

EVANS BANCORP INC
Form 10-Q
May 15, 2007

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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 March 31, 2007

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 0-18539

EVANS BANCORP, INC.

(Exact name of registrant as specified in its charter)

New York

16-1332767

(State of other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

14 -16 North Main Street, Angola, New York

14006

(Address of principal executive offices)

(Zip Code)

(716) 926-2000

(Registrant's telephone number, including area code)

Not applicable

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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 2,748,013 shares as of May 1, 2007

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EVANS BANCORP, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION
 ITEM I FINANCIAL STATEMENTS
 EVANS BANCORP, INC. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED BALANCE SHEETS
 MARCH 31, 2007 AND DECEMBER 31, 2006
 (in thousands, except share and per share amounts)

	March 31, 2007	December 31, 2006
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	\$ 14,340	\$ 12,592
Securities:		
Available for sale, at fair value	149,957	133,519
Held to maturity, at amortized cost	4,142	4,211
Loans and leases, net of allowance for loan and lease losses of \$3,885 in 2007 and \$3,739 in 2006	290,467	285,367
Properties and equipment, net	8,695	8,743
Goodwill	10,003	10,003
Intangible assets	2,154	2,298
Bank-owned life insurance	10,280	10,140
Other assets	7,354	7,021
TOTAL ASSETS	\$ 497,392	\$ 473,894
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Deposits:		
Demand	\$ 70,830	\$ 72,125
NOW	12,929	11,253
Regular savings	86,637	85,084
Muni-vest	46,745	31,240
Time	162,797	156,047
Total deposits	379,938	355,749
Securities sold under agreement to repurchase	6,281	8,954
Other short-term borrowings	26,350	24,753
Other liabilities	11,067	9,089

Junior subordinated debentures	11,330	11,330
Long-term borrowings	22,285	24,476
Total liabilities	457,251	434,351

CONTINGENT LIABILITIES AND COMMITMENTS

STOCKHOLDERS EQUITY:

Common stock, \$.50 par value; 10,000,000 shares authorized; 2,745,338 and 2,745,338 shares issued, respectively, and 2,729,556 and 2,733,056 shares outstanding, respectively

	1,373	1,373
Capital surplus	26,184	26,160
Retained earnings	14,555	14,196
Accumulated other comprehensive loss, net of tax	(1,629)	(1,917)
Less: Treasury stock, at cost (15,782 and 12,282 shares, respectively)	(342)	(269)
Total stockholders equity	40,141	39,543

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 497,392	\$ 473,894
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See Notes to Unaudited Consolidated Financial Statements

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PART I FINANCIAL INFORMATION
 ITEM I FINANCIAL STATEMENTS
 EVANS BANCORP, INC. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
 THREE MONTHS ENDED MARCH 31, 2007 AND 2006
 (in thousands, except share and per share amounts)

	Three Months Ended March 31,	
	2007	2006
INTEREST INCOME		
Loans	\$ 5,600	\$ 4,615
Federal funds sold/Interest bearing deposits at other banks	87	11
Securities:		
Taxable	1,012	1,104
Non-taxable	443	474
Total interest income	7,142	6,204
INTEREST EXPENSE		
Deposits	2,704	1,895
Other borrowings	350	483
Junior subordinated debentures	218	192
Total interest expense	3,272	2,570
NET INTEREST INCOME	3,870	3,634
PROVISION FOR LOAN AND LEASE LOSSES	315	282
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,555	3,352
NON-INTEREST INCOME:		
Bank charges	471	498
Insurance service and fees	2,129	2,177
Net loss on sales of securities	(1)	
Premium on loans sold	1	3
Bank-owned life insurance	140	105
Other	405	373
Total non-interest income	3,145	3,156
NON-INTEREST EXPENSE:		
Salaries and employee benefits	2,668	2,501
Occupancy	603	532
Supplies	78	85
Repairs and maintenance	139	137
Advertising and public relations	88	71
Professional services	252	144
Amortization of intangibles	144	130
Other Insurance	90	87

