WESTERN ASSET MUNICIPAL PARTNERS FUND II INC.
Form N-8F/A
December 07, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-8F

I. General Identifying Information

1. Reason fund is applying to deregister:

Merger

Liquidation

Abandonment of Registration

Election of status as a **Business Development Company**

2. Name of fund: Western Asset Municipal Partners Fund II Inc.

3. Securities and Exchange Commission File No.: 811-07812

4. Is this an initial Form N-8F or an amendment to a previously filed Form N-8F?
Initial Application Amendment

5. Address of principal executive office (include No., Street, City, State, Zip Code):
125 Broad Street

New York, NY 10004

6. Name, address, and telephone number of individual the Commission staff should contact with any questions regarding this form:

George P. Hoyt, Esq.

Legg Mason & Co., LLC

300 First Stamford Place

Stamford, CT 06902

(203) 703-7026

7. Name, address and telephone number of individual or entity responsible for maintenance and preservation of fund records in accordance with rules 31a-1 and 31a-2 under the Act [17 CFR 270.31a-1, .31a-2]:

NOTE: *Once deregistered, a fund is still required to maintain and preserve the records described in rules 31a-1 and 31a-2 for the periods specified in those rules.*

State Street Bank and Trust Company

225 Franklin Street

Boston, Massachusetts 02110

8. Classification of fund (check only one):

Management company;

Unit investment trust; or

Face-amount certificate company.

9. Subclassification if the fund is a management company (check only one):
Open-end Closed-end

10. State law under which the fund was organized or formed (*e.g.*, Delaware, Massachusetts):
Maryland

11. Provide the name and address of each investment adviser of the fund (including sub-advisers) during the last five years, even if the fund s contracts with those advisers have been terminated:
Legg Mason Partners Fund Advisor, LLC

620 Eighth Avenue

New York, NY 10018

Western Asset Management Company

385 East Colorado Boulevard

Pasadena, CA 91101

12. Provide the name and address of each principal underwriter of the fund during the last five years, even if the fund s contracts with those underwriters have been terminated:

None.

13. If the fund is a unit investment trust (UIT) provide:

(a) Depositor s name(s) and address(es): N/A

(b) Trustee s name(s) and address(es): N/A

14. Is there a UIT registered under the Act that served as a vehicle for investment in the fund (*e.g.*, an insurance company separate account)?

Yes No

If Yes, for each UIT state:

Name(s):

File No.: 811-

Business Address:

15. (a) Did the fund obtain approval from the board of directors concerning the decision to engage in a Merger, Liquidation or Abandonment of Registration?

Yes No

If Yes, state the date on which the board vote took place: March 2, 2007

If No, explain:

(b) Did the fund obtain approval from the shareholders concerning the decision to engage in a Merger, Liquidation or Abandonment of Registration?

Yes No

If Yes, state the date on which the shareholder vote took place: June 15, 2007

If No, explain:

II. Distributions to Shareholders

16. Has the fund distributed any assets to its shareholders in connection with the Merger or Liquidation?

Yes No

(a) If Yes, list the date(s) on which the fund made those distributions: June 23, 2007

(b) Were the distributions made on the basis of net assets?

Yes No

(c) Were the distributions made *pro rata* based on share ownership?

Yes No

(d) If No to (b) or (c) above, describe the method of distributions to shareholders. For Mergers, provide the exchange ratio(s) used and explain how it was calculated:

Each outstanding share of Western Asset Municipal Partners Fund II Inc. (MPT) common stock, was converted into an equivalent dollar amount (to the nearest one tenth of one cent) of full shares of Western Asset Municipal Partners Fund Inc. (MNP) common stock, based on the net asset value per share of each of the parties at 4:00 p.m. Eastern Time on the business day prior to the effective date of the merger. No fractional shares of MNP common stock were issued to the holders of MPT common stock. In lieu thereof, the MNP purchased all fractional shares of MNP common stock at the then current net asset value per share of the MNP common stock for the account of all holders of fractional interests, and each holder received such holder s pro rata share of the proceeds of such purchase.

(e) *Liquidations only:*

Were any distributions to shareholders made in kind?

Yes No N/A

If Yes, indicate the percentage of fund shares owned by affiliates, or any other affiliation of shareholders:

17. *Closed-end funds only:*

Has the fund issued senior securities?

