EVANS BANCORP INC
Form 10-K
March 03, 2016
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, 2015

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

For the transition period from __________ to __________

Commission file number: 001-35021

EVANS BANCORP, INC.

(Exact name of registrant as specified in its charter)

New York	16-1332767
(State or other jurisdiction of 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, 2015, the aggregate market value of the registrant's common stock held by non-affiliates was approximately $67.6 million, based upon the closing sale price of a share of the registrant's common stock on the NYSE MKT LLC.

As of February 26, 2016, 4,261,126 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 2016 Annual Meeting of Shareholders, to be held on April 28, 2016, 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 “will,” “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may “plan,” “seek,” “look to,” “goal,” “target” 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; complications related to the Bank’s core systems conversion; 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, 2015, the Company had consolidated total assets of $939 million, deposits of $803 million and stockholders' equity of $91 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, 2015, the Bank represented 99% and ENFS represented 1% 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, 2015, the Bank had total assets of $930 million, investment securities of $99 million, net loans of $761 million, deposits of $803 million and stockholders' equity of $86 million, compared to total assets of $838 million, investment securities of $97 million, net loans of $683 million, deposits of $708 million and stockholders' equity of $77 million at December 31, 2014. 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, 2015, TEA had total revenue of $7 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.

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 currently has only minimal activity, primarily collecting recoveries of previously charged off leases.

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.

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

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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, 2015 with 2% of the total market's deposits of $37 billion. By comparison, the market leaders, M&T Bank and First Niagara Financial Group, had 78% 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 customers. Additionally, 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.

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.

Subject to various exceptions, the BHCA and the Change in Bank Control Act of 1978, together with related regulations, require FRB approval before any person or company acquires “control” of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Rebuttable control is presumed to exist if a person or company acquires 10% or more, but less than 25%, of any class of the bank holding company’s voting securities.

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.

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.

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. Additionally, Regulation Y requires a bank

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holding company to give the FRB prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases in the preceding year, is equal to 10% or more of the company's consolidated net worth. The FRB may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. There is an exception for bank holding companies that are well-managed, well capitalized, and not subject to any unresolved supervisory issues. To date, the Company has qualified for this exception. As another example, a bank holding company may not impair its subsidiary bank's soundness by causing it to make funds available to non-banking subsidiaries or their customers if the FRB believed it not prudent to do so.

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.

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, 2015, approximately $15.6 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, 2015, the Bank was in compliance with these requirements.

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

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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 Company and its subsidiary bank are required to comply with applicable capital adequacy standards established by the federal banking agencies. The risk-based capital standards that were applicable to the Company and its subsidiary bank through December 31, 2014 were based on the 1988 Capital Accord, known as Basel I, of the Basel Committee on Banking Supervision (the “Basel Committee”). However, in July 2013, the Federal Reserve Board, the OCC, and the FDIC approved final rules (the “New Capital Rules”) establishing a new comprehensive capital framework for U.S. banking organizations. These rules went into effect as to the Company and its subsidiary bank on January 1, 2015, subject to phase-in periods for certain components and other provisions.

Basel III and the New Capital Rules. The New Capital Rules generally implement the Basel Committee’s December 2010 final capital framework referred to as “Basel III” for strengthening international capital standards. The New Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including Evans Bancorp, Inc., and Evans Bank N.A., as compared to the U.S. general risk-based capital rules that were applicable to the Company through December 31, 2014. The New Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions’ regulatory capital ratios. The New Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions’ regulatory capital ratios.

Among other matters, the New Capital Rules: (i) introduce a new capital measure called “Common Equity Tier 1” (“CET1”) and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to the previous regulations.

Pursuant to the New Capital Rules, the minimum capital ratios as of January 1, 2015 were as follows:

4.5% CET1 to risk-weighted assets;

6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;

8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and

4.0% Tier 1 capital to average consolidated assets as reported on the consolidated financial statements (known as the "leverage ratio").

The New Capital Rules also introduce a new "capital conservation buffer," composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity and other capital instrument repurchases and compensation based on the amount of the shortfall. Thus, when fully phased-in on January 1, 2019, the capital standards applicable to the Company will include an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios inclusive of the capital conservation buffer of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%; (iii) Total capital to risk-weighted assets of at least 10.5% and (iv) a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average assets.

The New Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from

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CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1.

In addition, the New Capital Rules include certain exemptions to address concerns about the regulatory burden on community banks. For example, 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). Also, community banks were able to 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 New Capital Rules, the Company made a one-time, permanent election to continue to exclude AOCI from capital.

The Federal Deposit Insurance Act (the “FDIA”) establishes a system of regulatory remedies to resolve the problems of undercapitalized institutions, referred to as the prompt corrective action. The federal banking regulators have established five capital categories (“well-capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized”) and must take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions which are undercapitalized, significantly undercapitalized or critically undercapitalized. The severity of these mandatory and discretionary supervisory actions depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the FDIA requires the banking regulator to appoint a receiver or conservator for an institution that is critically undercapitalized. The FDIC has specified by regulation the relevant capital levels for each category, which are printed below. The Federal Reserve Board and the OCC have specified the same or similar levels for each category.

“Well-Capitalized” CET1 ratio of 6.5% Leverage Ratio of 5%, Tier 1 Capital ratio of 8%, Total Capital ratio of 10%, and Not subject to a written agreement, order, capital directive or regulatory remedy directive requiring a specific capital level.	“Adequately Capitalized” CET1 ratio of 4.5% Leverage Ratio of 4%, Tier 1 Capital ratio of 6%, and Total Capital ratio of 8%.
“Undercapitalized” CET1 Ratio of less than 4.5%	“Significantly Undercapitalized” CET1 Ratio of less than 3%

Leverage Ratio less than 4%, Tier 1 Capital ratio less than 6%, or Total Capital ratio less than 8%.	Leverage Ratio less than 3%, Tier 1 Capital ratio less than 4%, or Total Capital ratio less than 6%.
"Critically undercapitalized" Tangible equity to total assets less than 2%.	

For purposes of these regulations, the term "tangible equity" includes core capital elements counted as Tier 1 Capital for purposes of the risk-based capital standards plus the amount of outstanding cumulative perpetual preferred stock (including related surplus), minus all intangible assets with certain exceptions.

An institution that is classified as well-capitalized based on its capital levels may be classified as adequately capitalized, and an institution that is adequately capitalized or undercapitalized based upon its capital levels may be treated as though it were undercapitalized or significantly undercapitalized, respectively, if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment.

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An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking regulator. Under the FDIA, in order for the capital restoration plan to be accepted by the appropriate federal banking agency, a BHC must guarantee that a subsidiary depository institution will comply with its capital restoration plan, subject to certain limitations. The BHC must also provide appropriate assurances of performance. The obligation of a controlling BHC under the FDIA to fund a capital restoration plan is limited to the lesser of 5.0% of an undercapitalized subsidiary's assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except in accordance with an accepted capital restoration plan or with the approval of the FDIC. Institutions that are significantly undercapitalized or undercapitalized and either fail to submit an acceptable capital restoration plan or fail to implement an approved capital restoration plan may be subject to a number of 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. Critically undercapitalized depository institutions failing to submit or implement an acceptable capital restoration plan are subject to appointment of a receiver or conservator.

The Company's regulatory capital ratios under risk-based capital rules in effect through December 31, 2015 are presented in note 20 of Notes to Financial Statements filed herewith in Part II, Item 8, "Financial Statements and Supplementary Data".

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), enacted in 2010, is widely regarded as the most sweeping change to financial regulation since the Great Depression. The law was intended to 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. 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 at December 31, 2009), 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, 2009. At December 31, 2015, 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 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 benefited 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

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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. The Volcker Rule did not have an impact on the operations of the Company or the Bank, as they generally do not engage in the activities prohibited by the Volcker Rule.

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.

Consumer Laws and Regulations

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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 USA PATRIOT Act of 2001, the Bank Secrecy Act, 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, 2015, the Company had no direct employees. As of December 31, of the years indicated, the following table summarizes the employment rosters of the Company’s subsidiaries using full-time equivalent employees (“FTE”):

	2015	2014	2013	2012	2011
Bank	206	201	196	183	186
ENL	-	-	-	2	2
TEA	48	46	41	49	50
FCS	4	4	4	4	4
	258	251	241	238	242

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 the value of collateral securing those loans, 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 2015, which included national and local unemployment rates dropping from 5.6% and 5.8%, respectively, as of December 31, 2014 to 5.0% and 5.3%, respectively, as of December 31, 2015. Although conditions in Western New York and the United States have improved, 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 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, 2015, the Company's portfolio of commercial real estate loans totaled $461 million, or 60% of total loans outstanding, and the Company's portfolio of commercial and industrial (“C&I”) loans totaled $144 million, or 19% of total loans 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, 2015 were $7.8 million, compared with $3.2 million at December 31, 2014. C&I loans in non-accrual status at December 31, 2015 were $5.3 million, compared with $5.5 million at December 31, 2014. 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 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.

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

The Company maintains an allowance for loan losses in order to capture the probable losses inherent in its loan portfolio. There is a risk that the Company may experience significant loan losses which could exceed the allowance for loan losses. In determining the amount of the Company's recorded allowance, the Company makes various assumptions and judgments about the collectability of its loan 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 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 losses. As the Company continues to increase the amount of these loans in the portfolio, additional or increased provisions for loan losses may be necessary and would adversely affect the results of operations. In addition, bank regulators periodically review the Company's loan portfolio and credit underwriting procedures, as well as its allowance for loan losses, and may require the Company to increase its provision for loan losses or recognize further loan charge-offs. At December 31, 2015, the Company had a gross loan portfolio of approximately $774 million and the allowance for loan losses was approximately $12.9 million, which represented 1.66% of the total amount of gross loans. If the Company's assumptions and judgments prove to be incorrect or bank regulators require the Company to increase its provision for loan losses or recognize further loan charge-offs, the Company may have to increase its allowance for loan losses or loan 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 losses will be adequate to protect the Company against loan 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, 2015, the Company's securities available for sale totaled $96 million. Net unrealized gains on securities available for sale, net of tax, amounted to $0.8 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. The target overnight rate had been between 0.00% and 0.25% since the end of 2008 until the Fed raised its target rate to between 0.25% and 0.50% in December 2015. The impact of this Fed decision to raise its targeted overnight rate late in 2015 had minimal impact on the Company’s 2015 results.

Easy monetary policy by the Fed 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.

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The Fed’s 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. Further margin compression 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, 2015, the Company had a total of $10 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 $1.3 million as of December 31, 2015.

There are 12 branches of the FHLB, including New York. If a member were 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 the Company’s 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.

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 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.

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.

