 31 were as follows:

	2014	2013
	(in thousands)	
Land	$ 268	$ 268
Buildings and improvements	12,090	12,695
Furniture, fixtures, and equipment	12,995	12,426
	25,353	25,389
Less accumulated depreciation	(15,129)	(14,226)
Properties and equipment, net	$ 10,224	$ 11,163

Depreciation expense totaled $1.1 million in 2014, 2013, and 2012.

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5.OTHER ASSETS

Other assets at December 31 were as follows:

	2014	2013
	(in thousands)	
Net deferred tax asset	$ 7,661	$ 6,064
Accrued interest receivable	2,417	2,458
Prepaid expenses	713	749
Mortgage servicing rights	518	509
Other	2,674	2,179
Total other assets	$ 13,983	$ 11,959

6.GOODWILL AND INTANGIBLE ASSETS

The Company had $8.1 million in goodwill as of December 31, 2014 and 2013. The entire amount of goodwill is within the insurance agency activities segment. The Company measures the fair value of the insurance agency reporting unit annually, as of December 31, utilizing the market value and income methods. When using the income method, management considered historical information, the operating budget, and strategic goals in projecting net income and cash flows for the next five years. No impairment was recognized as a result of the goodwill impairment test as of December 31, 2014 and 2013, respectively. Further discussion of the Company’s goodwill impairment testing is included in Note 1.

Information regarding the Company’s other intangible assets at December 31 follows:

2014	Gross Carrying Amount	Accumulated Amortization	Net
	(in thousands)		
Non-compete agreements	$ 738	$ (738)	$ -
Insurance expirations	4,585	(4,585)	-
Total	$ 5,323	$ (5,323)	$ -

2013	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Avg Amortization Period
	(in thousands)			
Non-compete agreements	$ 738	$ (738)	$ -	
Insurance expirations	4,585	(4,477)	108	8 years
Total	$ 5,323	$ (5,215)	$ 108	8 years

Amortization expense related to intangibles for the years ended December 31, 2014, 2013, and 2012 was $108 thousand, $221 thousand, and $349 thousand, respectively.

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7.DEPOSITS

Time deposits, with minimum denominations of $100 thousand each, totaled $47.7 million and $45.2 million at December 31, 2014 and 2013, respectively. There were $0.1 million and $0.2 million of overdraft accounts in deposits that were reclassified to loans as of December 31, 2014 and 2013, respectively.

At December 31, 2014, the scheduled maturities of all time deposits were as follows:

	(in thousands)
2015	$ 60,671
2016	21,297
2017	11,218
2018	6,304
2019 and later	13,302
	$ 112,792

Some of the Company’s time deposits were obtained through brokered transactions. Brokered time deposits totaled $1.2 million at December 31, 2014 and 2013, respectively.

8.BORROWED FUNDS AND JUNIOR SUBORDINATED DEBENTURES

Other borrowed funds would consist primarily of various advances from the FHLB with fixed interest rate terms. The Bank had no short term borrowings outstanding from the FHLB at December 31, 2014.

The Bank has the ability to borrow additional funds from the FHLB based on the available securities or real estate loans that can be used as collateral, and to purchase additional federal funds through one of the Bank's correspondent banks. Given the current collateral available, advances of up to $185.8 million can be drawn on the FHLB via the Bank's Overnight Line of Credit Agreement. The Bank also has the ability to purchase up to $14.0 million in federal funds from its correspondent banks.

The amounts and interest rates of other short-term borrowings were as follows:

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	Federal Funds Purchased		Other Short-Term Borrowings		Total	
	(in thousands)					
At December 31, 2014						
Amount outstanding	$ 13,700		$ -		$ 13,700	
Weighted-average interest rate	0.32	%	-	%	0.32	%
For the year ended December 31, 2014						
Highest amount at a monthend	$ 13,700		$ 9,000			
Daily average amount outstanding	$ 3,938		$ 5,000		$ 8,938	
Weighted-average interest rate	0.25	%	3.54	%	2.09	%
At December 31, 2013						
Amount outstanding	$ -		$ 9,000		$ 9,000	
Weighted-average interest rate	-	%	3.41	%	3.41	%
For the year ended December 31, 2013						
Highest amount at a monthend	$ -		$ 10,000			
Daily average amount outstanding	$ -		$ 6,167		$ 6,167	
Weighted-average interest rate	-	%	3.41	%	3.41	%
At December 31, 2012						
Amount outstanding	$ -		$ 10,000		$ 10,000	
Weighted-average interest rate	-	%	3.21	%	3.21	%
For the year ended December 31, 2012						
Highest amount at a monthend	$ -		$ 10,000			
Daily average amount outstanding	$ -		$ 8,833		$ 8,833	
Weighted-average interest rate	-	%	3.21	%	3.21	%

On October 1, 2004, Evans Capital Trust I, a statutory business trust wholly-owned by the Company (the “Trust”), issued $11.0 million in aggregate principal amount of floating rate preferred capital securities due November 23, 2034 (the “Capital Securities”) classified on the Company’s consolidated balance sheets as Junior Subordinated Debentures. The distribution rate on the Capital Securities of the Trust adjusts quarterly based on changes in the three-month London Interbank Offered Rate (“LIBOR”) and was 2.88% at December 31, 2014.

The Capital Securities have a distribution rate of 3 month LIBOR plus 2.65%, and the distribution dates are February 23, May 23, August 23 and November 23.

The common securities of the Trust (the "Common Securities") are wholly-owned by the Company and are the only class of the Trust's securities possessing general voting powers. The Capital Securities represent preferred undivided interests in the assets of the Trust. Under the Federal Reserve Board's current risk-based capital guidelines, the Capital Securities are includable in the Company's Tier 1 (Core) capital.

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The proceeds from the issuances of the Capital Securities and Common Securities were used by the Trust to purchase $11.3 million aggregate liquidation amount of floating rate junior subordinated deferrable interest debentures (“Junior Subordinated Debentures”) of the Company, due October 1, 2037, comprised of $11.0 million of Capital Securities and $330 thousand of Common Securities. The $330 thousand of Common Securities represent the initial capital contribution of the Company to the Trust, which, in accordance with the provisions of ASC Topic 810 "Consolidation," have not been consolidated and are included in “Other Assets” on the consolidated balance sheet.

The Junior Subordinated Debentures represent the sole assets of the Trust, and payments under the Junior Subordinated Debentures are the sole source of cash flow for the Trust. The interest rate payable on the Junior Subordinated Debentures was 2.88% at December 31, 2014.

Holders of the Capital Securities receive preferential cumulative cash distributions on each distribution date at the stated distribution rate, unless the Company exercises its right to extend the payment of interest on the Junior Subordinated Debentures for up to twenty quarterly periods, in which case payment of distributions on the respective Capital Securities will be deferred for comparable periods. During an extended interest period, in accordance with terms as defined in the indenture relating to the Capital Securities, the Company may not pay dividends or distributions on, or repurchase, redeem or acquire any shares of its capital stock. The agreements governing the Capital Securities, in the aggregate, provide a full, irrevocable and unconditional guarantee by the Company of the payment of distributions on, the redemption of, and any liquidation distribution with respect to the Capital Securities. The obligations under such guarantee and the Capital Securities are subordinate and junior in right of payment to all senior indebtedness of the Company.

The Capital Securities will remain outstanding until the Junior Subordinated Debentures are repaid at maturity, are redeemed prior to maturity or are distributed in liquidation to the Trust. The Capital Securities are mandatorily redeemable in whole, but not in part, upon repayment at the stated maturity dates of the Junior Subordinated Debentures or the earlier redemption of the Junior Subordinated Debentures in whole upon the occurrence of one or more events (“Events”) set forth in the indentures relating to the Capital Securities, and in whole or in part at any time after the stated optional redemption date of November 23, 2009, contemporaneously with the optional redemption of the related Junior Subordinated Debentures in whole or in part. The Junior Subordinated Debentures are redeemable prior to their stated maturity dates at the Company’s option: (i) on or after the stated optional redemption dates, in whole at any time or in part from time to time; or (ii) in whole, but not in part, at any time within 90 days following the occurrence and during the continuation of one or more of the Events, in each case subject to possible regulatory approval. The redemption price of the Capital Securities and the related Junior Subordinated Debentures upon early redemption would be at the liquidation amount plus accumulated but unpaid distributions.

