EVANS BANCORP INC

FORM 10-K
(Annual Report)

Filed 3/30/1999 For Period Ending 12/31/1998

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(mark one)

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

For fiscal year ended: December 31, 1998

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

For the transition period from to

Commission file number: 0-18539

EVANS BANCORP, INC.

(Exact name of registrant as specified in its charter)

NEW YORK (State or other jurisdiction of incorporation or organization)	16-1332767 (I.R.S. Employer Identification No.)
14-16 NORTH MAIN STREET, ANGOLA, NEW YORK (Address of principal executive offices)	14006 (Zip Code)

REGISTRANT'S TELEPHONE NUMBER (INCLUDING AREA CODE)(716) 549-1000

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

TITLE OF EACH CLASS NAME OF EXCHANGE ON WHICH REGISTERED

None N/A

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

COMMON STOCK, PAR VALUE $.50 PER SHARE
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ].

As of January 31, 1999, the aggregate market value of the registrant's common stock, $.50 par value, (the "Common Stock") held by nonaffiliates of the registrant was approximately $59,850,810 based upon the per share sale prices known to management at which the Company's Common Stock has actually been transferred in private transactions prior to that date. There is not, and has never been, an organized public trading market for the registrant's shares.

As of January 31, 1999, 1,697,598 shares of the registrant's Common Stock were outstanding.

Exhibit Index on Page 38

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Registration Statement on Form 10, as amended by Amendment Nos. 1 and 2 (Registration No. 0-18539), the Registrant's Registration Statement on Form S-4 (Registration No. 33-25321), and the Registrant's Report on form 10-QSB for the period ended March 31, 1995, and the Registrant's Report on Form 10-KSB for the period ended December 31, 1995 and the Registrant's Reports on Form 10-Q for the periods ended June 30, 1996 and March 31, 1997 and the Registrant's Reports on Form 10-K for the period ended December 31, 1997 are incorporated by reference in Part IV of this Form 10-K.

Portions of the Registrant's 1998 Annual Report to Shareholders are incorporated by reference in Part II of this Form 10-K.

TABLE OF CONTENTS

INDEX

PART I

PART II

ITEM 1. BUSINESS

EVANS BANCORP, INC.

Evans Bancorp, Inc. (the "Company") was organized as a New York business corporation and incorporated under the laws of the State of New York on October 28, 1988 for the purpose of becoming a bank holding company. The Company is registered with the Federal Reserve Board as a bank holding company under the Bank Holding Company Act of 1956, as amended (the "BHCA"), and conducts its business through its wholly-owned subsidiary, Evans National Bank (the "Bank"). The principal business of the Company, through the Bank, is commercial banking and consists of, among other things, attracting deposits from the general public and using these funds to extend credit and to invest in securities. The Bank offers a variety of loan products to its customers including commercial loans, commercial and residential mortgage loans, and consumer loans. In addition, the Bank offers deposit products which include checking and NOW accounts, passbook and statement savings and certificates of deposit.

The Company has no material assets other than its investment in the Bank. The Company's sole business, therefore, is the ongoing business of the Bank.

EVANS NATIONAL BANK

The Bank was established in 1920 as a national banking association and currently is regulated by the Comptroller of the Currency. Prior to February 1995, the Bank was known as The Evans National Bank of Angola. Its legal headquarters is located at 14-16 N. Main Street, Angola, New York 14006.

The Bank is a full service commercial bank offering secured and unsecured commercial loans, consumer loans, educational loans and mortgages. It also accepts time and demand deposits.

As of December 31, 1998, the Bank had total assets of $174,120,230, total deposits of $144,083,636 and total stockholders' equity of $18,623,413.

MARKET AREA

The Bank's primary market area is located in southern Erie County, northern Chautauqua County and northwestern Cattaraugus County, which includes the towns of Evans, Boston, Hamburg, Eden, Orchard Park, West Seneca and Hanover. This market area is the primary area where the Bank receives deposits and makes loans.

AVERAGE BALANCE SHEET INFORMATION

The table on the following page presents the significant categories of the assets and liabilities of the Company, interest income and interest expense, and the corresponding yields earned and rates paid for the last two years. The assets and liabilities are presented as daily averages. The average loan balances include both performing and nonperforming loans. Interest income on loans does not include interest on loans for which the Bank has ceased to accrue interest. Interest and yield are not presented on a tax-equivalent basis.

	1998			1997		
	AVERAGE BALANCE ($000)	INTEREST ($000)	YIELD/ RATE	AVERAGE BALANCE ($000)	INTEREST ($000)	YIELD/ RATE
ASSETS						
Interest-earning assets:						
Loans, Net	$105,856	$9,336	8.82%	$96,511	$8,633	8.95%
Taxable securities	21,696	1,333	6.14%	21,071	1,373	6.52%
Tax-exempt securities	23,982	1,098	4.58%	20,524	945	4.60%
Federal funds sold	1,531	84	5.49%	2,266	123	5.43%
	-----	--	-----	-----	---	-----
Total interest-earning assets	153,065	11,851	7.74%	140,372	11,074	7.89%
Noninterest-earning assets						
Cash and due from banks	5,479			5,407		
Premises and equipment, net	3,771			3,830		
Other assets	2,668			2,228		
	-----			-----		
Total	$164,983			$151,837		
	========			========		
LIABILITIES & SHAREHOLDER'S EQUITY						
Interest-bearing liabilities:						
NOW accounts	$7,275	$71	.98%	$6,700	$71	1.06%
Savings deposits	46,925	1,281	2.73%	44,610	1,203	2.70%
Time deposits	63,338	3,399	5.37%	60,257	3,302	5.48%
Fed Funds Purchased & Securities Sold U/A to Repurchase	3,801	196	5.16%	425	12	2.82%
	-----	---	-----	---	--	-----
Total interest-bearing liabilities	121,339	4,947	4.08%	111,992	4,588	4.10%
Noninterest-bearing liabilities:						
Demand deposits	23,571			21,756		
Other	2,308			1,899		
	-----			-----		
	147,218			135,647		
Shareholders' equity	17,765			16,190		
	------			------		
Total	$164,983			$151,837		
	========			========		
Net interest earnings		$6,904			$6,486	
		======			======	
Net yield on interest earning assets			4.51%			4.62%

In 1998, the Company's interest income increased by $778,936 over 1997, compared to an increase of $1,273,036 in 1997 over 1996. Also, interest expense on deposits increased by $358,674 in 1998 over 1997 compared to an increase of $675,295 in 1997 over 1996. The following table segregates these changes for the past two years into amounts attributable to changes in volume and changes in rates by major categories of assets and liabilities. The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