Other	870	799
Total non-interest expense	4,932	4,486
INCOME BEFORE INCOME TAXES	1,768	2,022
INCOME TAXES	481	616
NET INCOME	\$ 1,287	\$ 1,406
Net income per common share-basic	\$ 0.47	\$ 0.52
Net income per common share-diluted	\$ 0.47	\$ 0.52
Cash dividends per common share	\$ 0.34	\$ 0.34
Weighted average number of common shares	2,730,499	2,722,950
Weighted average number of diluted shares	2,731,925	2,724,583

See Notes to Unaudited Consolidated Financial Statements

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PART 1 FINANCIAL INFORMATION
 ITEM 1 FINANCIAL STATEMENTS
 EVANS BANCORP, INC. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 THREE MONTHS ENDED MARCH 31, 2007 AND 2006
 (in thousands, except share and per share amounts)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance, January 1, 2006	\$ 1,373	\$ 26,155	\$ 11,087	\$ (1,387)	\$ (352)	\$ 36,876
Impact of adopting SAB 108, net of tax \$12			43			43
Comprehensive income:						
Net Income			1,406			1,406
Unrealized loss on available-for-sale securities, net of tax effect of \$453				(711)		(711)
Total comprehensive income						738
Cash dividends (\$0.34 per common share)			(928)			(928)
Stock options expense		30				30
Purchased 10,100 shares for treasury					(211)	(211)
Balance, March 31, 2006	\$ 1,373	\$ 26,185	\$ 11,608	\$ (2,098)	\$ (563)	\$ 36,505
Balance, January 1, 2007	\$ 1,373	\$ 26,160	\$ 14,196	\$ (1,917)	\$ (269)	\$ 39,543
Comprehensive income:						
Net Income			1,287			1,287
Unrealized gain on available-for-sale securities, net of reclassification adjustment of (\$1) and tax effect of \$(176)				275		275
Amortization of prior service cost and net loss, net of tax effect \$(8)				13		13

Total comprehensive income						1,575
Cash dividends (\$0.34 per common share)			(928)			(928)
Stock options expense		24				24
Purchased 3,500 shares for treasury					(73)	(73)
Balance, March 31, 2007	\$ 1,373	\$ 26,184	\$ 14,555	\$ (1,629)	\$ (342)	\$ 40,141

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PART I-FINANCIAL INFORMATION
ITEM I-FINANCIAL STATEMENTS
EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2007 AND 2006
(in thousands)

	Three Months Ended March 31,	
	2007	2006
OPERATING ACTIVITIES:		
Interest received	\$ 7,120	\$ 6,125
Fees received	2,854	3,098
Proceeds from sales of loans	527	492
Origination of loans held for resale	(1,014)	(584)
Interest paid	(3,327)	(2,607)
Cash paid to employees and suppliers	(3,674)	(3,909)
Income taxes paid	(20)	(108)
Net cash provided by operating activities	2,466	2,507
INVESTING ACTIVITIES:		
Available for sales securities:		
Purchases	(63,938)	(82)
Proceeds from sales	575	
Proceeds from maturities	47,258	5,419
Held to maturity securities:		
Purchases	(24)	(240)
Proceeds from maturities	93	92
Additions to properties and equipment	(195)	(201)
Increase in loans, net of repayments	(5,133)	(1,569)
Cash paid on earn-out agreements	(202)	(56)
Net cash (used in) provided by investing activities	(21,566)	3,363
FINANCING ACTIVITIES:		
Proceeds from borrowings	7,848	
Repayments of short-term borrowings	(8,926)	(38,205)
Repayments of long-term borrowings	(2,190)	(2,033)
Increase in deposits	24,189	31,431
Dividends paid		(928)
Purchase of treasury stock	(73)	(211)
Net cash provided by (used in) financing activities	20,848	(9,946)

Net increase (decrease) in cash and equivalents	1,748	(4,076)
CASH AND CASH EQUIVALENTS:		
Beginning of period	12,592	15,635
End of period	\$ 14,340	\$ 11,559

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PART I-FINANCIAL INFORMATION
 ITEM I-FINANCIAL STATEMENTS
 EVANS BANCORP, INC. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
 THREE MONTHS ENDED MARCH 31, 2007 AND 2006
 (in thousands)

