

Section 1: 10-Q (10-Q)

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United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For quarterly period ended September 30, 2020

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

For the transition period from to _____
Commission file number 001-35021

EVANS BANCORP, INC.

(Exact name of registrant as specified in its charter)

New York 16-1332767

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

6460 Main St, Williamsville, NY 14221

(Address of principal executive offices) (Zip Code)

(716) 926-2000

(Registrant's telephone number, including area code)

Not Applicable

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.50 par value	EVBN	NYSE American

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, \$.50 par value, 5,384,139 shares as of October 30, 2020.

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PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS
EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2020 AND DECEMBER 31, 2019
(in thousands, except share and per share amounts)

	September 30, 2020	December 31, 2019
ASSETS		
Cash and due from banks	\$ 15,386	\$ 10,577
Interest-bearing deposits at banks	88,249	28,280
Securities:		
Available for sale, at fair value (amortized cost: \$152,100 at September 30, 2020; \$127,217 at December 31, 2019)	155,761	127,922
Held to maturity, at amortized cost (fair value: \$5,084 at September 30, 2020; \$2,392 at December 31, 2019)	4,996	2,386
Federal Home Loan Bank common stock, at cost	3,591	1,588
Federal Reserve Bank common stock, at cost	2,323	1,956
Loans, net of allowance for loan losses of \$20,601 at September 30, 2020 and \$15,175 at December 31, 2019	1,682,475	1,211,356
Properties and equipment, net of accumulated depreciation of \$21,851 at September 30, 2020 and \$20,682 at December 31, 2019	18,726	13,754
Goodwill and intangible assets	15,085	12,545
Bank-owned life insurance	33,817	29,418
Operating lease right-of-use asset	5,524	3,720
Other assets	31,060	16,728
TOTAL ASSETS	\$ 2,056,993	\$ 1,460,230
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand	\$ 442,536	\$ 263,717
NOW	215,492	140,654
Savings	799,739	587,142
Time	323,211	275,927
Total deposits	1,780,978	1,267,440
Securities sold under agreement to repurchase	4,414	2,425
Other borrowings	47,583	10,000
Operating lease liability	5,940	4,154
Other liabilities	24,278	16,428
Junior subordinated debentures	30,912	11,330
Total liabilities	1,894,105	1,311,777
STOCKHOLDERS' EQUITY:		
Common stock, \$0.50 par value, 10,000,000 shares authorized; 5,377,243 and 4,929,593 shares issued at September 30, 2020 and December 31, 2019, respectively, and 5,376,742 and 4,929,283 outstanding at September 30, 2020 and December 31, 2019, respectively	2,691	2,467
Capital surplus	75,824	63,302
Treasury stock, at cost, 501 and 310 shares at September 30, 2020 and December 31, 2019, respectively	-	-
Retained earnings	84,499	85,267
Accumulated other comprehensive income (loss), net of tax	(126)	(2,583)
Total stockholders' equity	162,888	148,453
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,056,993	\$ 1,460,230

See Notes to Unaudited Consolidated Financial Statements

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EVANS BANCORP, INC. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
 THREE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
 (in thousands, except share and per share amounts)

	Three Months Ended September 30,	
	2020	2019
INTEREST INCOME		
Loans	\$ 16,847	\$ 15,645
Interest-bearing deposits at banks	26	159
Securities:		
Taxable	825	993
Non-taxable	68	48
Total interest income	17,766	16,845
INTEREST EXPENSE		
Deposits	1,641	3,038
Other borrowings	108	45
Junior subordinated debentures	375	141
Total interest expense	2,124	3,224
NET INTEREST INCOME	15,642	13,621
PROVISION (CREDIT) FOR LOAN LOSSES	1,881	(431)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	13,761	14,052
NON-INTEREST INCOME		
Deposit service charges	598	687
Insurance service and fees	3,217	3,225
Gain on sale of securities	667	-
Gain on loans sold	169	43
Bank-owned life insurance	170	160
Interchange fee income	481	438
Other	555	611
Total non-interest income	5,857	5,164
NON-INTEREST EXPENSE		
Salaries and employee benefits	8,101	7,644
Occupancy	1,204	853
Advertising and public relations	503	231
Professional services	865	1,009
Technology and communications	1,365	1,057
Amortization of intangibles	136	112
FDIC insurance	290	-
Merger-related	524	-
Other	1,480	1,370
Total non-interest expense	14,468	12,276
INCOME BEFORE INCOME TAXES	5,150	6,940
INCOME TAX PROVISION	606	1,776
NET INCOME	\$ 4,544	\$ 5,164
Net income per common share-basic	\$ 0.85	\$ 1.05
Net income per common share-diluted	\$ 0.84	\$ 1.04
Weighted average number of common shares outstanding	5,376,851	4,918,740
Weighted average number of diluted shares outstanding	5,395,806	4,976,639

See Notes to Unaudited Consolidated Financial Statements

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EVANS BANCORP, INC. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
 NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
 (in thousands, except share and per share amounts)

	Nine Months Ended September 30,	
	2020	2019
INTEREST INCOME		
Loans	\$ 47,497	\$ 45,149
Interest-bearing deposits at banks	223	564
Securities:		
Taxable	2,758	2,736
Non-taxable	180	263
Total interest income	50,658	48,712
INTEREST EXPENSE		
Deposits	6,471	8,883
Other borrowings	232	135
Junior subordinated debentures	604	431
Total interest expense	7,307	9,449
NET INTEREST INCOME	43,351	39,263
PROVISION FOR LOAN LOSSES	5,477	197
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	37,874	39,066
NON-INTEREST INCOME		
Deposit service charges	1,623	1,822
Insurance service and fees	8,309	8,568
Gain on sale of securities	667	42
Gain on loans sold	359	105
Bank-owned life insurance	508	492
Loss on tax credit investment	(2,475)	-
Refundable state historic tax credit	1,857	-
Interchange fee income	1,270	1,299
Other	1,316	1,761
Total non-interest income	13,434	14,089
NON-INTEREST EXPENSE		
Salaries and employee benefits	23,903	22,273
Occupancy	3,127	2,561
Advertising and public relations	895	612
Professional services	2,651	2,683
Technology and communications	3,928	3,049
Amortization of intangibles	400	336
FDIC insurance	751	357
Merger-related	5,958	-
Other	3,737	3,778
Total non-interest expense	45,350	35,649
INCOME BEFORE INCOME TAXES	5,958	17,506
INCOME TAX PROVISION	741	4,240
NET INCOME	\$ 5,217	\$ 13,266
Net income per common share-basic	\$ 1.01	\$ 2.71
Net income per common share-diluted	\$ 1.00	\$ 2.68
Weighted average number of common shares outstanding	5,179,386	4,889,029
Weighted average number of diluted shares outstanding	5,214,950	4,957,689

See Notes to Unaudited Consolidated Financial Statements

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UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

(in thousands)

	Three Months Ended September 30,	
	2020	2019
NET INCOME	\$ 4,544	\$ 5,164
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX:		
Unrealized gain (loss) on available-for-sale securities:		
Unrealized (loss) gain on available-for-sale securities	(339)	523
Reclassification of gain on sale of securities	(494)	-
Total	(833)	523
Defined benefit pension plans:		
Amortization of prior service cost	6	6
Amortization of actuarial loss	84	62
Total	90	68
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX	(743)	591
COMPREHENSIVE INCOME	\$ 3,801	\$ 5,755

*See Notes to Unaudited Consolidated Financial Statements*EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

(in thousands)

	Nine Month Ended September 30,	
	2020	2019
NET INCOME	\$ 5,217	\$ 13,266
OTHER COMPREHENSIVE INCOME, NET OF TAX:		
Unrealized gain on available-for-sale securities:		
Unrealized gain on available-for-sale securities	2,684	3,328
Reclassification of gain on sale of securities	(494)	(31)
Total	2,190	3,297
Defined benefit pension plans:		
Amortization of prior service cost	17	17
Amortization of actuarial loss	250	185
Total	267	202
OTHER COMPREHENSIVE INCOME, NET OF TAX	2,457	3,499
COMPREHENSIVE INCOME	\$ 7,674	\$ 16,765

See Notes to Unaudited Consolidated Financial Statements

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EVANS BANCORP, INC. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 THREE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
 (in thousands, except share and per share amounts)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, June 30, 2019	\$ 2,460	\$ 62,353	\$ 78,919	\$ (2,445)	\$ 141,287
Net Income			5,164		5,164
Other comprehensive income				591	591
Cash dividends (\$0.52 per common share)			(2,558)		(2,558)
Stock compensation expense		243			243
Issued 4,703 shares in stock option exercises	2	140			142
Balance, September 30, 2019	<u>\$ 2,462</u>	<u>\$ 62,736</u>	<u>\$ 81,525</u>	<u>\$ (1,854)</u>	<u>\$ 144,869</u>
Balance, June 30, 2020	\$ 2,691	\$ 75,617	\$ 83,073	\$ 617	\$ 161,998
Net Income			4,544		4,544
Other comprehensive income				(743)	(743)
Cash dividends (\$0.58 per common share)			(3,118)		(3,118)
Stock compensation expense		207			207
Balance, September 30, 2020	<u>\$ 2,691</u>	<u>\$ 75,824</u>	<u>\$ 84,499</u>	<u>\$ (126)</u>	<u>\$ 162,888</u>

See Notes to Unaudited Consolidated Financial Statements

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EVANS BANCORP, INC. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
 (in thousands, except share and per share amounts)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2018	\$ 2,429	\$ 61,225	\$ 73,345	\$ (5,353)	\$ 131,646
Net Income			13,266		13,266
Other comprehensive income				3,499	3,499
Cash dividends (\$1.04 per common share)			(5,086)		(5,086)
Stock compensation expense		692			692
Reissued 500 restricted shares					-
Issued 22,120 restricted shares, net of forfeitures	12	(12)			-
Issued 3,866 shares under Dividend Reinvestment Plan	2	137			139
Issued 6,183 shares in Employee Stock Purchase Plan	3	195			198
Issued 29,058 shares in stock option exercises	16	499			515
Balance, September 30, 2019	<u>\$ 2,462</u>	<u>\$ 62,736</u>	<u>\$ 81,525</u>	<u>\$ (1,854)</u>	<u>\$ 144,869</u>
Balance, December 31, 2019	\$ 2,467	\$ 63,302	\$ 85,267	\$ (2,583)	\$ 148,453
Net Income			5,217		5,217
Other comprehensive income				2,457	2,457
Cash dividends (\$1.16 per common share)			(5,985)		(5,985)
Stock compensation expense		668			668
Reissued 310 restricted shares					-
Issued 5,988 restricted shares, net of forfeitures	3	(3)			-
Issued 10,669 shares in Employee Stock Purchase Plan	5	206			211
Issued 8,017 shares in stock option exercises	4	130			134
Issued 422,475 shares in stock consideration	212	11,521			11,733
Balance, September 30, 2020	<u>\$ 2,691</u>	<u>\$ 75,824</u>	<u>\$ 84,499</u>	<u>\$ (126)</u>	<u>\$ 162,888</u>

See Notes to Unaudited Consolidated Financial Statements

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EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(in thousands)

	Nine Months Ended September 30,	
	2020	2019
OPERATING ACTIVITIES:		
Interest received	\$ 47,190	\$ 48,957
Fees received	12,462	13,404
Interest paid	(7,447)	(9,226)
Cash paid to employees and vendors	(41,580)	(36,888)
Income taxes paid	(1,957)	(1,586)
Proceeds from sale of loans held for sale	9,895	7,698
Originations of loans held for sale	(9,184)	(7,733)
Net cash provided by operating activities	9,379	14,626
INVESTING ACTIVITIES:		
Available for sales securities:		
Purchases	(76,311)	(46,893)
Proceeds from sales, maturities, calls, and payments	73,291	48,694
Held to maturity securities:		
Purchases	(5,082)	(1,141)
Proceeds from maturities, calls, and payments	2,471	307
Cash paid for bank-owned life insurance	-	(360)
Additions to properties and equipment	(3,874)	(4,513)
Proceeds from sales of assets	-	185
Purchase of tax credit investment	(3,116)	-
Net cash used in acquisitions	(6,490)	-
Sale of other real estate	718	-
Net increase in loans	(204,679)	(62,823)
Net cash used in investing activities	(223,072)	(66,544)
FINANCING ACTIVITIES:		
Proceeds from borrowings	20,274	4,275
Repayment of short-term borrowings	(13,646)	-
Net increase in deposits	274,365	43,748
Dividends paid	(2,867)	(2,528)
Issuance of common stock	345	852
Net cash provided by financing activities	278,471	46,347
Net increase in cash and cash equivalents	64,778	(5,571)
CASH AND CASH EQUIVALENTS:		
Beginning of period	38,857	39,915
End of period	\$ 103,635	\$ 34,344

See Notes to Unaudited Consolidated Financial Statements

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EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(in thousands)

	Nine Months Ended September 30,	
	2020	2019
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	\$ 5,217	\$ 13,266
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,107	1,505
Deferred tax benefit	(2,720)	(201)
Provision for loan losses	5,477	197
Loss on tax credit investment	2,475	-
Changes in refundable state historic tax credit	(1,857)	-
Net gain on sales of assets	(90)	(3)
Gain on sales of securities	(667)	(42)
Gain on loans sold	(359)	(105)
Stock compensation expense	668	692
Proceeds from sale of loans held for sale	9,895	7,698
Originations of loans held for sale	(9,184)	(7,733)
Changes in assets and liabilities affecting cash flow:		
Other assets	(4,647)	(5,508)
Other liabilities	3,064	4,860
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 9,379	\$ 14,626

See Notes to Unaudited Consolidated Financial Statements

SUPPLEMENTAL DISCLOSURE OF NON-CASH
INVESTMENTS AND FINANCIAL ACTIVITIES:

Fair value of assets acquired in acquisition (non-cash)	\$ 311,847	\$ -
Fair value of liabilities assumed in acquisition	296,076	-

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EVANS BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2020 AND 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Financial Accounting Standards Board (“FASB”) establishes changes to GAAP in the form of accounting standards updates (“ASUs”) to the FASB Accounting Standards Codification. The Company considers the applicability and impact of all ASUs when they are issued by FASB. ASUs adopted by the Company during the current fiscal year are not expected to have a material impact on the Company’s consolidated financial position, results of operations, cash flows or disclosures.

The results of operations for the nine month period ended September 30, 2020 are not necessarily indicative of the results to be expected for the full year.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) a global pandemic, and recommended containment and mitigation measures worldwide. Federal and state governments have taken unprecedented actions to contain the spread of the disease, including quarantines, travel bans, shelter-in-place orders, closures of businesses and schools, fiscal stimulus, and legislation designed to deliver monetary aid and other relief to businesses and individuals impacted by the pandemic. Although in various locations certain activity restrictions have been relaxed with some level of success, in many states and localities the number of individuals diagnosed with COVID-19 has increased significantly, which is causing a freezing or, in certain cases, a reversal of previously announced relaxation of activity restrictions and is prompting the need for additional aid and other forms of relief. Management is currently unable to determine the extent of the potential impacts to the Company’s financial condition or results of operations.