	1998 COMPARED TO 1997 INCREASE (DECREASE) DUE TO			1997 COMPARED TO 1996 INCREASE (DECREASE) DUE TO		
	(thousands)					
	VOLUME	RATE	TOTAL	VOLUME	RATE	TOTAL
Interest earned on:						
Loans	$824	$(120)	$704	$1,335	$(83)	$1,251
Taxable securities	42	(82)	(40)	(120)	65	(55)
Tax-exempt securities	158	(5)	153	219	(40)	179
Federal funds sold	(39)	1	(38)	(83)	4	(79)
Time deposits in other banks	0	0	0	(23)	0	(23)
Total interest-earning assets	$985	$(206)	$779	$1,328	$(54)	$1,273
Interest paid on:						
NOW accounts	$6	$(6)	$0	$4	$(13)	$(9)
Savings deposits	63	15	78	(12)	(35)	(47)
Time deposits	162	(65)	97	750	(31)	719
Federal Funds Purchased & Securities Sold U/A Repurch.	166	18	184	12	0	12
Total interest-bearing liabilities	$397	$(38)	$359	$754	$(79)	$675

SECURITIES ACTIVITIES

Income from securities represented approximately 20.5% of total interest income of the Company in 1998 and approximately 20.9% of total interest income of the Company in 1997. At December 31, 1998, the Bank's securities portfolio of $50,059,972 consisted primarily of United States ("U.S.") and federal agency obligations, state and municipal securities, corporate bonds and mortgage-backed securities by the Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corp.

In 1994, the Bank adopted Statement of Financial Accounting Standard No. 115, "Accounting for Certain Investments in Debt and Equity Securities." As a result, all securities in the Bank's portfolio are now designated as "held to maturity" or "available for sale".

The following table summarizes the Bank's securities with those designated as available for sale at fair value and securities designated as held to maturity valued at amortized cost as of December 31, 1998 and 1997:

	1998 ($000)	1997 ($000)
Available for Sale:		
U.S. Treasury and other U.S. government agencies	$22,105	$13,025
States and political subdivisions in the U.S.	22,913	19,867
Other	952	930
Total Securities Designated as Available for Sale	$45,970	$33,822
Held to Maturity:		
U.S. Treasury and other U.S. government agencies	47	3,483
States and political subdivisions in the U.S.	4,043	3,095
Total Securities Designated as Held to Maturity	$4,090	$6,578
Total Securities	$50,060	$40,400

SECURITIES POLICY. The Bank's asset liability management policy encompasses the areas of securities, capital, liquidity and interest sensitivity. The primary objective of the securities portfolio is to provide liquidity while maintaining safety of principal. Secondary objectives include investment of funds in periods of decreased loan demand, interest sensitivity considerations, providing collateral to secure local municipal deposits, supporting local communities through the purchase of tax-exempt securities and tax planning considerations. The Board of Directors of the Bank is responsible for establishing overall policy and reviewing performance.

The Bank's policy provides that acceptable portfolio investments include: U.S. Government obligations, obligations of Federal agencies, Municipal obligations (General Obligations, Revenue Obligations, School Districts and Non-rated Issues from Bank's general market area), Banker's Acceptances, Certificates of Deposit, Industrial Development Authority Bonds, Public Housing Authority Bonds, Corporate Bonds (each corporation limited to the Bank's legal lending limit), and Collateral Mortgage Obligations, Federal Reserve stock and Federal Home Loan Bank stock.

The Bank's securities policy is that in-state securities must be rated Moody's BAA (or equivalent) at the time of purchase. Out-of-state issues must be rated AA (or equivalent) at the time of purchase. Bonds or securities rated below A will be reviewed periodically to assure their continued credit worthiness. The purchase of non-rated municipal securities is permitted, but limited to those bonds issued by municipalities in the Bank's general market area which, in the Bank's judgment, possess no greater credit risk than BAA (or equivalent) bonds and the annual budgets of the issuers are reviewed by the Bank. A credit file of the issuers is kept on each non-rated municipal security with relevant financial information. In addition, the Bank's loan policy permits the purchase of notes issued by various states and municipalities which have not been rated by Moody's or Standard & Poors. The securities portfolio of the Bank is priced and rated on a monthly basis.

The following table sets forth the maturities and weighted average interest yields of the Bank's securities portfolio (yields on tax-exempt obligations have been computed on a tax equivalent basis) as of December 31, 1998:

	MATURING							
	WITHIN ONE YEAR		AFTER ONE BUT WITHIN FIVE YEARS		AFTER FIVE BUT WITHIN TEN YEARS		AFTER TEN YEARS	
	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD
	($000)		($000)		($000)		($000)	
CLASSIFIED AS AVAILABLE FOR SALE AT FAIR VALUE:								
U.S. Treasury and other U.S. government agencies	$ 0	0%	$ 500	6.35%	$ 5,235	6.20%	$16,370	6.76%
States and political subdivisions	1,497	6.39	6,191	6.79	10,198	7.24	5,027	7.40
Other	952	6.63	0	0.00	0	0.00	0	0.00
Total Available for Sale	$ 2,449	6.49	$6,691	6.76	$15,433	6.89	$21,397	6.91
CLASSIFIED AS HELD TO MATURITY AT AMORTIZED COST:								
U.S. Treasury and other U.S. government agencies	0	0.00	0	0.00	0	0.00	47	0.00
States and political subdivisions	3,535	5.94	154	7.92	167	8.30	187	8.84
Total Held to Maturity	3,535	5.94	154	7.92	167	8.30	234	7.07
Total Securities	$ 5,984	6.17	$6,845	6.79	$15,600	6.91	$21,631	6.92

At December 31, 1998, approximately $22,152,000 of the Bank's securities portfolio were obligations of the U.S. Treasury and other U.S. government agencies.

LENDING ACTIVITIES

GENERAL. The Bank has a loan policy which is approved by the Board of Directors on an annual basis. The loan policy addresses the lending authorities of Bank officers, charge off policies, desired portfolio mix, loan approval guidelines.

The Bank offers a variety of loan products to its customers including residential and commercial real estate mortgage loans, commercial loans, installment loans and student loans. The Bank primarily extends loans to customers located within the Western New York area. Income on loans represented approximately 78.8% of the total interest income of the Company in 1998 and approximately 78.0% of total interest income in 1997. The Bank's loan portfolio after unearned discounts, loan origination costs and allowances for credit losses totalled $110,526,449 and $101,627,427 at December 31, 1998 and December 31, 1997, respectively. At December 31, 1998, the Bank had established $729,199 as an allowance for credit losses which is approximately 0.66% of total loans. This compares with $609,539 at December 31, 1997 which was approximately 0.60% of total loans. The net loan portfolio represented approximately 63.5% and 64.1% of the Bank's total assets at December 31, 1998 and December 31, 1997, respectively.