9.SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Bank enters into agreements with customers to sell securities owned by the Bank to the customers and repurchase the identical security, generally within one day. No physical movement of the securities is involved. The customer is informed the securities are held in safekeeping by the Bank on behalf of the customer. The Bank had $13.8 million and $13.4 million in securities sold under agreement to repurchase at December 31, 2014 and 2013, respectively.

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10.COMPREHENSIVE INCOME (LOSS)

The following tables display the components of other comprehensive income (loss), net of tax:

	Balance at December 31, 2013	Net Change	Balance at December 31, 2014
	(in thousands)		
Net unrealized gain (loss) on investment securities	$ 191	$ 720	$ 911
Net defined benefit pension plans adjustments	(1,454)	(965)	(2,419)
Total	$ (1,263)	$ (245)	$ (1,508)

	Balance at December 31, 2012	Net Change	Balance at December 31, 2013
	(in thousands)		
Net unrealized gain (loss) on investment securities	$ 2,457	$ (2,266)	$ 191
Net defined benefit pension plans adjustments	(2,356)	902	(1,454)
Total	$ 101	$ (1,364)	$ (1,263)

	Balance at December	Net Change	Balance at December 31, 2012

	31, 2011		
	(in thousands)		
Net unrealized gain (loss) on investment securities	$ 2,534	$ (77)	$ 2,457
Net defined benefit pension plans adjustments	(2,188)	(168)	(2,356)
Total	$ 346	$ (245)	$ 101

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	December 31, 2014 (in thousands)		
	Before-Tax Amount	Income Tax (Provision) Benefit	Net-of-Tax Amount
Unrealized loss on investment securities:			
Unrealized gain (loss) on investment securities	$ 1,173	$ (453)	$ 720
Reclassification from accumulated other comprehensive income for gains (losses)	-	-	-
Net change	1,173	(453)	720
Defined benefit pension plans adjustments:			
Net actuarial (loss) gain	$ -	$ -	$ -
Reclassifications from accumulated other comprehensive income for gains (losses)			
Amortization of prior service cost (a)	31	(12)	19
Amortization of actuarial loss (a)	105	(41)	64
Actuarial (losses) gains	(1,710)	662	(1,048)
Net change	(1,574)	609	(965)
Other Comprehensive Income (Loss)	$ (401)	$ 156	$ (245)

(a) Included in net periodic pension cost, as described in Note 11 – “Employee Benefits and Deferred Compensation Plans”

	December 31, 2013 (in thousands)		
	Before-Tax Amount	Income Tax (Provision) Benefit	Net-of-Tax Amount
Unrealized loss on investment securities:			
Unrealized gain (loss) on investment securities	$ (3,697)	$ 1,431	$ (2,266)
Reclassification from accumulated other comprehensive income for gains (losses)	-	-	-
Net change	(3,697)	1,431	(2,266)
Defined benefit pension plans adjustments:			

Net actuarial (loss) gain	$ -	$ -	$ -
Reclassifications from accumulated other comprehensive income for gains (losses)			
Amortization of prior service cost (a)	69	(27)	42
Amortization of actuarial loss (a)	177	(69)	108
Actuarial gains (losses)	1,226	(474)	752
Net change	1,472	(570)	902
Other Comprehensive Income (Loss)	$ (2,225)	$ 861	$ (1,364)

(a)Included in net periodic pension cost, as described in Note 11 – “Employee Benefits and Deferred Compensation Plans”

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	December 31, 2012 (in thousands)		
	Before-Tax Amount	Income Tax (Provision) Benefit	Net-of-Tax Amount
Unrealized loss on investment securities:			
Unrealized gain (loss) on investment securities	$ (124)	$ 47	$ (77)
Reclassification from accumulated other comprehensive income for gains (losses)	-	-	-
Net change	(124)	47	(77)
Defined benefit pension plans adjustments:			
Net actuarial (loss) gain	$ -	$ -	$ -
Reclassifications from accumulated other comprehensive income for gains (losses)			
Amortization of prior service cost (a)	87	(34)	53
Amortization of actuarial loss (a)	172	(67)	105
Actuarial (losses) gains	(532)	206	(326)
Net change	(273)	105	(168)
Other Comprehensive Income (Loss)	$ (397)	$ 152	$ (245)

(a)Included in net periodic pension cost, as described in Note 11 – “Employee Benefits and Deferred Compensation Plans”

11.EMPLOYEE BENEFITS AND DEFERRED COMPENSATION PLANS

Employees’ Pension Plan

The Bank has a defined benefit pension plan that covered substantially all employees of the Company and its subsidiaries. The Pension Plan provides benefits that are based on the employees’ compensation and years of service. The Bank uses an actuarial method of amortizing prior service cost and unrecognized net gains or losses which result from actual experience and assumptions being different than those that are projected. The amortization method the Bank uses recognizes the prior service cost and net gains or losses over the average remaining service period of active employees which exceeds the required amortization. The Pension Plan was frozen effective January 31, 2008. Under the freeze, eligible employees will receive the benefits already earned through January 31, 2008 at

retirement, but will not be able to accrue any additional benefits. As a result, service cost will no longer be incurred.

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Selected Financial Information for the Pension Plan is as follows:

	12/31/2014	12/31/2013
Change in benefit obligation:	(in thousands)	
Benefit obligation at the beginning of the year	$ 4,395	$ 4,851
Service cost	-	-
Interest cost	206	192
Assumption change	976	(595)
Actuarial loss	24	153
Benefits paid	(164)	(206)
Benefit obligation at the end of the year	5,437	4,395
Change in plan assets:		
Fair value of plan assets at the beginning of year	4,162	3,533
Actual return on plan assets	93	650
Employer contributions	110	185
Benefits paid	(164)	(206)
Fair value of plan assets at the end of year	4,201	4,162
Funded status	$ (1,236)	$ (233)
Amount recognized in the Consolidated Balance Sheets consist of:		
Accrued benefit liabilities	$ (1,236)	$ (233)
Amount recognized in the Accumulated Other Comprehensive Loss consists of:		
Net actuarial loss	$ 2,112	$ 920
Prior service cost	-	-
Net amount recognized in equity - pre-tax	$ 2,112	$ 920
Net amount recognized on Consolidated Balance Sheets in Other Liabilities	$ 876	$ 687
Accumulated benefit obligation at year end	$ 5,437	$ 4,395

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Valuations of the Pension Plan as shown above were conducted as of December 31, 2014 and 2013 (the measurement date). Assumptions used by the Bank in the determination of Pension Plan information consisted of the following:

	2014	2013	2012
Discount rate for projected benefit obligation	3.83 %	4.78 %	3.88 %
Discount rate for net periodic pension cost	4.78 %	3.88 %	4.46 %
Rate of increase in compensation levels	- %	- %	- %
Expected long-term rate of return of plan assets	7.50 %	7.50 %	7.50 %

The components of net periodic benefit cost consisted of the following:

	2014	2013	2012
	(in thousands)		
Service cost	$ -	$ -	$ -
Interest cost	206	192	213
Expected return on plan assets	(307)	(260)	(227)
Net amortization and deferral	22	65	63
Net periodic benefit cost	$ (79)	$ (3)	$ 49

The estimated amounts to be amortized from accumulated other comprehensive loss into net periodic cost in 2015 for amortization of actuarial loss will be $71 thousand.

The expected long-term rate of return on Pension Plan assets assumption was determined based on historical returns earned by equity and fixed income securities, adjusted to reflect future return expectations based on plan targeted asset allocation. Equity and fixed income securities were assumed to earn returns in the ranges of 9% to 10% and 5% to 6%, respectively. When these overall return expectations are applied to the Pension Plan's targeted allocation, the expected rate of return is determined to be 7.50%, which is approximately the mid-point of the range of expected return. The Company's management will continue to evaluate its actuarial assumptions, including the expected rate of return, at least annually, and will adjust as necessary.

The weighted average asset allocation of the Pension Plan at December 31, 2014 and 2013, the Pension Plan measurement date, was as follows:

Asset Category:	2014		2013	
Equity mutual funds	77.80	%	75.98	%
Fixed income mutual funds	19.30	%	20.87	%
Cash/Short-term investments	2.90	%	3.15	%
	100.00	%	100.00	%

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The investment objective of the fixed-income portfolio is current income consistent with preserving investment principal. The investment objective of the equity portfolio is long-term capital appreciation. Equity holdings are diversified among various industries, countries and market capitalizations. The Plan's targeted long-term asset allocation under normal market conditions will be approximate 60%-70% in equities and 30%-40% in fixed income securities. This allocation is consistent with the Company's goal of diversifying the Pension Plan assets in order to preserve capital while achieving investment results that will contribute to the proper funding of pension obligations and cash flow requirements.