The Coronavirus Aid, Relief and Economic Security (“CARES”) Act was passed by Congress on March 27, 2020. In keeping with regulatory guidance to work with borrowers during this unprecedented situation and as outlined in the CARES Act, the Company has worked with customers directly affected by COVID-19 and offered short-term assistance in accordance with regulatory guidelines. Commercial borrowers needing assistance have been offered a 90-day principal and interest deferral. Commercial borrowers that originally requested a 90-day deferral can request an additional 90-day deferral by providing their financial information, including current year interim financial information and projections to show a need for the additional 90-day deferral. Consumers needing assistance have been offered a 90-day principal and interest deferral with an option to request an additional 90-day deferral. As of October 20, 2020, total deferrals amounted to \$8 million compared with \$407 million at June 30, 2020. While interest and fees will still accrue to income, should credit losses on these deferred payments emerge, interest income and fees accrued would need to be reversed. In such a scenario, interest income in future periods could be negatively impacted. The Company recognizes the breadth of the economic impact may affect its borrowers’ ability to repay in future periods. We continue to actively monitor developments related to COVID-19 and its impact to our business, customers, employees, counterparties, vendors, and service providers. During the third quarter of 2020, the Company identified a well-defined weakness in the hotel industry resulting in downgrades of the credit risk ratings for a majority of the loans to clients within that industry. As of September 30, 2020, the Company’s hotel loan portfolio was \$81 million, or approximately 6.5%, of total commercial loans. During the first nine months of 2020, the most notable financial impacts to our results of operations was a higher provision for loan losses primarily reflecting the substantial increase in economic uncertainty and the resultant potential for increased credit losses in future periods as a consequence of the COVID-19 pandemic.

The accompanying unaudited consolidated financial statements should be read in conjunction with the Audited Consolidated Financial Statements and the Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2019 (“10-K”). There have been no significant changes to the Company’s significant accounting policies as disclosed in Note 1 to the 10-K, as supplemented by the disclosure in footnote 1 to the Consolidated Financial Statements in Part I of the Quarterly Report on Form 10-Q for the quarter ended June 30, 2020.

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2. ACQUISITIONS

On May 1, 2020, the Company completed the acquisition of FSB Bancorp, Inc., a Maryland corporation and the parent holding company of Fairport Savings Bank (“FSB”). On that date, FSB was merged into Evans Bank, a wholly owned banking subsidiary of the Company. At the time of closing, FSB had \$321.7 million in total assets, including \$272.1 million in net loans receivable and \$21.4 million in securities, and \$293.1 million in total liabilities, including \$237.7 million in deposits and \$50.6 million in borrowings. FSB operated 5 banking offices in New York at the date of acquisition. After application of the election, allocation and proration procedures contained in the merger agreement, the Company paid \$17.1 million in cash and issued 422,475 shares of Evans Bancorp, Inc. common stock in exchange for all of the shares of common stock of FSB Bancorp, Inc. outstanding at the time of the acquisition. The \$11.7 million fair value of the shares issued as part of the consideration paid for FSB was determined on the basis of the closing market price of the Company’s shares on April 30, 2020.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. The assets and liabilities, both tangible and intangible were recorded at their fair values as of May 1, 2020 based on management’s best estimate using the information available as of the merger date. The application of the acquisition method of accounting resulted in the recognition of goodwill of \$1.8 million and a core deposit intangible of \$0.2 million. Accounting guidance provides that an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period, which runs through May 1, 2021, in the measurement period in which the adjustment amounts are determined. The acquirer must record in the financial statements, the effect on earnings of changes in depreciation, amortization or other income effects, if any, as a result of the changes to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The Company will prepare tax returns related to the operation of the combined entities and the acquired entity and believes certain adjustments to income tax balances and goodwill may result upon completion of these returns.

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The Company recorded the assets acquired and liabilities assumed through the merger at fair value as summarized in the following table:

	As Recorded by FSB	Fair Value Adjustments	As Recorded at Acquisition
(in thousands)			
Cash and due from banks	\$ 1,978	\$ -	\$ 1,978
Interest-bearing deposit at banks	9,339	-	9,339
Securities	21,371	106 (a)	21,477
FHLB Stock	2,614	-	2,614
Loans receivable	273,869	(2,484)(b)	271,385
Allowance for loan losses	(1,706)	1,706 (c)	-
Premises and equipment	2,303	(56)(d)	2,247
Intangible assets	-	166 (e)	166
Bank owned life insurance	3,891	-	3,891
Operating lease right-of-use asset	2,020	374 (f)	2,394
Other assets	6,033	1,640 (g)	7,673
Total assets acquired	<u>\$ 321,712</u>	<u>\$ 1,452</u>	<u>\$ 323,164</u>
Deposits	237,688	1,485 (h)	239,173
Other borrowed funds	50,597	1,929 (i)	52,526
Operating lease liability	2,217	176 (j)	2,393
Other liabilities	2,557	(573)(k)	1,984
Total liabilities assumed	<u>\$ 293,059</u>	<u>\$ 3,017</u>	<u>\$ 296,076</u>
Net assets acquired			27,088
Purchase price			<u>28,856</u>
Goodwill recorded in merger			<u>\$ 1,768</u>

Explanation of certain fair value related adjustments:

- (a) Represents the fair value adjustments on investment securities.
- (b) Represents the fair value adjustments on the net book value of loans, which includes an interest rate mark and credit mark adjustment and the write-off of deferred fees/costs and premiums.
- (c) Represents the elimination of FSB's allowance for loan losses.
- (d) Represents the fair value adjustments to reflect the fair value of land and buildings and premises and equipment, which will be amortized on a straight-line basis over the estimated useful lives of the individual assets.
- (e) Represents the intangible assets recorded to reflect the fair value of core deposits. The core deposit asset was recorded as an identifiable intangible asset and will be amortized on an accelerated basis over the estimated average life of the deposit base.
- (f) Represents the fair value adjustments on operating lease right of use assets.
- (g) Represents an adjustment to other assets acquired. The largest adjustment was to net deferred tax assets resulting from the fair value adjustments related to the acquired assets, liabilities assumed and identifiable intangible assets recorded.
- (h) Represents fair value adjustments on time deposits, which will be treated as a reduction of interest expense over the remaining term of the time deposits.
- (i) Represents the fair value adjustments on FHLB borrowings, which will be treated as a decrease to interest expense over the life of the borrowings.
- (j) Represents the fair value adjustments on operating lease liabilities.
- (k) Represents an adjustment to other liabilities assumed.

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The fair value of loans acquired from FSB were estimated using cash flow projections based on the remaining maturity and repricing terms. Cash flows were adjusted by estimating future credit losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value using a risk-adjusted market rate for similar loans. There was no carryover of FSB's allowance for loan losses associated with the loans that were acquired, as the loans were initially recorded at fair value on the date of the FSB merger.

The core deposit intangible asset recognized is being amortized over its estimated useful life of approximately 10 years and the amortization is based on dollar weighted deposit runoff on an annualized basis.

Goodwill is not amortized for book purposes; however, it is reviewed at least annually for impairment and is not deductible for tax purposes.

The fair value of land and buildings was estimated using appraisals. Acquired equipment was not material. Buildings are amortized over their estimated useful lives of approximately 39 years. Improvements and equipment are amortized or depreciated over their estimated useful lives ranging up to 10 years.

The fair value of retail demand and interest bearing deposit accounts was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. The fair value of time deposits was estimated by discounting the contractual future cash flows using market rates offered for time deposits of similar remaining maturities.

Other borrowed funds include borrowings from the Federal Home Loan Bank ("FHLB"). The fair value of these borrowings was estimated by discounting the contractual future cash flows using FHLB rates offered of similar maturities.

Direct acquisition and other charges incurred in connection with the FSB merger were expensed as incurred and totaled \$6.0 million for the nine months ended September 30, 2020. These expenses were recorded in merger-related expense on the consolidated statements of income.

The following table presents selected unaudited pro forma financial information reflecting the FSB merger assuming it was completed as of January 1, 2019. The unaudited pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the financial results of the combined companies had the FSB merger actually been completed at the beginning of the periods presented, nor does it indicate future results for any other interim or full year period. The unaudited pro forma information is based on the actual financial statements of the Company for the periods presented, and on the actual financial statements of FSB for the three and nine months ended September 30, 2020 and 2019 until the date of the FSB merger, at which time FSB's results of operations were included in the Company's financial statements.

	Three months ended September 30,		Nine months ended September 30,					
	2020	2019	2020	2019				
	(in thousands)							
Net Interest Income	\$	13,250	\$	15,779	\$	40,014	\$	46,185
Non-Interest Income		5,857		5,718		14,023		15,441
Non-Interest Expense		13,944		14,764		42,905		43,026
Net Income		4,554		5,355		9,046		14,416

The unaudited supplemental pro forma information for the three and nine months ended September 30, 2020 and 2019 set forth above reflects adjustments related to (a) purchase accounting fair value adjustments; (b) amortization of core deposit; and (c) adjustments to interest income and expense due to amortization of premiums and accretion of discounts. Direct merger-related expenses incurred in the three and nine months periods ended September 30, 2020 are assumed to have occurred prior to January 1, 2019. Furthermore, the unaudited supplemental pro forma information does not reflect management's estimate of any revenue enhancement opportunities or anticipated potential cost savings for periods that include data as of May 1, 2020 or earlier.

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3. SECURITIES

The amortized cost of securities and their approximate fair value at September 30, 2020 and December 31, 2019 were as follows:

	September 30, 2020			
	(in thousands)			
	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
Available for Sale:				
Debt securities:				
U.S. government agencies	\$ 61,631	\$ 776	\$ (128)	\$ 62,279
States and political subdivisions	7,375	175	(5)	7,545
Total debt securities	69,006	951	(133)	69,824
Mortgage-backed securities:				
FNMA	24,305	750	(18)	25,037
FHLMC	4,066	120	-	4,186
GNMA	2,305	46	(1)	2,350
SBA	21,259	977	(34)	22,202
CMO	31,159	1,003	-	32,162
Total mortgage-backed securities	83,094	2,896	(53)	85,937
Total securities designated as available for sale	<u>\$ 152,100</u>	<u>\$ 3,847</u>	<u>\$ (186)</u>	<u>\$ 155,761</u>
Held to Maturity:				
Debt securities				
States and political subdivisions	\$ 4,996	\$ 88	\$ -	\$ 5,084
Total securities designated as held to maturity	<u>\$ 4,996</u>	<u>\$ 88</u>	<u>\$ -</u>	<u>\$ 5,084</u>
December 31, 2019				
(in thousands)				
	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
Available for Sale:				
Debt securities:				
U.S. government agencies	\$ 27,951	\$ 225	\$ (21)	\$ 28,155
States and political subdivisions	3,289	69	(7)	3,351
Total debt securities	31,240	294	(28)	31,506
Mortgage-backed securities:				
FNMA	34,395	330	(53)	34,672
FHLMC	15,390	137	(13)	15,514
GNMA	3,421	16	(24)	3,413
SBA	13,752	90	(70)	13,772
CMO	29,019	190	(164)	29,045
Total mortgage-backed securities	95,977	763	(324)	96,416
Total securities designated as available for sale	<u>\$ 127,217</u>	<u>\$ 1,057</u>	<u>\$ (352)</u>	<u>\$ 127,922</u>
Held to Maturity:				
Debt securities				
States and political subdivisions	\$ 2,386	\$ 24	\$ (18)	\$ 2,392
Total securities designated as held to maturity	<u>\$ 2,386</u>	<u>\$ 24</u>	<u>\$ (18)</u>	<u>\$ 2,392</u>

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Available for sale securities with a total fair value of \$128 million and \$102 million at September 30, 2020 and December 31, 2019, respectively, were pledged as collateral to secure public deposits and for other purposes required or permitted by law.

The scheduled maturities of debt and mortgage-backed securities at September 30, 2020 and December 31, 2019 are summarized below. All maturity amounts are contractual maturities. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call premiums.

	September 30, 2020		December 31, 2019	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
	(in thousands)			
Debt securities available for sale:				
Due in one year or less	\$ 3,790	\$ 3,802	\$ 6,005	\$ 6,014
Due after one year through five years	7,768	7,971	6,481	6,626
Due after five years through ten years	23,959	24,658	18,754	18,866
Due after ten years	33,489	33,393	-	-
	69,006	69,824	31,240	31,506
Mortgage-backed securities available for sale	83,094	85,937	95,977	96,416
Total	\$ 152,100	\$ 155,761	\$ 127,217	\$ 127,922

Debt securities held to maturity:

Due in one year or less	\$ 3,944	\$ 3,949	\$ 1,139	\$ 1,140
Due after one year through five years	564	597	712	732
Due after five years through ten years	45	48	54	54
Due after ten years	443	490	481	466
Total	\$ 4,996	\$ 5,084	\$ 2,386	\$ 2,392

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.

During the three months ended September 30, 2020, the Company received \$23.3 million from the sale of investment securities. Gross realized gains from sales of investment securities for the three month and nine month periods ended September 30, 2020 were \$0.7 million. There were no significant gross realized gains or losses from sales of investment securities for the three month and nine month periods ended September 30, 2019. Information regarding unrealized losses within the Company's available for sale securities at September 30, 2020 and December 31, 2019 is summarized below. The securities are primarily U.S. government-guaranteed agency securities or municipal securities.

September 30, 2020						
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	\$ 27,432	\$ (128)	\$ -	\$ -	\$ 27,432	\$ (128)
States and political subdivisions	-	-	181	(5)	181	(5)
Total debt securities	27,432	(128)	181	(5)	27,613	(133)
Mortgage-backed securities:						
FNMA	238	(1)	1,396	(17)	1,634	(18)
FHLMC	90	-	-	-	90	-
GNMA	156	(1)	-	-	156	(1)
SBA	-	-	1,406	(34)	1,406	(34)
CMO	-	-	-	-	-	-
Total mortgage-backed securities	484	(2)	2,802	(51)	3,286	(53)
Held to Maturity:						
Debt securities:						
States and political subdivisions	-	-	-	-	-	-
Total temporarily impaired securities	\$ 27,916	\$ (130)	\$ 2,983	\$ (56)	\$ 30,899	\$ (186)

December 31, 2019						
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	\$ 1,976	\$ (18)	\$ 3,997	\$ (3)	\$ 5,973	\$ (21)
States and political subdivisions	-	-	181	(7)	181	(7)
Total debt securities	1,976	(18)	4,178	(10)	6,154	(28)
Mortgage-backed securities:						
FNMA	5,355	(38)	3,630	(15)	8,985	(53)
FHLMC	-	-	1,242	(13)	1,242	(13)
GNMA	2,091	(22)	770	(2)	2,861	(24)
SBA	5,171	(70)	-	-	5,171	(70)
CMO	5,706	(36)	8,911	(128)	14,617	(164)
Total mortgage-backed securities	18,323	(166)	14,553	(158)	32,876	(324)
Held to Maturity:						
Debt securities:						
States and political subdivisions	227	(1)	2,165	(17)	2,392	(18)
Total temporarily impaired securities	\$ 20,526	\$ (185)	\$ 20,896	\$ (185)	\$ 41,422	\$ (370)

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Management has assessed the securities available for sale in an unrealized loss position at September 30, 2020 and December 31, 2019 and determined the decline in fair value below amortized cost to be temporary. In making this determination, management considered the period of time the securities were in a loss position, the percentage decline in comparison to the securities' amortized cost, and the financial condition of the issuer (primarily government or government-sponsored enterprises). In addition, management does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before recovery of their amortized cost. Management believes the decline in fair value is primarily related to market interest rate fluctuations and not to the credit deterioration of the individual issuers.