Yes No

If Yes, describe the method of calculating payments to senior security holders and distributions to other shareholders:

Each holder of auction rate preferred stock, Series M of Western Asset Municipal Partners Fund II Inc. has received one share of auction rate preferred stock, Series M of Western Asset Municipal Partners Fund Inc. for each share of auction rate preferred stock, Series M of Western Asset Municipal Partners Fund II Inc. held at the time of the merger of Western Asset Municipal Partners Fund II Inc. with and into Western Asset Municipal Partners Fund Inc. Each share of auction rate preferred stock, Series M of Western Asset Municipal Partners Fund Inc. and each share of auction rate preferred stock, Series M of Western Asset Municipal Partners Fund II Inc. has a liquidation preference of $50,000.

18. Has the fund distributed ***all*** of its assets to the fund s shareholders?

Yes No

If No,

(a) How many shareholders does the fund have as of the date this form is filed?

(b) Describe the relationship of each remaining shareholder to the fund:

19. Are there any shareholders who have not yet received distributions in complete liquidation of their interests?
Yes No

If Yes, describe briefly the plans (if any) for distributing to, or preserving the interests of, those shareholders:

III. Assets and Liabilities

20. Does the fund have any assets as of the date this form is filed?
(See question 18 above)

Yes No

If Yes,

(a) Describe the type and amount of each asset retained by the fund as of the date this form is filed:

(b) Why has the fund retained the remaining assets?

(c) Will the remaining assets be invested in securities?
Yes No

21. Does the fund have any outstanding debts (other than face-amount certificates if the fund is a face-amount certificate company) or any other liabilities?
Yes No

If Yes,

(a) Describe the type and amount of each debt or other liability:

(b) How does the fund intend to pay these outstanding debts or other liabilities?

IV. Information About Event(s) Leading to Request For Deregistration

22. (a) List the expenses incurred in connection with the Merger or Liquidation:

(i) Legal expenses: 100,000

(ii) Accounting expenses: 15,000

(iii) Other expenses (list and identify separately):

a. Proxy Solicitation/Printing/Mailing: $80,000

(iv) Total expenses (sum of lines (i)-(iii) above): $195,000

(b) How were those expenses allocated?
The costs of the merger were borne by Western Asset Municipal Partners Fund II Inc. and Western Asset Municipal Partners Fund Inc. in proportion to their respective total assets.

(c) Who paid those expenses?
The costs of the merger were borne by Western Asset Municipal Partners Fund II Inc. and Western Asset Municipal Partners Fund Inc. in proportion to their respective total assets.

(d) How did the fund pay for unamortized expenses (if any)?
N/A

23. Has the fund previously filed an application for an order of the Commission regarding the Merger or Liquidation?
Yes No

If Yes, cite the release numbers of the Commission s notice and order or, if no notice or order has been issued, the file number and date the application was filed:

V. Conclusion of Fund Business

24. Is the fund a party to any litigation or administrative proceeding?
Yes No

If Yes, describe the nature of any litigation or proceeding and the position taken by the fund in that litigation:

25. Is the fund now engaged, or intending to engage, in any business activities other than those necessary for winding up its affairs?
Yes No

If Yes, describe the nature and extent of those activities:

VI. Mergers Only

26. (a) State the name of the fund surviving the Merger: Western Asset Municipal Partners Fund Inc.

(b) State the Investment Company Act file number of the fund surviving the Merger: 811-07362

(c) If the merger or reorganization agreement has been filed with the Commission, state the file number(s), form type used and date the agreement was filed:

The Form of Agreement and Plan of Merger was included as Appendix A in Pre-Effective Amendment No. 2 to Western Asset Municipal Partners Fund Inc. s Registration Statement on Form N-14, which was filed with the Commission on May 3, 2007 under the file numbers of both Western Asset Municipal Partners Fund Inc. (811-07362) and Western Asset Municipal Partners Fund II Inc. (811-07812).

(d) If the merger or reorganization agreement has ***not*** been filed with the Commission, provide a copy of the agreement as an exhibit to this form.

VERIFICATION

The undersigned states that (i) he or she has executed this Form N-8F application for an order under section 8(f) of the Investment Company Act of 1940 on behalf of Western Asset Municipal Partners Fund II Inc., (ii) he or she is the Controller of Western Asset Municipal Partners Fund II Inc., and (iii) all actions by shareholders, directors, and any other body necessary to authorize the undersigned to execute and file this Form N-8F application have been taken. The undersigned also states that the facts set forth in this Form N-8F application are true to the best of his or her knowledge, information, and belief.