The Bank’s Planned Core Bank Processing System Conversion Exposes the Company to Operating and Financial Risks

The Company expects the Bank to complete a transition to a new core processing system during 2016. If the Bank is not able to complete the transition as planned, or unanticipated events occur during the transition, the Company’s operations, net income, and reputation could be adversely affected. The Bank’s core processing system is used to maintain customer and account records, reflect account transactions and activity, and support the Bank’s customer relationship management systems for substantially all of the Bank’s deposit and loan customers. Core systems conversions involve extensive planning and operational changes that affect bank account records, customer service delivery, internal procedures, technology risk management, and other significant operating activities. The conversion to a new vendor involves conversion costs and creates the risk of contract and performance disputes, the possible disruption of service to customers, and the uncertainty of dealing with new systems and new vendors. The Bank has worked closely with third parties to manage the related operating and financial risks. Potential problems with new systems could involve regulatory compliance risk, potentially resulting in higher operating costs or limitations on operating activities. If the Bank is not able to complete the transition to the new core processing system as expected in accordance with the work plan, or if unanticipated events occur during or following the transition, the Bank may not be able to timely process transactions for its customers, those customers may not be able to complete transactions in or affecting their accounts that are maintained on the core processing system, or the Bank may not be able to perform contractual and other obligations to its customers or other parties, such as payment networks in which the Bank participates. If any of these consequences occur, the Bank may incur additional expense in its financial and regulatory reporting and in processing or re-processing transactions. In addition, the Bank may not be able to meet customer expectations for transaction processing and customer service, customers may lose confidence in the Bank and close their accounts with the Bank, and the Bank may incur liability under contractual or other arrangements with customers or other parties. Complications or difficulties in the conversion of the Bank’s core processing system could have a material adverse impact on the Company's operations, net income, reputation or the trading price of the Company's common stock, and could expose the Company and the Bank to civil liability or regulatory sanctions.

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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, particularly if 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.

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.

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,

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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, 2015, 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.

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.

In the opinion of management, there are no 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 2015 and 2014 as reported on the NYSE MKT.

	2015		2014	
QUARTER	High	Low	High	Low
FIRST	$ 25.50	$ 23.58	$ 24.50	$ 21.00
SECOND	$ 25.00	$ 23.75	$ 23.70	$ 22.50
THIRD	$ 24.85	$ 22.75	$ 23.52	$ 22.92
FOURTH	$ 25.72	$ 24.02	$ 25.01	$ 22.80

Holders. The approximate number of holders of record of the Company's common stock as of February 27, 2016 was 1,253.

Cash Dividends. The Company paid the following cash dividends on shares of the Company's common stock during 2015 and 2014:

- A cash dividend of $0.36 per share on April 7, 2015 to shareholders of record on March 17, 2015.
- A cash dividend of $0.36 per share on October 6, 2015 to shareholders of record on September 15, 2015.
- A cash dividend of $0.31 per share on April 8, 2014 to shareholders of record on March 18, 2014.
- A cash dividend of $0.34 per share on October 7, 2014 to shareholders of record on September 16, 2014.

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, 2010 to December 31, 2015) 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, 2010 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	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
Evans Bancorp, Inc.	100.00	86.18	117.16	161.69	191.54	208.80
NYSE MKT - Composite Index	100.00	106.29	113.32	120.86	125.41	113.68
NASDAQ Bank	100.00	89.50	106.23	150.55	157.95	171.92

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 8,676 shares pursuant to this repurchase program during 2015. During the fourth quarter of 2015, the Company did not purchase any shares of its common stock under this program.

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 2015:				
October 1, 2015 - October 31, 2015	14,019	$ 25.40	-	18,492
November 2015:				
November 1, 2015 - November 30, 2015	-	$ -	-	18,492
December 2015:				
December 1, 2015 - December 31, 2015	-	$ -	-	18,492
Total:	14,019	$ 25.40	-	18,492

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

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Item 6.SELECTED FINANCIAL DATA

	As of and for the year ended December 31,				
	2015	2014	2013	2012	2011
	(in thousands, except for per share data)				
Balance Sheet Data					
Assets	$ 939,107	$ 846,809	$ 833,498	$ 809,676	$ 740,902
Interest-earning assets	873,450	785,302	767,629	750,287	682,140
Investment securities	98,758	97,132	102,049	95,807	103,783
Loans and leases, net	761,101	683,131	635,493	573,163	571,910
Deposits	802,982	707,635	706,612	678,992	616,203
Borrowings	32,151	38,808	33,681	42,441	42,340
Stockholders' equity	91,256	85,788	80,712	74,828	68,988
Income Statement Data					
Net interest income	$ 31,804	$ 31,099	$ 28,347	$ 27,780	$ 25,988
Non-interest income	13,720	10,273	12,161	12,823	12,432
Non-interest expense	32,698	31,252	29,380	28,792	27,241
Net income	7,843	8,187	7,857	8,132	6,112
Per Share Data					
Earnings per share - basic	$ 1.85	$ 1.96	$ 1.88	$ 1.96	$ 1.49
Earnings per share - diluted	1.82	1.92	1.85	1.95	1.49
Cash dividends	0.72	0.65	0.26	0.68	0.40
Book value	21.44	20.41	19.18	17.94	16.72
Performance Ratios					
Return on average assets	0.87 %	0.98 %	0.96 %	1.04 %	0.86 %
Return on average equity	8.82 %	9.84 %	10.06 %	11.20 %	9.17 %
Net interest margin	3.80 %	4.01 %	3.74 %	3.84 %	3.99 %
Efficiency ratio *	71.83 %	70.83 %	71.98 %	70.05 %	69.68 %
Dividend payout ratio	38.92 %	33.16 %	13.83 %	34.69 %	26.85 %
Capital Ratios					
Tier 1 capital to average assets	10.45 %	10.84 %	10.36 %	9.69 %	9.71 %
Equity to assets	9.72 %	10.13 %	9.68 %	9.24 %	9.31 %
Asset Quality Ratios					
Total non-performing assets to total assets	1.71 %	1.25 %	1.65 %	1.02 %	2.05 %
Total non-performing loans and leases to total loans and leases	2.07 %	1.52 %	2.12 %	1.41 %	2.60 %
Net charge-offs (recoveries) to average loans and leases	0.12 %	0.03 %	(0.04) %	0.29 %	0.26 %

Allowance for loan and lease losses to total loans and leases	1.66 %	1.80 %	1.78 %	1.67 %	1.97 %

* 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.

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.

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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, 2015, 2014 and 2013. 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

Net income in 2015 was $7.8 million, a 4% decrease from 2014 net income of $8.2 million, and flat compared to 2013 net income. There were several large items that impacted the 2015, 2014, and 2013 results. As a result of tax credit investments in community-based projects, in 2014 and 2013 the Company realized losses that were more than offset by corresponding tax credit benefits, resulting in a higher income tax provision in 2015. The Company recorded a $1.0 million in litigation expense in 2014 related to the Company's litigation with the New York State Attorney General's office (the "NYAG Litigation"), which was partially reversed in 2015. A gain on insurance proceeds of $0.7 million was recorded in 2015 related to a fire at one of the Bank's branch locations.

In addition, 2015 non-interest expense was impacted by a 9% increase in salaries and benefits expense and a 29% increase in professional services costs over 2014. The increase in salaries and benefits expense reflects merit increases, severance expense related to the departure of the Company's former chief financial officer, higher benefits costs and the addition of new employees as part of the Company's planned growth strategy. The increase in professional services costs reflects higher legal expenses related to the NYAG Litigation and other professional services related to the Bank's project to convert its core banking technology systems.

The increase in non-interest expense was somewhat offset by an increase in net interest income. The Company's net interest income in 2015 was $31.8 million, or 2% higher than 2014, and 12% higher than 2013. The growth in net interest income in 2014 and 2015 reflects solid growth in the Company's commercial loan portfolio and demand deposit balances. In 2015, this growth was somewhat offset by a decline in the net interest margin. Net loan balances averaged $705 million in 2015, 7% higher than 2014 and 18% higher than 2013.

Strategy

The Company's goal is to continue to grow to increase market share and achieve scale while improving profitability and returning value to shareholders. The Company's biggest strength and earnings driver is commercial lending. The Company expects to continue to focus on building on this competitive advantage by adding personnel in this area. Management plans to look to expand other revenue opportunities in non-interest income in areas such as employee benefits and financial services. Management anticipates disruption in the Company's market area in 2016 due to merger activity among the Company's competitors, and expects that this will create opportunities for the Company to increase market share and secure new customer relationships. In addition, management intends to continue to develop strategies to deepen existing customer relationships with product sets that reward the Company's most loyal customers.   From an operational perspective, management intends to focus on converting the Bank's core banking technology system in 2016. Beyond 2016, after completion of the core systems conversion and expansion of the Company's employee base over the past several years, management plans to enhance the Company's operating leverage and drive earnings growth.

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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 70% of total revenue in 2015. 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, 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 groups 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 2015.

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 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 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 Losses

The allowance for loan losses represents management's estimate of probable losses in the Bank's loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment on the part of management and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the Company's consolidated balance sheets.

Management methodology and policy in determining the allowance for loan losses can be found in Note 1 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. The activity in the allowance for loan losses is depicted in supporting tables in 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, 2015, 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 2016, 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 revenue in 2015 was flat when compared with 2014.

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 2015. 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.

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, 2015 AND DECEMBER 31, 2014

Net Income

Net income of $7.8 million in 2015 consisted of $6.7 million related to the Company's banking activities and $1.1 million related to the Company's insurance agency activities. The total net income of $7.8 million was a 4% decrease from $8.2 million in 2014. Earnings per diluted share for 2015 of $1.82 were 5% lower than the earnings per diluted share of $1.92 for 2014.

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 2015, 2014, and 2013. 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. Available-for-sale securities are stated at fair value. Interest and yield are not presented on a tax-equivalent basis.

	2015			2014			2013		
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate
	(in thousands)			(in thousands)			(in thousands)		
ASSETS									
Interest-earning assets:									
Loans, net	$ 705,404	$ 32,638	4.63 %	$ 657,494	$ 31,899	4.85 %	$ 596,783	$ 29,546	4.95 %
Taxable securities	68,156	1,935	2.84 %	71,508	1,816	2.54 %	63,890	1,666	2.61 %
Tax-exempt securities	37,076	991	2.67 %	32,766	967	2.95 %	35,255	1,060	3.01 %
Interest bearing deposits at banks	26,170	64	0.24 %	14,100	33	0.23 %	62,286	132	0.21 %
Total interest-earning assets	836,806	$ 35,628	4.26 %	775,868	$ 34,715	4.47 %	758,214	$ 32,404	4.27 %
Non interest-earning assets:									
Cash and due from banks	12,591			12,365			14,481		
Premises and equipment, net	10,448			10,982			11,250		
Other assets	42,211			39,971			36,702		
Total Assets	$ 902,056			$ 839,186			$ 820,647		
LIABILITIES & STOCKHOLDERS' EQUITY									
Interest-bearing liabilities:									
NOW	$ 78,801	$ 322	0.41 %	$ 72,034	$ 316	0.44 %	$ 67,548	$ 357	0.53 %
Regular savings	418,020	1,591	0.38 %	378,247	1,011	0.27 %	383,150	1,157	0.30 %

Time deposits	102,711	1,426	1.39 %	111,521	1,730	1.55 %	111,165	1,782	1.60 %
Other borrowed funds	9,655	136	1.41 %	8,579	212	2.47 %	11,617	407	3.50 %
Junior subordinated debentures	11,330	327	2.89 %	11,330	322	2.84 %	11,330	325	2.87 %
Securities sold U/A to repurchase	11,495	22	0.19 %	13,956	26	0.19 %	14,767	29	0.20 %
Total interest-bearing liabilities	632,012	$ 3,824	0.61 %	595,667	$ 3,617	0.61 %	599,577	$ 4,057	0.68 %
Noninterest-bearing liabilities:									
Demand deposits	166,611			148,827			131,041		
Other	14,529			11,529			11,955		
Total liabilities	$ 813,152			$ 756,023			$ 742,573		
Stockholders' equity	88,904			83,163			78,074		
Total Liabilities and Equity	$ 902,056			$ 839,186			$ 820,647		
Net interest earnings		$ 31,804			$ 31,098			$ 28,347	
Net interest margin			3.80 %			4.01 %			3.74 %
Interest rate spread			3.65 %			3.86 %			3.59 %

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

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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.