The Company has not recorded any other-than-temporary impairment ("OTTI") charges during the nine months ended September 30, 2020 and did not record any OTTI charges during 2019. The credit worthiness of the Company's securities portfolio is largely reliant on the ability of U.S. government sponsored agencies such as Federal Home Loan Bank ("FHLB"), Federal National Mortgage Association ("FNMA"), Government National Mortgage Association ("GNMA"), and Federal Home Loan Mortgage Corporation ("FHLMC"), and municipalities throughout New York State to meet their obligations. In addition, dysfunctional markets could materially alter the liquidity, interest rate, and pricing risk of the portfolio. The stable past performance is not a guarantee for similar performance of the Company's securities portfolio in future periods.

4. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Loan Portfolio Composition

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Mortgage loans on real estate:	(in thousands)	
Residential mortgages	\$ 364,598	\$ 158,572
Commercial and multi-family	702,624	645,036
Construction-Residential	6,761	1,067
Construction-Commercial	102,011	97,848
Home equities	<u>84,863</u>	<u>69,351</u>
Total real estate loans	1,260,857	971,874
Commercial and industrial loans	448,092	251,197
Consumer and other loans	412	1,926
Unaccreted yield adjustments*	<u>(6,285)</u>	<u>1,534</u>
Total gross loans	1,703,076	1,226,531
Allowance for loan losses	<u>(20,601)</u>	<u>(15,175)</u>
Loans, net	<u>\$ 1,682,475</u>	<u>\$ 1,211,356</u>

* Includes net premiums and discounts on acquired loans and net deferred fees and costs on loans originated, including \$5.8 million of PPP fees at September 30, 2020.

The CARES Act established a loan program administered through the U.S. Small Business Administration (SBA), referred to as the paycheck protection program ("PPP"). PPP loans are 100% guaranteed by the SBA and are forgivable, in whole or in part, if the proceeds are used for payroll and other permitted purposes in accordance with the requirements of the PPP. These loans carry a fixed rate of 1.00% and a term of two years (loans made before June 5, 2020) or five years (loans made on or after June 5, 2020), if not forgiven, in whole or in part. Payments are deferred until either the date on which the SBA remits the amount of forgiveness proceeds to the lender or the date that is 10 months after the last day of the covered period if the borrower does not apply for forgiveness within that 10 month period. Through September 30, 2020, the Company had originated 1,931 PPP loans totaling \$203 million, included in commercial and industrial loans. PPP loans did not impact the Company's allowance for loan loss as a result of the SBA guarantees. Fees collected from the SBA for these loans in the nine month period ended September 30, 2020 totaled \$7.4 million. These fees are deferred and amortized into interest income over the contractual period of the loan. Upon SBA forgiveness or sale of a PPP loan, unamortized fees are then recognized into interest income. As of September 30, 2020, no PPP loans had received SBA forgiveness.

In connection with the FSB acquisition, the Company acquired \$271 million in total loans, primarily residential real estate. At September 30, 2020, the outstanding principal balance and carrying amount of acquired credit-impaired loans totaled \$0.9 million and \$0.8 million, respectively. The Company is not recording interest on the acquired credit-impaired loans due to the uncertainty of the cash flows relating to such loans. There were no valuation allowances for specifically identified impairment attributable to acquired credit-impaired loans at September 30, 2020. The Company did not have any acquired credit-impaired loans as of December 31, 2019.

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Also in connection with the FSB acquisition, the Company acquired a loan serving portfolio of \$107 million in principal balances in which residential real estate loans were sold to FHLMC and the servicing rights are retained by the Company. No loans were sold to FHLMC by the Company during the three and nine month periods ending September 30, 2020 and 2019.

The Company also sells certain fixed rate residential mortgages to FNMA while maintaining the servicing rights for those mortgages. In the three and nine month periods ended September 30, 2020, the Company sold mortgages to FNMA totaling \$7.2 million and \$15.0 million, respectively. In the three and nine month periods ended September 30, 2019, the Company sold mortgages to FNMA totaling \$3.0 million and \$7.6 million, respectively.

At September 30, 2020 and December 31, 2019, the Company had loan servicing portfolio principal balances of \$185 million and \$76 million, respectively, upon which it earned servicing fees. The fair value of the mortgage servicing rights for that portfolio was \$1.0 million and \$0.6 million at September 30, 2020 and December 31, 2019, respectively. At September 30, 2020 there were no residential mortgages held for sale. At December 31, 2019 there were \$0.7 million in residential mortgages held for sale.

These financial statements should be read in conjunction with the Audited Consolidated Financial Statements and the Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2019. Disclosures related to the basis for accounting for loans, the method for recognizing interest income on loans, the policy for placing loans on nonaccrual status and the subsequent recording of payments and resuming accrual of interest, the policy for determining past due status, a description of the Company's accounting policies and methodology used to estimate the allowance for loan losses, the policy for charging-off loans, the accounting policies for impaired loans, and more descriptive information on the Company's credit risk ratings are all contained in the Notes to the Audited Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2019. The accounting policy for loans acquired in a business combination is included in Note 1 of the Quarterly Report on Form 10-Q for the quarter ended June 30, 2020. There have been no significant changes to the Company's significant accounting policies as disclosed in Note 1 to the 10-K, as supplemented in the Quarterly Report on Form 10-Q for the quarter ended June 30, 2020.

Credit Quality Indicators

The Company monitors the credit risk in its loan portfolio by reviewing certain credit quality indicators ("CQI"). The primary CQI for the commercial mortgage and commercial and industrial 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:

- Acceptable or better
- Watch
- Special Mention
- Substandard
- Doubtful
- Loss

"Special mention" and "substandard" loans are weaker credits with a higher risk of loss and are categorized as "criticized" assets.

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. Unlike commercial customers, consumer loan customers are not required to provide the Company with updated financial information. Consumer loans also carry smaller balances. Given the lack of updated information after the initial underwriting of the loan and small size of individual loans, the Company uses delinquency status as the primary credit quality indicator for consumer loans. However, once a consumer loan is identified as impaired, it is individually evaluated for impairment.

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The Company continues to evaluate its loan portfolio in response to the economic impact of the COVID-19 pandemic on its clients. The increase in the watch category during the nine months ended September 30, 2020 was a result of the Company reclassifying all commercial loans that received a deferral into the watch or criticized categories. The Company will reassess the watch classification after the deferral's termination dates and evidence of continuation of payments as contracted. During the third quarter of 2020, the Company identified a well-defined weakness in the hotel industry and classified the loans to clients within that industry as substandard. As of September 30, 2020, the Company's hotel loan portfolio was \$81 million, or approximately 6.5%, of total commercial loans. As a result, total criticized assets increased to \$133 million at September 30, 2020 compared with \$51 million at the end of the 2019.

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

September 30, 2020				
(in thousands)				
Corporate Credit Exposure – By Credit Rating	Commercial Real Estate Construction	Commercial and Multi-Family Mortgages	Total Commercial Real Estate	Commercial and Industrial
Acceptable or better	\$ 52,162	\$ 314,997	\$ 367,159	\$ 339,810
Watch	21,322	303,965	325,287	87,414
Special Mention	2,088	13,985	16,073	5,855
Substandard	26,439	69,677	96,116	15,013
Doubtful/Loss	-	-	-	-
Total	\$ 102,011	\$ 702,624	\$ 804,635	\$ 448,092

December 31, 2019				
(in thousands)				
Corporate Credit Exposure – By Credit Rating	Commercial Real Estate Construction	Commercial and Multi-Family Mortgages	Total Commercial Real Estate	Commercial and Industrial
Acceptable or better	\$ 73,646	\$ 451,297	\$ 524,943	\$ 165,255
Watch	13,380	171,277	184,657	68,665
Special Mention	8,359	15,725	24,084	7,631
Substandard	2,463	6,737	9,200	9,646
Doubtful/Loss	-	-	-	-
Total	\$ 97,848	\$ 645,036	\$ 742,884	\$ 251,197

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

September 30, 2020

(in thousands)

	<u>Current Balance</u>	<u>30-59 days</u>	<u>60-89 days</u>	<u>90+ days</u>	<u>Non-accruing Loans</u>	<u>Total Balance</u>
Commercial and industrial	\$ 440,340	\$ 575	\$ 227	\$ -	\$ 6,950	\$ 448,092
Residential real estate:						
Residential	360,418	58	1,266	-	2,856	364,598
Construction	6,038	-	723	-	-	6,761
Commercial real estate:						
Commercial	687,280	-	6,053	594	8,697	702,624
Construction	100,555	-	150	-	1,306	102,011
Home equities	82,864	929	11	-	1,059	84,863
Consumer and other	398	3	7	4	-	412
Total Loans	<u>\$ 1,677,893</u>	<u>\$ 1,565</u>	<u>\$ 8,437</u>	<u>\$ 598</u>	<u>\$ 20,868</u>	<u>\$ 1,709,361</u>

Note: Loan balances do not include \$(6.3) million of unaccreted yield adjustments as of September 30, 2020.

December 31, 2019

(in thousands)

	<u>Current Balance</u>	<u>30-59 days</u>	<u>60-89 days</u>	<u>90+ days</u>	<u>Non-accruing Loans</u>	<u>Total Balance</u>
Commercial and industrial	\$ 245,658	\$ 705	\$ -	\$ -	\$ 4,834	\$ 251,197
Residential real estate:						
Residential	153,630	2,616	888	-	1,438	158,572
Construction	865	-	202	-	-	1,067
Commercial real estate:						
Commercial	630,016	3,482	5,879	-	5,659	645,036
Construction	92,667	2,886	720	-	1,575	97,848
Home equities	67,868	354	239	-	890	69,351
Consumer and other	1,907	15	4	-	-	1,926
Total Loans	<u>\$ 1,192,611</u>	<u>\$ 10,058</u>	<u>\$ 7,932</u>	<u>\$ -</u>	<u>\$ 14,396</u>	<u>\$ 1,224,997</u>

Note: Loan balances do not include \$1.5 million of unamortized yield adjustments as of December 31, 2019.

Allowance for loan losses

The following tables present the activity in the allowance for loan losses according to portfolio segment for the three month periods ended September 30, 2020 and 2019.

September 30, 2020						
	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total
Allowance for loan losses:	(in thousands)					
Beginning balance	\$ 5,260	\$ 11,625	\$ 233	\$ 1,147	\$ 489	\$ 18,754
Charge-offs	(124)	(5)	(14)	-	-	(143)
Recoveries	105	-	4	-	-	109
Provision (Credit)	(23)	1,843	(187)	218	30	1,881
Ending balance	<u>\$ 5,218</u>	<u>\$ 13,463</u>	<u>\$ 36</u>	<u>\$ 1,365</u>	<u>\$ 519</u>	<u>\$ 20,601</u>

September 30, 2019						
	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total
Allowance for loan losses:	(in thousands)					
Beginning balance	\$ 5,272	\$ 8,637	\$ 130	\$ 883	\$ 326	\$ 15,248
Charge-offs	(91)	(55)	(40)	-	-	(186)
Recoveries	747	-	4	-	-	751
Provision (Credit)	(732)	358	45	(87)	(15)	(431)
Ending balance	<u>\$ 5,196</u>	<u>\$ 8,940</u>	<u>\$ 139</u>	<u>\$ 796</u>	<u>\$ 311</u>	<u>\$ 15,382</u>

* Includes construction loans

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The following tables present the activity in the allowance for loan losses according to portfolio segment for the nine month periods ended September 30, 2020 and 2019:

Nine months ended September 30, 2020						
(in thousands)						
	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total
Allowance for loan losses:						
Beginning balance	\$ 4,547	\$ 9,005	\$ 155	\$ 1,071	\$ 397	\$ 15,175
Charge-offs	(143)	(5)	(44)	(29)	(4)	(225)
Recoveries	141	11	22	-	-	174
Provision (Credit)	673	4,452	(97)	323	126	5,477
Ending balance	<u>\$ 5,218</u>	<u>\$ 13,463</u>	<u>\$ 36</u>	<u>\$ 1,365</u>	<u>\$ 519</u>	<u>\$ 20,601</u>

* Includes construction loans

Note: Loan balances do not include \$(6.3) million of unaccreted yield adjustments as of September 30, 2020.

Nine months ended September 30, 2019						
(in thousands)						
	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total
Allowance for loan losses:						
Beginning balance	\$ 4,368	\$ 8,844	\$ 106	\$ 1,121	\$ 345	\$ 14,784
Charge-offs	(248)	(56)	(94)	-	-	(398)
Recoveries	786	-	13	-	-	799
Provision (Credit)	290	152	114	(325)	(34)	197
Ending balance	<u>\$ 5,196</u>	<u>\$ 8,940</u>	<u>\$ 139</u>	<u>\$ 796</u>	<u>\$ 311</u>	<u>\$ 15,382</u>

* Includes construction loans

Note: Loan balances do not include \$1.6 million of unamortized yield adjustments as of September 30, 2019.

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The following table presents the allocation of the allowance for loan losses according to portfolio segment summarized on the basis of the Company's impairment methodology as of September 30, 2020 and December 31, 2020:

September 30, 2020						
(in thousands)						
	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total
Allowance for loan losses:						
Ending balance:						
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Individually evaluated for impairment	1,103	154	-	-	-	1,257
Collectively evaluated for impairment	4,115	13,309	36	1,365	519	19,344
Total	\$ 5,218	\$ 13,463	\$ 36	\$ 1,365	\$ 519	\$ 20,601
Loans:						
Ending balance:						
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ 870	\$ -	\$ 870
Individually evaluated for impairment	7,160	10,502	-	3,138	1,492	22,292
Collectively evaluated for impairment	440,932	794,133	412	367,351	83,371	1,686,199
Total	\$ 448,092	\$ 804,635	\$ 412	\$ 371,359	\$ 84,863	\$ 1,709,361

* Includes construction loans

December 31, 2019

(in thousands)

Commercial and Industrial Commercial Real Estate Mortgages* Consumer and Other Residential Mortgages* Home Equities Total

Allowance for loan

losses:

Ending balance:

Individually evaluated for impairment	\$	442	\$	9	\$	21	\$	5	\$	-	477
Collectively evaluated for impairment		4,105		8,996		134		1,066		397	14,698
Total	\$	4,547	\$	9,005	\$	155	\$	1,071	\$	397	15,175

Loans:

Ending balance:

Individually evaluated for impairment	\$	6,558	\$	7,791	\$	21	\$	2,804	\$	1,453	18,627
Collectively evaluated for impairment		244,639		735,093		1,905		156,835		67,898	1,206,370
Total	\$	251,197	\$	742,884	\$	1,926	\$	159,639	\$	69,351	1,224,997

* Includes construction loans

Impaired Loans

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

At September 30, 2020

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
(in thousands)						
With no related allowance recorded:						
Commercial and industrial	\$ 2,358	\$ 2,580	\$ -	\$ 2,624	\$ 79	\$ 29
Residential real estate:						
Residential	3,954	4,314	-	4,018	76	49
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	5,824	6,398	-	6,056	180	36
Construction	1,306	1,352	-	1,326	26	-
Home equities	1,492	1,714	-	1,565	41	16
Consumer and other	-	-	-	-	-	-
Total impaired loans	\$ 14,934	\$ 16,358	\$ -	\$ 15,589	\$ 402	\$ 130

At September 30, 2020

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
(in thousands)						
With a related allowance recorded:						
Commercial and industrial	\$ 4,802	\$ 4,942	\$ 1,103	\$ 4,941	\$ 189	\$ 15
Residential real estate:						
Residential	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	3,372	3,396	154	3,378	101	10
Construction	-	-	-	-	-	-
Home equities	-	-	-	-	-	-
Consumer and other	-	-	-	-	-	-
Total impaired loans	<u>\$ 8,174</u>	<u>\$ 8,338</u>	<u>\$ 1,257</u>	<u>\$ 8,319</u>	<u>\$ 290</u>	<u>\$ 25</u>