(Signature)

/s/ Steven Frank
Steven Frank
t;font-family:Times New Roman;height:1.00pt;overflow:hidden;font-size:0pt;">

2014

Less than 12 months

12 months or longer

Total

Fair

Unrealized

Fair

Unrealized

Fair

Unrealized

Value

Losses

Value

Losses

Value

Losses

(in thousands)

Available for Sale:

Debt securities:

U.S. government agencies

$

3,906

$

(26)

$

7,751

$

(249)

$

11,657

$

(275)

States and political subdivisions

4,752

(9)

1,902

(40)

6,654

(49)

Total debt securities

$

8,658

$

(35)

$

9,653

$

(289)

$

18,311

$

(324)

Mortgage-backed securities:

FNMA

$

1,498

$

(10)

$

1,731

$

(5)

$

3,229

$

(15)

FHLMC

-

-

1,482

(64)

1,482

(64)

GNMA

-

-

2,079

(27)

2,079

(27)

CMO'S

1,722

(11)

4,290

(128)

6,012

(139)

Total mortgage-backed securities

$

3,220

$

(21)

$

9,582

$

(224)

$

12,802

$

(245)

Held To Maturity:

Debt securities:

States and political subdivisions

$

371

$

(1)

$

556

$

(31)

$

927

$

(32)

Total temporarily impaired

securities

$

12,249

$

(57)

$

19,791

$

(544)

$

32,040

$

(601)

2013

Less than 12 months

12 months or longer

Total

Fair

Unrealized

Fair

Unrealized

Fair

Unrealized

Value

Losses

Value

Losses

Value

Losses

(in thousands)

Available for Sale:

Debt securities:

U.S. government agencies

$

10,553

$

(486)

$

1,863

$

(137)

$

12,416

$

(623)

States and political subdivisions

7,953

(150)

590

(38)

8,543

(188)

Total debt securities

$

18,506

$

(636)

$

2,453

$

(175)

$

20,959

$

(811)

Mortgage-backed securities:

FNMA

$

4,819

$

(57)

$

21

$

-

$

4,840

$

(57)

FHLMC

2,677

(46)

1,700

(101)

4,377

(147)

GNMA

2,751

(96)

-

-

2,751

(96)

CMO'S

6,466

(389)

-

-

6,466

(389)

Total mortgage-backed securities

$

16,713

$

(588)

$

1,721

$

(101)

$

18,434

$

(689)

Held To Maturity:

Debt securities:

States and political subdivisions

$

1,210

$

(24)

$

504

$

(47)

$

1,714

$

(71)

Total temporarily impaired

securities

$

36,429

$

(1,248)

$

4,678

$

(323)

$

41,107

$

(1,571)

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Management has assessed the securities available for sale in an unrealized loss position at December 31, 2014 and 2013 and determined the decline in fair value below amortized cost to be temporary. In making this determination, management considered the period of time the securities were in a loss position, the percentage decline in comparison to the securities' amortized cost, and the financial condition of the issuer (primarily government or government-sponsored enterprises). In addition, management does not intend to sell these securities and it is not more likely than not that we will be required to sell these securities before recovery of their amortized cost. Management believes the decline in fair value is primarily related to market interest rate fluctuations and not to the credit deterioration of the individual issuers. The Company holds no securities backed by sub-prime or Alt-A residential mortgages or commercial mortgages and also does not hold any trust-preferred securities.

The Company did not record any other-than-temporary impairment charges in 2014 or 2013, and gross unrealized losses amounted to only $0.6 million at December 31, 2014. The credit worthiness of the Company's portfolio is largely reliant on the ability of U.S. government agencies such as the Federal Home Loan Bank ("FHLB"), Federal National Mortgage Association ("FNMA"), and the Federal Home Loan Mortgage Corporation ("FHLMC"), and municipalities throughout New York State to meet their obligations. In addition, dysfunctional markets could materially alter the liquidity, interest rate, and pricing risk of the portfolio. The stable past performance is not a guarantee for similar performance going forward.