Interest rates remained historically low during 2013 and 2014 while equity prices continued their rise to record highs. Taking advantage of the substantial gains in the equity markets the Pension Plan shifted some assets from equities to fixed income during the second half of 2013. Given the continued historically low interest rates and an expected bias upward, fixed income assets were allocated to low duration investments with limited correlation to traditional fixed income including bank loan, unconstrained bond and multi-sector bond strategies. In addition, the Pension Plan added a currency position with a low correlation to both equities and fixed income. The Company's investment manager regularly reviews the Pension Plan's asset allocation and periodically rebalances its investments to the targeted allocation when considered appropriate.

The Company contributed $110 thousand to the Pension Plan in 2014 and estimates that it will contribute another $110 thousand to the Pension Plan in 2015.

The major categories of assets in the Bank's Pension Plan as of year-end are presented in the following table. Assets are segregated according to their investment objective by the level of the valuation inputs within the fair value hierarchy established by ASC Topic 820 utilized to measure fair value (see Note 19 – Fair Value of Financial Instruments).

	2014	2013
	(in thousands)	
Level 1:		
Cash	$ -	$ 34
Mutual funds:		
Short-term investments:		
Money market	121	97
Equities:		
Small cap	402	416
Real estate	241	188
International large cap	818	890
Emerging markets	480	512
Currency	195	198

Commodity	51	63
Bonds	413	403
Bank loans	202	203
Exchange -traded funds (ETFs):		
Large cap	890	799
Mid cap	388	359
	$ 4,201	$ 4,162

The mutual funds and ETFs are actively traded with market quotes available on at least a daily basis. Therefore, they are Level 1 assets.

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The discount rate utilized by the Company for determining future pension obligations is based on a review of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. The discount rate determined on this basis decreased from 4.78% at December 31, 2013 to 3.83% at December 31, 2014 for the Company's Pension Plan.

Expected benefit payments under the Pension Plan over the next ten years at December 31, 2014 are as follows:

	(in thousands)
2015	$ 189,000
2016	196,000
2017	192,000
2018	201,000
2019	201,000
Year 2020 - 2024	1,226,000

Supplemental Executive Retirement Plans

The Bank also maintains a non-qualified supplemental executive retirement plan (the “SERP”) covering certain members of the Company’s senior management. The SERP was amended during 2003 to provide a benefit based on a percentage of final average earnings, as opposed to the fixed benefit that was provided for in the superseded plan.

On April 8, 2010, the Compensation Committee of the Board of Directors of the Company approved the adoption of the Evans Bank, N.A. Supplemental Executive Retirement Plan for Senior Executives (“the Senior Executive SERP”). The “old” SERP plan will keep its participants at the time of the creation of the Senior Executive SERP, but any future executives identified by the Board of Directors as eligible for SERP benefits will participate in the Senior Executive SERP. A participant is generally entitled to receive a benefit under the Senior Executive SERP upon a termination of employment, other than for “cause”, after the participant has completed 10 full calendar years of service with the Bank. No benefit is payable under the Senior Executive SERP if the participant’s employment is terminated for “cause” or if the participant voluntarily terminates before completing 10 full calendar years of service with the Bank. In addition, the payment of benefits under the Senior Executive SERP is conditioned upon certain agreements of the participant related to confidentiality, cooperation, non-competition, and non-solicitation. A participant will be entitled to a retirement benefit under the Senior Executive SERP if his or her employment with the Bank terminates other than for “cause”. The “accrued benefit” is based on a percentage of the participant’s final average earnings, which is determined based upon the participant’s total annual compensation over the highest consecutive five calendar years of the participant’s employment with the Bank, accrued over the participant’s “required benefit service”. The percentages

and years of service requirements are set forth in each participant's Participation Agreement, and range from 25% to 35% and from 15 to 20 years.

The obligations related to the two SERP plans are indirectly funded by various life insurance contracts naming the Bank as beneficiary. The Bank has also indirectly funded the SERPs, as well as other benefits provided to other employees through bank-owned life insurance. The Bank uses an actuarial method of amortizing unrecognized net gains or losses which result from actual experience and assumptions being different than those that are projected. The amortization method the Bank is using recognizes the net gains or losses over the average remaining service period of active employees, which exceeds the required amortization.

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Selected financial information for the two SERP plans is as follows:

	12/31/2014	12/31/2013
Change in benefit obligation:	(in thousands)	
Benefit obligation at the beginning of the year	$ 3,923	$ 5,272
Service cost	168	165
Interest cost	159	125
Plan amendments	-	-
Plan settlement	-	105
Actuarial loss (gain)	497	(395)
Benefits paid	(192)	(1,349)
Benefit obligation at the end of the year	4,555	3,923
Change in plan assets:		
Fair value of plan assets at the beginning of year	-	-
Actual return on plan assets	-	-
Employer contributions	192	1,349
Benefits paid	(192)	(1,349)
Fair value of plan assets at the end of year	-	-
Funded status	$ (4,555)	$ (3,923)
Amount recognized in the Consolidated Balance Sheets consist of:		
Accrued benefit liabilities	$ (4,555)	$ (3,923)
Amount recognized in the Accumulated Other Comprehensive Loss consists of:		
Net actuarial loss	$ 1,601	$ 1,188
Prior service cost	249	280
Net amount recognized in equity - pre-tax	$ 1,850	$ 1,468
Net amount recognized on Consolidated Balance Sheets in Other Liabilities	$ (2,705)	$ (2,455)
Accumulated benefit obligation at year end	$ 3,944	$ 3,385

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Valuations of the SERP liability, as shown above, were conducted as of December 31, 2014 and 2013. Assumptions used by the Bank in both years in the determination of SERP information consisted of the following:

	2014	2013	2012
Discount rate for projected benefit obligation	3.30 %	4.15 %	3.17 %
Discount rate for net periodic pension cost	4.15 %	3.17 %	4.34 %
Salary scale	3.50 %	3.50 %	3.50 %

The discount rate utilized by the Company for determining future pension obligations is based on a review of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. The discount rate determined on this basis decreased from 4.15% at December 31, 2013 to 3.30% at December 31, 2014 (the measurement date) for the SERP.

The components of net periodic benefit cost consisted of the following:

	2014	2013	2012
	(in thousands)		
Service cost	$ 168	$ 165	$ 180
Interest cost	159	125	153
Net amortization and deferral	115	180	195
Settlement charge	-	105	-
Net periodic benefit cost	$ 442	$ 575	$ 528

The settlement charge in 2013 reflects the impact of a lump-sum payout on current net periodic benefit cost, which required immediate recognition of actuarial losses associated with that portion of the obligation in earnings.

The estimated amounts to be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2015 for prior service costs and actuarial loss will be $31 thousand and $130 thousand, respectively.

Expected benefit payments under the SERP over the next ten years at December 31, 2014 are as follows:

	(in thousands)
2015	$ 192,672
2016	192,672
2017	192,672
2018	192,672
2019	1,865,999
Year 2020 - 2024	1,609,213

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Other Compensation Plans

The Company also maintains a non-qualified deferred compensation plan for non-employee directors. Expenses under this plan were approximately $9 thousand in 2014, $12 thousand in 2013, and $19 thousand in 2012. The estimated present value of the benefit obligation included in other liabilities was $0.1 million at December 31, 2014 and $0.2 million at December 31, 2013. This obligation is indirectly funded by life insurance contracts naming the Bank as beneficiary. The increase in cash surrender value is included in other non-interest income on the Consolidated Statements of Income.

The Company has a non-qualified deferred compensation plan whereby directors and certain officers may defer a portion of their base pre-tax compensation. Additionally, the Company has a non-qualified executive incentive retirement plan, whereby the Company defers on behalf of certain officers a portion of their base compensation until retirement or termination of service, subject to certain vesting arrangements. Expense under these plans was approximately $210 thousand in 2014, $248 thousand in 2013, and $203 thousand in 2012. The benefit obligation, included in other liabilities in the Company's consolidated balance sheets, was $2.0 million and $2.4 million at December 31, 2014 and 2013, respectively.

These benefit plans are indirectly funded by bank-owned life insurance contracts with a total aggregate cash surrender value of approximately $20.4 million and $19.8 million at December 31, 2014 and 2013, respectively. Increases in cash surrender value are included in other non-interest income on the Company's Consolidated Statements of Income. Endorsement split-dollar life insurance benefits have also been provided to directors and certain officers of the Bank and its subsidiaries during employment.