At September 30, 2020

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
(in thousands)						
Total:						
Commercial and industrial	\$ 7,160	\$ 7,522	\$ 1,103	\$ 7,565	\$ 268	\$ 44
Residential real estate:						
Residential	3,954	4,314	-	4,018	76	49
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	9,196	9,794	154	9,434	281	46
Construction	1,306	1,352	-	1,326	26	-
Home equities	1,492	1,714	-	1,565	41	16
Consumer and other	-	-	-	-	-	-
Total impaired loans	<u>\$ 23,108</u>	<u>\$ 24,696</u>	<u>\$ 1,257</u>	<u>\$ 23,908</u>	<u>\$ 692</u>	<u>\$ 155</u>

At December 31, 2019

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
(in thousands)						
With no related allowance recorded:						
Commercial and industrial	\$ 3,798	\$ 4,112	\$ -	\$ 4,046	\$ 118	\$ 143
Residential real estate:						
Residential	2,744	3,003	-	2,823	73	63
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	6,019	6,521	-	6,293	225	72
Construction	1,335	1,352	-	1,344	23	50
Home equities	1,453	1,687	-	1,525	64	30
Consumer and other	-	-	-	-	-	-
Total impaired loans	<u>\$ 15,349</u>	<u>\$ 16,675</u>	<u>\$ -</u>	<u>\$ 16,031</u>	<u>\$ 503</u>	<u>\$ 358</u>

At December 31, 2019

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
(in thousands)						
With a related allowance recorded:						
Commercial and industrial	\$ 2,760	\$ 2,808	\$ 442	\$ 2,764	\$ 109	\$ 63
Residential real estate:						
Residential	60	62	5	61	3	1
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	197	197	4	197	8	4
Construction	240	246	5	242	8	9
Home equities	-	-	-	-	-	-
Consumer and other	21	23	21	22	-	1
Total impaired loans	<u>\$ 3,278</u>	<u>\$ 3,336</u>	<u>\$ 477</u>	<u>\$ 3,286</u>	<u>\$ 128</u>	<u>\$ 78</u>

At December 31, 2019

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
(in thousands)						
Total:						
Commercial and industrial	\$ 6,558	\$ 6,920	\$ 442	\$ 6,810	\$ 227	\$ 206
Residential real estate:						
Residential	2,804	3,065	5	2,884	76	64
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	6,216	6,718	4	6,490	233	76
Construction	1,575	1,598	5	1,586	31	59
Home equities	1,453	1,687	-	1,525	64	30
Consumer and other	21	23	21	22	-	1
Total impaired loans	<u>\$ 18,627</u>	<u>\$ 20,011</u>	<u>\$ 477</u>	<u>\$ 19,317</u>	<u>\$ 631</u>	<u>\$ 436</u>

[Table of Contents](#)**Troubled debt restructurings**

The following tables summarize the loans that were classified as troubled debt restructurings (“TDRs”) as of the dates indicated:

September 30, 2020				
(in thousands)				
	Total	Nonaccruing	Accruing	Related Allowance
Commercial and industrial	\$ 1,828	\$ 1,618	\$ 210	\$ 360
Residential real estate:				
Residential	1,741	589	1,152	-
Construction	-	-	-	-
Commercial real estate:				
Commercial and multi-family	3,463	2,965	498	-
Construction	-	-	-	-
Home equities	562	129	433	-
Consumer and other	-	-	-	-
Total TDR loans	<u>\$ 7,594</u>	<u>\$ 5,301</u>	<u>\$ 2,293</u>	<u>\$ 360</u>

December 31, 2019				
(in thousands)				
	Total	Nonaccruing	Accruing	Related Allowance
Commercial and industrial	\$ 2,052	\$ 328	\$ 1,724	\$ 26
Residential real estate:				
Residential	1,815	449	1,366	-
Construction	-	-	-	-
Commercial real estate:				
Commercial and multi-family	3,632	3,075	557	-
Construction	-	-	-	-
Home equities	738	175	563	-
Consumer and other	21	-	21	21
Total TDR loans	<u>\$ 8,258</u>	<u>\$ 4,027</u>	<u>\$ 4,231</u>	<u>\$ 47</u>

Any TDR that is placed on non-accrual is not reverted back to accruing status until the borrower makes timely payments as contracted for at least six months and future collection under the revised terms is probable. All of the Company’s restructurings were allowed in an effort to maximize its ability to collect on loans where borrowers were experiencing financial difficulty.

The reserve for a TDR is based upon the present value of the future expected cash flows discounted at the loan’s original effective interest 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 Company’s TDRs have various agreements that involve deferral of principal payments, or interest-only payments, for a period (usually 12 months or less) to allow the borrower time to improve cash flow or sell the property. Other common concessions leading to the designation of a TDR are lines of credit that are termed-out and/or extensions of maturities at rates that are less than the prevailing market rates given the risk profile of the borrower.

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In late March 2020, federal banking regulators issued guidance that modifications made to a borrower affected by the COVID-19 pandemic and governmental shutdown orders do not need to be identified as a TDR if the loan was current at the time a modification plan was implemented. The CARES Act also addressed COVID-19 related modifications and specified that such modifications made on loans that were current as of December 31, 2019 are not TDRs. As of September 30, 2020, the Company had applied this guidance and had made 381 modifications of commercial loans with principal balances totaling \$368 million, and 298 modifications of consumer loans with principal balances totaling \$37 million.

The following tables present TDR activity by the type of concession granted to the borrower for the three and nine month periods ended September 30, 2020 and 2019:

Troubled Debt Restructurings by Type of Concession	Three months ended September 30, 2020			Three months ended September 30, 2019		
	(Recorded Investment in thousands)			(Recorded Investment in thousands)		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and Industrial:						
Extension of maturity	-	\$ -	\$ -	1	\$ 21	\$ 21
Term-out line of credit	-	-	-	1	42	42
Residential Real Estate & Construction:						
Extension of maturity and interest rate reduction	1	97	97	3	307	307
Commercial Real Estate & Construction	-	-	-	-	-	-
Home Equities:						
Extension of maturity and interest rate reduction	-	-	-	1	110	110
Consumer and other loans	-	-	-	-	-	-
Other	-	-	-	-	-	-

	Nine months ended September 30, 2020			Nine months ended September 30, 2019		
	(Recorded Investment in thousands)			(Recorded Investment in thousands)		
Troubled Debt Restructurings by Type of Concession	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and Industrial:						
Extension of maturity	-	\$ -	\$ -	1	\$ 21	\$ 21
Term-out line of credit	-	-	-	1	42	42
Residential Real Estate & Construction:						
Combination of concessions	1	56	56	-	-	-
Extension of maturity and interest rate reduction	1	97	97	3	307	307
Commercial Real Estate & Construction	-	-	-	-	-	-
Home Equities:						
Extension of maturity and interest rate reduction	-	-	-	3	390	390
Consumer and other loans	-	-	-	-	-	-

The general practice of the Bank is to work with borrowers so that they are able to repay their loan in full. If a borrower continues to be delinquent or cannot meet the terms of a TDR and the loan is determined to be uncollectible, the loan will be charged-off to its collateral value. A loan is considered in default when the loan is 90 days past due. Loans which were classified as TDRs during the previous 12 months which defaulted during the nine month periods ended September 30, 2020 and 2019 were not material.

[Table of Contents](#)5. **GOODWILL**

The following table presents changes to goodwill and intangible assets for the three and nine month periods ended September 30, 2020 and 2019:

	<u>Goodwill</u>	<u>Core Deposit Intangibles</u>	<u>Other Intangibles</u>
	(in thousands)		
Balance at June 30, 2020	\$ 12,715	\$ 162	\$ 2,345
Amortization	-	(7)	(130)
Balance at September 30, 2020	<u>\$ 12,715</u>	<u>\$ 155</u>	<u>\$ 2,215</u>
Balance at June 30, 2019	\$ 10,520	\$ -	\$ 2,248
Amortization	-	-	(111)
Balance at September 30, 2019	<u>\$ 10,520</u>	<u>\$ -</u>	<u>\$ 2,137</u>
	<u>Goodwill</u>	<u>Core Deposit Intangibles</u>	<u>Other Intangibles</u>
	(in thousands)		
Balance at December 31, 2019	\$ 10,520	\$ -	\$ 2,025
Acquisition of Benefit Brokers of WNY, LLC	427	-	580
Acquisition of FSB	1,768	166	-
Amortization	-	(11)	(390)
Balance at September 30, 2020	<u>\$ 12,715</u>	<u>\$ 155</u>	<u>\$ 2,215</u>
Balance at December 31, 2018	\$ 10,520	\$ -	\$ 2,472
Amortization	-	-	(335)
Balance at September 30, 2019	<u>\$ 10,520</u>	<u>\$ -</u>	<u>\$ 2,137</u>

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6. SUBORDINATED DEBT

On July 9, 2020, the Company entered into Subordinated Note Purchase Agreements with certain qualified institutional buyers and institutional accredited investors pursuant to which the Company issued and sold \$20.0 million in aggregate principal amount of its 6.00% Fixed-to-Floating Rate Subordinated Notes due 2030 (the “2020 Notes”). The 2020 Notes were offered and sold by the Company to eligible purchasers in a private offering. Net of debt issuance costs, the Company received \$19.5 million for the sale of the 2020 Notes. The Company intends to use the proceeds from the offering for general corporate purposes, organic growth and regulatory capital.

The 2020 Notes mature on July 15, 2030 and bear interest at a fixed annual rate of 6.00%, payable semi-annually in arrears, to but excluding July 15, 2025. From and including July 15, 2025 to but excluding the maturity date or early redemption date, the interest rate will reset quarterly to an interest rate per annum initially equal to the then-current three-month Secured Overnight Financing Rate provided by the Federal Reserve Bank of New York plus 590 basis points, payable quarterly in arrears. The Company is entitled to redeem the 2020 Notes, in whole or in part, at any time on or after July 15, 2025, and to redeem the 2020 Notes at any time in whole upon certain other events. Any redemption of the 2020 Notes will be subject to prior regulatory approval to the extent required.

In connection with the issuance and sale of the 2020 Notes, the Company entered into Registration Rights Agreements with the purchasers of the 2020 Notes, pursuant to which the Company has agreed to take certain actions to provide for the exchange of the 2020 Notes for subordinated notes that are registered under the Securities Act of 1933, as amended, with substantially the same terms as the 2020 Notes. In connection with the Registration Rights Agreements, the Company filed a Registration Statement on Form S-4 with the Securities and Exchange Commission on September 3, 2020 and commenced an exchange offer on October 7, 2020. The exchange offer is expected to expire on November 9, 2020.

On October 1, 2004, Evans Capital Trust I, a statutory business trust wholly-owned by the Company (the “Trust”), issued \$11.0 million in aggregate principal amount of floating rate preferred capital securities due November 23, 2034 (the “Capital Securities”) and \$0.3 million of common securities (the “Common Securities”). The Capital Securities represent preferred undivided interests in the assets of the Trust. Under the Federal Reserve Board’s current risk-based capital guidelines, the Capital Securities are includable in the Company’s Tier 1 (Core) capital. The Common Securities are wholly-owned by the Company and are the only class of the Trust’s securities possessing general voting powers.

7. COMMON EQUITY AND EARNINGS PER SHARE DATA

The common stock per share information is based upon the weighted average number of shares outstanding during each period. For the three and nine month periods ended September 30, 2020, the Company had an average of 18,955 and 35,564 dilutive shares outstanding, respectively. The Company had an average of 57,899 and 68,660 dilutive shares outstanding for the three and nine month periods ended September 30, 2019.

Potential common shares that would have the effect of increasing diluted earnings per share are considered to be anti-dilutive and not included in calculating diluted earnings per share. For the three and nine month periods ended September 30, 2020, there was an average of 150,783 and 81,770 potentially anti-dilutive shares outstanding, respectively, that were not included in calculating diluted earnings per share because their effect was anti-dilutive. For the three and nine month periods ended September 30, 2019, there was an average of 82,642 and 85,579 potentially anti-dilutive shares outstanding.

[Table of Contents](#)**8. OTHER COMPREHENSIVE INCOME**

The following tables summarize the changes in the components of accumulated other comprehensive income during the three and nine month periods ended September 30, 2020 and 2019:

	Balance at June 30, 2020		Net Change		Balance at September 30, 2020
			(in thousands)		
Net unrealized gain (loss) on investment securities	\$ 3,545	\$	(833)	\$	2,712
Net defined benefit pension plan adjustments	(2,928)		90		(2,838)
Total	\$ 617	\$	(743)	\$	(126)

	Balance at June 30, 2019		Net Change		Balance at September 30, 2019
			(in thousands)		
Net unrealized gain on investment securities	\$ 426	\$	523	\$	949
Net defined benefit pension plan adjustments	(2,871)		68		(2,803)
Total	\$ (2,445)	\$	591	\$	(1,854)

	Balance at December 31, 2019		Net Change		Balance at September 30, 2020
			(in thousands)		
Net unrealized gain on investment securities	\$ 522	\$	2,190	\$	2,712
Net defined benefit pension plan adjustments	(3,105)		267		(2,838)
Total	\$ (2,583)	\$	2,457	\$	(126)

	Balance at December 31, 2018		Net Change		Balance at September 30, 2019
			(in thousands)		
Net unrealized (loss) gain on investment securities	\$ (2,348)	\$	3,297	\$	949
Net defined benefit pension plan adjustments	(3,005)		202		(2,803)
Total	\$ (5,353)	\$	3,499	\$	(1,854)

	Three months ended September 30, 2020			Three months ended September 30, 2019		
	(in thousands)			(in thousands)		
	Before-Tax Amount	Income Tax (Provision) Benefit	Net-of-Tax Amount	Before-Tax Amount	Income Tax (Provision) Benefit	Net-of-Tax Amount
Unrealized (loss) gain on investment securities:						
Unrealized (loss) gain on investment securities	\$ (455)	\$ 116	\$ (339)	\$ 705	\$ (182)	\$ 523
Reclassification from accumulated other comprehensive income for gain on sale of securities	(667)	173	(494)	-	-	-
Net change	<u>(1,122)</u>	<u>289</u>	<u>(833)</u>	<u>705</u>	<u>(182)</u>	<u>523</u>
Defined benefit pension plan adjustments:						
Amortization of prior service cost	7	(1)	6	7	(1)	6
Amortization of actuarial loss	113	(29)	84	82	(20)	62
Net change	<u>120</u>	<u>(30)</u>	<u>90</u>	<u>89</u>	<u>(21)</u>	<u>68</u>
Other comprehensive (loss) income	\$ (1,002)	\$ 259	\$ (743)	\$ 794	\$ (203)	\$ 591

	Nine months ended September 30, 2020			Nine months ended September 30, 2019		
	(in thousands)			(in thousands)		
	Before-Tax Amount	Income Tax (Provision) Benefit	Net-of-Tax Amount	Before-Tax Amount	Income Tax (Provision) Benefit	Net-of-Tax Amount
Unrealized gain (loss) on investment securities:						
Unrealized gain (loss) on investment securities	\$ 3,623	\$ (939)	\$ 2,684	\$ 4,493	\$ (1,165)	\$ 3,328
Reclassification from accumulated other comprehensive income for gain on sale of securities	(667)	173	(494)	(42)	11	(31)
Net change	<u>2,956</u>	<u>(766)</u>	<u>2,190</u>	<u>4,451</u>	<u>(1,154)</u>	<u>3,297</u>
Defined benefit pension plan adjustments:						
Amortization of prior service cost	23	(6)	17	23	(6)	17
Amortization of actuarial loss	339	(89)	250	248	(63)	185
Net change	<u>362</u>	<u>(95)</u>	<u>267</u>	<u>271</u>	<u>(69)</u>	<u>202</u>
Other comprehensive income	\$ 3,318	\$ (861)	\$ 2,457	\$ 4,722	\$ (1,223)	\$ 3,499

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9. NET PERIODIC BENEFIT COSTS

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

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

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

The following table presents the net periodic cost for the Bank's defined benefit pension plan and supplemental executive retirement plan for the three and nine month periods ended September 30, 2020 and 2019:

	Three months ended September 30,			
	(in thousands)			
	Pension Benefits		Supplemental Executive Retirement Plan	
	2020	2019	2020	2019
Service cost	\$ -	\$ -	\$ 38	\$ 37
Interest cost	50	55	38	51
Expected return on plan assets	(81)	(70)	-	-
Amortization of prior service cost	-	-	7	7
Amortization of the net loss	25	24	88	58
Net periodic (benefit) cost	<u>\$ (6)</u>	<u>\$ 9</u>	<u>\$ 171</u>	<u>\$ 153</u>

	Nine months ended September 30,			
	(in thousands)			
	Pension Benefits		Supplemental Executive Retirement Plan	
	2020	2019	2020	2019
Service cost	\$ -	\$ -	\$ 116	\$ 109
Interest cost	151	165	114	151
Expected return on plan assets	(244)	(208)	-	-
Amortization of prior service cost	-	-	23	23
Amortization of the net loss	76	72	263	176
Net periodic (benefit) cost	<u>\$ (17)</u>	<u>\$ 29</u>	<u>\$ 516</u>	<u>\$ 459</u>

The components of net periodic benefit cost other than the service cost component are included in the line item "other expense" in the income statement.