The Company uses the Federal Home Loan Bank of New York ("FHLBNY") as its primary source of overnight funds and also has several long-term advances with FHLBNY. At December 31, 2014, the Company had a total of $13.7 million in borrowed funds with FHLBNY. The Company has sufficient collateral in the form of residential real estate loans at FHLBNY. As a member of the Federal Home Loan Bank System, the Bank is required to hold stock in FHLBNY. The Bank held FHLBNY stock with a carrying value of $1.4 million as of December 31, 2014 and December 31, 2013, respectively.

3.LOANS AND LEASES, NET

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

	2014	2013

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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2014

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

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

* includes construction loans

** includes other loans

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2013

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

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

* includes construction loans

** includes other loans

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

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

December 31, 2014
(in thousands)

Corporate Credit Exposure – By Credit Rating	Commercial Real Estate Construction	Commercial and Multi-Family Mortgages	Total Commercial Real Estate	Commercial and Industrial
3	$ 29,421	$ 299,798	$ 329,219	$ 83,789
4	10,492	50,691	61,183	30,223
5	1,073	7,853	8,926	8,662
6	-	4,757	4,757	6,613
7	-	153	153	169
Total	$ 40,986	$ 363,252	$ 404,238	$ 129,456

December 31, 2013
(in thousands)

Corporate Credit Exposure – By Credit Rating	Commercial Real Estate Construction	Commercial and Multi-Family Mortgages	Total Commercial Real Estate	Commercial and Industrial
3	$ 19,086	$ 297,819	$ 316,905	$ 78,294
4	3,283	47,584	50,867	15,194

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

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

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

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

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

December 31, 2014 (in thousands)	30-59 days	60-89 days	90+ days	Total Past Due	Current Balance	Total Balance	90+ Days Accruing	Non-accruing Loans and Leases
Commercial and								

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

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December 31, 2013
(in thousands)

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

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

	At December 31, 2014					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
With no related allowance recorded:	(in thousands)					
Commercial and industrial	$ 1,017	$ 1,022	$ -	$ 1,096	$ 9	$ 66
Residential real estate:						
Residential	2,264	2,435	-	2,271	37	68
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	2,103	2,208	-	2,139	33	91
Construction	1,074	1,074	-	1,169	-	44
Home equities	911	950	-	917	17	22
Direct financing leases	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total impaired loans and leases	$ 7,369	$ 7,689	$ -	$ 7,592	$ 96	$ 291

	At December 31, 2014					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
With a related allowance recorded:	(in thousands)					
	$ 4,701	$ 4,734	$ 988	$ 4,701	$ 64	$ 234

Commercial and industrial						
Residential real estate:						
Residential	271	285	3	271	20	-
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	2,640	2,785	274	2,708	96	50
Construction	-	-	-	-	-	-
Home equities	-	-	-	-	-	-
Direct financing leases	-	-	-	-	-	-
Consumer	48	60	48	49	5	6
Other	-	-	-	-	-	-
Total impaired loans and leases	$ 7,660	$ 7,864	$ 1,313	$ 7,729	$ 185	$ 290

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	At December 31, 2014					
Total:	Recorded Investment (in thousands)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
Commercial and industrial	$ 5,718	$ 5,756	$ 988	$ 5,797	$ 73	$ 300
	-	-	-	-	-	-
Residential real estate:						
Residential	2,535	2,720	3	2,542	57	68
Construction	-	-	-	-	-	-
	-	-	-	-	-	-
Commercial real estate:						
Commercial	4,743	4,993	274	4,847	129	141
Construction	1,074	1,074	-	1,169	-	44
	-	-	-	-	-	-
Home equities	911	950	-	917	17	22
	-	-	-	-	-	-
Direct financing leases	-	-	-	-	-	-
	-	-	-	-	-	-
Consumer	48	60	48	49	5	6
	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total impaired loans and leases	$ 15,029	$ 15,553	$ 1,313	$ 15,321	$ 281	$ 581

	At December 31, 2013					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
With no related allowance recorded:	(in thousands)					
Commercial and industrial	$ 1,247	$ 1,352	$ -	$ 1,405	$ 100	$ 59
Residential real estate:						
Residential	1,331	1,460	-	1,388	61	9
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	9,937	10,288	-	9,832	302	109
Construction	599	599	-	707	-	26
Home equities	408	438	-	402	19	4
Direct financing leases	26	27	-	29	-	-
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total impaired loans and leases	$ 13,548	$ 14,164	$ -	$ 13,763	$ 482	$ 207