REAL ESTATE LOANS. Approximately 87.7% of the Bank's loan portfolio at December 31, 1998 consisted of real estate loans or loans collateralized by mortgages on real estate including residential mortgages, commercial mortgages and other types of real estate loans. The Bank's real estate loan portfolio was $97,539,555 at December 31, 1998, compared to $88,137,842 at December 31, 1997. The real estate loan portfolio increased approximately 10.7% in 1998 over 1997 compared to an increase of 10.0% in 1997 over 1996.

The Bank offers fixed rate residential mortgages with terms of ten to thirty years with up to an 80% loan-to-value ratio. Fixed rate residential mortgage loans outstanding totalled $20,701,615 at December 31, 1998, which was approximately 18.6% of total loans outstanding. In 1995, the Bank entered into a contractual arrangement with the Federal National Mortgage Association ("FNMA") whereby mortgages can be sold to FNMA and the Bank retains the servicing rights. In 1998, approximately $2,539,622 of mortgages were sold to FNMA under this arrangement compared to $1,225,475 of mortgages sold in 1997. The Bank currently retains the servicing rights on $4.7 million in mortgages sold to FNMA.

Since 1993 the Bank has offered adjustable rate residential mortgages with terms of up to thirty years. Rates on these mortgages remain fixed for the first three years and are adjusted annually thereafter. On December 31, 1998, the Bank's outstanding adjustable rate mortgages were $3,337,768 or 3.0% of total loans. This balance did not include any construction mortgages.

The Bank also offers commercial mortgages with up to a 75% loan-to-value ratio for up to fifteen years on a variable and fixed rate basis. Many of these mortgages either mature or are subject to a rate call after three to five years. The Bank's outstanding commercial mortgages were $52,627,923 at December 31, 1998, which was approximately 47.3% of total loans outstanding. This balance included $7,180,209 in fixed rate and $45,447,714 in variable rate loans, which includes rate calls.

Commercial mortgage loan growth of 18.0% during 1998 reflected a continued strong market resulting partially from low interest rates which encouraged real estate acquisition and expansion, compared to an increase of 15.2% experienced in 1997.

The Bank also offers other types of loans collateralized by real estate such as home equity loans. The Bank offers home equity loans at variable and fixed interest rates with terms of up to fifteen years and up to a 80% loan-to-value ratio. At December 31, 1998, the real estate loan portfolio included $15,725,650 of home equity loans outstanding which represented approximately 14.1% of its total loans outstanding. This balance included $7,942,348 in variable rate and $7,783,302 in fixed rate loans.

The Bank also offers residential real estate-construction loans at up to a 80% loan-to-value ratio at fixed interest rates and multiple maturities. At December 31, 1998, fixed rate real estate-construction loans outstanding were $499,098 or 0.45% of the Bank's loan portfolio, and adjustable rate construction loans outstanding were $4,606,153 or 4.1% of the portfolio.

As of December 31, 1998, approximately $4,031,000 or 4.1% of the Bank's real estate loans were 30 to 90 days delinquent, $688,000 or 0.71% of the bank's real estate loans were more than 90 days delinquent and approximately $367,000 or 0.38% of real estate loans were nonaccruing.

COMMERCIAL LOANS. The Bank offers commercial loans on a secured and unsecured basis including lines of credit and term loans at fixed and variable interest rates and multiple maturities. The Bank's commercial loan portfolio totaled $9,835,866 and $8,938,560 at December 31, 1998 and December 31, 1997, respectively. Commercial loans represented approximately 8.8% and 8.7% of the Bank's total loans at December 31, 1998 and December 31, 1997, respectively. The commercial loan portfolio increased $897,306 or 10.0% in 1998.

Commercial lending entails significant additional risk as compared with real estate loans. These loans typically involve larger loan balances to single borrowers or groups of related borrowers. Collateral, where applicable, may consist of inventory, receivables, equipment and other business assets. Sixty-seven percent of the Bank's commercial loans are variable rate which are tied to the prime rate. The Bank's ability to lend larger amounts to any one borrower is subject to regulation by the Comptroller of the Currency. The Bank continually monitors its loan portfolio to review compliance with new and existing regulations.

As of December 31, 1998, approximately $188,000 or 1.9% of the Bank's commercial loans were 30 to 90 days past due, $6,000 or .06% of its commercial loans were more than 90 days past due and $387,000 or 3.9% of its commercial loans were nonaccruing.

INSTALLMENT LOANS. The Bank's installment loan portfolio (which includes commercial and automobile loans, personal loans and revolving credit card balances) totaled $2,166,133 and $2,517,892 at December 31, 1998 and December 31, 1997, respectively, representing approximately 1.9% of the Bank's total loans at December 31, 1998 and 2.5% of the Bank's total loans at December 31, 1997. Traditional installment loans are offered at fixed interest rates with various maturities up to 60 months, on a secured and unsecured basis. On December 31, 1998, the installment loan portfolio included $208,212 in fixed rate card balances at an interest rate of 15.6% and $36,429 in the variable rate option. As of December 31, 1998, approximately $62,000 or 2.9% of the Bank's installment loans were 30-90 days past due and approximately $4,000 or .18% of the Bank's installment loans were more than 90 days past due. None of the Bank's installment loans were nonaccruing.

STUDENT LOANS. The Bank's student loan portfolio totaled $438,670 at December 31, 1998 and $1,731,492 at December 31, 1997. Student loans represented .39% of the Bank's total loans at December 31, 1998 and 1.7% of the Bank's total loans at December 31, 1997. These loans are guaranteed by the federal government and the New York State Higher Education Assistance Corporation. The Bank offers student loans at variable interest rates with terms of up to 10 years. In 1995, the Bank entered into a contract with the Student Loan Marketing Association. Under terms of this agreement, SLMA services the Bank's loans to students who are still in school and subsequently purchases those loans when the student goes into repayment. The Bank sold $2,267,518 and $1,087,051 of its student loans to SLMA in 1998 and 1997 respectively. Student loan products have been expanded to include Federal Plus and HEAL loans.

OTHER LOANS. Other loans totaled $891,669 at December 31, 1998 and $509,935 at December 31, 1997. Other loans consisted primarily of loans to municipalities, hospitals, churches and non-profit organizations. These loans are at fixed or variable interest rates with multiple maturities. Other loans also include overdrafts.