10. REVENUE RECOGNITION OF NON-INTEREST INCOME

A description of the Company's material revenue streams in non-interest income accounted for under ASC 606 follows:

Insurance Service and Fees: Insurance services revenue relates to various revenue streams from services provided by TEA and the Bank:

TEA earns commission revenue from selling commercial and personal property and casualty ("P&C") insurance as well as employee benefits solutions to commercial customers.

TEA has agreements with various insurance companies to sell policies to customers on behalf of the carriers. The performance obligation for TEA is to sell annual P&C policies to commercial customers and consumers. This performance obligation is met when a new policy is sold or when an existing policy renews. The policies are generally one year terms. In the agreements with the respective insurance companies, a commission rate is agreed upon. The commission is recognized at the time of the sale of the policy or when a policy renews.

TEA has signed contracts with insurance carriers that enable TEA to sell benefit plans to commercial customers on behalf of the insurance carriers. The performance obligation for TEA is to sell the plans to commercial customers. After the initial sale when the customer signs an agreement to purchase the offered benefit plan, the performance obligation is met each month when a customer continues utilizing benefit plans from the carrier. The customer does not commit to a specific length of time with the carrier. In the agreements with the respective insurance companies, a commission rate is agreed upon. Revenue is recognized each month when the customer continues with the benefit plan sold by TEA.

TEA also earns contingent profit sharing revenue. The insurance companies measure the loss ratio for TEA's customers and pay TEA according to how profitable TEA customers are.

TEA has signed written agreements with insurance carriers that document payouts to TEA based on the loss ratios of its customers. The performance obligation for TEA is to maintain a customer base with loss ratios below the agreed upon thresholds. In the contracts with the insurance companies, payout rates based on loss ratios are documented. The consideration is variable as loss ratios vary based on customer experience. TEA's performance obligation is over the course of the year as its customers' performance with insurance carriers is measured throughout the year as losses occur. Due to the variable nature of contingent profit sharing revenue, TEA will accrue contingent profit sharing revenue throughout the year based on recent historical results. As loss events occur and overall performance becomes known to TEA, accrual adjustments will be made until the cash is ultimately received.

Financial services commission revenue from the Bank related to wealth management such as life insurance, annuities, and mutual funds sales is also included in the "insurance service and fees" line of the income statement.

The Company earns wealth management fees from its contracts with customers for certain financial services. Fees that are transaction-based are recognized at the point in time that the transaction is executed. Other related services provided include financial planning services and the fees the Bank earns are recognized when the services are rendered.

Insurance claims services revenue is recorded at FCS.

FCS has signed agreements with insurance companies to perform claims services including investigative and adjustment services related to residential and commercial lines. The performance obligation is for FCS to investigate the insurance claims and inspecting the damage to determine the extent of the insurance company's liability. FCS is paid based on time and materials expended to investigate the claim. The rates paid are determined in the agreement between FCS and the respective insurance companies. Upon completion of its claims inspection work, FCS bills the insurance company for services rendered and recognizes the revenue earned.

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A disaggregation of the total insurance service and other fees for the three and nine months ended September 30, 2020 and 2019 is provided in the tables below:

	Three months ended September 30,	
	2020	2019
	(in thousands)	
Commercial property and casualty insurance commissions	\$ 1,439	\$ 1,382
Personal property and casualty insurance commissions	890	863
Employee benefits sales commissions	245	287
Profit sharing and contingent revenue	375	430
Wealth management and other financial services	164	142
Insurance claims services revenue	84	96
Other insurance-related revenue	20	25
Total insurance service and other fees	<u>\$ 3,217</u>	<u>\$ 3,225</u>

	Nine months ended September 30,	
	2020	2019
	(in thousands)	
Commercial property and casualty insurance commissions	\$ 3,261	\$ 3,267
Personal property and casualty insurance commissions	2,611	2,618
Employee benefits sales commissions	993	869
Profit sharing and contingent revenue	733	939
Wealth management and other financial services	407	405
Insurance claims services revenue	201	397
Other insurance-related revenue	103	73
Total insurance service and other fees	<u>\$ 8,309</u>	<u>\$ 8,568</u>

[Table of Contents](#)**11. FAIR VALUE MEASUREMENT**

Fair value is defined in ASC Topic 820 "Fair Value Measurement" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

There are three levels of inputs to fair value measurement:

Level 1 inputs are quoted prices for identical instruments in active markets;

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs.

Observable market data should be used when available.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A RECURRING BASIS

The following table presents, for each of the fair-value hierarchy levels as defined in this footnote, those financial instruments which are measured at fair value on a recurring basis as of September 30, 2020 and December 31, 2019, respectively:

(in thousands)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
September 30, 2020				
Securities available-for-sale:				
US government agencies	\$ -	\$ 62,279	\$ -	\$ 62,279
States and political subdivisions	-	7,545	-	7,545
Mortgage-backed securities	-	85,937	-	85,937
Mortgage servicing rights	-	-	1,007	1,007
December 31, 2019				
Securities available-for-sale:				
US government agencies	\$ -	\$ 28,155	\$ -	\$ 28,155
States and political subdivisions	-	3,351	-	3,351
Mortgage-backed securities	-	96,416	-	96,416
Mortgage servicing rights	-	-	555	555

[Table of Contents](#)**Securities available for sale**

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

On a quarterly basis, the Company reviews changes in the market value of its security portfolio. Individual changes in valuations are reviewed for consistency with general interest rate movements and any known credit concerns for specific securities. Additionally, on an annual basis, the Company has its entire security portfolio priced by a second pricing service to determine consistency with another market evaluator. If, during the Company's review or when comparing with another servicer, a material difference between pricing evaluations were to exist, the Company would submit an inquiry to the service provider regarding the data used to value a particular security. If the Company determines it has market information that would support a different valuation than the initial evaluation it can submit a challenge for a change to that security's valuation.

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

Mortgage servicing rights

Mortgage servicing rights ("MSRs") do not trade in an active, open market with readily observable prices. Accordingly, the Company obtains the fair value of the MSRs using a third-party pricing provider. The provider determines the fair value by discounting projected net servicing cash flows of the remaining servicing portfolio. The valuation model used by the provider considers market loan prepayment predictions and other economic factors which management considers to be significant unobservable inputs. The fair value of MSRs is mostly affected by changes in mortgage interest rates since rate changes cause the loan prepayment acceleration factors to increase or decrease. MSRs are classified within Level 3 of the fair value hierarchy as the valuation is model driven and primarily based on unobservable inputs.

The following table summarizes the changes in fair value for MSRs:

(in thousands)	Three months ended September 30,	
	2020	2019
Mortgage servicing rights - July 1	\$ 1,031	\$ 570
Losses included in earnings	(89)	(71)
Additions from loan sales & acquisition	65	28
Mortgage servicing rights - September 30	<u>\$ 1,007</u>	<u>\$ 527</u>
	Nine months ended September 30,	
	2020	2019
(in thousands)		
Mortgage servicing rights - January 1	\$ 555	\$ 609
Losses included in earnings	(289)	(154)
Additions from loan sales & acquisition	741	72
Mortgage servicing rights - September 30	<u>\$ 1,007</u>	<u>\$ 527</u>

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

	September 30, 2020	December 31, 2019
Servicing fees	0.25 %	0.25 %
Discount rate	9.04 %	9.00 %
Prepayment rate (CPR)	9.59 %	8.21 %

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A NONRECURRING BASIS

The Company is required, on a nonrecurring basis, to adjust the carrying value of certain assets or provide valuation allowances related to certain assets using fair value measurements. The following table presents for each of the fair-value hierarchy levels as defined in this footnote, those financial instruments which are measured at fair value on a nonrecurring basis September 30, 2020 and December 31, 2019:

(in thousands)	Level 1	Level 2	Level 3	Fair Value
September 30, 2020				
Collateral dependent impaired loans	\$ -	\$ -	\$ 21,153	\$ 21,153
December 31, 2019				
Collateral dependent impaired loans	\$ -	\$ -	\$ 15,735	\$ 15,735

Collateral dependent impaired loans

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

The Company has an appraisal policy in which appraisals are obtained upon a commercial loan being downgraded on the Company's internal loan rating scale to a special mention or a substandard depending on the amount of the loan, the type of loan and the type of collateral. All impaired commercial loans are graded substandard or worse on the internal loan rating scale. For consumer loans, the Company obtains appraisals when a loan becomes 90 days past due or is determined to be impaired, whichever occurs first. Subsequent to the downgrade or reaching 90 days past due, if the loan remains outstanding and impaired for at least one year more, management may require another follow-up appraisal. Between receipts of updated appraisals, if necessary, management may perform an internal valuation based on any known changing conditions in the marketplace such as sales of similar properties, a change in the condition of the collateral, or feedback from local appraisers. Collateral dependent impaired loans had a recorded investment of \$22.3 million, with an allowance for loan loss of \$1.1 million, at September 30, 2020 compared with \$16.0 million and \$0.3 million, respectively, at December 31, 2019.

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FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below depicts the estimated fair values of the Company's financial instruments, including those that are not measured and reported at fair value on a recurring basis or nonrecurring basis.

	September 30, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)		(in thousands)	
Financial assets:				
Level 1:				
Cash and cash equivalents	\$ 103,635	\$ 103,635	\$ 38,857	\$ 38,857
Level 2:				
Available for sale securities	155,761	155,761	127,922	127,922
FHLB and FRB stock	5,914	N/A	3,544	N/A
Level 3:				
Held to maturity securities	4,996	5,084	2,386	2,392
Loans, net	1,682,475	1,757,480	1,211,356	1,222,386
Mortgage servicing rights	1,007	1,007	555	555
Financial liabilities:				
Level 1:				
Demand deposits	\$ 442,536	\$ 442,536	\$ 263,717	\$ 263,717
NOW deposits	215,492	215,492	140,654	140,654
Savings deposits	799,739	799,739	587,142	587,142
Level 2:				
Securities sold under agreement to repurchase	4,414	4,414	2,425	2,425
Other borrowed funds	47,583	48,336	10,000	9,997
Junior subordinated debentures	30,912	30,912	11,330	11,330
Level 3:				
Time deposits	323,211	325,266	275,927	277,051

12. SEGMENT INFORMATION

The Company comprises two primary business segments, banking and insurance agency activities. The following tables set forth information regarding these segments for the three and nine month periods ended September 30, 2020 and 2019.

	Three months ended September 30, 2020		
	Banking	Insurance Agency	Total
	Activities	Activities	
		(in thousands)	
Net interest income (expense)	\$ 15,644	\$ (2)	\$ 15,642
Provision for loan losses	1,881	-	1,881
Net interest income (expense) after provision for loan losses	13,763	(2)	13,761
Insurance service and fees	162	3,055	3,217
Other non-interest income	2,636	4	2,640
Amortization expense	6	130	136
Other non-interest expense	12,372	1,960	14,332
Income before income taxes	4,183	967	5,150
Income tax provision	354	252	606
Net income	<u>\$ 3,829</u>	<u>\$ 715</u>	<u>\$ 4,544</u>

	Three months ended September 30, 2019		
	Banking	Insurance Agency	Total
	Activities	Activities	
		(in thousands)	
Net interest income (expense)	\$ 13,652	\$ (31)	\$ 13,621
Provision for loan losses	(431)	-	(431)
Net interest income (expense) after provision for loan losses	14,083	(31)	14,052
Insurance service and fees	130	3,095	3,225
Other non-interest income	1,777	162	1,939
Amortization expense	-	112	112
Other non-interest expense	9,778	2,386	12,164
Income before income taxes	6,212	728	6,940
Income tax provision	1,587	189	1,776
Net income	<u>\$ 4,625</u>	<u>\$ 539</u>	<u>\$ 5,164</u>

Nine months ended September 30, 2020				
	Banking Activities	Insurance Agency Activities		Total
	(in thousands)			
Net interest income (expense)	\$ 43,359	\$ (8)	\$	43,351
Provision for loan losses	5,477	-	-	5,477
Net interest income (expense) after provision for loan losses	37,882	(8)	-	37,874
Insurance service and fees	395	7,914	-	8,309
Other non-interest income	5,121	4	-	5,125
Amortization expense	11	389	-	400
Other non-interest expense	38,917	6,033	-	44,950
Income before income taxes	4,470	1,488	-	5,958
Income tax provision	354	387	-	741
Net income	<u>\$ 4,116</u>	<u>\$ 1,101</u>	<u>\$</u>	<u>5,217</u>

Nine months ended September 30, 2019				
	Banking Activities	Insurance Agency Activities		Total
	(in thousands)			
Net interest income (expense)	\$ 39,360	\$ (97)	\$	39,263
Provision for loan losses	197	-	-	197
Net interest income (expense) after provision for loan losses	39,163	(97)	-	39,066
Insurance service and fees	377	8,191	-	8,568
Other non-interest income	5,359	162	-	5,521
Amortization expense	-	336	-	336
Other non-interest expense	28,775	6,538	-	35,313
Income before income taxes	16,124	1,382	-	17,506
Income tax provision	3,880	360	-	4,240
Net income	<u>\$ 12,244</u>	<u>\$ 1,022</u>	<u>\$</u>	<u>13,266</u>

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

	September 30, 2020	December 31, 2019
	(in thousands)	
Commitments to extend credit	\$ 357,561	\$ 331,974
Standby letters of credit	3,641	4,309
Total	\$ 361,202	\$ 336,283

Commitments to extend credit and standby letters of credit include some exposure to credit loss in the event of nonperformance by the customer. The Bank's credit policies and procedures for credit commitments and financial guarantees are the same as those for extensions of credit that are recorded on the Company's unaudited consolidated balance sheets. Because these instruments have fixed maturity dates, and because they may expire without being drawn upon, they do not necessarily represent cash requirements of the Bank. The Bank did not incur any losses on its commitments and did not record a reserve for its commitments during the first nine months of 2020 or during 2019.