The Bank also has a defined contribution retirement and thrift 401(k) Plan (the "401(k) Plan") for its employees who meet certain length of service and age requirements. The provisions of the 401(k) Plan allow eligible employees to contribute a portion of their annual salary, up to the IRS statutory limit. Effective January 1, 2011, the 401(k) plan implemented a Qualified Automatic Contribution Arrangement ("QACA"). This arrangement features automatic deferred contributions with annual escalation, a QACA matching contribution, and an additional matching contribution. In addition, employees are no longer required to complete one year of service prior to receiving matching contributions. Employees vest in employer contributions over six years. The Company's expense under the 401(k) Plan was approximately $719 thousand, $629 thousand, and $496 thousand for the years ended December 31, 2014, 2013, and 2012, respectively.

12.STOCK-BASED COMPENSATION

At December 31, 2014, the Company had two stock-based compensation plans, which are described below. The Company accounts for the fair value of its grants under those plans in accordance with ASC Topic 718, "Compensation – Stock Compensation." The compensation cost charged against income for those plans was $293 thousand, $280 thousand, and $249 thousand for 2014, 2013, and 2012, respectively, included in "Salaries and Employee Benefits" in the Company's Consolidated Statements of Income. All stock option and restricted stock expense is recorded on a straight-line basis over the expected vesting term. In addition, expense for director options and restricted stock was recognized to reflect $83 thousand, $72 thousand, and $56 thousand in 2014, 2013, and 2012, respectively, as part of "Other" expense in the Company's Consolidated Statements of Income.

2009 Long-Term Equity Incentive Plan

Under the Company's 2009 Long-Term Equity Incentive Plan (the "2009 Plan") and, prior to the adoption of the 2009 Plan by shareholders in April 2009, under the Company's 1999 Employee Stock Option and Long-Term Incentive Plan (the "1999 Plan" and together with the 2009 Plan, the "Equity Plans"), the Company has granted options or restricted stock to officers, directors and key employees of the Company and its subsidiaries. Under the Equity Plans, the Company was authorized to issue up to 629,796 shares of common stock. Under the Equity Plans, the exercise price of each option is not to be less than 100% of the market price of the Company's stock on the date of grant and an option's maximum term is ten years. If available, the Company normally issues shares out of its treasury for any options exercised or restricted shares issued. The options have vesting schedules from 12 months through 5 years. At December 31, 2014, there were a total of 210,353 shares available for grant under the 2009 Plan. The Company may no longer make grants under the 1999 Plan.

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The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2014	2013	2012
Dividend Yield	2.70 %	2.72 %	2.84 %
Expected Life (years)	6.36	6.36	7.00
Expected Volatility	20.76 %	20.58 %	20.19 %
Risk-free Interest Rate	2.11 %	1.16 %	1.28 %
Weighted Average Fair Value	$ 3.64	$ 2.48	$ 1.95

The Company used historical volatility calculated using daily closing prices for its common stock over periods that match the expected term of the option granted to estimate the expected volatility. The risk-free interest rate assumption was based upon U.S. Treasury yields appropriate for the expected term of the Company's stock options based upon the date of grant. The expected dividend yield was based upon the Company's recent history of paying dividends. The expected life was based upon the options' expected vesting schedule and historical exercise patterns.

Stock options activity for 2014 was as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value ($ in thousands)
Balance, December 31, 2013	263,976	$ 15.64		
Granted	31,300	22.93		
Exercised	(42,151)	16.46		
Expired	(3,947)	22.04		
Forfeited	(12,486)	19.06		
Balance, December 31, 2014	236,692	$ 16.17	5.71	$ 2,093
Exercisable, December 31, 2014	161,127	$ 15.12	4.59	$ 1,594

Future compensation cost expected to be expensed over the weighted average remaining contractual term for remaining outstanding options is $235 thousand. The unrecognized compensation cost is scheduled to be recognized as follows:

	(in thousands)
2015	$ 96
2016	78
2017	48
2018	13

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Restricted stock award activity for 2014 was as follows:

	Shares	Weighted Average Grant Date Fair Value
Balance, December 31, 2013	25,524	$ 16.82
Granted	21,383	21.34
Vested	(11,721)	17.00
Forfeited	(6,678)	21.38
Balance, December 31, 2014	28,508	$ 19.07

As of December 31, 2014, there was $391 thousand in unrecognized compensation cost related to restricted share-based compensation arrangements granted under the Equity Plans. The unrecognized compensation cost is scheduled to be recognized as follows:

	(in thousands)
2015	$ 155
2016	130
2017	83
2018	23

During fiscal years 2014, 2013, and 2012, the following activity occurred under the Company’s plans:

	2014	2013	2012
	(in thousands)		
Total intrinsic value of stock options exercised	$ 287	$ 30	$ 23
Total fair value of restricted stock awards vested	$ 273	$ 136	$ 137

Employee Stock Purchase Plan

The Company also maintains the Evans Bancorp, Inc. Employee Stock Purchase Plan (the "Purchase Plan"). As of December 31, 2014, there were 155,129 shares of common stock available to issue to full-time employees of the Company and its subsidiaries, nearly all of whom are eligible to participate. Under the terms of the Purchase Plan, employees can choose each year to have up to 15% of their annual base earnings withheld to purchase the Company's common stock. The Company grants options on January 1 and July 1 of each year during the term of the Purchase Plan. The purchase price of the stock is 85% of the lower of its price on the grant date or the exercise date. During fiscal 2014, approximately 42% of eligible employees participated in the Purchase Plan. Under the Purchase Plan, the Company issued 12,821, 13,455, and 16,831 shares to employees in 2014, 2013, and 2012, respectively. Compensation cost is recognized for the fair value of the employees' purchase rights, which was estimated using the Black-Scholes model with the following assumptions:

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	2014	2013	2012
Dividend Yield	2.95 %	3.00 %	3.20 %
Expected Life (years)	0.50	0.50	0.50
Expected Volatility	22.41 %	14.21 %	21.66 %
Risk-free Interest Rate	0.08 %	0.11 %	0.10 %
Weighted Average Fair Value	$ 6.56	$ 4.80	$ 4.26

The compensation cost that has been charged against income for the Purchase Plan was $89 thousand, $67 thousand, and $71 thousand for 2014, 2013, and 2012, respectively.

13.INCOME TAXES

The components of the provision for income taxes were as follows:

	2014	2013	2012
	(in thousands)		
Current federal tax expense	$ 2,282	$ 2,184	$ 2,667
Current state tax expense (benefit)	(118)	(81)	541
Total current tax expense	2,164	2,103	3,208
Deferred federal tax expense (benefit)	$ (215)	$ 316	$ 487
Deferred state tax expense (benefit)	(1,245)	(688)	52
Total deferred tax expense (benefit)	(1,460)	(372)	539
Total income tax provision (benefit)	$ 704	$ 1,731	$ 3,747

The Company's provision for income taxes differs from the amounts computed by applying the federal income tax statutory rates to income before income taxes. A reconciliation of the differences is as follows:

	2014		2013		2012	
	Amount	Percent	Amount	Percent	Amount	Percent
	($ in thousands)					
Tax provision at statutory rate	$ 3,023	34 %	$ 3,257	34 %	$ 4,039	34 %
Decrease in taxes resulting from:						
Tax-exempt interest income	(558)	(6)	(564)	(6)	(425)	(3)
Historic tax credit	(996)	(11)	(559)	(6)	-	-
State taxes, net of federal benefit	(899)	(10)	(508)	(5)	-	-
Increase in taxes resulting from:						
State taxes, net of federal benefit	-	-	-	-	391	3
Other items, net	134	1	105	1	(258)	(2)
Income tax provision	$ 704	8 %	$ 1,731	18 %	$ 3,747	32 %

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At December 31, 2014 and 2013 the components of the net deferred tax asset were as follows:

	2014	2013
	(in thousands)	
Deferred tax assets:		
Pension premiums	$ 2,213	$ 1,604
Allowance for loan and lease losses	4,690	4,372
Non accrued interest	239	515
Deferred compensation	1,040	1,083
Litigation accrual	374	-
Loss on investment in tax credit	513	-
Stock options granted	129	90
Net operating loss carryforward	88	240
Historic tax credit carryforward	1,196	495
Leases	156	154
Other	-	5
Gross deferred tax assets	$ 10,638	$ 8,558
Deferred tax liabilities:		
Depreciation and amortization	$ 1,398	$ 1,387
Prepaid expenses	438	483
Net unrealized gains on securities	569	121
Acquisition-related adjustments	24	66
Mortgage servicing asset	198	197
Other	29	-
Gross deferred tax liabilities	$ 2,656	$ 2,254
Valuation allowance	(321)	(240)
Net deferred tax asset	$ 7,661	$ 6,064

The net deferred tax asset at December 31, 2014 and 2013 is included in “other assets” in the Company’s consolidated balance sheets.