	2015 Compared to 2014 Increase (Decrease) Due to (in thousands)			2014 Compared to 2013 Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest earned on:						
Loans	$ 2,259	$ (1,520)	$ 739	$ 2,955	$ (602)	$ 2,353
Taxable securities	(88)	207	119	194	(44)	150
Tax-exempt securities	120	(96)	24	(74)	(19)	(93)
Federal funds sold	29	2	31	(112)	13	(99)
Total interest-earning assets	$ 2,320	$ (1,407)	$ 913	$ 2,963	$ (652)	$ 2,311
Interest paid on:						
NOW accounts	$ 29	$ (23)	$ 6	$ 14	$ (55)	$ (41)
Savings deposits	115	465	580	(21)	(125)	(146)
Time deposits	(131)	(173)	(304)	6	(58)	(52)
Fed funds purchased & other borrowings	(22)	(53)	(75)	(73)	(129)	(202)
Total interest-bearing liabilities	$ (9)	$ 216	$ 207	$ (74)	$ (367)	$ (441)

Net interest income increased by $0.7 million, or 2%, to $31.8 million in 2015 from $31.1 million in 2014. As indicated in the preceding table, this increase primarily resulted from increased loan volume, partially offset by lower yields earned on loans. Overall, the increased volume of interest-earning assets and interest-bearing liabilities positively impacted net interest income by $2.3 million, while the rates earned and paid on those respective assets and liabilities had a negative impact of $1.6 million.

The FRB executed on a monetary policy designed to keep interest rates at all time lows from the second half of 2008 until the fourth quarter of 2015. The target overnight rate had been between 0.00% and 0.25% since the end of 2008 until the FRB raised its target rate to between 0.25% and 0.50% in December 2015. The impact of this FRB decision to raise its targeted overnight rate late in 2015 had minimal impact to the Company's 2015 results. 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 FRB has stopped its asset purchases, its accommodation policy kept rates historically low during the same period. This interest rate environment resulted in lower interest yields earned on assets as well as lower rates paid on liabilities. Assets have continued to re-price into lower yields as older loans and securities mature, and new loans are originated and securities purchased at 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 increased production. The total commercial loan portfolio balance, including commercial real estate and commercial and industrial loans, increased $47 million, or 9%, from a $509 million average balance in 2014 to a $556 million average balance in 2015. Consumer loans increased 2% from a $159 million average balance in 2014 to a $162 million average balance in 2015.

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 retail savings deposits and commercial and retail demand deposit products, offsetting continued run-off in the Company's time deposit portfolio. This trend is attributable to customer preference for liquid deposits with long-term rates at all-time lows. The Company marketed attractive retail savings products to fund the strong commercial loan growth. Average savings deposits increased $40 million in 2015 when compared with 2014, while average demand deposits increased $18 million and time deposits decreased $9 million.

Net interest spread, or the difference between yield on interest-earning assets and rate on interest-bearing liabilities, decreased from 3.86% in 2014 to 3.65% in 2015. The yield on interest-earning assets decreased 21 basis points from 4.47% in 2014 to 4.26% in 2015, while the cost of interest-bearing liabilities remained flat at 0.61% over the same time periods. Net interest spread decreased as the yield curve narrowed with average long-term market rates declining from 2014 to 2015. Banks traditionally benefit from a steepening yield curve because the duration of interest-earning assets is typically longer than the duration of interest-bearing liabilities. In addition, the majority of the Company's commercial loan growth was in variable rate loans, which tend to be priced off of short-term interest rates and typically earn lower yields than long-term fixed rate loans.

The Company's net interest margin decreased from 4.01% in 2014 to 3.80% in 2015, reflecting the changes to the net interest spread. 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 Losses

The Company's provision for loan losses was $1.2 million in both 2015 and 2014. The provision was flat year over year as the increase in reserves for impaired loans and criticized loans was offset by a decrease in qualitative reserves for performing loans. Impaired loans increased from $15.0 million at the end of 2014 to $19.5 million at December 31, 2015. The growth in this portfolio resulted in additional provision for loan loss. 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 $1.7 million in specific reserves on impaired loans at December 31, 2015, compared with $1.3 million at December 31, 2014. At December 31, 2015, criticized loans (loans risk-rated 5 or higher) were $40.8 million, compared with $29.3 million at December 31, 2014. This increase reflected an increase in criticized commercial real estate loans of $10.5 million in 2015. Additionally, total loans collectively evaluated for impairment increased $74 million to $754 million in 2015, compared with $680 million as of December 31, 2014. Offsetting the increase in the provision for loan losses related to these factors was a reduction in the Company's allowance related to qualitative factors. The increase in net charge-offs in 2015 to levels more in line with historical norms and improvement in qualitative factors such as the general economic and business conditions in the Company's lending area resulted in less of a need to hold qualitative reserves in addition to those reserves calculated based on historical loss experience.

A description of how the allowance for loan 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.

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Non-accrual, Past Due and Restructured Loans

The following table summarizes the Bank's non-accrual and accruing loans 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.

	At December 31, 2015	2014	2013	2012	2011
	(in thousands)				
Non-accruing loans and leases:					
Mortgage loans on real estate:					
Residential mortgages	$ 1,400	$ 1,296	$ 1,376	$ 1,443	$ 1,048
Commercial and multi-family	3,574	3,162	8,873	4,309	6,858
Construction-residential	-	-	-	-	167
Construction-commercial	4,187	-	-	729	1,442
Home equities	1,058	415	447	618	946
Total mortgage loans on real estate	10,219	4,873	10,696	7,099	10,461
Direct financing leases	-	-	47	171	1,160
Commercial and industrial loans	5,312	5,500	2,970	914	2,180
Consumer installment loans	14	17	20	44	76
Other	-	-	-	-	-
Total non-accruing loans and leases	$ 15,545	$ 10,390	$ 13,733	$ 8,228	$ 13,877
Accruing loans 90+ days past due	497	201	-	-	1,299
Total non-performing loans and leases	$ 16,042	$ 10,591	$ 13,733	$ 8,228	$ 15,176
Total non-performing loans and leases to total assets	1.71 %	1.25 %	1.65 %	1.02 %	2.05 %
Total non-performing loans and leases to total loans and leases	2.07 %	1.52 %	2.12 %	1.41 %	2.60 %

Non-performing loans increased $5.4 million from $10.6 million at December 31, 2014 to $16.0 million at December 31, 2015. The increase in 2015 was driven by one large non-performing commercial construction loan relationship moving to nonaccrual status.

Non-accruing loans and leases increased $5.1 million from $10.4 million at December 31, 2014 to $15.5 million at December 31, 2015. Accruing loans categorized as 90 days past due increased from $0.2 million to $0.5 million from December 31, 2014 to December 31, 2015. The increase in non-accruing loans was across several loan types within the mortgage loans on real estate portfolio including commercial construction, commercial and multi-family, and home equities. The increase in commercial construction and commercial and multi-family non-accruing loans stems from a single redevelopment project that defaulted in 2015. As is the case for all impaired loans, management performed an impairment analysis on this relationship to measure the impairment, if any. Based on the analysis, management applied a specific reserve to the relationship that was included in the Company's allowance for loan losses as of December 31, 2015. The increase in non-accruing home equity loans also resulted from a single loan. In accordance with policy, management obtained an updated appraisal on the underlying property. Based on the appraisal, management determined that the loan was well-collateralized and did not require a specific reserve.

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The Company had $5.8 million in loans that were restructured and deemed to be a troubled debt restructuring ("TDR") at December 31, 2015 with $1.8 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 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, 2015 and 2014. The reserve for a TDR is based upon the present value of the future expected cash flows discounted at the loan's original effective rate or upon the fair value of the collateral less costs to sell, if the loan is deemed collateral dependent. This reserve methodology is used because all TDR loans are considered impaired.

The following table presents the Company's TDR loans as of December 31, 2015:

	December 31, 2015 (in thousands)			
	Total	Nonaccruing	Accruing	Related Allowance
Commercial and industrial	$ 517	$ 508	$ 9	$ 165
Residential real estate:				
Residential	1,789	689	1,100	-
Construction	-	-	-	-
Commercial real estate:				
Commercial and multi family	1,732	334	1,398	-
Construction	834	-	834	-
Home equities	867	281	586	-
Consumer loans	28	-	28	28
Other	-	-	-	-
Total troubled restructured loans	$ 5,767	$ 1,812	$ 3,955	$ 193

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Allowance for Loan Losses

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

	ANALYSIS OF THE ALLOWANCE FOR LOAN AND LEASE LOSSES				
	2015	2014	2013	2012	2011
	(in thousands)				
BALANCE AT THE BEGINNING OF THE YEAR	$ 12,533	$ 11,503	$ 9,732	$ 11,495	$ 10,424
CHARGE-OFFS:					
Residential mortgages	(66)	-	(39)	(12)	-
Commercial and multi-family	(139)	(57)	(460)	(900)	(189)
Construction-residential	-	-	-	-	-
Construction-commercial	-	-	-	-	-
Home equities	-	(2)	(128)	(114)	-
Direct financing leases	-	-	-	-	-
Commercial and industrial loans	(799)	(957)	(20)	(862)	(1,305)
Consumer installment loans	(43)	(46)	(64)	(32)	(2)
Other	-	-	-	-	(26)
TOTAL CHARGE-OFFS	(1,047)	(1,062)	(711)	(1,920)	(1,522)
RECOVERIES:					
Residential mortgages	2	18	2	1	-
Commercial and multi-family	44	58	444	15	57
Construction-residential	-	-	-	-	-
Construction-commercial	-	-	-	-	-
Home equities	-	-	1	6	2
Direct financing leases	-	173	242	-	-
Commercial and industrial loans	126	574	240	184	39
Consumer installment loans	9	40	13	19	1
Other	-	-	-	-	10
TOTAL RECOVERIES	181	863	942	225	109
NET (CHARGE-OFFS) RECOVERIES	(866)	(199)	231	(1,695)	(1,413)
PROVISION FOR LOAN AND LEASE	1,216	1,229	1,540	(68)	2,484
BALANCE AT THE END OF YEAR	$ 12,883	$ 12,533	$ 11,503	$ 9,732	$ 11,495

RATIO OF NET CHARGE-OFFS (RECOVERIES) TO AVERAGE NET LOANS AND LEASES OUTSTANDING	0.12	%	0.03	%	(0.04)	%	0.29	%	0.26	%
RATIO OF ALLOWANCE FOR LOAN AND LEASE LOSSES TO TOTAL LOANS AND LEASES	1.66	%	1.80	%	1.78	%	1.67	%	1.97	%

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Net charge-offs increased from $0.2 million in 2014 to $0.9 million in 2015. The ratio of net charge-offs to average net loans outstanding correspondingly increased from 0.03% in 2014 to 0.12% in 2015. The largest net charge-offs occurred in the commercial and industrial loan portfolio due to one commercial loan relationship that charged off for $0.7 million in the fourth quarter of 2015.