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	At December 31, 2013 Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
With a related allowance recorded:	(in thousands)					
Commercial and industrial	$ 3,141	$ 3,191	$ 1,187	$ 3,577	$ 60	$ 108
Residential real estate:						
Residential	621	624	47	622	10	27
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	584	650	70	604	6	26
Construction	934	934	146	934	-	33
Home equities	39	39	39	39	-	2
Direct financing leases	-	-	-	-	-	-
Consumer	20	29	20	11	3	2
Other	-	-	-	-	-	-
Total impaired loans and leases	$ 5,339	$ 5,467	$ 1,509	$ 5,787	$ 79	$ 198

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

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

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

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

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

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

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

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Troubled debt restructurings (“TDRs”)

The Company had $6.6 million in loans and leases that were restructured and deemed to be TDR’s at December 31, 2014 with $1.9 million of those balances in non-accrual status. Any TDR that is placed on non-accrual is not returned to accruing status until the borrower makes timely payments as contracted for at least six months and future collection under the revised terms is probable. All of the restructurings were allowed in an effort to maximize the Company’s ability to collect on loans and leases where borrowers were experiencing financial difficulty. The reserve for a TDR is based upon the present value of the future expected cash flows discounted at the loan’s original effective rate or upon the fair value of the collateral less costs to sell, if the loan is deemed collateral dependent. This reserve methodology is used because all TDR loans are considered impaired.

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

	December 31, 2014 ($ in thousands)			
	Total	Nonaccruing	Accruing	Related Allowance
Commercial and industrial	$ 492	$ 274	$ 218	$ 173
Residential real estate:				
Residential	1,833	594	1,239	-
Construction	-	-	-	-
Commercial real estate:				
Commercial and multi family	2,428	847	1,581	33
Construction	1,074	-	1,074	-
Home equities	728	233	495	-
Direct financing leases	-	-	-	-
Consumer loans	31	-	31	31
Other	-	-	-	-
Total troubled restructured loans and leases	$ 6,586	$ 1,948	$ 4,638	$ 237

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

The Company’s TDRs have various agreements that involve deferral of principal payments, or interest-only payments, for a period (usually 12 months or less) to allow the customer time to improve cash flow or sell the property. Other common types of concessions leading to the designation of a TDR are lines of credit that are termed out and extensions of maturities at rates that are less than market given the risk profile of the borrower.

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

	Year ended December 31, 2014 ($ in thousands)			Year ended December 31, 2013 ($ in thousands)		
Troubled Debt Restructurings by Type of Concession	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and Industrial:						
Deferral of principal	1	$ 16	$ 16	6	$ 2,400	$ 2,400
Interest rate reduction	-	-	-	2	330	330
Extension of maturity and interest rate reduction	-	-	-	5	361	361
Combination of concessions	-	-	-	1	250	250
Residential Real Estate & Construction:						
Extension of maturity	2	615	615	4	583	583
Extension of maturity and interest rate reduction	1	208	208	-	-	-
Commercial Real Estate & Construction:						
Deferral of principal	-	-	-	2	6,438	7,963
Extension of maturity	-	-	-	2	739	739
Extension of maturity and						

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

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

The reserve for a TDR loan is based upon the present value of the future expected cash flows discounted at the loan’s original effective rate or upon the fair value of the collateral less costs to sell, if the loan is deemed collateral dependent. At December 31, 2014, there were no commitments to lend additional funds to debtors owing loans or leases whose terms have been modified in TDRs.

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

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

4.PROPERTIES AND EQUIPMENT

Properties and equipment at December 31 were as follows:

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

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

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5.OTHER ASSETS

Other assets at December 31 were as follows:

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

6.GOODWILL AND INTANGIBLE ASSETS

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

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

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

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

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

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7.DEPOSITS

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

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

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

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

8.BORROWED FUNDS AND JUNIOR SUBORDINATED DEBENTURES

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

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

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

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

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

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

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

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

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

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

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

9.SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

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10.COMPREHENSIVE INCOME (LOSS)