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

14. RECENT ACCOUNTING PRONOUNCEMENTS

ASUs adopted by the Company during the current fiscal year are not expected to have a material impact on the Company's consolidated financial position, results of operations, cash flows or disclosures. The following standard will be adopted in a future period. ASUs not listed below are not expected to have a material impact on the Company's consolidated financial position, results of operations, cash flows or disclosures.

ASU 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments* – Current GAAP requires an “incurred loss” methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. Both financial institutions and users of their financial statements expressed concern that current GAAP restricts the ability to record credit losses that are expected, but do not yet meet the “probable” threshold. The main objective of this ASU (commonly known as the Current Expected Credit Loss Impairment Model, or CECL, in the industry) is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in CECL replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company is developing its approach for determining expected credit losses under the new guidance, including the licensing of new software and the development of processes to track loan performance. The total impact of CECL to the Company's financial statements is unknown but may be material. Upon adoption, the Company would be required to recognize an allowance for credit losses on the FSB acquired portfolio, which has a balance of \$249 million as of September 30, 2020. The amendments in CECL are effective for smaller reporting companies for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. The Company intends to early adopt CECL effective January 1, 2022.

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

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

These forward-looking statements are based largely on the expectations of the Company's management and are subject to a number of risks and uncertainties, including but not limited to: general economic conditions, either nationally or in the Company's market areas, that are worse than expected; increased competition among depository or other financial institutions; inflation and changes in the interest rate environment that reduce the Company's margins or reduce the fair value of financial instruments; changes in laws or government regulations affecting financial institutions, including changes in regulatory fees, monetary policy, and capital requirements; the Company's ability to enter new markets successfully and capitalize on growth opportunities; the Company's ability to successfully integrate acquired entities; loan losses in excess of the Company's allowance for loan losses; changes in accounting pronouncements and practices, as adopted by financial institution regulatory agencies, the Financial Accounting Standards Board and the Public Company Accounting Oversight Board; the impact of such changes in accounting pronouncements and practices being greater than anticipated; the ability to realize the benefit of deferred tax assets; changes in tax policies, rates and regulations of federal, state and local tax authorities; changes in consumer spending, borrowing and saving habits; changes in the Company's organization, compensation and benefit plans; and other factors discussed elsewhere in this Quarterly Report on Form 10-Q, as well as in the Company's periodic reports filed with the SEC, in particular the "Risk Factors" discussed in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, as supplemented by the disclosures in Part II – Item 1A – Risk Factors - of the Quarterly Report for the Quarter ended March 31, 2020. 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, except to the extent required by law.

Current Year Developments

Impact of Covid-19

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic, and recommended containment and mitigation measures worldwide. Federal and state governments have taken unprecedented actions to contain the spread of the disease, including quarantines, travel bans, shelter-in-place orders, closures of businesses and schools, fiscal stimulus, and legislation designed to deliver monetary aid and other relief to businesses and individuals impacted by the pandemic. Although in various locations certain activity restrictions have been relaxed with some level of success, in many states and localities the number of individuals diagnosed with COVID-19 has increased significantly, which is causing a freezing or, in certain cases, a reversal of previously announced relaxation of activity restrictions and is prompting the need for additional aid and other forms of relief.

Effects on Our Market Area – The Company's commercial and consumer banking products and services are offered primarily in New York State, where governmental responses to the COVID-19 pandemic included an order that, subject to limited exceptions, all individuals stay at home and non-essential businesses cease all activities, which led to a broad curtailment of economic activity beginning in March 2020. More recently, the local economy has begun to improve with the phased-in reopening of many impacted businesses, however most businesses are subject to restrictive health and safety guidelines, including occupancy limitations. New York State has issued travel restrictions, requiring travelers from most states and territories to quarantine for 14 days upon entering New York. Certain industries have been particularly hard-hit by the COVID-19 pandemic, including the travel and hotel industry. In addition, the New York State governor signed legislation on June 17, 2020 that expands mortgage forbearance available for those experiencing financial hardship during the crisis caused by the COVID-19 pandemic. The legislation applies to those who have mortgages with state-regulated financial institutions and is intended to be an expansion of the CARES Act's mortgage forbearance provisions. The legislation provides up to one year of forbearance if the borrower's hardship persists and provides flexible payment options.

Effects on Our Business – The Company currently expects that the COVID-19 pandemic and the specific developments referred to above could have a significant impact on our business. In particular, it is anticipated that a significant portion of the Company's borrowers in the hotel industry will continue to endure significant economic distress, which has caused, and may continue to cause, them to draw on

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their existing lines of credit and adversely affect their ability to repay existing indebtedness, and may adversely impact the value of collateral. The Company has \$81 million of loans outstanding with customers in the hotel industry, at September 30, 2020. These developments, together with economic conditions generally, are also expected to adversely impact the Company's commercial real estate portfolio, particularly with respect to real estate with exposure to these industries, and the value of certain collateral securing our loans. We continue to actively monitor developments related to COVID-19 and its impact to our business, customers, employees, counterparties, vendors, and service providers. During the first nine months of 2020, the most notable financial impacts to our results of operations was a higher provision for loan losses primarily reflecting the substantial increase in economic uncertainty and the resultant potential for increased credit losses in future periods as a consequence of the COVID-19 pandemic.

The Company's Response – We have taken numerous steps in response to the COVID-19 pandemic, including the following:

The Company is actively working with loan customers and providing prudent loan modification terms, including the implementation of a customer payment deferral program to assist both consumers and business borrowers that may be experiencing financial hardship due to COVID-19 related challenges. Since the initial deferral period in the second quarter of 2020, the Company allowed customers to take a second 90 date deferral period, of which the majority have expired. As of October 20, 2020, the Company had \$8 million in deferrals remaining which are expected to expire in the fourth quarter of 2020 and begin payment status.

The Company was proactive in providing updated guidance to its customers on the government's PPP program as it was rolled out. Through September 30, 2020, the Bank had originated 1,931 PPP loans totaling \$203 million. These loans carry a fixed rate of 1.00% and a term of two years (loans made before June 5, 2020) or five years (loans made on or after June 5, 2020), if not forgiven, in whole or in part. Payments are deferred until either the date on which the SBA remits the amount of forgiveness proceeds to the lender or the date that is 10 months after the last day of the covered period if the borrower does not apply for forgiveness within that 10 month period. Over \$7 million of fees have been collected from the SBA for these loans. These fees are deferred and amortized into interest income over the contractual period of the loan. Upon SBA forgiveness, unamortized fees are then recognized into interest income.

To assist customers experiencing financial hardship during this extraordinary time, the Company waived the following fees, effective March 20, 2020 through May 15, 2020:

- o ATM transactions fees charged by Evans for all customers
- o All early withdrawal fees on CDs
- o Mobile deposit fees for business customers
- o Monthly fees to business customers for Deposit Express (Remote Capture)

The Company continues to promote its digital banking options. Customers are encouraged to utilize online and mobile banking tools, and our customer service and retail departments are fully staffed and available to assist customers remotely. All branches were closed to customer activity, except for drive-up and appointment only services, for a period of time. We continued to pay all employees according to their normal work schedule, even if their work has been reduced. No employees have been furloughed. We continue to provide the option to work from home to all employees whose job responsibilities can be effectively carried out remotely. Employees whose critical duties require their continued presence on-site are observing social distancing and cleaning protocols.

Acquisitions

On May 1, 2020, the Company completed its acquisition of FSB Bancorp, Inc., a Maryland corporation and the parent holding company of Fairport Savings Bank (together, "FSB"). FSB operated 5 banking offices in New York at the date of acquisition. This acquisition added total assets with a fair value of \$323 million, including \$271 million of loans (predominantly residential real estate loans) and \$21 million of investment securities, and liabilities with a fair value of \$296 million, including \$239 million of deposits and \$53 million in borrowed funds.

Subordinated Note Issuance

On July 9, 2020, the Company entered into Subordinated Note Purchase Agreements with certain qualified institutional buyers and institutional accredited investors pursuant to which the Company issued and sold \$20.0 million in aggregate principal amount of its 6.00% Fixed-to-Floating Rate Subordinated Notes due 2030 (the "Notes"). The Notes were offered and sold by the Company to eligible purchasers in a private offering. The Company intends to use the proceeds from the offering for general corporate purposes, organic growth and regulatory capital.

The Notes mature on July 15, 2030 and bear interest at a fixed annual rate of 6.00%, payable semi-annually in arrears, to but excluding July 15, 2025. From and including July 15, 2025 to but excluding the maturity date or early redemption date, the interest rate will reset quarterly to an interest rate per annum initially equal to the then-current three-month Secured Overnight Financing Rate provided by the Federal Reserve Bank of New York plus 590 basis points, payable quarterly in arrears. The Company is entitled to redeem the Notes, in whole or in part, at any time on or after July 15, 2025, and to redeem the Notes at any time in whole upon certain other events. Any redemption of the Notes will be subject to prior regulatory approval to the extent required.

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APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The Company's Unaudited Consolidated Financial Statements included in this Quarterly Report on Form 10-Q are prepared in accordance with U.S. GAAP and follow general practices within the industries in which it operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the Company's Unaudited Consolidated Financial Statements and Notes. These estimates, assumptions, and judgments are based on information available as of the date of the Unaudited Consolidated Financial Statements. Accordingly, as this information changes, the Unaudited Consolidated Financial Statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments, and as such, have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal cash flow modeling techniques. Refer to Note 11 – "Fair Value Measurement" to the Company's Unaudited Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q for further detail on fair value measurement.

Significant accounting policies followed by the Company are presented in Note 1 – "Organization and Summary of Significant Accounting Policies" to the Audited Consolidated Financial Statements included in Item 8 in its Annual Report on Form 10-K for the year ended December 31, 2019. These policies, along with the disclosures presented in the other Notes to the Company's Audited Consolidated Financial Statements contained in its Annual Report on Form 10-K and in this financial review, provide information on how significant assets and liabilities are presented in the Company's Unaudited Consolidated Financial Statements and how those values are determined. See Note 1 in Item 1 of this Quarterly Report on Form 10-Q for material updates to the Company's significant accounting policies.

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 incurred losses in the Company's loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment on the part of management and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the Company's Unaudited Consolidated Balance Sheets. Note 1 to the Audited Consolidated Financial Statements included in Item 8 in the Company's Annual Report on Form 10-K for the year ended December 31, 2019 describes the methodology used to determine the allowance for loan losses.

Goodwill

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

At March 31, 2020, the Company performed a qualitative analysis to assess goodwill for impairment, which was solely contained in the Company's insurance agency reporting unit and concluded that goodwill was not impaired. On May 1, 2020, the Company recognized an additional \$1.8 million in goodwill in its banking reporting unit related to the acquisition of FSB. At September 30, 2020, the Company considered the on-going economic market disruption and the movement of the Company's stock price in relation to other bank indexes as triggering events and has completed a qualitative analysis to assess whether or not goodwill was impaired. Management evaluated the goodwill associated with the insurance agency and determined the impacts from the market disruption does not materially impact the business performance of the reporting unit based on the nature of the insurance agency's operations. Management determined

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the expected future financial performance of the banking reporting unit has not significantly changed as a result of the economic downturn. Management considered the length that its stock price has been under book value and an expectation of duration of the disruption and determined no impairment is required for the goodwill recorded at the Banking unit.

ANALYSIS OF FINANCIAL CONDITION

Loan Activity

Total gross loans were \$1.7 billion at September 30, 2020, a \$17 million or 1% increase from June 30, 2020 and a \$477 million or 39% increase from December 31, 2019. The increase from the beginning of the year is primarily attributable to the acquisition of \$271 million of FSB loans and the origination of \$203 million of PPP loans.

Loans secured by real estate were \$1.3 billion at September 30, 2020, reflecting a \$12 million or 1% increase from June 30, 2020 and a \$289 million or 30% increase from December 31, 2019. Residential real estate loans were \$371 million at September 30, 2020, \$6 million higher than at June 30, 2020, and \$212 million higher than at December 31, 2019, reflecting the benefit of the acquired loan portfolio. Commercial real estate loans, including construction loans, which were \$805 million at September 30, 2020, \$5 million or 1% higher than the balance at June 30, 2020 and \$62 million or 8% higher than the balance at December 31, 2019, also benefitted from the FSB acquisition. Commercial real estate is the largest part of the Company's loan portfolio and has historically been the highest growth segment of the portfolio.

In the third quarter of 2020, residential mortgage originations were \$34 million compared with the previous quarter's originations of \$25 million and \$6 million in the third quarter of 2019. The Company originated \$67 million in residential mortgages in the first nine months of 2020, compared to \$19 million in the first nine months of 2019. The majority of the increase in residential mortgage originations is primarily due to the acquired FSB mortgage real estate division during the second quarter of 2020. Residential mortgages sold in the third quarter of 2020 equated to approximately 21% of the residential mortgages originated by the Company during the quarter, as compared with 15% in the second quarter of 2020 and 49% in the third quarter of 2019. Residential mortgages sold in the first nine months of 2020 were 27% of residential mortgages originated during the period, compared with 41% in the first nine months of 2019. Management decides to keep or sell residential mortgage loans at the time of origination based on interest rate risk management and the risk-adjusted return of alternative investment sources such as mortgage-backed securities.

The Company has also focused on growth opportunities in commercial and industrial ("C&I") lending as a way to diversify its overall loan portfolio. The C&I portfolio was \$448 million at September 30, 2020, representing a \$8 million or 2% increase from June 30, 2020, and \$197 million or 78% higher than at December 31, 2019. The increase from the beginning of the year is primarily the result of \$203 million of PPP loans originated during the nine months ended September 30, 2020. C&I lending is a critical component of the Company's strategy as C&I relationships can often include core deposits.

Credit Quality of Loan Portfolio

Non-performing loans, defined as accruing loans greater than 90 days past due and nonaccrual loans, totaled \$21 million, or 1.26% of total loans outstanding at September 30, 2020, compared with \$20 million, or 1.17% of total loans outstanding, as of June 30, 2020 and \$14 million, or 1.17% of total loans outstanding, as of December 31, 2019. The increase in non-performing loans during the first nine months of 2020 reflected \$4.5 million of commercial real estate loans and \$2.7 million of C&I loans that were moved to nonaccrual status.

Commercial credits graded as "special mention" and "substandard," or the criticized loan portfolio, were \$133 million at September 30, 2020, a \$62 million increase from \$71 million at June 30, 2020 and an \$82 million increase from \$51 million at December 31, 2019. The Company continues to evaluate its loan portfolio in response to the economic impact of the COVID-19 pandemic on its clients. During the third quarter of 2020, the Company identified a well-defined weakness in the hotel industry and classified an additional \$65.5 million of the loans to clients within that industry as criticized. As of September 30, 2020, the Company's hotel loan portfolio was \$81 million, or approximately 6.5%, of total commercial loans. The level of criticized loans can fluctuate as new information is constantly received on the Company's borrowers and their financial circumstances change over time. Internal risk ratings are the credit quality indicators used by the Company's management to determine the appropriate allowance for loan losses for commercial credits. "Special mention" and "substandard" loans are weaker credits with a higher risk of loss and are categorized as "criticized" credits rather than "pass" or "watch" credits.