An allocation of the allowance for loan losses by portfolio type over the past five years follows:

	Balance at 12/31/2015 Attributable to: (in thousands)	Percent of loans in each category to total loans:	Balance at 12/31/2014 Attributable to:	Percent of loans in each category to total loans:	Balance at 12/31/2013 Attributable to:	Percent of loans in each category to total loans:	Balance at 12/31/2012 Attributable to:	Percent of loans in each category to total loans:	Balance at 12/31/2011 Attributable to:	Percent of loans in each category to total loans:
Residential mortgages *	$ 909	14 %	$ 941	14 %	$ 1,038	15 %	$ 662	12 %	$ 793	13 %
Commercial mortgages *	7,135	59 %	5,650	58 %	4,912	59 %	4,493	61 %	4,670	57 %
Home equities	371	8 %	819	9 %	878	9 %	746	10 %	768	9 %
Commercial loans	4,383	19 %	4,896	19 %	4,489	17 %	3,617	17 %	4,085	19 %
Consumer loans **	85	- %	78	- %	37	- %	18	- %	36	1 %
Direct financing leases	-	- %	-	- %	-	- %	47	- %	994	1 %
Unallocated	-	- %	149	- %	149	- %	149	- %	149	- %
	$ 12,883	100 %	$ 12,533	100 %	$ 11,503	100 %	$ 9,732	100 %	$ 11,495	100 %

* includes construction loans

** includes other loans

The proportion of the allowance allocated to commercial mortgages comprises 55% of the allowance for loan losses, and correspondingly, the commercial mortgage portfolio made up the largest proportion, or 59%, of the total loan portfolio as of December 31, 2015, as compared with 45% of the allowance and 58% of the total loan portfolio at December 31, 2014. The increase in the percentage of the allowance attributed to commercial mortgages reflected the movement of a commercial construction loan relationship to impaired status that required $1.1 million in specific reserves.

C&I loans comprise 34% of the allowance for loan losses despite being only 19% of the loan portfolio. C&I loans have the highest historical loss experience compared to the other portfolio segments and this is reflected in the allowance allocated to the different portfolio segments. The allowance allocated to C&I loans decreased in 2015 due to the charge-off of an impaired loan.

Home equity loans allowance allocation declined from $0.8 million at the end of 2014 to $0.4 million at the recent year-end, reflecting a decrease in the qualitative factors used in determining the appropriate allowance for loan losses. Historical losses in the Company’s home equity portfolio are near zero.

Overall, the ratio of the allowance for loan losses to total loans decreased from 1.80% at December 31, 2014 to 1.66% on December 31, 2015. The decrease is a reflection of increased charge-offs reducing the allowance and lower qualitative reserves.

The Company maintains a robust loan review process to ensure that specific credits are appropriately graded and reserved. Management believes that the allowance for loan losses is reflective of a fair assessment of the current environment and credit quality trends.

Non-Interest Income

Total non-interest income increased by $3.4 million, or 34%, from 2014 to 2015. The primary factors driving the increase were the $2.6 million loss related to a tax credit investment in 2014 and a $0.7 million gain on insurance proceeds recorded in 2015 related to a fire sustained at a branch location. 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.

Insurance service and fee revenue increased $0.1 million, or 1%, from 2014 to $7.2 million in 2015. TEA's revenue remains the largest component of non-interest income at 52% 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 environment. Other non-interest income increased $0.4 million, or 22%, in 2015 when compared with 2014, reflecting higher loan fees due to the strong loan growth during the year. These increases were somewhat offset by decreases in data center revenue and bank service charges on deposits. Data center revenue decreased $0.2 million as the Company's data center business continued to wind down in line with projections made when the Company acquired SDS at the end of 2008. Bank charges on deposits decreased $0.1 million, or 6%, from $1.8 million in 2014 to $1.7 million in 2015. This is attributable to a decrease in customer overdraft activity in deposits.

Non-Interest Expense

Total non-interest expense increased $1.4 million, or 5%, from $31.3 million in 2014 to $32.7 million in 2015. The largest increases in non-interest expense in 2015 when compared with 2014 were salaries and employee benefits, which increased $1.6 million, or 9%, professional services expenses, which increased $0.5 million, or 29%, and other expenses, which increased $0.5 million, or 14%. These increases were somewhat offset by a decrease in litigation expenses of $1.2 million.

The increase in salaries and employee benefits stems from merit increases, the addition of new employees as a part of the Company's planned growth strategy, a severance payment to the Company's former chief financial officer, and fringe benefits costs including retirement funding expenses. Professional services expenses were higher as a result of increased legal expenses related to the NYAG Litigation as well as costs associated with the Company's project to convert to a new core banking system. The increase in other expenses was driven by loan expenses related to the Company's strong commercial loan growth in 2015. The decrease in litigation expense of $1.2 million related to an initial accrual of $1.0 million in 2014 related to the NYAG Litigation and a partial reversal in that accrual of $0.2 million in 2015. As reported in the Company's Quarterly Report on Form 10-Q filed on November 5, 2015, the NYAG Litigation was settled on September 10, 2015, without any admission of liability or responsibility by the Company or the Bank.

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 intangible amortization) divided by the sum of net interest income and non-interest income (exclusive of gains and losses from investment securities), was 71.8% in 2015 and 70.8% in 2014. The increase occurred as non-interest expense growth resulting from the Company's growth strategy outpaced revenue growth, which was negatively impacted by net interest margin compression and the decreases in bank service charge income and data center income.

Taxes

The provision for income taxes in 2015 was $3.8 million on pre-tax income of $11.6 million for an effective tax rate of 32.5%, compared with an effective tax rate of 7.9% and 18.1% in 2014 and 2013, respectively. Both 2014 and 2013 benefited from a tax credit from 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 the 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 for the periods ended December 31, 2014 and 2013, the provision for income taxes in those years 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, 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% increase from $7.9 million in 2013. Earnings per diluted share for 2014 of $1.92 reflected an increase of 3.8% from $1.85 per diluted share for 2013.

Net Interest Income

Net interest income increased by $2.8 million, or 10%, to $31.1 million in 2014 from $28.3 million in 2013. Growth in interest-earning assets positively impacted net interest income by $2.9 million. This was somewhat offset by the rates earned and paid on those interest-earning assets and interest-bearing liabilities, which negatively impacted net interest income by $0.3 million.

The Company made significant investments in its commercial loan portfolio by adding several commercial loan officers while existing loan officers successfully increased production. The total commercial loan portfolio balance, including commercial real estate and commercial and industrial loans, increased $44 million, or 9%, from a $465 million average balance in 2013 to a $509 million average balance in 2014. Consumer loans, including residential real estate and home equities, increased 14% from a $140 million average balance in 2013 to $159 million in 2014.

On the funding side, the Company 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. The Company's average demand deposit balances increased $17.8 million during 2014 when 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 and tightened pricing on the liability side contributed to the widened net interest rate spread. 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.

Provision for Loan Losses

The Company's provision for loan 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 in 2014, 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 reserves 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 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 that 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 $53 million to $680 million in 2014, compared with $627 million as of December 31, 2013.

The ratio of non-performing loans to total loans 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.

Non-Interest Income

Total non-interest income decreased by $1.9 million, or 16%, 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.

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%, to $0.6 million during 2014 due to additional purchases made in 2013, and interchange fee income increased $0.1 million, or 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 10%, from $2.0 million in 2013 to $1.8 million during 2014. This is attributable to a decrease in customer overdraft activity in deposits. Insurance service and fee revenue decreased $0.1 million, or 1%, from 2013 to $7.1 million in 2014.

Non-Interest Expense

Total non-interest expense increased $1.9 million, or 6%, 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%, 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 the NYAG Litigation.

Advertising and public relations expenses increased $0.1 million, or 10%, from prior year due to an increase in advertising campaigns and community involvement. A $0.2 million, or 6%, 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 12%, 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 70.8% in 2014 compared with 72.0% in 2013. The improvement in 2014 from 2013 is a result of the increase in the Company’s net interest margin in 2014.

FINANCIAL CONDITION

The Company had total assets of $939 million at December 31, 2015, an increase of $92 million, or 11%, from $847 million at December 31, 2014. Net loans of $761 million at the recent year end were $78 million, or 11%, higher than $683 million at December 31, 2014. Securities increased $2 million, or 2%, from $97 million at December 31, 2014 to $99 million at

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December 31, 2015, and deposits increased by $95 million, or 13%, to $803 million as of the end of 2015. Stockholders' equity was $91 million at the conclusion of 2015, a $5 million, or 6% increase from $86 million at the previous year end.

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.

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, 2015 or December 31, 2014. 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 on a NY G.O. bond 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.

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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 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 2015 or 2014.

Securities and interest-bearing deposits at banks made up 16% of the Company's total average interest-earning assets in 2015 compared with 15% in 2014. 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 increased 2% from $97 million at December 31, 2014 to $99 million at December 31, 2015, and the Company's interest-bearing deposits at banks also increased from $2 million to $11 million over the same time period. The interest-bearing deposits are liquid interest-bearing cash accounts at correspondent banks. The $9 million increase in the Company's cash position was a result of the strong growth in total deposits of $95 million outstripping loan growth of $78 million. 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 addition, the Company expects to utilize the current liquidity in future loan growth. At December 31, 2015, the Company's concentration in U.S. government-sponsored agency bonds was 22% of the total securities balance versus 28% at December 31, 2014. Government-sponsored mortgage-backed securities comprised 38% of the portfolio at December 31, 2015, compared with 39% of the portfolio at December 31, 2014, and tax-advantaged municipal bonds made up 40% of the portfolio at December 31, 2015 versus 33% of the portfolio at December 31, 2014.

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 $1.3 million and $1.4 million in FHLB stock as of December 31, 2015 and 2014, respectively, and $1.5 million in FRB stock at December 31, 2015 and 2014.

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, 2015, $1.6 million in securities were designated as held to maturity. These bonds are municipal investments that the Bank has made in its local market area.

The available for sale portfolio totaled $97 million or approximately 98% of the Company's securities portfolio at December 31, 2015. Net unrealized gains and losses on available for sale securities resulted in a net unrealized gain of $0.8 million at December 31, 2015, as compared with a net unrealized gain of $1.5 million at December 31, 2014. 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, 2015, the impact on stockholders' equity was a net unrealized gain, net of taxes, of approximately $0.5 million.

Certain securities available for sale were in an unrealized loss position at December 31, 2015. Management assessed those securities available for sale in an unrealized loss position at December 31, 2015 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.

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Income from securities held in the Bank’s investment portfolio represented 8% of total interest income of the Company in 2015 and 2014 as compared with 9% in 2013. At December 31, 2015, the Bank’s securities portfolio of $99 million consisted primarily of municipal securities, mortgage-backed securities issued by the Federal National Mortgage Association (“FNMA”) and Federal Home Loan Mortgage Corp ("FHLMC"), and U.S. federal agency obligations. The increase in investment securities interest income in 2015 reflected the early payoff of a single mortgage-backed security in 2015 which resulted in the accelerated recognition of income related to that particular security. The $0.1 million increase in investment securities income in 2014 was a result of the increase in average balances of investment securities. Taxable investment yields dropped from 2.61% in 2013 to 2.54% in 2014, but increased in 2015 to 2.84% due to the impact of the early payoff of the aforementioned mortgage-backed security. With the interest rate environment remaining persistently low from 2008 to 2015, tax-exempt security yields continue to fall, from 3.01% in 2013 to 2.95% in 2014 and 2.67% in 2015, as assets re-price into lower yields.

