Operator: Greetings, and welcome to the Evans Bancorp First Quarter 2017 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to turn the conference over to Deborah Pawlowski, Investor Relations for Evans Bancorp. Thank you, Ms. Pawlowski. You may begin.

Deborah Pawlowski: Thanks, Bob, and good afternoon, everyone. We certainly appreciate your interest in Evans Bancorp and your time this afternoon. On the call today, we have David Nasca, our President and Chief Executive Officer, and John Connerton, our Chief Financial Officer. David and John will be discussing the results of the first quarter. They will also review the Company's initiatives in progress and our markets and strategies.

You should have a copy of the financial results that were released today after the market close and, if not, you can access them on the Company's website at www.evansbank.com. As you are aware, we may make some forward-looking statements during the formal discussion, as well as during the Q&A. These statements apply to future events that are subject to risks and uncertainties, as well as other factors that could cause actual results to differ from what is stated on today's call. These risks and uncertainties and other factors are provided in the earnings release, as well as with other documents filed by the Company with the Securities and Exchange Commission. They can be found on our website or at www.sec.gov.

So, with that, let me turn it over to David to begin. David?

David Nasca: Thank you, Deborah. Good afternoon, everyone. As you may have probably read from our news release this afternoon, the Company posted record net income of $3.1 million this quarter, up 84% from last year's first quarter. This resulted in large part from the historic growth in loans in 2016, and the corresponding net interest income generated by the larger portfolio.

In addition, we benefited from increased interest rates as the Fed moved in response to current economic factors. We welcome economic indicators which suggest confidence among consumers and business leaders, and remain focused on the execution of our strategic priorities to capture business in this improved environment. Key components of that strategy are growing commercial business lines in banking, insurance, government services, and employee benefit segments.

Results this quarter highlighted those efforts as insurance services and fee income increased 24% from the prior-year period. In addition to the progress in insurance, as a component of that business line, we've added new talent and leadership focused on growing our employee benefits business in future quarters. That leadership is already providing results with the capture of nine new large group accounts with 07/01/2017 renewals.

After delivering record performance in 2016, the rate of commercial loan growth slowed during the first quarter, including some above-trend payoffs; however, we have built a strong and growing pipeline of business, while seeing improved quality metrics and expect recent loan growth trends to resume for the remainder of 2017.

A portion of that pipeline continues to be from opportunities provided by the disruption from the KeyBank and First Niagara combination. Our expectation is that we will see additional opportunity as KeyBank performs annual reviews for the first time on former First Niagara customers.

Another key component of our strategy is optimizing technology. During the quarter, we converted our customers to a new online banking platform on the heels of last year's core system conversion. This platform provides expanded self-service capabilities, added security, a more user-friendly design, and bill payment improvements, such as payment reminders. As part of our strategic plan, we also focused on strengthening operations and risk governance as our financial institution continues to move to the next level of size and sophistication.

As of June 1, we will be adding a new Chief Risk Officer to our ranks. This individual was a partner in KPMG's Buffalo office, has significant financial institution experience, and was viewed within the accounting firm as a subject-matter expert in risk management. We're also adding two new members to our Board of Directors tomorrow, Jody Lomeo, CEO of Kaleida Health, the largest health system in West New York, and

Oliver Sommer, a long-time consultant and former Executive Vice President of Corporate Development at First Niagara, who was instrumental in the creation of their strategic plan. Both are steeped in strategy and risk disciplines.

Finally, during the quarter, in alignment with our strategic plan for capital management, we opportunistically raised over $14 million in an overnight direct underwritten offering to continue to buttress our already strong capital position and support our continued above average growth.

With that, I'll hand it over to John Connerton, our CFO, for a more detailed look at our first quarter results.

John Connerton: Thank you, David, and good afternoon, everyone. First quarter net income grew 84% to $3.1 million, or $0.66 per diluted share, from $1.7 million, or $0.40 per diluted share, in last year's first quarter, and was up 35% from the trailing fourth quarter of 2016. As David noted, the strong performance from each comparative period reflects higher non-interest income and net interest income along with lower provision for loan losses. Return on average equity was 11.59% compared with 9.70% in the trailing fourth quarter of 2016 and 7.43% in the first quarter of 2016. Our efficiency ratio measurably improved to 68.6% compared with 74.2% in the fourth quarter of 2016 and 75.8% in last year's first quarter.