	Three Months Ended March 31,	
	2007	2006
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	\$ 1,287	\$ 1,406
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	519	411
Deferred tax benefit	(122)	(215)
Provision for loan and lease losses	315	282
Net gain on sales of securities	1	
Proceeds from sale of loans held for resale	527	492
Originations of loans held for resale	(1,014)	(584)
Premiums on loans sold	(1)	(3)
Stock options expense	24	30
Changes in assets and liabilities affecting cash flow:		
Other assets	561	(155)
Other liabilities	369	843
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,466	\$ 2,507

See Notes to Unaudited Consolidated Financial Statements

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PART 1 FINANCIAL INFORMATION**ITEM 1 FINANCIAL STATEMENTS****EVANS BANCORP, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****THREE MONTHS ENDED MARCH 31, 2007 AND 2006****1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies followed by Evans Bancorp, Inc. (the Company), a financial holding company organized as a New York business corporation and incorporated under the laws of the State of New York on October 28, 1988, for the purpose of becoming a bank holding company, and its two direct, wholly-owned subsidiaries: (i) Evans National Bank (the Bank), and its subsidiaries, Evans National Leasing, Inc. (ENL) and Evans National Holding Corp. (ENHC); and (ii) Evans National Financial Services, Inc. (ENFS), and its subsidiary ENB Insurance Agency, Inc. (ENBI) and its subsidiaries, Frontier Claim Services, Inc. (FCS) and ENB Associates Inc. (ENB), in the preparation of the accompanying interim unaudited consolidated financial statements conform with generally accepted accounting principles and with general practice within the banking industry. Except as the context otherwise requires, the Company and its direct and indirect subsidiaries are collectively referred to in this report as the Company.

The accompanying consolidated financial statements are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of financial position and results of operations for the interim periods have been made. Such adjustments are of a normal recurring nature.

The results of operations for the three month period ended March 31, 2007 are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited consolidated financial statements should be read in conjunction with the Audited Consolidated Financial Statements and the Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2006.

2. SECURITIES

Securities which the Company has the positive ability and intent to hold to maturity are stated at amortized cost. Securities which the Company has identified as available-for-sale are stated at fair value with changes in fair value included as a component of stockholders' equity. Available-for-sale securities are net of unrealized losses of \$1.5 million and \$1.9 million as of March 31, 2007 and December 31, 2006, respectively. As of March 31, 2007, the securities portfolio did not contain any other than temporary declines in fair value.

3. ALLOWANCE FOR LOAN AND LEASE LOSSES

The allowance for loan and lease losses represents the amount charged against the Bank's earnings to establish an allowance for probable loan and lease losses based on Bank management's evaluation of the loan and lease portfolio. Factors considered by the Bank's management in establishing the allowance include: the collectibility of individual loans and leases, current loan and lease concentrations, charge-off history, delinquent loan and lease percentages, input from regulatory agencies and general economic conditions.

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

The analysis of the allowance for loan and lease losses is composed of three components: specific credit allocation, general portfolio allocation and subjectively by determined allocation. The specific credit allocation includes a detailed review of the credit in accordance with the Statement of Financial Accounting Standards (SFAS) No. 114, Accounting by Creditors for Impairment of a Loan and No. 118, Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures, and allocation is made based on this analysis. The general portfolio allocation consists of an assigned reserve percentage based on the actual credit rating of the loan or lease.

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The subjective portion of the allowance reflects management's evaluation of various conditions, and involves a higher degree of uncertainty because this component of the allowance is not identified with specific problem credits of portfolio segments. The conditions evaluated in connection with this component include the following: industry and regional conditions; seasoning of the loan and lease portfolio and changes in the composition of and growth in the loan and lease portfolio; the strength and duration of the business cycle; existing general economic and business conditions in the lending areas; credit quality trends in nonaccruing loans and leases; historical loan and lease charge-off experience; and the results of bank regulatory examinations.

The following table sets forth information regarding the allowance for loan and lease losses for the three month periods ended March 31, 2007 and 2006.

Allowance for loan and lease losses