In assessing the ability of the Company to realize the benefit of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, availability of operating loss carrybacks, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income, the opportunity for net operating loss carrybacks, and projections for future taxable income over the periods which deferred tax assets are deductible,

management believes it is more likely than not the Company will generate sufficient taxable income to realize the benefits of these deductible differences at December 31, 2014, except for a valuation allowance of $321 thousand on the net deferred tax asset for an investment in a historic tax credit of $513 thousand. In assessing the need for a valuation allowance for the deferred tax assets for the investments in the historic tax credit investments, the Bank considered all positive and negative evidence in assessing whether the weight of available evidence supports the recognition of some or all of the deferred tax assets related to these investments.

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Because of the tax nature of the loss to be recognized when the investment is ultimately sold (which for tax purposes will give rise to a capital loss for both historic tax credit investments), the Bank does not have any known capital gains in the future to be able to utilize the capital losses from these investments. Therefore, the Bank's assessment of the deferred tax asset warrants the need for a valuation allowance to be recognized on the deferred tax asset that it determined is more-likely-than-not to not be realized. The amount of remaining capital loss includes the projected capital basis after taking tax credit, expected losses, and cash distributions.

As of December 31, 2014, Evans Bancorp will now be regulated for state tax purposes under Article 9A of the New York State tax law. Therefore, the Company will be able to flow through losses from subsidiaries into a combined return utilizing previous net operating losses ("NOL's"). After applying a NOL conversion pool, the Company will be able to utilize a net deferred asset related to the NOL's generated at its leasing subsidiary. No valuation allowance is needed at December 31, 2014 based on the ample future taxable income on a consolidated basis, as compared to a valuation allowance required at December 31, 2013 based under previous tax law. A net deferred tax benefit of $0.1 million was recognized in 2014, relating to the realization of the NOL.

The state historic tax credit carryforward has an indefinite life with no expiration date in which to utilize the credit.

A reconciliation of the Company's unrecognized tax benefits for the years ended December 31, 2014, 2013, and 2012 is as follows:

	2014	2013	2012
	(in thousands)		
Balance at beginning of year	$ -	$ 21	$ 206
Reclassification from deferred taxes for tax position taken during a period	-	-	-
Increases related to tax positions taken during a prior period	-	-	-
Decrease due to the resolution of a prior year tax matter	-	(21)	(150)
Decreases related to settlements with taxing authorities	-	-	(35)
Balance at end of year	$ -	$ -	$ 21

The entire balance of unrecognized tax benefits was accrued in Other Liabilities on the Company's Consolidated Balance Sheet. There were no accrued penalties and interest at December 31, 2014, 2013 and 2012.

We are subject to routine audits of our tax returns by the Internal Revenue Service ("IRS") and various state taxing authorities. During 2012, ENL concluded a New York State ("NYS") audit covering 2008-2010. During 2010, the Company concluded a NYS audit covering 2005-2007 and an IRS audit covering 2006-2008. There were no material adverse findings in the audits. The tax years 2011-2013 for NYS and 2011-2013 for the IRS remain subject to examination. In addition, ENL is no longer subject to state income tax examinations by the majority of state tax authorities for all years before 2010.

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14. OTHER LIABILITIES

Other liabilities at December 31 were as follows:

	2014	2013
	(in thousands)	
Retirement compensation liabilities	$ 8,258	$ 6,707
Accounts payable	5,009	4,475
Security deposits on direct financing leases	-	31
Interest payable	232	222
Other	1,079	1,058
Total other liabilities	$ 14,578	$ 12,493

Included in Accounts Payable as of December 31, 2014 is a $2.0 million accrual for a historic tax credit investment, and included within Other as of December 31, 2014 is a $1.0 million accrual for litigation, as described Note 16 “Contingent Liabilities and Commitments” to these Consolidated Financial Statements.

15.RELATED PARTY TRANSACTIONS

The Bank has entered into loan transactions with certain directors, significant shareholders and their affiliates (related parties) in the ordinary course of its business. The aggregate outstanding principal balance of loans to such related parties on December 31, 2014 and 2013 was $3.8 million and $2.6 million, respectively. During 2014, there were $5.5 million of advances and new loans to such related parties, and repayments amounted to $4.3 million. Terms of these loans have prevailing market pricing that would be offered to a similar customer base. Deposits from related parties were $1.9 million and $1.7 million as of December 31, 2014 and 2013.

16.CONTINGENT LIABILITIES AND COMMITMENTS

The Company's 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 are commitments to extend credit and standby letters of credit. A summary of the Bank's commitments and contingent liabilities at December 31, 2014 and 2013 is as follows:

	December 31, 2014	December 31, 2013
	(in thousands)	
Commitments to extend credit	$ 212,193	$ 176,964
Standby letters of credit	2,430	2,664
Total	$ 214,623	$ 179,628

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Commitments to extend credit and standby letters of credit all include exposure to some credit loss in the event of non-performance of 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 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 to the Bank. The Bank has not incurred any losses on its commitments during the past three years and has not recorded a reserve for its commitments.

The Company has entered into contracts with third parties, some of which include indemnification clauses. Examples of such contracts include contracts with third party service providers, brokers and dealers, correspondent banks, and purchasers of residential mortgages. Additionally, the Company has bylaws, policies and agreements under which it agrees to indemnify its officers and directors from liability for certain events or occurrences while the directors or officers are, or were, serving at the Company's request in such capacities. The Company indemnifies its officers and directors to the fullest extent allowed by law. The maximum potential amount of future payments that the Company could be required to make under these indemnification provisions is unlimited, but would be affected by all relevant defenses to such claims, as well as directors' and officers' liability insurance maintained by the Company. Due to the nature of these indemnification provisions, it is not possible to quantify the aggregate exposure to the Company resulting from them.

The Company is subject to possible litigation proceedings in the normal course of business. As noted in Item 3 of Part I of the Annual Report on Form 10-K of which these Consolidated Financial Statements form a part, on September 2, 2014 the Office of the Attorney General for the State of New York ("NYAG") filed a formal complaint against the Company and the Bank regarding residential lending practices. The Company accrued an estimated liability relating to the NYAG investigation totaling $1.0 million during 2014. At December 31, 2014, a range of loss could not be determined, and management believes the $1.0 million accrual is the best estimate of probable loss.

The Company leases certain offices, land and equipment under long-term operating leases. The aggregate minimum annual rental commitments under these leases total approximately $519 thousand in 2015; $523 thousand in 2016; $435 thousand in 2017; $453 thousand in 2018; $465 thousand in 2019, and $3.8 million thereafter. The rental expense under operating leases contained in the Company's Consolidated Statements of Income included $644 thousand, $684 thousand, and $632 thousand, in 2014, 2013, and 2012, respectively.

17.CONCENTRATIONS OF CREDIT

All of the Bank's loans (except leases), commitments and standby letters of credit have been granted to customers in the Bank's primary market area, which is Western New York. Investments in state and municipal securities also

involve governmental entities within the Bank's primary market area. The concentrations of credit by type of loan are set forth in Note 3 to these Consolidated Financial Statements, "Loans and Leases, Net." The distribution of commitments to extend credit approximates the distribution of loans outstanding. Standby letters of credit were granted primarily to commercial borrowers. The Bank, as a matter of policy, does not extend credit to any single borrower or group in excess of 15% of capital.

18.SEGMENT INFORMATION

The Company is comprised of two primary business segments: banking activities and insurance agency activities. The operating segments are separately managed and their performance is evaluated based on net income. The banking business segment includes both commercial and consumer banking services, including a wide array of lending and depository services. The banking business segment also includes direct financing leasing of commercial small-ticket general business equipment. Origination of these leases has been discontinued, but the Company will continue to service the portfolio until maturity. The insurance agency segment includes the activities of selling various premium-based insurance policies on a commission basis, including business and personal insurance, surety bonds, risk management, life, disability and long-term care coverage, as well as providing claims adjusting services to various insurance companies and offering non-deposit investment products, such as annuities and mutual funds. All sources of segment specific revenues and expenses attributed to management's definition of net income. Revenues from transactions between the two segments are not significant. The accounting policies of the segments are the same as those described in Note 1 of these "Notes to Consolidated Financial Statements."