Looking at the balance sheet, total loans grew $3 million from 2016 year-end. That was up a more substantial $149 million, or 19%, from prior year's first quarter. Commercial loan efforts in late fourth quarter and early first quarter have been focused on rebuilding the pipeline after a very strong 2016, which contributed to lower closed originations in the first quarter.

In addition to the reduced production, a couple of pay downs of larger relationships and commercial real estate also contributed to the slower growth in loan balances. We expect stronger growth trends through the rest of 2017, given the strength of our commercial loan pipeline at the end of first quarter.

Total deposits of $978 million increased $38 million, or 4%, from 2016 year-end, and we're up $129 million, or 15%, from March 31, 2016. Most of the deposit growth this quarter was attributed to seasonal municipal deposits, as municipalities collect the annual property tax receipts. The deposit growth since the end of last year's first quarter reflects growth across all product categories. Given the recent market disruption, the Company has maintained highly competitive savings and time deposit rates in an effort to attract new customers.

Net interest income increased $0.2 million, or 3%, from the trailing fourth quarter, reflecting the benefit of higher interest rates, and increased $1.4 million, or 17%, from the prior year's first quarters, reflecting strong loan and demand deposit growth during the past year. Net interest margin for the first quarter of 2017 of 3.77% improved 11 basis points from the 2016 fourth quarter and 6 basis points from the first quarter of 2016.

The bank loan yields have benefited from variable loan repricing, due to an increase in the prime rate after the Fed Reserve increased its target rate by 25 basis points in late 2016 and again in March of 2017. The improved asset yields, when compared with last year's first quarter, reflect an asset mix increasingly weighted toward loans. Average loans were 89% of average interest earning assets in the first three months of 2017 compared with 86% in the prior-year period.

Turning to asset quality, credit improved during the quarter. Criticized loans decreased $4 million from December 31, 2016, and are lower by $7 million compared with March 31, 2016. The Company had net recoveries of 4 basis points in the quarter compared with charge-offs of 7 basis points and recoveries of 2 basis points in the fourth quarter of 2016 and first quarter of 2016, respectively.

Total non-performing loans were 1.30% of total loans outstanding at the quarter-end compared with 1.28% from the trailing fourth quarter and 2.25% as of March 31, 2016. The current balance includes one large commercial real estate loan relationship that makes up 43% of the total balance. The $0.4 million release of allowance for loan losses in the first quarter of 2017 reflects these favorable credit quality trends of a sustained historically low charge-off ratio, a decrease in criticized loans, improvement in several impaired loan relationships, as well as the slower loan growth.

Non-interest income for the quarter was up approximately $900,000 from the trailing quarter and $500,000 from the prior year's first quarter. The fourth quarter of 2016 included the impact of a net reduction of non-interest income of $0.3 million related to an investment in a historic rehabilitation tax credit. There were no comparable transactions in each of the first quarters of 2017 and 2016.

The largest driver of the increase in non-interest income was insurance revenue, which was $2.2 million in the first quarter compared with $1.3 million in the trailing fourth quarter and $1.7 million in last year's first quarter. The increase from the fourth quarter reflects seasonality. The increase from the prior-year period was a result of higher profit sharing revenue of which the majority was recognized in the first quarter, continued growth in commercial lines insurance commissions and higher personal lines revenue, and incremental revenue from the two insurance agencies made at the end of 2016. Expenses decreased from the trailing quarter by 1%, or about $100,000, but increased 6%, or $500,000, from last year's first quarter. The decrease from the linked quarter reflected seasonal incentive compensation accrued in the fourth quarter. The increase from last year's first quarter includes an increase in salary costs for strategic personnel hires made to support the Company's continued growth and the receipt of an insurance claim of $100,000 in the previous first quarter of 2016 related to litigation costs recorded in previous periods.

The effective tax rate for the quarter was 30.8% compared with 7.8% in the fourth quarter of 2016 and 31.9% in the first quarter of 2016. The lower effective tax rate in the 2016 fourth quarter reflects the impact of a tax credit investment transaction. The quarter-over-quarter decrease in the effective tax rate was due to a one-time increase in the value of deferred tax assets recorded in this year's first quarter.

That concludes my comments for today. So, I now would like to open the line up for questions.

Operator: Thank you. Ladies and gentlemen, we'll now be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on the telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment while we poll for questions.

Our first question comes from the line of Alex Twerdahl with Sandler O'Neill. Please proceed with your question.

Alex Twerdahl: Good afternoon.

David Nasca: Good afternoon, Alex.