The Company maintains an allowance for loan losses that in management's judgment appropriately reflects losses inherent in the loan portfolio. Loans acquired in a business combination are recorded at fair value with no carry-over of an acquired entity's previously established allowance for credit losses. The allowance for loan losses totaled \$20.6 million or 1.21% of total loans outstanding at September 30, 2020, compared with \$18.8 million or 1.11% of total loans outstanding as of June 30, 2020 and \$15.2 million or 1.24% of total loans outstanding at December 31, 2019. The Company recorded \$1.9 million in provision for loan losses during the third quarter of 2020, compared with a provision of \$0.6 million in the second quarter of 2020, and a release of \$0.4 million of allowance for loan losses in the third quarter of 2019. The third quarter of 2020 provision for loan losses reflects the increase in criticized loans. The

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release of provision during the third quarter of 2019 was the result of a decrease in net loan charge-offs due to a single commercial loan recovery of \$0.7 million, partially offset by an increase in non-performing loans.

Investing Activities

Total investment securities were \$161 million at September 30, 2020, compared with \$170 million at June 30, 2020 and \$130 million at December 31, 2019. The Company added \$21 million of securities from the FSB acquisition during the second quarter of 2020, and subsequently sold \$23 million of securities during the third quarter of 2020. Interest-bearing deposits at other banks, which consist of overnight funds kept at correspondent banks and the Federal Reserve, were \$88 million at September 30, 2020 compared to \$110 million at June 30, 2020, and \$28 million at December 31, 2019. The primary objectives of the Company's investment portfolio are to provide liquidity, provide collateral to secure municipal deposits, and maximize income while preserving safety of principal. Average investment securities and interest-bearing cash were 14% of average interest-earning assets in the third and second quarters of 2020, compared with 12% in last year's third quarter.

The Company's highest concentration in its securities portfolio was in available for sale U.S. government sponsored mortgage-backed securities which comprised 53%, 70% and 74% of total investment securities at September 30, 2020, June 30, 2020 and December 31, 2019, respectively. The concentration in tax-advantaged debt securities issued by state and political subdivisions was 8%, 8% and 4% of the total securities portfolio at September 30, 2020, June 30, 2020, and December 31, 2019, respectively. The concentration in U.S. government-sponsored agency bonds was 39% of the total securities portfolio as of September 30, 2020 compared with 22% of the total securities portfolio at both June 30, 2020 and December 31, 2019.

The total net unrealized gain position of the available-for-sale investment portfolio was \$3.7 million at September 30, 2020, compared with \$4.8 million at June 30, 2020 and \$0.7 million at December 31, 2019. The securities in an unrealized gain position at the end of the third quarter of 2020 generally reflect a decrease in market interest rates. Management believes that the credit quality of the securities portfolio as a whole is strong.

The Company monitors extension and prepayment risk in the securities portfolio to limit potential exposures. The Company has no direct exposure to subprime mortgages, nor does the Company hold private mortgage-backed securities, credit default swaps, or FNMA or FHLMC preferred stock investments in its investment portfolio.

Funding Activities

Total deposits at September 30, 2020 were \$1.8 billion, a \$28 million or 2% decrease from June 30, 2020 but a \$514 million or 41% increase from December 31, 2019. The Company acquired \$239 million of deposits from the FSB acquisition during the second quarter of 2020. The growth in the first nine months of 2020 excluding the acquisition was primarily the result of an accumulation of liquidity by commercial customers in response to the pandemic, increases in consumer deposits from government stimulus payments and lower consumer spending, and deposits related to PPP loans. The increase in the first nine months of 2020 reflects increases in demand deposits of \$179 million or 68%, consumer savings of \$124 million or 37%, NOW deposits of \$75 million or 53%, time deposits of \$47 million or 17%, commercial savings of \$47 million or 39%, and municipal savings of \$42 million or 32%. Further discussion of deposit growth and changes in deposit mix are in the "Analysis of Results of Operations." Average demand deposits were \$431 million in the third quarter of 2020, an 8% increase from \$400 million in the second quarter of 2020, and a 58% increase from \$273 million in the fourth quarter of 2019.

The Company had \$48 million in other borrowings at September 30, 2020. This represents long-term advances from the Federal Home Loan Bank of New York ("FHLBNY") that were acquired in the FSB acquisition. At December 31, 2019 the Company had \$10 million in other borrowings representing a single long-term advance with the FHLBNY that matured during the second quarter of 2020. The Company's use of its overnight line of credit with FHLBNY varies depending on its ability to fund investment and loan growth with deposits along with the line usage's impact on interest rate risk. There were no overnight borrowings at September 30, 2020.

During the third quarter of 2020, the Company entered into Subordinated Note Purchase Agreements with certain qualified institutional buyers and institutional accredited investors pursuant to which the Company issued and sold \$20.0 million in aggregate principal amount of its 6.00% Fixed-to-Floating Rate Subordinated Notes due 2030 (the "Notes"). The Notes were offered and sold by the Company to eligible purchasers in a private offering. The Company intends to use the proceeds from the offering for general corporate purposes, organic growth and regulatory capital.

ANALYSIS OF RESULTS OF OPERATIONS

Average Balance Sheet

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

	Three months ended September 30, 2020			Three months ended September 30, 2019		
	Average	Interest	Yield/ Rate	Average	Interest	Yield/ Rate
	Outstanding Balance	Earned/ Paid		Outstanding Balance	Earned/ Paid	
	(dollars in thousands)			(dollars in thousands)		
ASSETS						
Interest-earning assets:						
Loans, net	\$ 1,671,338	\$ 16,847	4.01 %	\$ 1,202,634	\$ 15,645	5.16 %
Taxable securities	160,501	825	2.04 %	140,006	993	2.81 %
Tax-exempt securities	12,211	68	2.22 %	3,725	48	5.11 %
Interest bearing deposits at banks	106,154	26	0.10 %	24,661	159	2.56 %
Total interest-earning assets	1,950,204	\$ 17,766	3.62 %	1,371,026	\$ 16,845	4.87 %
Non interest-earning assets:						
Cash and due from banks	14,482			14,522		
Premises and equipment, net	17,756			12,850		
Other assets	85,006			62,141		
Total Assets	\$ 2,067,448			\$ 1,460,539		
LIABILITIES & STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
NOW	\$ 221,343	\$ 103	0.19 %	\$ 134,008	\$ 151	0.45 %
Savings	799,082	654	0.33 %	591,585	1,346	0.90 %
Time deposits	337,967	884	1.04 %	281,798	1,541	2.17 %
Other borrowed funds	50,837	106	0.83 %	10,000	43	1.71 %
Junior subordinated debentures	29,582	375	5.04 %	11,317	141	4.94 %
Securities sold U/A to repurchase	4,507	2	0.18 %	3,917	2	0.20 %
Total interest-bearing liabilities	1,443,318	\$ 2,124	0.59 %	1,032,625	\$ 3,224	1.24 %
Noninterest-bearing liabilities:						
Demand deposits	430,658			261,089		
Other	29,644			22,231		
Total liabilities	\$ 1,903,620			\$ 1,315,945		
Stockholders' equity	163,828			144,594		
Total Liabilities and Equity	\$ 2,067,448			\$ 1,460,539		
Net interest income		\$ 15,642		\$ 13,621		
Net interest margin			3.19 %			3.94 %
Interest rate spread			3.03 %			3.63 %

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	Nine months ended September 30, 2020			Nine months ended September 30, 2019		
	Average Outstanding Balance	Interest Earned/Paid	Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Yield/Rate
	(dollars in thousands)			(dollars in thousands)		
ASSETS						
Interest-earning assets:						
Loans, net	\$ 1,475,973	\$ 47,497	4.30 %	\$ 1,179,875	\$ 45,149	5.12 %
Taxable securities	152,961	2,758	2.41 %	132,264	2,736	2.77 %
Tax-exempt securities	9,881	180	2.43 %	12,227	263	2.88 %
Interest bearing deposits at banks	79,247	223	0.38 %	32,202	564	2.34 %
Total interest-earning assets	1,718,062	\$ 50,658	3.94 %	1,356,568	\$ 48,712	4.80 %
Non interest-earning assets:						
Cash and due from banks	14,523			13,845		
Premises and equipment, net	15,818			11,318		
Other assets	74,634			62,054		
Total Assets	\$ 1,823,037			\$ 1,443,785		
LIABILITIES & STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
NOW	\$ 189,903	\$ 408	0.29 %	\$ 123,443	\$ 345	0.37 %
Regular savings	708,918	2,629	0.50 %	596,250	3,835	0.86 %
Time deposits	316,655	3,434	1.45 %	289,998	4,703	2.17 %
Other borrowed funds	32,369	227	0.94 %	10,014	130	1.74 %
Junior subordinated debentures	17,458	604	4.62 %	11,326	431	5.09 %
Securities sold U/A to repurchase	3,996	5	0.17 %	3,729	5	0.18 %
Total interest-bearing liabilities	1,269,299	\$ 7,307	0.77 %	1,034,760	\$ 9,449	1.22 %
Noninterest-bearing liabilities:						
Demand deposits	370,915			249,157		
Other	25,785			21,356		
Total liabilities	\$ 1,665,999			\$ 1,305,273		
Stockholders' equity	157,038			138,512		
Total Liabilities and Equity	\$ 1,823,037			\$ 1,443,785		
Net interest income		\$ 43,351			\$ 39,263	
Net interest margin			3.37 %			3.87 %
Interest rate spread			3.17 %			3.58 %

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Net Income

Net income was \$4.5 million, or \$0.84 per diluted share, in the third quarter of 2020, compared with \$0.5 million, or \$0.09 per diluted share in the second quarter of 2020 and \$5.2 million, or \$1.04 per diluted share, in the third quarter of 2019. The Company's third quarter 2020 results included a \$1.9 million provision for loan loss primarily reflecting an increase in criticized loans due to the continued economic impact of COVID-19. In addition, the third quarter of 2020 included \$0.5 million in one-time merger costs related to the acquisition of FSB resulting from the successful execution of the core system conversion during the quarter. Return on average equity was 11.09% for the third quarter of 2020, compared with 1.19% in the second quarter of 2020 and 14.29% in the third quarter of 2019.

Other Results of Operations – Quarterly Comparison

Net interest income of \$15.6 million represented an increase of \$0.7 million, or 5% from the second quarter of 2020, and \$2.0 million, or 15% from the prior-year third quarter. The increase from both periods was primarily driven by higher average interest-earning assets as the Company recognized a full quarter of the impact of the FSB acquisition and PPP lending. The Company acquired approximately \$271 million in total loans from FSB, largely consisting of residential real estate loans, during the second quarter of 2020. PPP loans, which carry a fixed rate of 1.00%, added \$203 million in loan growth during 2020. Fees totaling \$7.3 million were collected from the SBA for these loans during 2020. These fees are deferred and amortized into interest income over the contractual period of the loan. Upon SBA forgiveness, unamortized fees are then recognized into interest income. The Company recognized \$0.9 million of amortized PPP loan fees in interest income during the third quarter 2020 compared with \$0.6 million during the second quarter of 2020. No PPP loan fees were included in interest income in the prior-year third quarter.

Third quarter net interest margin of 3.19% declined 17 basis points from the second quarter of 2020 and 75 basis points from the third quarter of 2019. The changes largely reflect the Federal Reserve's decrease of the fed funds rate by 150 basis points during 2020, and changes in the mix of interest-earning assets, including increased interest earning cash balances, PPP loans and residential mortgages from FSB. The yield on loans decreased 21 and 115 basis points when compared with the second quarter of 2020 and third quarter of 2019, respectively. The cost of interest-bearing liabilities decreased to 0.59% compared with 0.65% in the second quarter of 2020 and 1.24% in the third quarter of 2019. The average cost of time deposits was 1.04% in the third quarter of 2020, compared with 1.40% in the second quarter of 2020 and 2.17% in the third quarter of 2019. Average time deposits comprised 19% of average total deposits during the third quarter of 2020, compared with 20% in the second quarter of 2020, and 22% in and the third quarter of 2019. The Company has brokered time deposits as part of its funding strategy. Average brokered time deposits were \$26 million during the third quarter of 2020, \$25 million in the second quarter of 2020, and \$36 million in the third quarter of 2019.

Provision for loan losses was \$1.9 million in the third quarter of 2020, compared with a provision of \$0.6 million in the second quarter of 2020 and a release of \$0.4 million of allowance for loan losses in the third quarter of 2019. The provision for loan losses during the third quarter of 2020 reflects the increase in criticized loans. The Company continues to evaluate its loan portfolio in response to the economic impact of the COVID-19 pandemic on its clients. During the third quarter of 2020, the Company identified a well-defined weakness in the hotel industry and classified the majority of the loans to clients within that industry as criticized. As of September 30, 2020, the Company's hotel loan portfolio was \$81 million, or approximately 6.5%, of total commercial loans. The release of provision during the third quarter of 2019 reflected a decrease in net loan charge-offs due to the single commercial loan recovery of \$0.7 million, partially offset by an increase in non-performing loans. The Company has deferred the adoption of the Current Expected Credit Loss Impairment Model (CECL), as permitted by its classification as a Smaller Reporting Company by the Securities and Exchange Commission.

Non-interest income was \$5.9 million in the third quarter of 2020, compared with \$4.2 million in the second quarter of 2020 and \$5.2 million in the prior year third quarter. Included in non-interest income during the third quarter of 2020 was a \$0.7 million gain on sale of investment securities. There were no comparable gains in the second quarter of 2020 and the third quarter of 2019. In addition, insurance service and fee revenue increased \$0.6 million from the previous quarter due to seasonally higher commercial lines insurance commissions and profit-sharing revenue.

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Non-interest expenses of \$14.5 million in the third quarter of 2020 decreased 20% from the second quarter of 2020 but increased 18% from the prior-year period. The third quarter of 2020 included \$0.5 million in merger-related expenses as a result of the core system conversion that was finalized during the quarter. In comparison, the second quarter of 2020 included \$5.0 million in merger-related costs for system contract termination and deconversion expenses, severance costs, and legal and other professional service fees in connection with the FSB acquisition. Salaries and benefits costs of \$8.1 million remained relatively flat compared with the second quarter of 2020 but increased 6% from last year's third quarter. The increase in salaries and benefit costs from the prior-year period largely was due to the addition of personnel related to the FSB acquisition. Technology and communications expenses were \$1.4 million in the third quarter of 2020, compared with \$1.5 million in the second quarter of 2020 and \$1.1 million in the third quarter of 2019. The increase from prior-year period was due to higher online banking activity, ATM card fees, and software costs, primarily as a result of the FSB acquisition. Professional services expense remained flat at \$0.9 million during the third and second quarters of 2020 but decreased \$0.1 million from last year's third quarter. Professional service fees were elevated in the third quarter of 2019 due to higher legal and professional fees in response to certain data security matters.

The Company's GAAP efficiency ratio, or noninterest expenses divided by the sum of net interest income and noninterest income, was 67.3% in the third quarter of 2020, 93.9% in the second quarter of 2020, and 65.4% in the third quarter of 2019. The Company's non-GAAP efficiency ratio, excluding amortization expense, gains and losses from investment securities, and merger-related expenses, was 66.3% compared with 67.3% in the second quarter of 2020 and 64.8% in last year's third quarter.