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The following tables set forth information regarding these segments for the years ended December 31, 2014, 2013 and 2012.

	2014		
	Banking Activities	Insurance Agency Activities	Total
	(in thousands)		
Net interest income (expense)	$ 31,214	$ (115)	$ 31,099
Provision for loan and lease losses	1,229	-	1,229
Net interest income (expense) after provision for loan and lease losses	29,985	(115)	29,870
Non-interest income	3,142	-	3,142
Insurance service and fees	591	6,540	7,131
Amortization expense	-	108	108
Non-interest expense	26,875	4,269	31,144
Income before income taxes	6,843	2,048	8,891
Income tax provision (benefit)	(85)	789	704
Net income	$ 6,928	$ 1,259	$ 8,187

	2013		
	Banking Activities	Insurance Agency Activities	Total
	(in thousands)		
Net interest income (expense)	$ 28,463	$ (116)	$ 28,347

Provision for loan and lease losses	1,540	-	1,540
Net interest income (expense) after provision for loan and lease losses	26,923	(116)	26,807
Non-interest income	4,950	-	4,950
Insurance service and fees	518	6,693	7,211
Amortization expense	-	221	221
Non-interest expense	24,792	4,367	29,159
Income before income taxes	7,599	1,989	9,588
Income tax provision	1,022	709	1,731
Net income	$ 6,577	$ 1,280	$ 7,857

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	2012 Banking Activities	Insurance Agency Activities	Total
	(in thousands)		
Net interest income (expense)	$ 27,904	$ (124)	$ 27,780
Provision (benefit) for loan and lease losses	(68)	-	(68)
Net interest income (expense) after provision for loan and lease losses	27,972	(124)	27,848
Non-interest income	5,857	-	5,857
Insurance service and fees	-	6,966	6,966
Amortization expense	-	349	349
Non-interest expense	23,861	4,582	28,443
Income before income taxes	9,968	1,911	11,879
Income tax provision	3,007	740	3,747
Net income	$ 6,961	$ 1,171	$ 8,132

	December 31, 2014	December 31, 2013
	(in thousands)	
Identifiable Assets, Net		
Banking activities	$ 837,928	$ 824,028
Insurance agency activities	8,881	9,470

Consolidated Total Assets	$ 846,809	$ 833,498

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19.FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined in ASC Topic 820 “Fair Value Measurements and Disclosures” 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 inputs are quoted prices for identical instruments in active markets;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are 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 December 31, 2014 and 2013:

(in thousands)	Level 1	Level 2	Level 3	Fair Value
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
December 31, 2013				
Securities available-for-sale:				

U.S. government agencies	$ -	$ 31,992	$ -	$ 31,992
States and political subdivisions	-	31,880	-	31,880
Mortgage-backed securities	-	35,793	-	35,793
Mortgage servicing rights	-	-	509	509

Securities available for sale

Fair values for available for sale securities are determined using independent pricing services and market-participating brokers. The Company utilizes a third-party for these pricing services. The third-party 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 third-party service provider's 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, our third-party pricing service provider uses model processes, such as the Option Adjusted Spread model, 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 third party, at times, may 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.

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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, as submitted by our third-party pricing service provider, in the market value of its securities 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 securities portfolio priced by a second pricing service to determine consistency with another market evaluator. If, on the Company's review or in comparing with another servicer, a material difference between pricing evaluations were to exist, the Company may submit an inquiry to our third party pricing 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 our third-party service provider's evaluation it can submit a challenge for a change to that security's valuation. There were no material differences in valuations noted in 2014 or 2013.

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. 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. All assumptions are market driven. 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 items measured at fair value (Level 3) on a recurring basis using significant unobservable inputs during the year ended December 31, 2014:

(in thousands)	2014	2013	2012
Mortgage servicing rights - January 1	$ 509	$ 467	$ 407

Gains (losses) included in earnings	(134)	34	(144)
Additions from loan sales	143	8	204
Mortgage servicing rights -December 31	$ 518	$ 509	$ 467

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

	12/31/2014		12/31/2013	
Servicing fees	0.25	%	0.25	%
Discount rate	9.52	%	10.04	%
Prepayment rate (CPR)	9.28	%	9.31	%

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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 December 31, 2014 and 2013:

(in thousands)	Level 1	Level 2	Level 3	Fair Value
December 31, 2014				
Impaired loans	$ -	-	13,716	$ 13,716
December 31, 2013				
Impaired loans	$ -	-	17,378	$ 17,378

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 value 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%. Fair value is estimated based on the value of the collateral securing these loans. 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.

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, unless the commercial loan is impaired due to a troubled debt restructure and is now performing. For consumer loans, the Company obtains appraisals when a loan becomes 60 days past due or is determined to be impaired, whichever occurs first. Subsequent to the downgrade or reaching 60 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 $15.0 million, with a valuation allowance of $1.3 million, at December 31, 2014, compared to a gross value for impaired loans and leases of $18.9 million, with a valuation allowance of $1.5 million, at December 31, 2013.

At December 31, 2014 and 2013, 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:

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	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)		(in thousands)	
Financial assets:				
Level 1:				
Cash and cash equivalents	$ 10,898	$ 10,898	$ 41,954	$ 41,954
Level 2:				
Available for sale securities	95,533	95,533	99,665	99,665
FHLB and FRB stock	2,925	2,925	2,831	2,831
Level 3:				
Held to maturity securities	1,599	1,574	2,384	2,319
Loans and leases, net	683,131	685,148	635,493	640,770
Mortgage servicing rights	518	518	509	509
Financial liabilities:				
Level 1:				
Demand deposits	$ 158,631	$ 158,631	$ 139,973	$ 139,973
NOW deposits	72,670	72,670	65,927	65,927
Regular savings deposits	363,542	363,542	390,575	390,575
Commitments to extend credit	245	245	401	401
Securities sold under agreement to repurchase	13,778	13,778	13,351	13,351
Level 2:				
Other borrowed funds	13,700	13,700	9,000	9,171
Junior subordinated debentures	11,330	11,330	11,330	11,330
Level 3:				
Time deposits	112,792	113,854	110,137	112,270

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable 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 cash and due from banks and interest-bearing deposits at other banks.

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.

FHLB and FRB stock

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

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Loans Receivable

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 Topic 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.

Borrowed Funds and Securities Sold Under Agreement to Repurchase

The fair value of the short-term portion of other borrowed funds approximates its carrying value. The Company does not currently hold long-term borrowed funds, however, in prior periods, the fair value of the long-term portion of other borrowed funds was estimated using a discounted cash flow analysis based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

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 adjustable-rate debentures approximates their face amount.

Commitments to extend credit and standby letters of credit

As described in Note 16 - "Contingent Liabilities and Commitments" to these Consolidated Financial Statements, the Company was a party to financial instruments with off-balance sheet risk at December 31, 2014 and December 31,

2013. 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.

Pension Plan Assets

Refer to Note 11 to these Consolidated Financial Statements, “Employee Benefits and Deferred Compensation Plans” for the fair value analysis of the Pension Plan assets.

20.REGULATORY MATTERS

The Company is subject to the dividend restrictions imposed by the FRB and the OCC. Under such restrictions, the Company may not, without the prior approval of the FRB and the OCC, declare dividends in excess of the sum of the current year’s earnings (as defined in FRB regulations) plus the retained earnings (as defined in FRB regulations) from the prior two years.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table that follows) of total and Tier I capital (as defined in FRB regulations) to risk-weighted assets (as defined in FRB regulations), and of Tier I capital (as defined in FRB regulations) to average assets (as defined in FRB regulations). Management believes that as of December 31, 2014 and 2013, the Company and the Bank met all capital adequacy requirements to which they are subject.

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The most recent notification from their regulators categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Company's or Bank's category rating.