Available for sale securities with a total fair value of $86 million at December 31, 2015 were pledged as collateral to secure public deposits and for other purposes required or permitted by law.

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, 2015, 2014, and 2013:

	At December 31,		
	2015	2014	2013
	(in thousands)		
Available for Sale:			
Debt securities			
U.S. government agencies	$ 21,846	$ 26,717	$ 31,992
States and local subdivisions	37,683	31,060	31,880
Total debt securities	$ 59,529	$ 57,777	$ 63,872
Mortgage-backed securities			
FNMA	$ 12,455	$ 15,154	$ 13,501
FHLMC	4,634	5,958	7,118
GNMA	7,068	6,130	7,573
CMO's	13,455	10,514	7,601
Total mortgage-backed securities	$ 37,612	$ 37,756	$ 35,793
Total available for sale securities	$ 97,141	$ 95,533	$ 99,665
Held to Maturity:			
Debt securities			
States and local subdivisions	$ 1,617	$ 1,599	$ 2,384

Total held to maturity securities	$ 1,617	$ 1,599	$ 2,384

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, 2015. 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
	(in thousands)							
Available for Sale:								
Debt Securities								
U.S. Government agencies	$ 2,071	3.00 %	$ 9,024	1.82 %	$ 8,161	2.61 %	$ 2,590	2.58 %
States and political subdivisions	2,071	2.59 %	20,424	2.29 %	11,454	2.48 %	3,734	3.74 %
Total debt securities	$ 4,142	2.80 %	$ 29,448	2.14 %	$ 19,615	2.54 %	$ 6,324	3.26 %
Mortgage-backed securities								
FNMA	$ -	- %	$ 259	4.09 %	$ 5,007	2.76 %	$ 7,189	3.09 %
FHLMC	-	- %	127	4.90 %	1,069	3.80 %	3,438	2.28 %
GNMA	-	- %	-	- %	1,206	3.74 %	5,862	2.75 %
CMO's	-	- %	6	4.57 %	-	- %	13,449	1.95 %
Total mortgage-backed securities	$ -	- %	$ 392	4.36 %	$ 7,282	3.08 %	$ 29,938	2.42 %
Total available for sale	$ 4,142	2.80 %	$ 29,840	2.17 %	$ 26,897	2.68 %	$ 36,262	2.57 %
Held to Maturity:								
Debt Securities								
U.S. Government agencies	$ -	- %	$ -	- %	$ -	- %	$ -	- %
States and political subdivisions	309	1.83 %	374	2.13 %	828	2.92 %	106	2.80 %
Total held to maturity	$ 309	1.83 %	$ 374	2.13 %	$ 828	2.92 %	$ 106	2.80 %
Total securities	$ 4,451	2.73 %	$ 30,214	2.17 %	$ 27,725	2.69 %	$ 36,368	2.57 %

LENDING AND LEASING ACTIVITIES

The Bank has a loan policy which is approved by its Board of Directors on an annual basis. The loan policy governs the conditions under which loans 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 represented approximately 92% of the total interest income of the Company in 2015 and 2014, and approximately 91% of total interest income in 2013. The Bank's loan portfolio, net of the allowances for loan losses, totaled $761 million and $683 million at December 31, 2015 and December 31, 2014, respectively. The net loan portfolio represented 81% of the Company's total assets at December 31, 2015 and December 31, 2014.

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The following table summarizes the major classifications of the Bank’s loans as of the dates indicated:

	December 31, 2015 (in thousands)	2014	2013	2012	2011
Mortgage loans on real estate:					
Residential Mortgages	$ 103,941	$ 98,374	$ 94,027	$ 68,135	$ 73,579
Commercial and multi-family	399,819	363,252	361,247	323,777	306,683
Construction-Residential	1,546	721	1,509	811	2,392
Construction-Commercial	60,892	40,986	23,902	28,941	27,887
Home equities	61,042	59,948	57,228	56,366	54,673
Total real estate loans	627,240	563,281	537,913	478,030	465,214
Direct financing leases	-	-	-	1,612	6,021
Commercial and industrial loans	144,330	129,456	106,952	99,951	109,513
Consumer loans	1,596	1,764	938	1,294	1,677
Other	139	404	323	1,342	586
Net deferred loan origination costs	679	759	870	666	394
Total gross loans and leases	773,984	695,664	646,996	582,895	583,405
Allowance for loan and lease losses	(12,883)	(12,533)	(11,503)	(9,732)	(11,495)
Loans and leases, net	$ 761,101	$ 683,131	$ 635,493	$ 573,163	$ 571,910

Real Estate Loans

Approximately 81% of the Bank’s total loan portfolio at December 31, 2015 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 $627 million at December 31, 2015, compared with $563 million at December 31, 2014. The real estate loan portfolio increased by 11% in 2015 over 2014 compared with an increase of 5% in 2014 over 2013.

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 $99 million at December 31, 2015, which was 13% of total loans outstanding, compared with $91 million and 13%, respectively, at December 31, 2014. This balance did not include any construction residential mortgage loans, which are discussed below. The increase in residential mortgages occurred due to an increase in loan originations from $31 million in 2014 to $36 million in 2015 as persistent low rates resulted in strong demand for fixed rate residential mortgages.

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 2015, the Bank sold $14 million in mortgages to FNMA under this arrangement, compared with $15 million in mortgages sold in 2014.

At December 31, 2015, the Bank had retained the servicing rights on $77 million in mortgages sold to FNMA, compared with $72 million in mortgages sold to FNMA at December 31, 2014. The Company has recorded a net servicing asset for such loans of $0.6 million and $0.5 million at December 31, 2015 and 2014, respectively. The value of the mortgage servicing rights increased due to the increase in the size of the servicing portfolio.

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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 $5 million or 1% of total loans outstanding at December 31, 2015 as compared with $7 million or 1% at December 31, 2014. 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 $6 million, or 6%, from $98 million at December 31, 2014 to $104 million at December 31, 2015.

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 $400 million at December 31, 2015, which was 52% of total loans outstanding, compared with $363 million and 52% at December 31, 2014. The Company believes that the strong relationships that its loan officers have fostered with customers in the local community over the years resulted in sustained loan production in 2015. The balance at December 31, 2015 included $131 million in fixed rate and $269 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, 2015, the real estate loan portfolio included $61 million of home equity loans, which represented 8% of total loans outstanding, compared with $60 million and 9% at December 31, 2014, respectively. The total home equity portfolio included $56 million in variable rate loans and $5 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, 2015, fixed rate real estate construction loans outstanding totaled $2 million, or less than 1% of total loans outstanding, and adjustable rate construction loans outstanding totaled $61 million, or 8% of total loans outstanding. At December 31, 2014, fixed rate real estate construction loans outstanding totaled $3 million, or 1% of total loans outstanding, and adjustable rate construction loans outstanding totaled $39 million, or 6% of total loans 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 $144 million at December 31, 2015, compared with $129 million at December 31, 2014, a 12% 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 19% of the Bank's total loans at the end of both 2015 and 2014.

Collateral for C&I loans, where applicable, may consist of inventory, receivables, equipment and other business assets. At December 31, 2015, 49% 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 $2 million at both December 31, 2015 and 2014, representing less than 1% of the Bank's total loans outstanding at those same respective dates. 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 less than $1 million at each December 31, 2015 and December 31, 2014. 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, 2015 and the classification of those 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	$ 17,914	$ 44,672	$ 81,744	$ 144,330
Real estate construction	39,359	21,533	-	60,892
	$ 57,273	$ 66,205	$ 81,744	$ 205,222
Loans maturing after one year with:				
Fixed Rates		$ 31,785	$ 38,943	
Variable Rates		34,420	42,801	
		$ 66,205	$ 81,744	

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 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,		
	2015	2014	2013
	(in thousands)		
Demand deposits	$ 183,098	$ 158,631	$ 139,973
NOW accounts	83,674	72,670	65,927
Regular savings	439,993	363,542	390,575
Time deposits, $100,000 and over	40,066	47,748	45,201
Other time deposits	56,151	65,044	64,936
Total	$ 802,982	$ 707,635	$ 706,612

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The following schedule sets forth the maturities of the Bank's time deposits as of December 31, 2015:

	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	$ 4,580	$ 4,632	$ 5,539	$ 25,315	$ 40,066
Other time deposits	6,575	6,905	9,157	33,514	56,151
Total time deposits	$ 11,155	$ 11,537	$ 14,696	$ 58,829	$ 96,217

Total deposits increased $95 million or 13% in 2015 from the end of 2014. The Company grew core transactional checking accounts, including non-interest bearing demand deposits and NOW accounts, by 15% to $267 million at December 31, 2015. The growth in non-interest bearing demand deposits was primarily due to growth in commercial demand deposits as the Company was able to attract new core customers and some current commercial customers maintained higher cash balances. The growth in NOW accounts was attributable to an increase in consumer NOW accounts that reward customers with higher interest payments based on behavior that further engages the customer with the Bank, such as debit card activity and direct deposit, as well as customers with multiple accounts with the Bank.

As of December 31, 2015, regular savings increased $76 million, or 21%, over the previous year end. The growth in savings deposits was primarily due to growth in a consumer savings product with a competitive interest rate introduced in 2015. These deposits funded the Company's strong commercial loan growth in 2015.

Time deposits decreased $17 million, or 15%, from $113 million at December 31, 2014 to $96 million as of December 31, 2015. This decline continued an industry-wide trend over the past several years. Given the historic low rate environment, there is little incentive for customers to lock in time deposit rates. Customers have demonstrated a preference for more liquid deposits, such as demand, NOW, and savings deposits.

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

2015		2014		2013	
Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate

	(in thousands)								
Demand deposits	$ 166,611	-	%	$ 148,827	-	%	$ 131,041	-	%
NOW accounts	78,801	0.41	%	72,034	0.44	%	67,548	0.53	%
Regular savings	418,020	0.38	%	378,247	0.27	%	383,150	0.30	%
Time deposits	102,711	1.39	%	111,521	1.55	%	111,165	1.60	%
Total	$ 766,143	0.44	%	$ 710,629	0.43	%	$ 692,904	0.48	%

Federal Funds Purchased and Other Borrowed Funds. Another source of the Bank's funds for lending and investing activities is borrowings from the Federal Home Loan Bank. The Bank had an FHLB advance of $10 million outstanding as of December 31, 2015 with a rate of 1.73% maturing in 2020.

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

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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 $11 million at December 31, 2015 compared to $14 million at December 31, 2014. 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 Bank 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”). Information about the Company’s Pension Plan and SERP plans, including contributions, pension expense and actuarial assumptions, including return on plan assets and the discount rate utilized to determine future pension obligations, can be found in Note 11 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K

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 31.86% or $10 thousand. A 0.25% decrease in the discount rate would have resulted in a decrease in pension expense of 8.92% 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 1.24% or $6 thousand. A 0.25% increase in the discount rate would have resulted in a 9.23%, or $3 thousand, increase in pension expense, and a 1.22%, 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.

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 $200 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 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, 2015, approximately 5% of the Company’s debt securities had maturity dates of one year or less, and approximately 35% 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, 2015, in the stress test, the Bank had net short-term liquidity available of $282 million as compared with $215 million at December 31, 2014. Available assets of $114 million divided by public and purchased funds of $112 million, resulted in a long-term liquidity ratio of 102% at December 31, 2015, compared with 88% at December 31, 2014.