The following table summarizes the major classifications of the Bank's loans (net of deferred origination costs) at December 31, 1998, and 1997:

	December 31, 1998	December 31, 1997
	(in thousands)	
Real Estate	$97,539	$88,138
Commercial	9,836	8,939
Installment	2,166	2,518
Student Loans	439	1,731
All Other	891	510
Net deferred loan origination costs	384	401
Total Loans	$111,255	$102,237
Allowance for credit losses	(729)	(610)
Net loans	$110,526	$101,627

LOAN MATURITIES. The following table shows the maturities of commercial and real estate construction loans outstanding as of December 31, 1998 and the classification of loans due after one year according to sensitivity to changes in interest rates:

(in thousands)	0-1 YR.	1-5 YRS.	OVER 5 YRS.	TOTAL
Commercial	$2,934	$2,137	$4,765	$9,836
Real estate construction	4,105	1,000	0	5,105
	$7,039	$3,137	$4,765	$14,941
Loans maturing after one year with:				
Fixed rates		$897	$0	
Variable rates		2,240	4,765	
		$3,137	$4,765	

CREDIT LOSSES. The following table summarizes the Bank's non-accrual and past due loans as of December 31, 1998 and December 31, 1997. The Bank had no restructured loans as of those dates. Any loans classified for regulatory purposes as loss, doubtful, substandard or special mention that have not been disclosed do not (i) represent or result from trends or uncertainties which management reasonably expects will materially impact future operating results, liquidity or capital resources, or (ii) represent material credit about which management has serious doubts as to the ability of such borrowers to comply with the loan repayment terms. See also "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations Provision for Loan Losses."

	1998	1997
	(in thousands)	
Nonaccrual loans	$754	$627
Accruing loans past due 90 days or more	698	360
Total	$1,452	$987

Information with respect to nonaccrual loans at December 31, 1998 and December 31, 1997 is as follows:

	1998	1997
	(in thousands)	
Nonaccrual loans	$754	$627
Interest income that would have been recorded under the original terms	71	58
Interest income recorded during the period	0	0

At December 31, 1998 $754,000 of nonaccrual loans are collateralized.

The following tables summarize the Bank's allowance for credit losses and changes in the allowance for credit losses by loan categories:

ANALYSIS OF CHANGES IN THE ALLOWANCE FOR CREDIT LOSSES

	1998	1997
BALANCE AT BEGINNING OF YEAR	$ 609,539	$ 546,954
CHARGE-OFFS		
Commercial, Financial, Agricultural	0	(394)
Real Estate - Mortgages	(50,381)	(25,000)
Installment Loans	(21,077)	(21,464)
Overdrafts	0	0
TOTAL CHARGE-OFFS	(71,458)	(46,858)
RECOVERIES		
Commercial, Financial, Agricultural	6,774	7,381
Real Estate - Mortgages	21,219	32,367
Installment Loans	11,925	8,495
Overdrafts	1,200	1,200
TOTAL RECOVERIES	41,118	49,443
NET (CHARGEOFFS) RECOVERIES	(30,340)	2,585
ADDITIONS CHARGED TO OPERATIONS	150,000	60,000
BALANCE AT END OF YEAR	$ 729,199	$ 609,539

ALLOCATION OF THE ALLOWANCE FOR CREDIT LOSSES

	BALANCE AT 12/31/98 ATTRIBUTABLE TO:	BALANCE AT 12/31/97 ATTRIBUTABLE TO:	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS: 1998	1997
Real Estate Loans	$456,823	$424,257	88.0%	86.6%
Commercial Loans	77,552	58,306	8.8	8.7
Installment Loans (Includes Credit Cards)	53,322	49,189	2.0	2.5
Student Loans	0	0	0.4	1.7
All Other Loans	0	0	0.8	0.5
Unallocated	141,502	77,787	N/A	N/A
Total	$729,199	$609,539	100.0%	100.0%

SOURCES OF FUNDS - DEPOSITS

GENERAL. Customer deposits represent the major source of the Bank's funds for lending and other investment purposes. In addition to deposits, other sources of funds include loan repayments, loan sales on the secondary market, interest and dividends from investments, matured investments, and borrowings from the Federal Reserve Bank, Federal Home Loan Bank and First Tennessee Bank.

DEPOSITS. The Bank offers a variety of deposit products including checking, passbook, statement savings, money market, NOW accounts, certificates of deposit and jumbo certificates of deposit. Deposits of the Bank are insured up to the limits provided by the Federal Deposit Insurance Corporation ("FDIC"). At December 31, 1998, the Bank's deposits totalled $144,083,636 consisting of the following:

Demand deposits	$25,857,037
NOW and Money Market accounts	7,554,104
Regular savings	47,676,615
Time deposits, $100,000 and over	24,208,290
Other time deposits	38,787,590
	$144,083,636

The following table shows daily average deposits and average rates paid on significant deposit categories by the Bank:

	1998		1997	
	Average Balance (in thousands)	Weighted Average Rate	Average Balance (in thousands)	Weighted Average Rate
Demand Deposits	$ 23,571	---%	$ 21,756	---%
NOW and Money Market Accounts	7,276	.98%	6,700	1.06%
Regular Savings	46,925	2.74%	44,610	2.66%
Time Deposits	63,337	5.37%	60,256	5.48%
Total	$141,109	3.38%	$133,322	3.43%

The Bank has a very stable deposit base and no material amount of deposits is obtained from a single depositor or group of depositors (including federal, state and local governments). The Bank has not experienced any significant seasonal fluctuations in the amount of its deposits.

FEDERAL FUNDS PURCHASED AND OTHER BORROWED FUNDS. Another source of the Bank's funds for lending at December 31, 1998, consisted of short term and long term borrowings from the Federal Home Loan Bank.

Federal funds purchased of $2,225,000 at December 31, 1998 mature within four days of year-end.

Other Borrowed funds consisted of a $2,000,000 90-day renewable note with an interest rate of 5.15%, and a $5,000,000 long-term borrowing. The long-term borrowing consisted of various advances with interest rates ranging from 4.83% to 5.07%. The maturities of other borrowed funds are as follows:

1999	$ 2,000,000
2000	1,000,000
2001	0
2002	1,000,000
2003	2,000,000
Thereafter	1,000,000
Total	$ 7,000,000

ENVIRONMENTAL MATTERS:

To date, the Bank has not been required to perform any investigation or clean-up activities, nor has it been subject to any environmental claims. There can be no assurance, however, that this will remain the case in the future.

In the course of its business, the Bank has acquired and may acquire in the future, property securing loans that are in default. There is a risk that the Bank could be required to investigate and clean-up hazardous or toxic substances or chemical releases at such properties after acquisition by the Bank, and may be held liable to a governmental entity or third parties for property damage, personal injury and investigation and clean-up costs incurred by such parties in connection with such contamination. In addition, the owner or former owners of contaminated site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from such property.

EMPLOYEES

As of February 28, 1999, the Bank employed 75 persons on a full-time basis. There were also 14 part-time employees.

COMPETITION

All phases of the Bank's business are highly competitive. The Bank competes actively with local commercial banks as well as other commercial banks with branches in the Bank's market area of southern Erie County, northern Chautauqua County, and northwestern Cattaraugus County, New York. The Bank considers its major competition to be Marine Midland Bank, and Manufacturers and Traders Trust Company, both headquartered in Buffalo, New York, and Key Bank, N.A., and Fleet National Bank of New York, both headquartered in Albany, New York and also Lockport Savings Bank, headquartered in Lockport, New York. The Bank is generally competitive with all financial institutions in its service area with respect to interest rates paid on time and savings deposits, service charges on deposit accounts, and interest rates charged on loans.