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

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

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

	Balance at December	Net Change	Balance at December 31, 2012

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

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

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

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

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

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

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

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

11.EMPLOYEE BENEFITS AND DEFERRED COMPENSATION PLANS

Employees' Pension Plan

The Bank has a defined benefit pension plan that covered substantially all employees of the Company and its subsidiaries. The Pension Plan provides benefits that are based on the employees' compensation and years of service. The Bank uses an actuarial method of amortizing prior service cost and unrecognized net gains or losses which result from actual experience and assumptions being different than those that are projected. The amortization method the Bank uses recognizes the prior service cost and net gains or losses over the average remaining service period of active employees which exceeds the required amortization. The Pension Plan was frozen effective January 31, 2008. Under the freeze, eligible employees will receive the benefits already earned through January 31, 2008 at retirement, but will not be able to accrue any additional benefits. As a result, service cost will no longer be incurred.

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Selected Financial Information for the Pension Plan is as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Supplemental Executive Retirement Plans

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

On April 8, 2010, the Compensation Committee of the Board of Directors of the Company approved the adoption of the Evans Bank, N.A. Supplemental Executive Retirement Plan for Senior Executives ("the Senior Executive SERP"). The "old" SERP plan will keep its participants at the time of the creation of the Senior Executive SERP, but any future executives identified by the Board of Directors as eligible for SERP benefits will participate in the Senior Executive SERP. A participant is generally entitled to receive a benefit under the Senior Executive SERP upon a termination of employment, other than for "cause", after the participant has completed 10 full calendar years of service with the Bank. No benefit is payable under the Senior Executive SERP if the participant's employment is terminated for "cause" or if the participant voluntarily terminates before completing 10 full calendar years of service with the Bank. In addition, the payment of benefits under the Senior Executive SERP is conditioned upon certain agreements of the participant related to confidentiality, cooperation, non-competition, and non-solicitation. A participant will be entitled to a retirement benefit under the Senior Executive SERP if his or her employment with the Bank terminates other than for "cause". The "accrued benefit" is based on a percentage of the participant's final average earnings, which is determined based upon the participant's total annual compensation over the highest consecutive five calendar years of the participant's employment with the Bank, accrued over the participant's "required benefit service". The percentages and years of service requirements are set forth in each participant's Participation Agreement, and range from 25% to 35% and from 15 to 20 years.

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

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

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

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

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

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

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

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

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

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

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

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

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Other Compensation Plans

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

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

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

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

12.STOCK-BASED COMPENSATION

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

2009 Long-Term Equity Incentive Plan

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

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

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

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

Stock options activity for 2014 was as follows:

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

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

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

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Restricted stock award activity for 2014 was as follows:

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

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

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

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

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

Employee Stock Purchase Plan

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

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

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

13.INCOME TAXES

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

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

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

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

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

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

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

In assessing the ability of the Company to realize the benefit of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, availability of operating loss carrybacks, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income, the opportunity for net operating loss carrybacks, and projections for future taxable income over the periods which deferred tax assets are deductible, management believes it is more likely than not the Company will generate sufficient taxable income to realize the benefits of these deductible differences at December 31, 2014, except for a valuation allowance of $321 thousand on the net deferred tax asset for an investment in a historic tax credit of $513 thousand. In assessing the need for a valuation allowance for the deferred tax assets for the investments in the historic tax credit investments, the Bank considered all positive and negative evidence in assessing whether the weight of available evidence supports the recognition of some or all of the deferred tax assets related to these investments.

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

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

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

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

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

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

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

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14. OTHER LIABILITIES

Other liabilities at December 31 were as follows:

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

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

15.RELATED PARTY TRANSACTIONS

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

16.CONTINGENT LIABILITIES AND COMMITMENTS

The Company’s consolidated financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk and liquidity risk. These commitments and contingent liabilities are commitments to extend credit and standby letters of credit. A summary of the Bank’s commitments and contingent liabilities at December 31, 2014 and 2013 is as follows:

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

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Commitments to extend credit and standby letters of credit all include exposure to some credit loss in the event of non-performance of the customer. The Bank's credit policies and procedures for credit commitments and financial guarantees are the same as those for extensions of credit that are recorded on the Consolidated Balance Sheets. Because these instruments have fixed maturity dates, and because they may expire without being drawn upon, they do not necessarily represent cash requirements to the Bank. The Bank has not incurred any losses on its commitments during the past three years and has not recorded a reserve for its commitments.