John Connerton: Hi, Alex.

Alex Twerdahl: I was just wondering if you can walk through some of the dynamics of the margins. I know you might have hit some of them, but how much of the loan portfolio is tied to prime and what kind of lift might we see in the second quarter if there are some other things that impacted the expansion of the first quarter that might not be as obvious from the high-level press release?

John Connerton: I think the majority of the impact is on the variable loans, Alex. We probably have about 33%, or a third, of our loan portfolio that is variable, and the impact from the interest rate increases from the Fed in the quarter are probably around seven basis points of that 10 basis point loan yield lift. The remainder of it are some interests that we received on some non-accruing loans that have been put into accruing loan status of the total 10 basis point lift on the loan yields, and of which, obviously, the loan yield is the biggest impact quarter-over-quarter.

David Nasca: Another thing to remember, Alex, and you know this, but I'll just restate it. As John mentioned, 33% of the portfolio is newly booked, if you will, but also if you look at it, we have a lot of loans that have five-year resets on the pricing. While they might not be variable, their five-year fixed rates roll over 20% a year, and we're booking those at higher interest rates because of what happened.

Alex Twerdahl: Okay. Also to that point, on the new production that you're expecting, what's in the pipeline right now? Are the yields on that production going to be above the current book yield? Will you see a little bit of overall yield deterioration from the new production?

John Connerton: No. We should probably see a slight lift from the new production over the current book yield.

David Nasca: I think, I'm going to throw one fast ball in there too. There are two things going on here. I think we'll see a little bit higher yield, as John mentioned, but we're also fighting some competitive pressures right now with rates going up a little bit, margins are coming in a little bit. We've had four or five banks announce their entry into the marketplace and we don't think that we're going to lose a lot of ground on that, but the margins are a little tighter with the rates up.

Alex Twerdahl: Okay. So, we should see a little bit of NIM expansion in the second quarter from the March hike, and just have to start to prime a lot of the stuff that's coming on the books, should come on higher or at book yield, so that bodes well for the margins; however, maybe we might not see as much expansion as we would in an environment where there was less competition. Is that a fair way to put it?

John Connerton: Yes. That's a good summary.

Alex Twerdahl: Okay. Then just moving over to the fee income and the insurance revenues with the acquisitions that you made earlier in the year. Can you give us a little insight into the quarterly trends for insurance? I know it's going to be pretty choppy in the first quarter, and it's usually seasonally much stronger, but should we be modeling it over the second quarter of last year, or should it be closer to the first quarter of this year?

John Connerton: So, just pulling back to the first quarter, where we break out the increase in the non-interest income, obviously, most of it is in the insurance revenue. Two-thirds of that increase is due to the profit sharing, and probably 80% of that profit sharing comes in the first quarter, so that variance delta will not continue through the rest of the year. The other third of the increase quarter-over-quarter, we expect that to stick for each of the quarters going forward as it's due to core business aggregation and increase.

David Nasca: Yes, and let me give you a little more detail on that if I can, Alex. Profit sharing is up over last year. Most of it happens, as John said, in the first quarter. We will see some in the late third quarter or early fourth quarter, but in the other lines of business, commercial lines are up, personal lines, those two acquisitions we talked about, there are a thousand new customers, roughly $300,000 in additional income; however, that portfolio's been kind of flat over the last couple of years. The claims business is up a touch from where it was last year and employee benefits are up.

So, the component pieces are all up a bit. I wouldn't say profit sharing was a huge piece of this thing though. When you're modeling the second quarter, I won't tell you how to build your model, but you asked if it will be up a little bit quarter-over-quarter, we hope so, but profit sharing isn't going to be the driver of that going forward.

Alex Twerdahl: Okay. When you say quarter-over-quarter, you mean second quarter 2017 over second quarter 2016, correct, Dave?

David Nasca: Yes.

Alex Twerdahl: Okay. Good. Fantastic. Then just the tax rate for the remainder of the year, John, if you don't mind?

John Connerton: Sure. Yes. I'll refer to the benefit that we took by increasing our deferred tax assets that obviously won't continue going through the rest of the year. So, the first quarter of 2016 would be more typical of what we would expect going forward, unless we benefit in a particular quarter from the historic tax credits opportunities, but when those come in, they are transactional, so we may not know what quarter those might come in, but we do expect to do a couple of those through the remainder of the year. The base effective tax rate is closer to that 33% or 34%.