ASSET AND LIABILITY MANAGEMENT

Like all financial institutions, the Bank must constantly monitor its exposure to interest rate risk. Proper management of interest sensitive funds is necessary to help secure the Bank's earnings against extreme changes in interest rates. In 1995, an Asset/Liability Management Committee ("ALCO") was established for the purpose of evaluating the Bank's short-range and long-range liquidity position and the potential impact of a sudden change in interest rates on the Bank's capital and earnings. Specific minimum guidelines for liquidity and capital ratios have been established, and maximum guidelines have been set for the negative impact acceptable on net interest income and the market value of assets as a result of a shift in interest rates. These guidelines have been delineated in the Bank's formal Asset/Liability Policy which also includes guidelines for investment activities and funds management. The ALCO meets regularly to review the Bank's liquidity, gap, interest rate risk and capital positions and to formulate its strategy based on current economic conditions, interest rate forecasts, loan demand, deposit volatility and the Bank's earnings objectives.

The following table summarizes the interest rate sensitivity analysis for the Bank as of December 31, 1998 for the periods indicated:

	0 TO 3 MONTHS	4 TO 12 MONTHS	ONE TO FIVE YEARS	OVER FIVE YEARS
		(in millions)		
Interest-earning assets	$37.7	$24.2	$65.4	$33.3
Interest-bearing liabilities	41.9	34.9	75.4	1.0
Interest sensitivity gap	$(4.2)	$(10.7)	$(10)	$32.3

The primary assets and liabilities in the one year maturity range are securities, commercial loans and time deposits. As of December 31, 1998, the Bank's cumulative one year gap ratio (rate sensitive assets divided by rate sensitive liabilities) was .81 as compared to .82 at December 31, 1997 and .83 as of December 31, 1996. The Bank has more liabilities than assets repricing over the next twelve months. However, since liabilities tend to reprice less quickly than assets, management believes that earnings will not be significantly impaired should rates rise.

The following schedule sets forth the maturities of the Bank's time deposits as of December 31, 1998:

Time Deposit Maturity Schedule (in millions)

	0-3 Mos.	3-6 Mos.	6-12 Mos.	Over 12 Mos.	Total
Time deposits - $100,000 and over	$16.2	$4.6	$2.2	$1.2	$24.2
Other time deposits	11.1	11.3	9.3	7.1	38.8
Total time deposits	$27.3	$15.9	$11.5	$8.3	$63.0

REGULATION

The operations of the Bank are subject to federal and state statutes applicable to banks chartered under the banking laws of the United States, to members of the Federal Reserve System and to banks whose deposits are insured by the Federal Deposit Insurance Corporation ("the FDIC"). Bank operations are also subject to regulations of the Comptroller of the Currency, the Federal Reserve Board, the FDIC and the New York State Banking Department.

The primary supervisory authority of the Bank is the Comptroller of the Currency, who regularly examines the Bank. The Comptroller of the Currency has the authority under the Financial Institutions Supervisory Act to prevent a national bank from engaging in an unsafe or unsound practice in conducting its business.

Federal and state banking laws and regulations govern, among other things, the scope of a bank's business, the investments a bank may make, the reserves against deposits a bank must maintain, the loans a bank makes and collateral it takes, the maximum interest rates a bank may pay on deposits, the activities of a bank with respect to mergers and consolidations and the establishment of branches. Branches may be established within the permitted areas of New York State only after approval by the Comptroller of the Currency.

A subsidiary bank (such as the Bank) of a bank holding company is subject to certain restrictions imposed by the Federal Reserve Act on any extensions of credit to the bank holding company or its subsidiaries, on investments in the stock or other securities of the bank holding company or its subsidiaries and on taking such stock or securities as collateral for loans. The Federal Reserve Act and Federal Reserve Board regulations also place certain limitations and reporting requirements on extensions of credit by a bank to principal shareholders of its parent holding company, among others, and to related interests of such principal shareholders. In addition, such legislation and regulations would affect the terms upon which any person becoming a principal shareholder of a holding company may obtain credit from banks with which the subsidiary bank maintains a correspondent relationship.

Federal law also prohibits acquisitions of control of a bank holding company (such as the Company) without prior notice to certain federal bank regulators. Control is defined for this purpose as the power, directly, or indirectly, to direct the management or policies of the bank or bank holding company or to vote 25% or more of any class of voting securities of the bank holding company.

In addition to the restrictions imposed upon a bank holding company's ability to acquire control of additional banks, federal law generally prohibits a bank holding company from acquiring a direct or indirect interest in, or control of 5% or more of the outstanding voting shares of any company, and from engaging directly or indirectly in activities other than that of banking, managing or controlling banks or furnishing services to subsidiaries, except that a bank holding company may engage in, and may own shares of companies engaged in certain activities found by the Federal Reserve Board to be closely related to banking or managing or controlling banks as to be a proper incident thereto.

From time to time, various types of federal and state legislation have been proposed that could result in additional regulation of, and restrictions on, the business of the Bank. It cannot be predicted whether any such legislation will be adopted or how such legislation would affect the business of the Bank. As a consequence of the extensive regulation of commercial banking activities in the United States, the Bank's business is particularly susceptible to being affected by federal legislation and regulations that may increase the costs of doing business.

The Depository Institutions Deregulation and Monetary Control Act of 1980 became effective in March 1980. The principal effects of this law are to:
phase in the deregulation of the interest rates paid on personal deposits by gradually eliminating regulatory ceilings on interest rate differential allowed thrifts and savings institutions; enable all banks to offer personal interest bearing checking type accounts; phase in mandatory and uniform reserve requirements; and override certain usury limits on loan interest rates established by state laws. On October 1, 1983, the Depository Institutions' Deregulation Committee, acting under the provisions of this Act, removed all remaining interest rate ceilings and other regulations on time deposits, except for early withdrawal penalties.

Under the Federal Deposit Insurance Act, the Comptroller of the Currency possesses the power to prohibit institutions regulated by it (such as the Bank) from engaging in any activity that would be an unsafe and unsound banking practice or would otherwise be in violation of law. Moreover, the Financial Institutions and Interest Rate Control Act of 1978 ("FIRA") generally expands the circumstances under which officers or directors of a bank may be removed by the institution's federal supervisory agency, restricts lending by a bank to its executive officers, directors, principal shareholders or related interests thereof, restricts management personnel of a bank from serving as directors or in other management positions with certain depository institutions whose assets exceed a specified amount or which have an office within a specified geographic area, and restricts management personnel from borrowing from another institution that has a correspondent relationship with their bank.

Additionally, FIRA requires that no person may acquire control of a bank unless the appropriate federal supervisory agency has been given 60 days prior written notice and within that time has not disapproved of the acquisition or extended the period for disapproval.