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

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

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

17.CONCENTRATIONS OF CREDIT

All of the Bank's loans (except leases), commitments and standby letters of credit have been granted to customers in the Bank's primary market area, which is Western New York. Investments in state and municipal securities also involve governmental entities within the Bank's primary market area. The concentrations of credit by type of loan are set forth in Note 3 to these Consolidated Financial Statements, "Loans and Leases, Net." The distribution of commitments to extend credit approximates the distribution of loans outstanding. Standby letters of credit were granted primarily to commercial borrowers. The Bank, as a matter of policy, does not extend credit to any single borrower or group in excess of 15% of capital.

18.SEGMENT INFORMATION

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

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

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

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

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

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

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

Consolidated Total Assets	$ 846,809	$ 833,498

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19.FAIR VALUE OF FINANCIAL INSTRUMENTS

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

There are three levels of inputs to fair value measurements:

- Level 1 inputs are quoted prices for identical instruments in active markets;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs.

Observable market data should be used when available.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A RECURRING BASIS

The following table presents for each of the fair-value hierarchy levels as defined in this footnote, those financial instruments which are measured at fair value on a recurring basis at December 31, 2014 and 2013:

(in thousands)	Level 1	Level 2	Level 3	Fair Value
December 31, 2014				
Securities available-for-sale:				
U.S. government agencies	$ -	$ 26,717	$ -	$ 26,717
States and political subdivisions	-	31,060	-	31,060
Mortgage-backed securities	-	37,756	-	37,756
Mortgage servicing rights	-	-	518	518
December 31, 2013				
Securities available-for-sale:				

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

Securities available for sale

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

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Management believes that it has a sufficient understanding of the third party service's valuation models, assumptions and inputs used in determining the fair value of securities to enable management to maintain an appropriate system of internal control. On a quarterly basis the Company reviews changes, as submitted by our third-party pricing service provider, in the market value of its securities portfolio. Individual changes in valuations are reviewed for consistency with general interest rate movements and any known credit concerns for specific securities. Additionally, on an annual basis the Company has its entire securities portfolio priced by a second pricing service to determine consistency with another market evaluator. If, on the Company's review or in comparing with another servicer, a material difference between pricing evaluations were to exist, the Company may submit an inquiry to our third party pricing service provider regarding the data used to value a particular security. If the Company determines it has market information that would support a different valuation than our third-party service provider's evaluation it can submit a challenge for a change to that security's valuation. There were no material differences in valuations noted in 2014 or 2013.

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

Mortgage servicing rights

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

The following table summarizes the changes in fair value for items measured at fair value (Level 3) on a recurring basis using significant unobservable inputs during the year ended December 31, 2014:

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

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

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

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

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FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A NONRECURRING BASIS

The Company is required, on a nonrecurring basis, to adjust the carrying value of certain assets or provide valuation allowances related to certain assets using fair value measurements. The following table presents for each of the fair-value hierarchy levels as defined in this footnote, those financial instruments which are measured at fair value on a nonrecurring basis at December 31, 2014 and 2013:

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

Impaired loans

The Company evaluates and values impaired loans at the time the loan is identified as impaired, and the fair values of such loans are estimated using Level 3 inputs in the fair value hierarchy. Each loan's collateral value has a unique appraisal and management's discount of the value is based on factors unique to each impaired loan. The significant unobservable input in determining the fair value is management's subjective discount on appraisals of the collateral securing the loan, which ranges from 10%-50%. Fair value is estimated based on the value of the collateral securing these loans. Collateral may consist of real estate and/or business assets including equipment, inventory and/or accounts receivable and the value of these assets is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, estimated costs to sell, and/or management's expertise and knowledge of the client and the client's business.

The Company has an appraisal policy in which appraisals are obtained upon a commercial loan being downgraded on the Company internal loan rating scale to a 5 (special mention) or a 6 (substandard) depending on the amount of the loan, the type of loan and the type of collateral. All impaired commercial loans are either graded a 6 or 7 on the internal loan rating scale, unless the commercial loan is impaired due to a troubled debt restructure and is now performing. For consumer loans, the Company obtains appraisals when a loan becomes 60 days past due or is determined to be impaired, whichever occurs first. Subsequent to the downgrade or reaching 60 days past due, if the loan remains outstanding and impaired for at least one year more, management may require another follow-up appraisal. Between receipts of updated appraisals, if necessary, management may perform an internal valuation based on any known changing conditions in the marketplace such as sales of similar properties, a change in the condition of the collateral, or feedback from local appraisers. Impaired loans had a gross value of $15.0 million, with a valuation allowance of $1.3 million, at December 31, 2014, compared to a gross value for impaired loans and leases of $18.9 million, with a valuation allowance of $1.5 million, at December 31, 2013.