Alex Twerdahl: Okay, great. Thanks a lot for the color.

David Nasca: Thanks, Alex.

Operator: Thank you. Ladies and gentlemen, our next question comes from the line of Joe Fenech with Hovde Group. Please proceed with your question.

Joe Fenech: Good afternoon, guys.

David Nasca: Hello, Joe.

Joe Fenech: Thanks for the color on the insurance piece. It sounds like you're optimistic on the outlook, as you think about the components. Dave, is there a real simple way to think about this? You'd probably do better year-over-year over the course of the year, but maybe not to the variance delta that you had first quarter over first quarter last year, or could we see a significant improvement in total insurance revenues for the year?

John Connerton: I think the former. The way you described it in the beginning. I think the first quarter increase with profit sharing was pretty significant. I think year-over-year you'll see improvement, but not as significant as the first quarter over first quarter. So, third answer is, yes. The prior way you described it is appropriate.

Joe Fenech: Okay. Then, about the loan growth slowdown, you talked about the payoff activity. Are there any other elements, seasonality or other factors at work there? Then, I'm just wondering what overall production levels were specifically in the first quarter relative to the fourth quarter?

David Nasca: I would suggest that production levels were fairly flat and they were offset by those payoffs we talked about. What I would say to you is that we had significant closings in the fourth quarter. I won't say that they emptied out the pipeline, but it muted any growth, as closings already got pushed into the second and third quarter, hopefully, because we had a lot of closings in the fourth quarter.

Joe Fenech: Okay.

John Connerton: The only caveat to that, or add-on, is that we did have lines of credit from the fourth quarter to first quarter, were it did trail down a little bit, which we've seen in the past. So, it is a little seasonal.

David Nasca: Yes, commercial customers window-dress their balance sheet at the end of the year, so we see less borrowing and sometimes more deposits holding just to dress up their balance sheet.

Joe Fenech: Okay. Then, you said pipelines are strong. How do they look now compared with how they looked in some of the stronger quarters last year? Just trying to get a sense to scale the opportunity relative to what you saw last year.

David Nasca: I would categorize it as our current pipeline is as good as some of our best quarters last year.

John Connerton: Another way to say this is, it's historically significant.

Joe Fenech: Okay. Then, Dave, you said margins are tightening a little bit here, but you didn't really talk about whether that was asset or liability side. I'm guessing both. You guys were able to hold the line pretty well on funding costs in the first quarter. Some banks have talked about changing rates a little bit on the deposit side after the Fed move in March. How are you thinking about funding costs specifically from here? Are you able to still hold the line, or did you succumb to deposit pricing pressure as well as on the asset side?

David Nasca: Let me be a little finer on the definition, just so I don't mess you up here. What I was talking about when I was saying that, it was specifically the asset spread. So, rates have gone up. We spread over the FHLB cost of funds. Those spreads have tightened a bit from where they were, let's say, early last year. That was one thing.

With respect to the deposits, we're not seeing significant increases in our pricing, nor in competitive pricing in this marketplace. In addition to that, we have been successful in growing core non-interest checking deposits with our commercial loan growth, and on top of that, we've grown municipal deposits, which are going to be at a better price point than even some of our consumer deposits we expect.

Joe Fenech: Okay, that's helpful. The CRE concentration, total capital at quarter-end with the new capital in the door here?

David Nasca: Above 350.

Joe Fenech: Okay. Then just last one for me, Dave. Any new developments to speak of with the state activity, the Buffalo Billion, Western New York etc.?

David Nasca: Yes, I would characterize that, as the governor included in his fiscal budget, which was approved about two weeks ago, Kevin, is that right? About two weeks ago, Buffalo Billion 2, it is not as much money, I think it's more like $500 million, but they funded 43 North, which is the business competition.

They funded a metro transit study and a potential build-out of the subway and trains, intermodal transportation and a train station. They have funded some more foundational investments to get a few more shovel-ready sites near the Bethlehem Steel Complex. Other than that, there hasn't been fine definition as to where those dollars are going to go yet, but they did approve the second round of that.

Joe Fenech: Got it. Thank you.

David Nasca: You're welcome.

Operator: Thank you. Ladies and gentlemen, there are no further questions at this time. I'd like to turn the floor back to management for closing comments.

David Nasca: All right. I'd like to thank everybody for joining us today. We appreciate your time. I hope you can join us in July as we report our second quarter results, and we hope that everybody has a great day today. Thanks for joining us.

Operator: This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.