Under the Community Reinvestment Act of 1977, the Comptroller of the Currency is required to assess the record of all financial institutions regulated by it to determine if these institutions are meeting the credit needs of the community (including low and moderate income neighborhoods) which they serve and to take this record into account in its evaluation of any application made by any such institutions for, among other things, approval of a branch or other deposit facility, office relocation, a merger or an acquisition of bank shares.

The Company must give prior notice to the Federal Reserve Board of certain purchases or redemptions of its outstanding equity securities. The Federal Reserve Board has adopted capital adequacy guidelines for bank holding companies (on a consolidated basis) substantially similar to those that apply to the Bank. In January 1989, the Federal Reserve Board adopted new risk-based capital adequacy guidelines. Under these new guidelines, bank holding companies with at least $150 million in assets are required to maintain a ratio or qualifying total capital to weighted risk assets of at least 8% effective December 31, 1993. For bank holding companies with less than $150 million in assets, the above-described ratio will not apply on a consolidated basis, but will apply on a bank-only basis unless (i) the parent holding company is engaged in non-bank activities involving significant leverage, or (ii) the parent holding company has a significant amount of outstanding debt held by the general public. The Federal Reserve Board has the discretionary authority to require higher capital ratios.

In connection with the risk-based capital framework applicable to bank holding companies described above, the Federal Reserve Board applies a risk-based capital framework for Federal Reserve member banks, such as the Bank. The framework requires banks to maintain minimum capital levels based upon a weighing of their assets according to risk. Effective December 31, 1992, Federal Reserve member banks were required to maintain a ratio of qualifying total capital to risk-weighted assets of a minimum of 8%, and Tier 1 Capital to Assets ratio of 4%. A minimum leverage ratio of 3% is required for banks with the highest regulatory examination ratings and not contemplating or experiencing significant growth or expansion. All other banks are required to maintain a minimum leverage ratio of at least 1-2% above the stated minimum leverage ratio of 3%.

A comparison of the Bank's capital ratios as of December 31, 1998 and December 31, 1997 with these minimum requirements is presented below:

	BANK		
	1998	1997	Minimum Requirements
Total Risk-based Capital	16.9%	16.9%	8%
Tier 1 Risk-based Capital	16.3%	16.3%	4%
Leverage Ratio	10.5%	10.8%	3-5%

As of December 31, 1998, the Bank met all three capital requirements.

Management is not aware of any known trends, events, uncertainties, or current regulatory recommendations that will have, or that are reasonably likely, to have a material effect on the Bank's liquidity, capital resources or operations.

MONETARY POLICY. The earnings of the Company and the Bank are also affected by the monetary policy of the Federal Reserve Board. An important function of the Federal Reserve System is to regulate the money supply and prevailing interest rates. Among the instruments used to implement those objectives are open market operations in U.S. Government securities and changes in reserve requirements against member bank deposits. These instruments are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may also affect interest rates charged on loans by the Bank or paid on its deposits.

ITEM 2. PROPERTIES

The Bank conducts its business from its main office and six branch offices. The main office is located at 14- 16 North Main Street in Angola, New York. The main office facility is 9,344 square feet and is owned by the Bank. This facility is occupied by the Office of the President as well as the Loan and Administration Divisions.

The Bank also owns three of its six branch offices. One is a 3,900 square foot facility located at 8599 Erie Road in the Town of Evans. Another is a 1,530 square foot facility located at 25 Main Street, Forestville, New York and the third is a 3,650 square foot branch located at 6480 Erie Road, Derby, New York.

In 1995, the Bank purchased property adjacent to the Derby Office, providing additional parking facilities for customers and enabling future expansion. An existing building on the property has been leased to a tenant for a five year term commencing December 1, 1995. The lease provides for monthly payments of $5,217 in Year One and increasing annually to $5,445 in Year Five.

The Bank leases branch offices in North Boston, Hamburg and West Seneca. The 1,280 square foot branch office at 7186 North Boston State Road, Boston, New York is occupied pursuant to a land lease which provides for monthly payments of $1,375 through January 1, 2001, with an option to be renewed for an additional five year term. The 3,000 square foot branch office at 5999 South Park Avenue, Hamburg, New York, is occupied pursuant to a twenty year lease which provides for monthly payments of $5,875 for the first five years through October 31, 2000. Thereafter, monthly payments increase annually from $6,162.50 in Year Six to $7,967.50 in Year Twenty. The 3,196 square foot branch office at 1026-B Union Road, West Seneca, New York is occupied pursuant to a five year lease which provides for monthly payments of $2,904.38.

ITEM 3. LEGAL PROCEEDINGS

There are no legal proceedings to which the Company is a party.

The nature of the Bank's business generates a certain amount of litigation involving matters arising in the ordinary course of business. However, in the opinion of management of the Bank, there are no proceedings pending to which the Bank is a party or to which its property is subject, which, if determined adversely to the Bank, would be material in relation to the Bank's financial condition, nor are there any proceedings pending other than ordinary routine litigation incident to the business of the Bank. In addition, no material proceedings are pending or are known to be threatened or contemplated against the Bank by governmental authorities or others.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER

MATTERS

(a) MARKET. There has never been an organized public trading market for the Company's outstanding Common Stock. The following table represents the highest and lowest per share prices known to management at which the Company's Common Stock has actually been transferred in private transactions during the periods indicated. In each period for which prices are shown, the management has price information for the transaction(s). The prices for these transactions do not include any retail markup, markdown or commission.

	1998		1997(1)	
QUARTER	HIGH	Low	HIGH	LOW
FIRST	$40.00	$38.00	$27.20	$27.20
SECOND	$43.00	$40.00	$32.00	$27.20
THIRD	$45.00	$43.00	$33.00	$32.00
FOURTH	$45.00	$45.00	$38.00	$33.00

(1) Adjusted for five for one stock split which was effective May 1, 1997.

(b) HOLDERS. As of January 31, 1999, 1,697,598 shares of the Company's Common Stock were outstanding and the number of holders of record of the Common Stock at that date was 1089.

(c) DIVIDENDS.

CASH DIVIDENDS.

The Company paid a cash dividend of $.30 per share (adjusted for the five for one stock split) on October 21, 1997 to holders of record on October 1, 1997.

The Company paid a cash dividend of $.17 per share on March 26, 1998 to holders of record on March 2, 1998.

The Company paid a cash dividend of $.20 per share on October 6, 1998 to holders of record on September 22, 1998.

The Company has declared a cash dividend of $.23 per share payable on April 1, 1999 to holders of record on February 23, 1999.

The amount, if any, of future dividends will be determined by the Company's Board of Directors and will depend upon the Company's earnings, financial conditions and other factors considered by the Board of Directors to be relevant. Banking regulations limit the amount of dividends that may be paid without prior approval of the Comptroller of the Currency. See Footnote 13 to the Consolidated Financial Statements.