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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. In past economic recessions, some FHLB branches have suspended dividends, cut dividend payments, and not bought back excess FHLB stock that members hold in an effort to conserve capital. 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. Historically, 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.

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, 2015 (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	$ 10,821	$ 10,821	$ -	$ -	$ -
Operating lease obligations	6,768	632	1,297	1,235	3,604
Other borrowed funds	10,000	-	-	10,000	-
Junior subordinated debentures	11,330	-	-	-	11,330
Total	$ 38,919	$ 11,453	$ 1,297	$ 11,235	$ 14,934
Interest expense on fixed rate debt	$ 742	$ 173	$ 346	$ 223	$ -

At times during 2015, the Company held variable rate debt included in other borrowed funds that related to short-term funding used to cover seasonal funding needs. These balances are subject to fluctuation. There was no variable rate debt in other borrowed funds at December 31, 2015.

At December 31, 2015, the Company had commitments to extend credit of $206 million compared with $212 million at December 31, 2014. 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.

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Overall, during 2015, the business environment improved for many households and businesses in Western New York and in the United States. There can be no assurance that these conditions will continue in the near term. Such conditions could materially adversely affect the credit quality of the Company's loans, 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.

Total Company stockholders' equity was $91.3 million at December 31, 2015, an increase from $85.8 million at December 31, 2014. Equity as a percentage of assets was 9.7% at December 31, 2015, compared with 10.1% at December 31, 2014. Book value per share of common stock increased to $21.44 at December 31, 2015 from $20.41 at December 31, 2014. The reason for the increase in stockholders' equity and book value per share was $7.8 million in net income, offset by $3.0 million in dividends to common stockholders.

The dividend payment of $0.72 per share in 2015 was $0.07, or 11% higher per share than dividends paid in 2014. 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 2.80% at December 31, 2015.

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 $0.5 million, or $0.11 per share of common stock, at December 31, 2015, as compared to net unrealized gains on available-for-sale investment securities after tax of $0.9 million, or $0.22 per share of common stock, at December 31, 2014. 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 2015 or 2014.

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

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for interest rate risk management purposes. In 2015 and 2014, the Bank did not use off-balance sheet financial instruments to manage interest rate risk.

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, 2015	December 31, 2014
+200 basis points	$ 1,034	$ 531
+100 basis points	1,856	1,149
-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, 2015 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. 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, 2015 included $189 million in undisbursed lines of credit at an average interest rate of 4.21%; $3 million in fixed rate loan origination commitments at 3.80%; $2 million in adjustable rate loan origination commitments at 4.21%; and $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 $12 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,

	2016	2017	2018	2019	2020	Thereafter	Total	Fair V
	(in thousands)							
Interest - Assets								
Gross loan and lease receivables	$ 75,562	$ 47,632	$ 43,358	$ 47,544	$ 43,318	$ 516,570	$ 773,984	$ 77
Average interest	4.43 %	4.16 %	4.55 %	4.77 %	4.66 %	4.45 %	4.46 %	4.4
Investment securities	$ 4,451	$ 3,094	$ 7,211	$ 7,653	$ 12,256	$ 64,093	$ 98,758	$ 98,
Average interest	2.73 %	1.87 %	2.36 %	2.40 %	2.00 %	2.62 %	2.49 %	2.4
Interest -Liabilities								
Interest bearing deposits	$ 561,055	$ 18,497	$ 7,723	$ 13,572	$ 19,037	$ -	$ 619,884	$ 62
Average interest	0.61 %	0.98 %	1.03 %	1.91 %	1.68 %	- %	0.68 %	0.6
Borrowed funds	$ -	$ -	$ -	$ -	$ 10,000	$ -	$ 10,000	$ 9,8
Average interest	- %	- %	- %	- %	1.73 %	- %	1.73 %	1.7
Securities sold under agreements to repurchase	$ 10,821	$ -	$ -	$ -	$ -	$ -	$ 10,821	$ 10,
Average interest	0.19 %	- %	- %	- %	- %	- %	0.19 %	0.1
Junior subordinated debt	$ -	$ -	$ -	$ -	$ -	$ 11,330	$ 11,330	$ 11,
	- %	- %	- %	- %	- %	3.03 %	3.03 %	3.0

Average
interest

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, 2015, the impact to equity, net of tax, as a result of marking available for sale securities to market was an unrealized gain of $0.5 million. On a monthly basis, the available for sale portfolio is shocked for immediate rate increases of 200 basis points. At December 31, 2015, 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 2016 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 approximately $2.4 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.

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. Net income from banking activities was $6.7 million in 2015 compared with $6.9 million in 2014. The decrease in net income from banking activities was driven primarily by non-interest expenses, which increased from $26.9 million in 2014 to $28.1 million in 2015. Total assets of the banking activities segment increased $92 million or 11% during 2015 to $930 million at December 31, 2015, 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 $1.1 million in 2015, a decrease of $0.2 million from $1.3 million in 2014. While revenue remained flat at $6.5 million in each of 2015 and 2014, expenses increased from $4.3 million in 2014 to $4.6 million in 2015 reflecting higher salaries and benefits expenses. TEA's total assets were $9.1 million at December 31, 2015, compared with $8.9 million at December 31, 2014.

Fourth Quarter 2015 Results

Net income was $1.8 million, or $0.41 per diluted share, in the fourth quarter of 2015, compared with $2.3 million, or $0.54 per diluted share, in the fourth quarter of 2014. The decline reflects a severance payment to the Company's former chief financial officer and an increase in tax provision compared with a significant benefit in the fourth quarter 2014 from a tax credit. Return on average equity was 7.72% for the fourth quarter of 2015 compared with 10.79% in the fourth quarter of 2014.

Net interest income was $8.4 million in the fourth quarter, flat with the prior-year period, though up $0.3 million, or 3.7%, from the trailing third quarter. Growth in loans and non-interest bearing demand deposits drove the increase over the trailing period.

Net interest margin of 3.91% declined 41 basis points, or 12 basis points on an adjusted basis, from the 2014 fourth quarter, reflecting decreases in the yield on loans. Excluding accelerated fee income due to two commercial loan payoffs of $0.6 million, the adjusted 2014 fourth quarter net interest margin was 4.03%. When compared with 3.85% in the trailing third quarter, net interest margin was up 6 basis points, mostly due to interest earned on the payoff of a large investment security and loan portfolio growth.

The provision for loan losses was $204 thousand in the 2015 fourth quarter, down from $574 thousand in the prior-year period and $396 thousand in the trailing third quarter of 2015, as the overall credit quality of the Company's loan portfolio remained strong. The ratio of the allowance for loan losses to total loans was 1.66% at December 31, 2015 compared with 1.84% at September 30, 2015 and 1.80% at December 31, 2014. The ratio declined primarily due to the charge-off to the allowance of one loan previously identified as impaired.

The ratio of non-performing loans to total loans increased to 2.07% at December 31, 2015 from 1.52% at December 31, 2014, and from 1.12% at September 30, 2015. Non-performing loans increased in the fourth quarter of 2015 with the movement of two large commercial loan relationships to nonaccrual status.

Non-interest income was $2.9 million, or 26% of total revenue, in the quarter, up $2.6 million from the prior-year period. This increase reflects a $2.6 million loss from a tax credit investment recorded in the fourth quarter of 2014. 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 fourth quarter 2014. Insurance agency revenue of $1.6 million was up $0.1 million over the 2014 fourth quarter due to financial services and employee benefits revenue growth. Compared with the trailing third quarter of 2015, total non-interest income decreased by $1.3 million, primarily due to an insurance settlement gain of $0.7 million in the third quarter related to a fire at one of the Company's branch locations and seasonal decreases in insurance revenue.

Total non-interest expense was $8.7 million in the fourth quarter of 2015, an increase of 11%, or $0.8 million, from the prior-year period. Personnel expenses, the largest expense category for the Company, were up $0.6 million, or 12.0%, from last year’s fourth quarter, and reflect a $0.4 million severance payment and annual merit increases and strategic hires to support the Company’s continued growth. Other expenses increased $0.2 million, or 17%, driven by loan expenses on the growing commercial loan portfolio.

Compared with the trailing third quarter of 2015, total non-interest expense was up $0.4 million, or 4.6%. The increase reflects previously noted higher personnel expenses in the fourth quarter of 2015, partially offset by a $0.2 million litigation reserve reversal that occurred in the third quarter.

Income tax expense for the quarter was $0.7 million, representing an effective tax rate of 29.5% compared with an effective tax rate of 32.2% in the fourth quarter of 2014, which excludes the $3.0 million tax credit benefit realized in 2014. The decrease in tax rate was primarily due to higher tax exempt income as a percentage of total income.

Total assets were $939 million at December 31, 2015, or $18 million higher than the end of the trailing 2015 third quarter. Loans of $774 million increased 6% from $731 million at September 30, 2015. The increase was primarily due to growth in the commercial real estate and commercial and industrial loan portfolios.

Total deposits increased $21 million, or 3%, to $803 million at December 31, 2015 from the trailing 2015 third quarter-end. The growth was mainly attributable to increases in demand deposits and savings accounts. In the first quarter of 2015, the Bank introduced a new money market account that has been successful in acquiring new customer deposit relationships.

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

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, 2015 based on criteria established in Internal Control-Integrated Framework (2013) 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, 2015.

The Company's consolidated financial statements for the fiscal year ended December 31, 2015 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, 2015, 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/ John B. Connerton

John B. Connerton

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, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. 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, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, 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, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 3, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Buffalo, NY
March 3, 2016

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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, 2015, based on criteria established in Internal Control Integrated Framework (2013) 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, 2015, based on criteria established in Internal Control Integrated Framework (2013) 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, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three year period ended December 31, 2015, and our report dated March 3, 2016 expressed an unqualified opinion on those consolidated financial statements.