The Company's and the Bank's actual capital amounts and ratios were as follows:

	December 31, 2014 (dollars in thousands)							
	Company		Bank		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Risk-Based Capital (to Risk Weighted Assets)	$ 98,782	14.9 %	$ 98,317	14.9 %	$ 53,227	8.0 %	$ 66,533	10.0 %
Tier I Capital (to Risk Weighted Assets)	$ 90,473	13.6 %	$ 90,021	13.7 %	$ 26,613	4.0 %	$ 39,920	6.0 %
Tier I Capital (to Average Assets)	$ 90,473	10.8 %	$ 90,021	10.8 %	$ 33,726	4.0 %	$ 42,157	5.0 %

	December 31, 2013 (dollars in thousands)							
	Company		Bank		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Risk-Based Capital								

(to Risk Weighted Assets)	$ 92,879	14.9 %	$ 86,757	13.9 %	$ 49,864	8.0 %	$ 62,330	10.0 %
Tier I Capital (to Risk Weighted Assets)	$ 85,044	13.6 %	$ 78,932	12.7 %	$ 24,932	4.0 %	$ 37,398	6.0 %
Tier I Capital (to Average Assets)	$ 85,044	10.4 %	$ 78,932	9.6 %	$ 32,823	4.0 %	$ 41,029	5.0 %

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Additionally, new minimum capital ratios became effective for us on January 1, 2015 and will be fully phased-in on January 1, 2019. Management believes that, as of December 31, 2014, the Company and the Bank would have met all applicable capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements had been in effect on that date.

Dividends are paid as declared by the Board of Directors. The Company may pay dividends only if it is solvent and would not be rendered insolvent by the dividend payment and only from unrestricted and unreserved earned surplus and under some circumstances capital surplus. The Bank's dividend restrictions apply indirectly to the Company since cash available for dividend distribution will initially come from dividends paid to the Company by the Bank.

Dividends may be paid by the Bank only if it would not impair the Bank's capital structure, if the Bank's surplus is at least equal to its common capital and if the dividends declared in any year do not exceed the total of net profits in that year combined with undivided profits of the preceding two years less any required transfers to surplus, and if no losses have been sustained equal to or exceeding its undivided profits.

In addition, federal regulators have the ability to restrict dividend payments. If the Bank or the Company approaches well-capitalized or minimum capital adequacy levels, regulators could restrict or forbid dividend payments.

21.PARENT COMPANY ONLY FINANCIAL INFORMATION

Parent company (Evans Bancorp, Inc.) only condensed financial information is as follows:

CONDENSED BALANCE SHEETS

	December 31,	
	2014	2013
	(in thousands)	
ASSETS		

Cash	$ 3,258	$ 54
Other assets	1,144	1,054
Investment in subsidiaries	95,689	92,413
Total assets	$ 100,091	$ 93,521
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Junior subordinated debentures	$ 11,330	$ 11,330
Other liabilities	2,973	1,479
Total liabilities	14,303	12,809
STOCKHOLDERS' EQUITY		
Total Stockholders' Equity	$ 85,788	$ 80,712
Total liabilities and stockholders' equity	$ 100,091	$ 93,521

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CONDENSED STATEMENTS OF INCOME

	December 31,		
	2014	2013	2012
	(in thousands)		
Dividends from subsidiaries	$ 7,000	$ 2,614	$ 2,000
Expenses	(1,363)	(1,364)	(1,308)
Income before equity in undistributed earnings of subsidiaries	5,637	1,250	692
Equity in undistributed earnings of subsidiaries	2,550	6,607	7,440
Net income	8,187	7,857	8,132
Other comprehensive income	-	-	-
Comprehensive income	$ 8,187	$ 7,857	$ 8,132

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended		
	2014	2013	2012
	(in thousands)		
Operating Activities:			
Net income	$ 8,187	$ 7,857	$ 8,132
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed earnings of subsidiaries	(2,550)	(6,607)	(7,440)
Changes in assets and liabilities affecting cash flow:			
Other assets	(89)	(187)	(137)
Other liabilities	1,563	(23)	53
Net cash provided by operating activities	7,111	1,040	608

Investing Activities:			
Investment in subsidiaries	-	-	-
Net cash used in investing activities	-	-	-
Financing Activities:			
Proceeds from issuance of common stock	-	-	-
Cash dividends paid	(2,471)	(1,077)	(2,543)
Purchase of Treasury stock	(1,436)	-	-
Net cash used in financing activities	(3,907)	(1,077)	(2,543)
Net increase (decrease) in cash	3,204	(37)	(1,935)
Cash beginning of year	54	91	2,026
Cash ending of year	$ 3,258	$ 54	$ 91

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22.SELECTED QUARTERLY FINANCIAL DATA - UNAUDITED

	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	(in thousands, except for per share data)			
2014				
Interest Income	$ 9,327	$ 8,576	$ 8,592	$ 8,219
Interest Expense	887	899	910	921
Net Interest Income	$ 8,440	$ 7,677	$ 7,682	$ 7,298
Net Income	$ 2,306	$ 2,290	$ 1,579	$ 2,013
Earnings per share basic	0.55	0.55	0.38	0.48
Earnings per share diluted	0.54	0.54	0.37	0.47
2013				
Interest Income	$ 8,305	$ 8,149	$ 7,993	$ 7,956
Interest Expense	961	975	991	1,130
Net Interest Income	$ 7,344	$ 7,174	$ 7,002	$ 6,826
Net Income	$ 1,667	$ 2,451	$ 1,923	$ 1,816
Earnings per share basic	0.40	0.58	0.46	0.44
Earnings per share diluted	0.39	0.57	0.46	0.43

Item 9.CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON

ACCOUNTING AND FINANCIAL DISCLOSURES

Not applicable.

Item 9A.CONTROLS AND PROCEDURES

(a) 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 December 31, 2014 (the end of the period covered by this Annual Report on Form 10-K). Based on that evaluation, the Company’s principal executive and principal financial officers concluded that, as of December 31, 2014, the Company’s disclosure controls and procedures were effective.

(b) Management's Annual Report on Internal Control Over Financial Reporting. Management's Annual Report on Internal Control Over Financial Reporting appears at "Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K, and is incorporated herein by reference in response to this Item 9A.

(c) Attestation Report of the Independent Registered Public Accounting Firm. The effectiveness of the Company's internal control over financial reporting as of December 31, 2014 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which appears in the "Report of Independent Registered Public Accounting Firm" in "Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K, and is incorporated herein by reference in response to this Item 9A.

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(d) Changes in Internal Control Over Financial Reporting. No changes in the Company's internal control over financial reporting were identified in the fiscal quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B.OTHER INFORMATION

NONE

PART III

Item 10.DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information called for by this item is incorporated herein by reference to the material under the captions "Information Regarding Directors, Director Nominees and Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Board of Director Committees" in the Company's definitive proxy statement relating to its 2015 annual meeting of shareholders to be held on April 30, 2015 (the "Proxy Statement").

Item 11.EXECUTIVE COMPENSATION

The information called for by this item is incorporated herein by reference to the material under the captions "Director Compensation," "Executive Compensation," "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report" in the Proxy Statement.

The material incorporated herein by reference to the material under the caption, "Compensation Committee Report" in the Proxy Statement shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that the Company specifically incorporates it by

reference into a document filed under the Securities Act or the Exchange Act.

Item 12.SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

AND RELATED STOCKHOLDER MATTERS

The information called for by this item is incorporated herein by reference to the material under the captions "General Information - Security Ownership of Management and Certain Beneficial Owners" and “General Information – Equity Compensation Plans” in the Proxy Statement.

Item 13.CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR

INDEPENDENCE

The information called for by this item is incorporated herein by reference to the material under the captions "Information Regarding Directors, Director Nominees and Executive Officers" and "Transactions with Related Persons" in the Proxy Statement.

Item 14.PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information called for by this item is incorporated herein by reference to the material under the caption "Independent Registered Public Accounting Firm" in the Proxy Statement.

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PART IV

Item 15.EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as a part of this Report on Form 10-K:

1.Financial statements: The following audited consolidated financial statements and notes thereto and the material under the caption "Report of Independent Registered Public Accounting Firm" on pages 62 and 63 in Part II, Item 8 of this Annual Report on Form 10-K are incorporated herein by reference:

Report of Independent Registered Public Accounting Firm (internal control over financial reporting)

Report of Independent Registered Public Accounting Firm (consolidated financial statements)

Consolidated Balance Sheets - December 31, 2014 and 2013

Consolidated Statements of Income - Years Ended December 31, 2014, 2013 and 2012

Consolidated Statements of Stockholders' Equity - Years Ended December 31, 2014, 2013 and 2012

Consolidated Statements of Cash Flows - Years Ended December 31, 2014, 2013 and 2012

Notes to Consolidated Financial Statements

2.All other financial statement schedules are omitted because they are not applicable or the required information is included in the Company’s Consolidated Financial Statements or Notes thereto included in Part II, Item 8 of this Annual Report on Form 10-K.

3.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 Annual Report on Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized:

EVANS BANCORP, INC.