At December 31, 2014 and 2013, the estimated fair values of the Company's financial instruments, including those that are not measured and reported at fair value on a recurring basis or nonrecurring basis, were as follows:

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

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Cash and Cash Equivalents

For these short-term instruments, the carrying amount is a reasonable estimate of fair value. “Cash and Cash Equivalents” includes cash and due from banks and interest-bearing deposits at other banks.

Securities Held to Maturity

The Company holds certain municipal bonds as held-to-maturity. These bonds are generally small in dollar amount and are issued only by certain local municipalities within the Company’s market area. The original terms are negotiated directly and on an individual basis consistent with our loan and credit guidelines. These bonds are not traded on the open market and management intends to hold the bonds to maturity. The fair value of held-to-maturity securities is estimated by discounting the future cash flows using the current rates at which similar agreements would be made with municipalities with similar credit ratings and for the same remaining maturities.

FHLB and FRB stock

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

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Loans Receivable

The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, net of the appropriate portion of the allowance for loan losses. For variable rate loans, the carrying amount is a reasonable estimate of fair value. This fair value calculation is not necessarily indicative of the exit price, as defined in ASC Topic 820.

Deposits

The fair value of demand deposits, NOW accounts, muni-vest accounts and regular savings accounts is the amount payable on demand at the reporting date. The fair value of time deposits is estimated using the rates currently offered for deposits of similar remaining maturities.

Borrowed Funds and Securities Sold Under Agreement to Repurchase

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

Junior Subordinated Debentures

There is no active market for the Company's debentures. The fair value of the junior subordinated debentures is determined using an expected present value technique. The fair value of adjustable-rate debentures approximates their face amount.

Commitments to extend credit and standby letters of credit

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

2013. Such financial instruments consist of commitments to extend permanent financing and letters of credit. If the options are exercised by the prospective borrowers, these financial instruments will become interest-earning assets of the Company. If the options expire, the Company retains any fees paid by the counterparty in order to obtain the commitment or guarantee. The fees collected for these commitments are recorded as “unearned commitment fees” in Other Liabilities. The carrying value approximates the fair value.

Pension Plan Assets

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

20.REGULATORY MATTERS

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

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

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

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

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

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

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

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

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

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

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

21.PARENT COMPANY ONLY FINANCIAL INFORMATION

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

CONDENSED BALANCE SHEETS

	December 31,	
	2014	2013
	(in thousands)	
ASSETS		

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

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CONDENSED STATEMENTS OF INCOME

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

CONDENSED STATEMENTS OF CASH FLOWS

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

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

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22.SELECTED QUARTERLY FINANCIAL DATA - UNAUDITED

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

Item 9.CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON

ACCOUNTING AND FINANCIAL DISCLOSURES

Not applicable.

Item 9A.CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures. The Company’s management, with the participation of the Company’s principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2014 (the end of the period covered by this Annual Report on Form 10-K). Based on that evaluation, the Company’s principal executive and principal financial officers concluded that, as of December 31, 2014, the Company’s disclosure controls and procedures were effective.

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

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

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

Item 9B.OTHER INFORMATION

NONE

PART III

Item 10.DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

Item 11.EXECUTIVE COMPENSATION

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

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

Item 12.SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

AND RELATED STOCKHOLDER MATTERS

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

Item 13.CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR

INDEPENDENCE

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

Item 14.PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

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PART IV

Item 15.EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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

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

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

Consolidated Balance Sheets - December 31, 2014 and 2013

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

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

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

Notes to Consolidated Financial Statements

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

3.Exhibits

The information called for by this item is incorporated herein by reference to the Exhibit Index included immediately following the signature page to this Annual Report on Form 10-K.

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SIGNATURES

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

EVANS BANCORP, INC.

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

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POWER OF ATTORNEY

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

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

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

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

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EXHIBIT INDEX

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

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

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

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

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

* Indicates a management contract or compensatory plan or arrangement.