STOCK DIVIDENDS. There was no stock dividend in 1998 or 1997. On April 29, 1997, the shareholders approved a five for one stock split which was effective May 1, 1997.

The following table shows consolidated operating and capital ratios for the Company for the last three years:

	1998	1997	1996
Return on Average Assets	1.24%	1.19%	1.20%
Return on Average Equity	11.63%	11.06%	10.75%
Dividend Payout Ratio	30.84%	28.30%	23.58%
Equity to Assets Ratio	10.81%	10.95%	11.37%

ITEM 6. SELECTED FINANCIAL DATA

EVANS BANCORP, INC.
SELECTED FINANCIAL INFORMATION

For the Year Ended December 31,	1998	1997	1996	1995	1994
RESULTS OF OPERATIONS					
Interest Income	$ 11,851,787	$ 11,072,851	$ 9,799,815	$ 9,226,500	$ 8,206,596
Interest Expense	4,946,730	4,588,056	3,912,761	3,418,782	2,747,297
Net Interest Income	6,905,057	6,484,795	5,887,054	5,807,718	5,459,299
Non-Interest Income	1,220,194	950,662	930,986	763,054	785,551
Non-Interest Expense	5,196,900	4,849,182	4,555,398	4,228,922	3,981,801
Net Income	2,043,351	1,802,275	1,614,642	1,664,783	1,617,049
BALANCE SHEET DATA					
Total Assets	$174,120,230	$158,542,163	$140,898,057	$125,308,204	$114,565,971
Loans - Net	110,526,449	101,627,427	92,087,902	75,468,504	71,998,929
Allowance for Loan Losses	729,199	609,539	546,954	557,961	628,957
Securities	50,059,972	40,400,374	36,054,324	38,954,494	32,341,350
Total Deposits	144,083,636	138,391,327	123,461,379	109,020,551	100,532,031
Stockholders' Equity	18,623,413	17,039,300	15,510,083	14,485,510	12,723,940
PER SHARE DATA					
Net Income	$ 1.20	$ 1.06	$ 0.95	$ 0.97	$ 0.95
Cash Dividend	$ .37	$ 0.30	$ 0.22	$ 0.14	$ 0.09
Book Value at Year End	$ 10.96	$ 10.03	$ 9.13	$ 8.53	$ 7.49
Market Value	$ 45.00	$ 38.00	$ 27.20	$ 22.00	$ 14.00
Weighted Average Shares	1,698,612	1,698,950	1,698,950	1,698,950	1,698,950

(Retroactively adjusted for stock dividends and stock splits)

CORRECTION: Book Value at Year End For 1995 and Earlier and Market Value For 1996 and Earlier Under PER SHARE DATA Have Been Corrected to Reflect the Five-For-One Stock Split in 1997.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion is intended to compare the performance of the Company for the years ended December 31, 1998, 1997 and 1996. The review of the information presented should be read in conjunction with the consolidated financial statements and accompanying notes.

Evans National Bank (the "Bank"), a wholly-owned subsidiary of Evans Bancorp, Inc. (the "Company"), is a nationally chartered bank founded in 1920 which is headquartered in Angola, New York. The Bank's principal business is to provide full banking services to consumer and commercial customers in Erie and Chautauqua Counties of Western New York. The Bank serves its market through six banking offices located in Angola, Derby, Evans, Forestville, Hamburg and North Boston, New York. The Bank's principal source of funding is through deposits which it reinvests in the community in the form of loans and investments. Deposits are insured to the applicable limit by the Bank Insurance Fund ("BIF") of the Federal Deposit Insurance Corporation ("FDIC"). The Bank is regulated by the Office of the Comptroller of the Currency.

The following discussion of financial conditions and results of operations of the Company and the Bank should be read in conjunction with the consolidated financial statements and accompanying notes.

RESULTS OF OPERATIONS

Net income of $2,043,351 in 1998 resulted in earnings per share of $1.20. This is an increase of 13.4% over net income for 1997 of $1,802,275 or $1.06 per share. Income in 1997 had improved 11.6% over net income of $1,614,642 or $.95 per share in 1996. The strong earnings performance of the Bank in 1997 and 1998 illustrates the positive income impact of the $2.2 million expansion plan implemented over 1995 and 1996, which included the addition of the Hamburg and Evans branch offices.

Net interest income, the difference between interest income and fees on earning assets, such as loans and securities, and interest expense on deposits, provides the basis for the Bank's results of operations. These results are also affected by non-interest income, the provision for credit losses, non-interest expense, and income taxes.

NET INTEREST INCOME

Net interest income, before the provision for credit losses, increased 6.5% from 1997 to 1998, compared to an increase of 10.2% from 1996 to 1997. The increase in net interest income in 1998 is due to an increase in average earning assets of $12.4 million or 8.8% over 1997. The tax-equivalent yield earned on those assets decreased 20 basis points, from 8.31% in 1997 to 8.11% in 1998. The average cost of funds on interest-bearing liabilities, which increased $9.3 million or 8.3% in 1998, decreased only two basis points, from 4.11% in 1997 to 4.09% in 1998. As a result, the Bank's net interest margin narrowed from 4.59% in 1997 to 4.52% in 1998.

In 1997, the increase of 10.2% in net interest income over 1996 was the result of an increase in the volume of average earning assets of $15.8 million and an increase in the yield earned on those assets, 8.31% compared to 8.27% the previous year. Average interest-bearing liabilities also increased in volume, $13.3 million or 13.6% in 1997 over 1996, and the average cost of funds increased from 3.99% in 1996 to 4.11% in 1997. The Bank's net interest margin was 4.59% in 1997 compared to 4.64% in 1996.

Management believes this reduction in net interest margin in 1998 is due to several factors. The Federal Reserve Board decreased the federal funds rate three times between September and December, 1998 for a total of 75 basis points. These decreases were followed in the marketplace by corresponding decreases in the prime rate, which immediately impacted the yield earned on variable rate loans. Despite the fact that these interest rate moves were the first initiated by the Federal Reserve since late March of 1997 (a 25 basis point increase), other market rates declined over 1998. Volatility in world financial markets has encouraged investors to turn to the safety provided by the US bond market, driving prices up and yields down on financial instruments which are priced relative to treasury securities. Certain loan pricing was also impacted.

The Bank constantly monitors its exposure to interest rate risk. The proper management of interest-sensitive funds will help protect the Bank's earnings against extreme changes in interest rates. The Bank's Asset/Liability Management Committee ("ALCO") meets monthly for the purpose of evaluating the Bank's short-range and long-range liquidity position and the potential impact on capital and earnings as a result of sudden changes in interest rates. The Bank has adopted an asset/liability policy which specifies minimum limits for liquidity and capital ratios. Maximum limits have been set for the negative impact acceptable on net interest income and the market value of assets as a result of a shift in interest rates. The asset/liability policy also includes guidelines for investment activities and funds management. At its monthly meeting, the ALCO reviews the Bank's status and formulates its strategy based on current economic conditions, interest rate forecasts, loan demand, deposit volatility, and the Bank's earnings objectives.