Buffalo, NY
March 3, 2016

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EVANS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2015 AND DECEMBER 31, 2014
(in thousands, except share and per share amounts)

	December 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$ 11,813	$ 8,784
Interest-bearing deposits at banks	10,808	2,114
Securities:		
Available for sale, at fair value (amortized cost: $96,374 at December 31, 2015; $94,048 at December 31, 2014)	97,141	95,533
Held to maturity, at amortized cost (fair value: $1,584 at December 31, 2015; $1,574 at December 31, 2014)	1,617	1,599
Federal Home Loan Bank common stock, at amortized cost	1,296	1,439
Federal Reserve Bank common stock, at amortized cost	1,487	1,486
Loans, net of allowance for loan losses of $12,883 at December 31, 2015 and $12,533 at December 31, 2014	761,101	683,131
Properties and equipment, net of accumulated depreciation of $15,799 at December 31, 2015 and $15,129 at December 31, 2014	11,051	10,224
Goodwill	8,101	8,101
Bank-owned life insurance	20,978	20,415
Other assets	13,714	13,983
TOTAL ASSETS	$ 939,107	$ 846,809
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand	$ 183,098	$ 158,631
NOW	83,674	72,670
Regular savings	439,993	363,542

Time	96,217	112,792
Total deposits	802,982	707,635
Securities sold under agreement to repurchase	10,821	13,778
Other borrowings	10,000	13,700
Other liabilities	12,718	14,578
Junior subordinated debentures	11,330	11,330
Total liabilities	847,851	761,021
CONTINGENT LIABILITIES AND COMMITMENTS		
STOCKHOLDERS' EQUITY:		
Common stock, $.50 par value, 10,000,000 shares authorized; 4,260,203 and 4,241,797 shares issued at December 31, 2015 and December 31, 2014, respectively, and 4,257,179 and 4,203,684 outstanding at December 31, 2015 and December 31, 2014, respectively	2,132	2,123
Capital surplus	43,318	43,102
Treasury stock, at cost, 3,024 and 38,113 shares at December 31, 2015 and December 31, 2014, respectively	-	(751)
Retained earnings	47,616	42,822
Accumulated other comprehensive loss, net of tax	(1,810)	(1,508)
Total stockholders' equity	91,256	85,788
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 939,107	$ 846,809

See Notes to Consolidated Financial Statements

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EVANS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013
(in thousands, except share and per share amounts)

	2015	2014	2013
INTEREST INCOME			
Loans	$ 32,638	$ 31,899	$ 29,546
Interest bearing deposits at banks	64	33	132
Securities:			
Taxable	1,935	1,816	1,666
Non-taxable	991	967	1,060
Total interest income	35,628	34,715	32,404
INTEREST EXPENSE			
Deposits	3,339	3,058	3,296
Other borrowings	158	237	436
Junior subordinated debentures	327	321	325
Total interest expense	3,824	3,616	4,057
NET INTEREST INCOME	31,804	31,099	28,347
PROVISION FOR LOAN LOSSES	1,216	1,229	1,540
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	30,588	29,870	26,807
NON-INTEREST INCOME			
Bank charges	1,736	1,839	2,039
Insurance service and fees	7,194	7,131	7,211
Data center income	104	348	464
Gain on loans sold	133	203	25
Bank-owned life insurance	563	574	508
Loss on tax credit investments	-	(2,596)	(1,555)
Gain on insurance settlement	734	-	-
Interchange fee income	1,270	1,142	1,059
Gain on termination of loss sharing agreement	-	-	716
Other	1,986	1,632	1,694
Total non-interest income	13,720	10,273	12,161
NON-INTEREST EXPENSE			
Salaries and employee benefits	20,478	18,844	17,755
Occupancy	2,789	2,868	3,010
Repairs and maintenance	822	732	723
Advertising and public relations	857	867	786
Professional services	2,354	1,819	1,892
Technology and communications	1,183	1,130	1,283
Litigation expense	(175)	1,000	-
Amortization of intangibles	-	108	221
FDIC insurance	607	553	576
Other	3,783	3,331	3,134
Total non-interest expense	32,698	31,252	29,380
INCOME BEFORE INCOME TAXES	11,610	8,891	9,588
INCOME TAX PROVISION	3,767	704	1,731
NET INCOME	$ 7,843	$ 8,187	$ 7,857

Net income per common share-basic	$ 1.85	$ 1.96	$ 1.88
Net income per common share-diluted	$ 1.82	$ 1.92	$ 1.85
Cash dividends per common share	$ 0.72	$ 0.65	$ 0.26
Weighted average number of common shares outstanding	4,235,048	4,186,786	4,189,769
Weighted average number of diluted shares outstanding	4,307,368	4,264,406	4,239,037

See Notes to Consolidated Financial Statements

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EVANS BANCORP, INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013
(in thousands, except share and per share amounts)

	2015		2014		2013	
NET INCOME		$ 7,843		$ 8,187		$ 7,857
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:						
Unrealized gain (loss) on available-for-sale securities:						
Unrealized gain (loss) on available-for-sale securities	(436)		720		(2,266)	
Less: Reclassification of gain on sale of securities	-		-		-	
		(436)		720		(2,266)
Defined benefit pension plans:						
Amortization of prior service cost	19		19		42	
Amortization of actuarial loss	125		64		108	
Actuarial gains (losses)	(10)		(1,048)		752	
Total		134		(965)		902
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX		(302)		(245)		(1,364)
COMPREHENSIVE INCOME		$ 7,541		$ 7,942		$ 6,493

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, 2015, 2014, AND 2013
(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, 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 in Employee Stock Purchase Plan	7	184				191
Issued 4,100 shares through stock option exercise	2	55				57
Repurchased 13,032 shares in Treasury stock					(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 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
Net Income			7,843			7,843
Other comprehensive loss				(302)		(302)
Cash dividends ($0.72 per common share)			(3,049)			(3,049)
Stock options and restricted stock expense		495				495
Excess tax benefit from stock-based compensation		32				32
Issued 10,574 shares in Employee Stock Purchase Plan	5	211				216
Issued 7,832 shares in stock option exercise	4	(4)				-
Repurchased 8,676 shares in Treasury stock					(210)	(210)
Reissued 20,942 restricted shares		(503)			503	-
Reissued 11,197 shares under dividend reinvestment plan		31			246	277
Reissued 15,235 shares through stock option exercise		(46)			212	166
Balance, December 31, 2015	$ 2,132	$ 43,318	$ 47,616	$ (1,810)	$ -	$ 91,256

See Notes to Consolidated Financial Statements

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EVANS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013
(in thousands)

	2015	2014	2013
OPERATING ACTIVITIES:			
Interest received	$ 35,044	$ 34,707	$ 32,176
Fees received	12,719	12,505	14,786
Interest paid	(3,896)	(3,607)	(4,070)
Cash paid to employees and vendors	(32,658)	(29,418)	(28,667)
Cash contributed to pension plan	(165)	(110)	(185)
Income taxes paid	(2,950)	(2,858)	(1,902)
Proceeds from sale of loans held for resale	14,453	15,471	776
Originations of loans held for resale	(14,449)	(15,669)	187
Net cash provided by operating activities	8,098	11,021	13,101
INVESTING ACTIVITIES:			
Available for sales securities:			
Purchases	(28,961)	(15,379)	(27,055)
Proceeds from maturities, calls, and payments	26,760	20,217	15,750
Held to maturity securities:			
Purchases	(637)	(618)	(941)
Proceeds from maturities, calls, and payments	619	1,403	2,302
Proceeds from property insurance	1,183	-	-
Cash paid for bank owned life insurance	-	-	(4,000)
Additions to properties and equipment	(1,888)	(580)	(1,448)
Proceeds from sales of fixed assets	-	-	365
Purchase of tax credit investment	(1,100)	(1,912)	(225)
Net increase in loans	(78,441)	(47,941)	(64,280)
Net cash used in investing activities	(82,465)	(44,810)	(79,532)
FINANCING ACTIVITIES:			
Proceeds from (repayments of) borrowings, net	(6,657)	5,128	(8,760)
Net increase in deposits	95,347	1,023	27,620
Dividends paid	(3,049)	(2,735)	(1,098)
Repurchase of treasury stock	(210)	(1,436)	(250)
Issuance of common stock	216	238	248
Reissuance of treasury stock	443	515	148

Net cash provided by financing activities	86,090	2,733	17,908
Net increase (decrease) in cash and equivalents	11,723	(31,056)	(48,523)
CASH AND CASH EQUIVALENTS:			
Beginning of period	10,898	41,954	90,477
End of period	$ 22,621	$ 10,898	$ 41,954

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EVANS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015, 2014, AND 2013
(in thousands)

	2015	2014	2013
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net income	$ 7,843	$ 8,187	$ 7,857
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,513	1,573	1,996
Deferred tax (benefit) expense	980	(1,460)	(372)
Provision for loan losses	1,216	1,229	1,540
Loss on tax credit investment	-	2,596	1,555
Gain on loans sold	(133)	(203)	(25)
Gain on proceeds from insurance	(734)	-	-
Stock options and restricted stock expense	495	465	352
Proceeds from sale of loans held for resale	14,453	15,471	776
Originations of loans held for resale	(14,449)	(15,669)	187
Changes in assets and liabilities affecting cash flow:			
Other assets	(2,563)	(2,919)	(2,119)
Other liabilities	(523)	1,751	1,354
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 8,098	$ 11,021	$ 13,101

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EVANS BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

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.

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 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.

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.

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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 2015, 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.

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 are collectively evaluated for impairment. Since these loans are not individually identified and evaluated,

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they are not considered impaired loans. The one exception is for consumer loans that are considered troubled debt restructurings ("TDR") since all TDR loans 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 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 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.

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· 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.

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 Losses

The provision for loan losses represents the amount charged against the Bank's earnings to maintain an allowance for probable loan losses inherent in the portfolio based on management's evaluation of the loan 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, loss emergence period, delinquent loan percentages, the fair value of the collateral, input from regulatory agencies, and general economic conditions.

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On a quarterly basis, management of the Bank meets to review and determine the adequacy of the allowance for loan 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 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 qualitative factors of the loan category.

The general portfolio allocation is segmented into homogeneous pools of loans with similar characteristics. Separate pools of loans include loans pooled by loan grade and by portfolio segment. An average historical loss rate over the past five years multiplied by the loss emergence period factor is applied against loans graded a 5 or worse ("criticized loans"). The same is done for loans that are graded 4 or better ("non-criticized loans") in separate 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: levels and trends in delinquencies, non-accruals, and criticized loans; trends in volume and terms of loans; effects of any changes in lending policies and credit quality underwriting standards; experience, ability, and depth of management; national and economic trends and conditions; changes in the quality of the loan review system; concentrations of credit risk; changes in collateral value; and large loan risk. The total possible qualitative allocation is determined by comparing peer bank historical charge-off rates to the Bank's historical charge-off rate. The actual qualitative allocation is determined by qualitative factor by loan type based on metrics that management believes are appropriate indicators of whether the Bank is in a low, moderate, or high risk range relative to historical experience for each qualitative factor.

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, 2015 or December 31, 2014.

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, 2015 was the insurance agency activities reporting unit.

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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 in excess of the carrying amount at December 31, 2015. 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, 2015.

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 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 72,320, 77,620, and 49,268 potentially dilutive shares of common stock included in calculating diluted earnings per share for the years ended December 31, 2015, 2014, and 2013, 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, 2015, 2014, and 2013, there were 36 thousand, 9 thousand, and 42 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.

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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.

New Accounting Standards

The following significant accounting pronouncements became effective for the Company in 2015:

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 became effective for the Company on January 1, 2015. The adoption did not have an 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:

	2015 (in thousands)			
	Amortized Cost	Unrealized Gains	Losses	Fair Value
Available for Sale:				
Debt securities:				
U.S. government agencies	$ 21,914	$ 166	$ (234)	$ 21,846
States and political subdivisions	36,838	874	(29)	37,683
Total debt securities	$ 58,752	$ 1,040	$ (263)	$ 59,529
Mortgage-backed securities:				
FNMA	$ 12,312	$ 168	$ (25)	$ 12,455
FHLMC	4,629	61	(56)	4,634
GNMA	7,047	82	(61)	7,068
CMO	13,634	24	(203)	13,455
Total mortgage-backed securities	$ 37,622	$ 335	$ (345)	$ 37,612
Total securities designated as available for sale	$ 96,374	$ 1,375	$ (608)	$ 97,141
Held to Maturity:				
Debt securities				
States and political subdivisions	$ 1,617	$ 6	$ (39)	$ 1,584
Total securities designated as held to maturity	$ 1,617	$ 6	$ (39)	$ 1,584

	2014 (in thousands)			
	Amortized	Unrealized		Fair
	Cost	Gains	Losses	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

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Available for sale securities with a total fair value of $86 million and $69 million were pledged as collateral to secure public deposits and for other purposes required or permitted by law at December 31, 2015 and 2014, respectively.