Income tax expense was \$0.6 million, or an effective tax rate of 11.8%, for the third quarter of 2020 compared with 16.7% in the second quarter of 2020 and 25.6% in last year's third quarter. Excluding the impact of a first quarter 2020 historic rehabilitation tax credit transaction, the effective tax rate was 25.6% and 25.9% in the third and second quarters of 2020, respectively.

Other Results of Operations – Year-to-Date Comparison

Net interest income was \$43.4 million for the first nine months of 2020, a \$4.1 million or 10% increase from the first nine months of 2019. The increase in net interest income is attributable to a \$361 million or 27% increase in average interest-earning assets. The increase in average interest-earning assets reflects average loan growth of \$296 million or 25% to \$1.5 billion during the first nine months of 2020 compared to the first nine months of 2019. The Company acquired approximately \$271 million in total loans from FSB, largely consisting of residential real estate, during the second quarter of 2020. In addition, PPP loans, which carry a fixed rate of 1.00%, added \$203 million in loan growth during the first nine months of 2020. Fees totaling \$7.3 million were collected from the SBA for these loans in the nine months ended September 30, 2020. These fees are deferred and amortized into interest income over the contractual period of the loan. Upon SBA forgiveness, unamortized fees are then recognized into interest income. The Company recognized \$1.5 million of amortized PPP loan fees in interest income during the nine months ended September 30, 2020. No PPP loan fees were included in interest income in the first nine months of 2019. The benefit from the increases in average interest-earning assets and PPP fees was partially offset by lower net interest margin.

The Company's net interest margin of 3.37% in the first nine months of 2020 was 50 basis points lower than the margin in the first nine months of 2019. The yield on average interest-earning assets decreased 86 basis points from 4.80% to 3.94%. Average loan yields decreased 82 basis points from 5.12% to 4.30%, reflecting the Federal Reserve's decrease of fed funds rate. The cost of interest-bearing liabilities was 0.77%, or 45 basis points lower in the first nine months of 2020 when compared with the first nine months of 2019. The rate paid on average time deposits decreased from 2.17% in the first nine months of 2019 to 1.45% during the first nine months of 2020.

The Company recorded \$5.5 million in provision for loan losses in the nine-month period ended September 30, 2020, compared with a provision of \$0.2 million in the nine-month period ended September 30, 2019. The increase in provision for loan losses during the first nine months of 2020 compared with the prior year period reflects an increase in criticized loans and additional reserves in response to economic trends and conditions and changes in credit quality standards as the economy continues to be impacted by the COVID-19 pandemic. During the third quarter of 2020, the Company identified a well-defined weakness in the hotel industry and classified the majority of the loans to clients within that industry as criticized. As of September 30, 2020, the Company's hotel loan portfolio was \$81 million, or approximately 6.5%, of total commercial loans. While the full impact of COVID-19 on future financial results is uncertain, the Company believes that the effects could have a material impact on the ability of some clients to meet their borrowing obligations. The provision for loan losses during the first nine months of 2019 reflected loan growth, offset by a decrease in non-performing loans, primarily due to the paydown of a single commercial construction loan of \$8 million, and a decrease in net loan charge-offs due to the single commercial loan recovery of \$0.7 million.

Non-interest income for the first nine months of 2020 decreased \$0.7 million from the prior year period to \$13.4 million. The first nine months of 2020 included a \$0.6 million net reduction of non-interest income related to an investment in an historic rehabilitation tax credit. There were no significant historic rehabilitation tax credits during the first nine months of 2019. Insurance service and fees revenue of \$8.3 million decreased \$0.3 million during the first nine months of 2020 compared with prior year period as a result of lower

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profit-sharing revenue and claims service revenues. Changes in the fair value of mortgage servicing rights decreased non-interest income by \$0.2 million in first nine months of 2020 as compared to the first nine months of 2019. Deposit service charges revenue decreased \$0.2 million during the first nine months of 2020 compared with the first nine months of 2019 as a result of lower consumer spending and the temporary suspension of certain fees to assist customers affected by COVID-19. Offsetting the decreases in non-interest income was a \$0.7 million gain on sale of investment securities during the first nine months of 2020. There was no comparable gain on sale of investment securities during the first nine months of 2019.

Total non-interest expense increased to \$45.4 million in the first nine months of 2020, 27% higher than the nine-month period ended September 30, 2019. The increase was mostly attributable to \$6.0 million in merger-related expenses in connection with the FSB acquisition including system contract termination and deconversion charges, and legal and other professional services. Salaries and employee benefits costs were \$23.9 million for the first nine months of 2020, a \$1.6 million or 7% increase from \$22.3 million in the prior year period. The year-over-year increase in salary and benefits expense reflects the addition of personnel related to the FSB acquisition and annual merit increases during 2020. Technology and communications expenses increased \$0.9 million to \$3.9 million, reflecting higher online banking activity, software costs primarily as a result of the FSB acquisition, and additional expenditures related to COVID-19.

The Company's GAAP efficiency ratio, or noninterest expenses divided by the sum of net interest income and noninterest income, was 79.9% in the first nine months of 2020, compared with 66.8% during the prior-year period. The Company's non-GAAP efficiency ratio, excluding amortization expense, gains and losses from investment securities, merger-related expenses and the impact of historic tax credit transactions, was 68.7% in the first nine months of 2020, compared with 66.2% during the prior-year period.

The Company recorded income tax expense of \$0.7 million for the nine-month period ended September 30, 2020, compared with \$4.2 million in the first nine months of 2019.

The effective tax rate for the first nine months of 2020 was 12.4%, compared with 24.2% in the comparable 2019 period. Excluding the impact of the 2020 historic tax credit transaction, the effective tax rate was 25.7% for the first nine months of 2020.

CAPITAL

The Company consistently maintains regulatory capital ratios significantly above the federal "well capitalized" standard, including a Tier 1 leverage ratio of 7.82% at September 30, 2020, compared with 8.44% at June 30, 2020 and 10.33% at December 31, 2019. Book value per share was \$30.29 at September 30, 2020, compared with \$30.13 at June 30, 2020 and \$30.12 at December 31, 2019.

On August 18, 2020, the Company declared a semi-annual cash dividend of \$0.58 per share on the Company's outstanding common stock. The dividend was paid on October 6, 2020 to shareholders of record as of September 15, 2019. For the full year of 2020, cash dividends totaled \$1.16, up 12% over 2019.

The Company has also issued subordinated capital notes and junior subordinated debentures associated with trust preferred securities to provide liquidity and enhance regulatory capital ratios. The Company had \$11.3 million of junior subordinated debentures associated with trust preferred securities outstanding at September 30, 2020 and December 31, 2019 which are considered Tier 1 capital and are includable in total regulatory capital. On July 9, 2020, the Company executed a private offering of \$20 million in 6% fixed-to-floating rate subordinated notes due on July 15, 2030. During the third quarter of 2020, \$15 million of the proceeds from the sale of the notes were moved to the Company's Evans Bank, N.A. subsidiary as Tier 1 capital.

While we are currently classified as well capitalized, an extended economic recession brought about by COVID-19 could adversely impact our reported and regulatory capital ratios by credit losses. The Company relies on cash on hand as well as dividends from its subsidiary bank to service its debt. If the Company's subsidiary bank's capital deteriorates such that it is unable to pay dividends to the Company for an extended period of time, the Company may not be able to service its debt that was issued subsequent to September 30, 2020.

LIQUIDITY

The Bank utilizes cash flows from the investment portfolio and federal funds sold balances to manage the liquidity requirements related to loan demand and deposit fluctuations. The Bank also has many borrowing options. The Company uses the FHLBNY as its primary source of overnight funds and has long-term advance with FHLBNY. The Company acquired \$53 million of FHLBNY long-term advances from the FSB acquisition during the second quarter of 2020. The Company had \$10 million in long-term advances with FHLBNY at December 31, 2019, which matured in the second quarter of 2020. The Company's use of its overnight line of credit with FHLBNY varies depending on its ability to fund investment and loan growth with core deposits along with the line usage's impact on interest rate risk. The Company's funding strategy has resulted in significant deposit growth, resulting in less usage of the FHLBNY

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overnight line of credit. The Company has pledged sufficient collateral in the form of residential and commercial real estate loans at FHLB NY that meets FHLB collateral requirements. As a member of the FHLB, the Bank is able to borrow funds at competitive rates. Advances of up to \$487 million can be drawn on the FHLB via an Overnight Line of Credit Agreement between the Bank and the FHLB. The Bank also has the ability to purchase up to \$18 million in federal funds from its correspondent banks. By placing sufficient collateral in safekeeping at the Federal Reserve Bank, the Bank could borrow at the discount window. The Bank's liquidity needs also can be met by more aggressively pursuing time deposits, or accessing the brokered time deposit market, including the Certificate of Deposit Account Registry Service ("CDARS") network.

Cash flows from the Bank's investment portfolio are laddered, so that securities mature at regular intervals, to provide funds from principal and interest payments at various times as liquidity needs may arise. Contractual maturities are also laddered, with consideration as to the volatility of market prices. At September 30, 2020, approximately 5% of the Bank's securities had contractual maturity dates of one year or less and approximately 10% had maturity dates of five years or less. Additionally, mortgage-backed securities, which comprise 53% of the investment portfolio at September 30, 2020, provide consistent cash flows for the Bank.

The Company's primary source of liquidity is dividends from the Bank. Additionally, the Company has access to capital markets as a funding source.

Management, on an ongoing basis, closely monitors the Company's liquidity position for compliance with internal policies and believes that available sources of liquidity are adequate to meet funding needs in the normal course of business. As part of that monitoring process, management calculates the 90-day liquidity each month by analyzing the cash needs of the Bank. Included in the calculation are liquid assets and potential liabilities. Management stresses the potential liabilities calculation to ensure a strong liquidity position. Included in the calculation are assumptions of some significant deposit run-off as well as funds needed for loan closings and investment purchases. In the Company's internal stress test at September 30, 2020, the Company had net short-term liquidity of \$421 million as compared with \$209 million at December 31, 2019. Available assets of \$250 million, divided by public and purchased funds of \$383 million, resulted in a long-term liquidity ratio of 65% at September 30, 2020, compared with 59% at December 31, 2019.

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

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

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

SENSITIVITY OF NET INTEREST INCOME TO CHANGES IN INTEREST RATES

	Calculated increase (decrease) in projected annual net interest income	
	(in thousands)	
	September 30, 2020	December 31, 2019
Changes in interest rates		
+200 basis points	\$ (2,657)	\$ (32)
+100 basis points	1,595	2,327
-100 basis points	NM	(2,455)
-200 basis points	NM	NM

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

ITEM 4 - CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2020 (the end of the period covered by this Report). Based on that evaluation, the Company's principal executive and principal financial officers concluded that as of September 30, 2020 the Company's disclosure controls and procedures were effective.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes in the Company's internal control over financial reporting were identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during the fiscal quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

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

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 1A – RISK FACTORS

There have been no material changes to the risk factors previously disclosed in the Company’s Annual Report on Form 10- K for the fiscal year ended December 31, 2019, as supplemented by the disclosure in Part II, Item 1A. Risk Factors included in the Quarterly report on Form 10-Q for the quarter ended March 31, 2020.

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

Issuer Purchases of Equity Securities

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>
July 2020:			
July 1, 2020 - July 31, 2020	-	\$ -	-
August 2020:			
August 1, 2020 - August 31, 2020	-	\$ -	-
September 2020:			
September 1, 2020 - September 30, 2020	-	\$ -	-
Total:	-	\$ -	-

(1) The total shares purchased in the period consist of shares constructively tendered to the Company by attestation in satisfaction of the exercise price due upon exercise of options issued pursuant to the Company’s 2019 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 exercise date, which was the closing sales price of the Company’s common stock as reported on the NYSE American on that date.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

(Not Applicable.)

ITEM 4 – MINE SAFETY DISCLOSURE

(Not Applicable.)

ITEM 5 – OTHER INFORMATION

(Not Applicable.)

ITEM 6 – EXHIBITS

The following exhibits are filed as a part of this report:

EXHIBIT INDEX

Exhibit No.	Name
4.1	Indenture, dated as of July 9, 2020, by and between Evans Bancorp, Inc. and UMB Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to Evans Bancorp, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 9, 2020).
4.2	Form of 6.00% Fixed-to-Floating Rate Subordinated Note due 2030 of Evans Bancorp, Inc. (incorporated by reference to Exhibit 4.1 to Evans Bancorp, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 9, 2020).
10.1	Form of Subordinated Note Purchase Agreement, dated as of July 9, 2020, by and between Evans Bancorp, Inc. and the several Purchasers (incorporated by reference to Exhibit 10.1 to Evans Bancorp, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 9, 2020).
10.2	Form of Registration Rights Agreement, dated as of July 9, 2020, by and between Evans Bancorp, Inc. and the several Purchasers (incorporated by reference to Exhibit 10.2 to Evans Bancorp, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on July 9, 2020).
10.3	Amendment Number One, dated as of September 21, 2020, to the Employment Agreement by and among Evans Bank, N.A., Evans Bancorp, Inc. and David J. Nasca, executed and delivered by Evans Bancorp, Inc. and Evans Bank on September 14, 2009 and effective as of September 9, 2009 (incorporated by reference to Exhibit 10.1 to Evans Bancorp, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on September 25, 2020).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 USC Section 1350 Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 USC Section 1350 Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Evans Bancorp, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Consolidated Balance Sheets – September 30, 2020 and December 31, 2019; (ii) Unaudited Consolidated Statements of Income – Three months ended September 30, 2020 and 2019; (iii) Unaudited Consolidated Statements of Income – Nine months ended September 30, 2020 and 2019; (iv) Unaudited Statements of Consolidated Comprehensive Income – Three months ended September 30, 2020 and 2019; (v) Unaudited Statements of Consolidated Comprehensive Income – Nine months ended September 30, 2020 and 2019; (vi) Unaudited Consolidated Statements of Stockholders' Equity – Three months ended September 30, 2020 and 2019; (vii) Unaudited Consolidated Statements of Stockholders' Equity – Nine months ended September 30, 2020 and 2019; (viii) Unaudited Consolidated Statements of Cash Flows – Nine months ended September 30, 2020 and 2019; and (ix) Notes to Unaudited Consolidated Financial Statements.
104	The cover page from the Evans Bancorp, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in Inline XBRL.

SIGNATURES

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

Evans Bancorp, Inc.

DATE

November 5, 2020

/s/ David J. Nasca

David J. Nasca

President and CEO

(Principal Executive Officer)

DATE

November 5, 2020

/s/ John B. Connerton

John B. Connerton

Treasurer

(Principal Financial Officer and Principal Accounting Officer)

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Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

Certification

I, David J. Nasca, certify that:

1. I have reviewed this report on Form 10-Q of Evans Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2020

/s/ David J. Nasca

David J. Nasca

President and Chief Executive Officer

(Principal Executive Officer)

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Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

Certification

I, John B. Connerton, certify that:

1. I have reviewed this report on Form 10-Q of Evans Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2020

/s/ John B. Connerton
John B. Connerton
Treasurer
(Principal Financial Officer and Principal Accounting Officer)

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Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE AND FINANCIAL OFFICERS
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, David J. Nasca, the President and Chief Executive Officer of Evans Bancorp, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge: (1) the Quarterly Report of Evans Bancorp, Inc. on Form 10-Q for the fiscal quarter ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and (2) the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Evans Bancorp, Inc.

Date: November 5, 2020

By: /s/ David J. Nasca
Name: David J. Nasca
Title: President and Chief Executive Officer
(Principal Executive Officer)

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Section 5: EX-32.2 (EX-32.2)