By: /s/ David J. Nasca
David J. Nasca
President and Chief Executive Officer
Date: March 9, 2015

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POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints, jointly and severally, David J. Nasca and Gary A. Kajtoch and each of them, as his true and lawful attorneys-in-fact and agents, each with full power of substitution, for him, and in his name, place and stead, in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with Exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

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

Signature	Title	Date
/s/ David J. Nasca David J. Nasca	President and Chief Executive Officer/ Director (Principal Executive Officer)	March 9, 2015
/s/ Gary A. Kajtoch Gary A. Kajtoch	Treasurer (Principal Financial Officer)	March 9, 2015
/s/ John Connerton John Connerton	Principal Accounting Officer	March 9, 2015
/s/ John R. O'Brien John R. O'Brien	Chairman of the Board / Director	March 9, 2015
/s/ Lee C. Wortham Lee C. Wortham	Vice Chairman of the Board / Director	March 9, 2015
/s/ James E. Biddle, Jr. James E. Biddle, Jr.	Director	March 9, 2015
/s/ Marsha S. Henderson Marsha S. Henderson	Director	March 9, 2015

/s/ Kenneth C. Kirst Kenneth C. Kirst	Director	March 9, 2015
/s/ Robert G. Miller, Jr. Robert G. Miller, Jr.	Director	March 9, 2015
/s/ David R. Pfalzgraf, Jr. David R. Pfalzgraf, Jr.	Director	March 9, 2015
/s/ Michael J. Rogers Michael J. Rogers	Director	March 9, 2015
/s/ Nora B. Sullivan Nora B. Sullivan	Director	March 9, 2015
/s/ Thomas H. Waring, Jr. Thomas H. Waring, Jr.	Director	March 9, 2015

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EXHIBIT INDEX

ncorporated

Exhibit No.	Exhibit Description
2.1	Purchase and Assumption Agreement dated as of July 24, 2009, by and among Federal Deposit Insurance Corporation, Receiver of Waterford Village Bank, Federal Deposit Insurance Corporation, and Evans Bank, N.A. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on July 30, 2009).
3.1	Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3a to the Company's Registration Statement on Form S-4 (Registration No. 33-25321), as filed on November 7, 1988).
3.1.1	Certificate of Amendment to the Company's Certificate of Incorporation (incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1997, as filed on May 14, 1997).
3.2	Bylaws of the Company as amended through August 18, 2009 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on August 21, 2009).
4.1	Indenture between the Company, as Issuer, and Wilmington Trust Company, as Trustee, dated as of October 1, 2004 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2004, as filed on November 4, 2004).
4.2	Form of Floating Rate Junior Subordinated Debt Security due 2034 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2004, as filed on November 4, 2004).
4.3	Amended and Restated Declaration of Trust of Evans Capital Trust I, dated as of October 1, 2004 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2004, as filed on November 4, 2004).
4.4	Guarantee Agreement of the Company, dated as of October 1, 2004 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2004, as filed on November 4, 2004).
10.1	Evans Bancorp, Inc. Dividend Reinvestment Plan, as amended (incorporated by reference to the Company's Registration Statement on Form S-3 (Registration No. 333-166264), as filed on April 23, 2010).
10.2*	Evans Bancorp, Inc. Employee Stock Purchase Plan (incorporated by reference to Exhibit 4.7 of the Company's Registration Statement on Form S-8 (Registration No. 333-106655), as filed on June 30, 2003).
10.3*	Evans Bancorp, Inc. 2013 Employee Stock Purchase Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A, as filed on March 21, 2013).
10.4*	Evans Bancorp, Inc. 1999 Stock Option and Long-Term Incentive Plan (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, as filed on March 18, 2004).
10.5*	Evans Bancorp, Inc. 2009 Long-Term Equity Incentive Plan (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A, as filed on April 1, 2009).
10.6*	Specimen 1984 Director Deferred Compensation Agreement (incorporated by reference to Exhibit 10.5 to the Company's Form 10 (Registration No. 0-18539), as filed on April 30, 1990).
10.7 *	Specimen 1989 Director Deferred Compensation Agreement (incorporated by reference to Exhibit 10.6 to the Company's Form 10 (Registration No. 0-18539), as filed on April 30, 1990).
10.8*	Summary of Provisions of Director Deferred Compensation Agreements (incorporated by reference to Exhibit 10.7 to the Company's Form 10 (Registration No. 0-18539), as filed on April 30, 1990).
10.9*	

	Evans National Bank Deferred Compensation Plan for Officers and Directors (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, as filed on March 18, 2004).
10.10*	Form of Deferred Compensation Participatory Agreement (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed on March 28, 2005).
10.11*	Evans National Bank Executive Life Insurance Plan (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 as filed on March 18, 2004).
10.12*	Form of Executive Life Insurance Split-Dollar Endorsement Participatory Agreement (incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed on March 28, 2005).

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10.13*	First Amendment to the Evans National Bank Executive Life Insurance Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007, as filed on August 14, 2007).
10.14*	Evans National Bank Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, as filed on March 18, 2004).
10.15*	Form of Supplemental Executive Retirement Participatory Agreement (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed on March 28, 2005).
10.16*	Amendment No. 1 to Evans Bank, N.A. Amended and Restated Supplemental Executive Retirement Plan with respect to William R. Glass, executed by Evans Bank, N.A. on October 16, 2009, and effective January 1, 2009 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed on October 22, 2009).
10.17*	Summary of Evans Excels Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2008, as filed on August 13, 2008).
10.18*	Evans Bank, N.A. Supplemental Executive Retirement Plan for Senior Executives (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, as filed on March 3, 2014).
10.19*	Employment Agreement by and among Evans Bank, N.A., the Company and William R. Glass, executed and delivered by the Company and the Bank on October 1, 2010 and effective as of October 1, 2010 (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as filed on March 4, 2011).
10.20*	Restricted Stock Award Agreement granted by Evans Bancorp, Inc. to Directors under the Evans Bancorp, Inc. 2009 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2010, as filed on August 4, 2010).
10.21*	Employment Agreement by and among Evans Bank, N.A., the Company and Gary A. Kajtoch, executed and delivered by the Company and the Bank on October 6, 2009 and effective as of September 29, 2009 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed on October 13, 2009).
10.22*	Stock Option Agreement granted by Evans Bancorp, Inc. to Directors under the Evans Bancorp, Inc. 2009 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2010, as filed on August 4, 2010).
10.23*	Employment Agreement by and among The Evans Agency, Inc., Evans Bancorp, Inc. and Robert G. Miller, Jr., executed and delivered by the Company and TEA on October 22, 2009, and effective as of October 5, 2009 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed on October 28, 2009).
10.24*	Restricted Stock Award Agreement granted by Evans Bancorp, Inc. to Employees under the Evans Bancorp, Inc. 2009 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2010, as filed on August 4, 2010).
10.25*	Employment Agreement by and among Evans Bank, N.A., the Company and David J. Nasca, executed and delivered by the Company and the Bank on September 14, 2009 and effective as of September 9, 2009 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed on September 17, 2009).
10.26*	Stock Option Agreement granted by Evans Bancorp, Inc. to Employees under the Evans Bancorp, Inc. 2009 Long-Term Equity Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2010, as filed on August 4, 2010).
10.27*	Letter Agreement Regarding Insurance Coverage for James Tilley (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007, as filed on August 14, 2007).

10.28* Employment Agreement by and among Evans Bank, N.A., the Company and Cynthia M. Rich, executed and delivered by the Company and the Bank on September 30, 2009 and effective as of September 30, 2009 (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as filed on March 6, 2012).

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10.29*	Evans Bancorp, Inc. Executive Severance Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed on May 23, 2012).
21.1	Subsidiaries of the Company (filed herewith).
23.1	Independent Registered Public Accounting Firm's Consent from KPMG LLP (filed herewith).
24	Power of Attorney (included on the signature page of this Annual Report on Form 10-K).
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Principal Executive Officer pursuant to 18 USC Section 1350 Chapter 63 of Title18, United States Code, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.2	Certification of Principal Financial Officer pursuant to 18 USC Section 1350 Chapter 63 of Title18, United States Code, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101	The following materials from Evans Bancorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets – December 31, 2014 and 2013; (ii) Consolidated Statements of Income – years ended December 31, 2014, 2013, and 2012; (iii) Consolidated Statements of Stockholder's Equity – years ended December 31, 2014, 2013, and 2012; (iv) Consolidated Statements of Cash Flows – years ended December 31, 2014 and 2013; and (vi) Notes to Consolidated Financial Statements.

* Indicates a management contract or compensatory plan or arrangement.