The scheduled maturity of debt and mortgage-backed securities at December 31, 2015 and 2014 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.

	2015		2014	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
	(in thousands)		(in thousands)	
Debt securities available for sale:				
Due in one year or less	$ 4,082	$ 4,142	$ 8,172	$ 8,256
Due after one year through five years	29,113	29,448	22,118	22,597
Due after five years through ten years	19,356	19,615	20,517	20,589
Due after ten years	6,201	6,324	6,062	6,335
	58,752	59,529	56,869	57,777
Mortgage-backed securities available for sale	37,622	37,612	37,179	37,756
Total available for sale securities	$ 96,374	$ 97,141	$ 94,048	$ 95,533
Debt securities held to maturity:				
Due in one year or less	$ 309	$ 308	$ 478	$ 477
Due after one year through five years	374	365	77	78
Due after five years through ten years	828	815	932	914
Due after ten years	106	96	112	105
	1,617	1,584	1,599	1,574

Total held to maturity securities	$ 1,617	$ 1,584	$ 1,599	$ 1,574

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 2015, 2014 or 2013.

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

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	2015					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
Available for Sale:						
Debt securities:						
U.S. government agencies	$ 4,531	$ (89)	$ 5,855	$ (145)	$ 10,386	$ (234)
States and political subdivisions	3,133	(6)	1,117	(23)	4,250	(29)
Total debt securities	$ 7,664	$ (95)	$ 6,972	$ (168)	$ 14,636	$ (263)
Mortgage-backed securities:						
FNMA	$ 3,856	$ (25)	$ - -	$ -	$ 3,856	$ (25)
FHLMC	-	-	1,234	(56)	1,234	(56)
GNMA	3,480	(55)	471	(6)	3,951	(61)
CMO'S	6,677	(89)	3,661	(114)	10,338	(203)
Total mortgage-backed securities	$ 14,013	$ (169)	$ 5,366	$ (176)	$ 19,379	$ (345)
Held To Maturity:						
Debt securities:						
States and political subdivisions	$ 626	$ (11)	$ 495	$ (28)	$ 1,121	$ (39)
Total temporarily impaired securities	$ 22,303	$ (275)	$ 12,833	$ (372)	$ 35,136	$ (647)

	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)

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Management has assessed the securities available for sale in an unrealized loss position at December 31, 2015 and 2014 and determined the decline in fair value below amortized cost to be temporary. In making this determination, management considered the period of time the securities were in a loss position, the percentage decline in comparison to the securities' amortized cost, and the financial condition of the issuer (primarily government or government-sponsored enterprises). In addition, management does not intend to sell these securities and it is not more likely than not that 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 2015, 2014, or 2013. 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, 2015, the Company had a total of $10.0 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 $1.3 million and $1.4 million as of December 31, 2015 and December 31, 2014, respectively.

3.LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Major categories of loans at December 31, 2015 and 2014 are summarized as follows:

	December 31, 2015	December 31, 2014
Mortgage loans on real estate:	(in thousands)	
Residential mortgages	$ 103,941	$ 98,374
Commercial and multi-family	399,819	363,252
Construction-Residential	1,546	721

Construction-Commercial	60,892	40,986
Home equities	61,042	59,948
Total real estate loans	627,240	563,281
Commercial and industrial loans	144,330	129,456
Consumer loans	1,596	1,764
Other	139	404
Net deferred loan origination costs	679	759
Total gross loans	773,984	695,664
Allowance for loan losses	(12,883)	(12,533)
Loans, net	$ 761,101	$ 683,131

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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 and are amortized over a period of 10 to 30 years. Loans on one-to-four-family residential real estate are mostly originated in amounts of no more than 80% of the property’s 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, 2015 and 2014, the Company had approximately $77.3 million and $71.6 million, respectively, in unpaid principal balances of loans that it services for FNMA. For the years ended December 31, 2015 and 2014, the Company sold $14.3 million and $15.3 million, respectively, in loans to FNMA and realized gains on those sales of $133 thousand and $203 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 $0.6 and $0.5 million for the servicing portfolio rights as of December 31, 2015 and 2014, respectively. There were $0.5 million in loans held for sale at December 31, 2015 compared with $0.4 million loans held for sale at December 31, 2014. 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, 2015 and 2014, 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, 2015, there were $204.8 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 because they are in a second position with respect 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, 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 $0.2 million at December 31, 2015 and $0.1 million at December 31, 2014 of overdrawn deposit accounts classified as loans.

Net loan commitment fees are deferred and accreted or amortized into net interest income on a straight-line basis over the commitment period.

The Company maintains an allowance for loan losses in order to capture the probable losses inherent in its loan portfolio. There is a risk that the Company may experience significant loan losses in 2016 and beyond which could exceed the allowance for loan 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 losses or recognize further loan charge-offs, the Company may have to increase its allowance for loan losses or loan 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 losses will be adequate to protect the Company against loan losses that it may incur.

Changes in the allowance for loan losses for the years ended December 31, 2015, 2014 and 2013 follow:

	2015	2014	2013
	(in thousands)		
Balance, beginning of year	$ 12,533	$ 11,503	$ 9,732
Provisions for loan and lease losses	1,216	1,229	1,540
Recoveries	181	863	942
Loans and leases charged-off	(1,047)	(1,062)	(711)
Balance, end of year	$ 12,883	$ 12,533	$ 11,503

The following tables summarize the allowance for loan losses, as of December 31, 2015 and 2014, respectively, by portfolio segment. 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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2015

(in thousands)	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer **	Residential Mortgages*	HELOC	Direct Financing Leases	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 4,896	$ 5,650	$ 78	$ 941	$ 819	$ -	$ 149	$ 12,533
Charge-offs	(799)	(139)	(43)	(66)	-	-	-	(1,047)
Recoveries	126	44	9	2	-	-	-	181
Provision (Credit)	160	1,580	41	32	(448)	-	(149)	1,216
Ending balance	$ 4,383	$ 7,135	$ 85	$ 909	$ 371	$ -	$ -	$ 12,883
Allowance for loan losses:								
Ending balance:								
Individually evaluated for impairment	$ 552	$ 1,146	$ 42	$ 2	$ -	$ -	$ -	$ 1,742
Collectively evaluated for impairment	3,831	5,989	43	907	371	-	-	11,141
Total	$ 4,383	$ 7,135	$ 85	$ 909	$ 371	$ -	$ -	$ 12,883
Loans:								
Ending balance:								
Individually evaluated for impairment	$ 5,322	$ 9,993	$ 42	$ 2,499	$ 1,644	$ -	$ -	$ 19,500
Collectively evaluated for impairment	139,008	450,718	1,693	102,988	59,398	-	-	753,805
Total	$ 144,330	$ 460,711	$ 1,735	$ 105,487	$ 61,042	$ -	$ -	$ 773,305

Note: Loan balances do not include $679 thousand in net deferred loan origination costs as of December 31, 2015.

* includes construction loans

** includes other loans

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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 (Credit)	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 balances do not include $759 thousand in net deferred loan origination costs as of December 31, 2014.

* includes construction loans

** includes other loans

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A description of the Company's accounting policies and the methodology used to estimate the allowance for loan losses, including a description of the factors considered in determining the allowance for loan losses, such as historical losses and existing economic conditions, is included in Note 1 to the Financial Statements.

The following table provides data, at the class level, of credit quality indicators of certain loans, as of December 31, 2015 and 2014, respectively:

December 31, 2015
(in thousands)

Corporate Credit Exposure – By Credit Rating	Commercial Real Estate Construction	Commercial and Multi-Family Mortgages	Total Commercial Real Estate	Commercial and Industrial
3	$ 42,383	$ 340,837	$ 383,220	$ 80,379
4	13,098	40,019	53,117	47,509
5	1,224	11,772	12,996	8,973
6	4,187	7,191	11,378	7,350
7	-	-	-	119
Total	$ 60,892	$ 399,819	$ 460,711	$ 144,330

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

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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 dollar 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 that were past due as of December 31, 2015 and 2014, respectively:

December 31, 2015
(in thousands)

	30-59 days	60-89 days	90+ days	Total Past Due	Current Balance	Total Balance	90+ Days Accruing	Non-accruing Loans

Commercial and industrial	$ 160	$ 224	$ 66	$ 450	$ 143,880	$ 144,330	$ 40	$ 5,312
Residential real estate:								
Residential	822	402	569	1,793	102,148	103,941	-	1,400
Construction	-	-	-	-	1,546	1,546	-	-
Commercial real estate:								
Commercial	1,919	963	457	3,339	396,480	399,819	457	3,574
Construction	-	-	-	-	60,892	60,892	-	4,187
Home equities	253	236	267	756	60,286	61,042	-	1,058
Consumer	8	-	-	8	1,588	1,596	-	14
Other	-	-	-	-	139	139	-	-
Total Loans	$ 3,162	$ 1,825	$ 1,359	$ 6,346	$ 766,959	$ 773,305	$ 497	$ 15,545

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December 31, 2014
(in thousands)

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

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

	At December 31, 2015					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
With no related allowance recorded:	(in thousands)					
Commercial and industrial	$ 1,750	$ 1,811	$ -	$ 1,945	$ 58	$ 47
Residential real estate:						
Residential	2,444	2,555	-	2,474	90	63
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	3,888	3,908	-	3,930	27	179
Construction	834	834	-	834	-	31
Home equities	1,644	1,711	-	1,661	40	52
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total impaired loans	$ 10,560	$ 10,819	$ -	$ 10,844	$ 215	$ 372

	At December 31, 2015					
	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	$ 3,572	$ 3,835	$ 552	$ 3,966	$ 255	$ 9
Residential real estate:						
Residential	55	55	2	55	1	2
Construction	-	-	-	-	-	-

Commercial real estate:						
Commercial	1,083	1,083	235	1,083	4	42
Construction	4,188	4,201	911	4,188	29	166
Home equities	-	-	-	-	-	-
Consumer	42	57	42	45	2	6
Other	-	-	-	-	-	-
Total impaired loans	$ 8,940	$ 9,231	$ 1,742	$ 9,337	$ 291	$ 225

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	At December 31, 2015					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
Total:	(in thousands)					
Commercial and industrial	$ 5,322	$ 5,646	$ 552	$ 5,911	$ 313	$ 56
Residential real estate:						
Residential	2,499	2,610	2	2,529	91	65
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	4,971	4,991	235	5,013	31	221
Construction	5,022	5,035	911	5,022	29	197
Home equities	1,644	1,711	-	1,661	40	52
Consumer	42	57	42	45	2	6
Other	-	-	-	-	-	-
Total impaired loans	$ 19,500	$ 20,050	$ 1,742	$ 20,181	$ 506	$ 597

	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
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total impaired loans	$ 7,369	$ 7,689	$ -	$ 7,592	$ 96	$ 291

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	At December 31, 2014					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
With a related allowance recorded:	(in thousands)					
Commercial and industrial	$ 4,701	$ 4,734	$ 988	$ 4,701	$ 64	$ 234
Residential real estate:						
Residential	271	285	3	271	20	-
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	2,640	2,785	274	2,708	96	50
Construction	-					