PROVISION FOR LOAN LOSSES

Loan losses represent the amount charged against earnings to establish a reserve of allowance sufficient to absorb expected loan losses based on management's evaluation of the loan portfolio. Factors considered include loan concentrations, charge-off history, delinquent loan percentages and general economic conditions. In 1998, the Bank increased the amount charged against earnings for loan losses to $150,000 from $60,000 charged against earnings in each of the years 1996 and 1997. Substantial sustained growth in loan volume over the past three years warranted such an increase.

The following table summarizes the Bank's actual loan losses, total of non-performing loans and total allowance for loan losses for 1998, 1997 and 1996, both in dollars and as a percentage of total loans outstanding:

	1998		1997		1996	
Actual Loan Losses	$ 71,458	0.06%	$ 46,858	0.05%	$ 76,604	0.08%
Non-Performing Loans	$1,452,000	1.32%	$ 987,000	0.96%	$ 230,000	0.20%
Allowance for Loan Losses	$ 729,199	0.66%	$ 609,539	0.59%	$ 546,954	0.59%

Although, during 1998, non-performing loans increased over the prior year, all loans in this category are considered well-collateralized and in the process of collection. As a result, no significant losses are anticipated.

NON-INTEREST INCOME

Total non-interest income increased approximately $270,000 in 1998 over 1997 which compares to an increase of approximately $20,000 in 1997 from 1996. Several factors contributed to the increase in 1998, such as an increase in the Bank's service charges implemented June 1, 1998 and fees earned through the merchant VISA program which began in late 1997. Comparatively low rates encouraged consumers to apply for new loans or pursue refinancing, contributing to an increase in loan-related fee income.

Non-interest income also included approximately $165,000 for the cash surrender value of life insurance policies held on certain bank officers. This compares to $64,000 in 1997. The 1998 figure includes a one-time gain of approximately $97,000 which resulted when the original policies were surrendered due to a change of insurer.

Gains realized on the sale of loans and securities totaled $66,208 in 1998 versus $33,809 in 1997. Planned sales of securities had resulted in net losses of $4,450, but these losses were offset by a gain of $14,513 which was realized when one of the Bank's residual bonds was called for full redemption in December. In 1997, net losses on securities transactions were approximately $2,000. Premiums received on sales of student loans to the Student Loan Marketing Association ("SLMA") were approximately $43,000 in 1998 as compared to $28,000 in 1997.

Premiums in 1998 included approximately $28,000 received when the Bank sold the majority of its remaining student loan portfolio to SLMA. The Bank also had an increase in premiums received on sales of mortgages to the Federal National Mortgage Association ("FNMA"). These premiums were approximately $12,800 in 1998 as compared to $8,000 in 1997. The Bank has been affiliated with both SLMA and FNMA since 1995.

NON-INTEREST EXPENSE

In 1998, the ratio of non-interest expense to average assets was 3.14% compared to 3.18% in 1997 and 3.37% in 1996. Non-interest expense categories include salaries, occupancy expense, repairs and maintenance, advertising and professional services , among others. Occupancy expenses remained stable in 1998, and there was little change in the Bank's FDIC insurance assessment. Advertising costs decreased 7.2% and professional services decreased 5.8%. Salary and benefit expense increased 8.3% in 1998, due to additional staffing, merit/promotional increases and costs related to the supplemental employee retirement plan ("SERP"). Miscellaneous other expenses in 1998 included costs related to maintaining foreclosed properties and premiums paid for life insurance policies held on certain bank officers.

TAXES

The provision for taxes in 1998 of $735,000 reflects an effective tax rate of 27%. This compares to $724,000 and 28% in 1997 and $588,000 and 26% in 1996. The Bank maintains a substantial investment in tax-advantaged municipal bonds which contributes to its favorable tax position. In addition, in 1998, the Bank received $97,000 in non-taxable income as the result of surrendering life insurance policies held on certain bank officers due to a change in insurer.

FINANCIAL CONDITION

The Bank had total assets of $174.1 million at December 31, 1998, increasing $15.6 million or 9.8% over December 31, 1997. Net loans of $110.5 million reflected an increase $8.9 million or 8.8% over the prior year. Securities increased $9.7 million or 23.9%. Cash and cash equivalents decreased $3.0 million, or 29.3%. Deposits grew by $5.7 million or 4.1% and capital increased $1.6 million or 9.3%.

LOANS

Loans comprised 69.3% of the Bank's total average earning assets in 1998. Actual year end balances increased 8.8% compared to an increase of 10.4% at December 31, 1997 and 22% at December 31, 1996. The relatively low rates available on most types of loans over the past three years has fueled both new loan activity and refinancing. Expansion of the Bank's trade area has also contributed to the significant loan growth over that time period.

The Bank continues to focus its lending on commercial and residential mortgages, small commercial loans and home equity loans. Commercial mortgages continue to make up the largest segment of the portfolio at 47.7%. Residential mortgages comprise 22.0% of the portfolio and commercial loans total 13.3%. Home equity loans make up 14.2% of total loans. At December 31, 1998, the Bank had a loan-to-deposit ratio of 77.22%. This compares to a loan-to-deposit ratio of 73.9% at December 31, 1997.

The Bank currently retains the servicing rights to $5.0 million in long-term mortgages sold to the Federal National Mortgage Association ("FNMA") since becoming a member in 1995. This arrangement allows the Bank to offer long-term mortgages without exposure to the associated interest rate risks, while retaining customer account relationships.

The Bank continues its contractual arrangement with the Student Loan Marketing Association ("SLMA") whereby SLMA services the Bank's loans to students who are still in school and subsequently purchases those loans. In December, 1998, the Bank sold approximately $1.2 million in student loans to SLMA. As a result, student loan balances decreased nearly 75% in 1998. This compares to growth of 2.3% in 1997 over 1996 and a decrease of 13.4% in 1996 from 1995.

SECURITIES

Securities made up the remaining 30.7% of the Bank's earning assets at December 31, 1998. In previous years, the size of the investment portfolio was determined by the relationship of deposit growth to loan growth. When excess deposits were not needed to fund loans, the investment portfolio was increased. When deposit growth was not sufficient to fund loan demand, maturing investments were not replaced, Federal Funds sold balances were reduced, and when necessary, bonds were sold. In 1998, even though loan growth exceeded deposit growth, there was an increase in the securities portfolio. This was possible through the use of the Federal Home Loan Bank ("FHLB") as an alternative funding source. By utilizing the fixed rate advance program at the FHLB, the Bank was able to borrow $5 million to fund the purchase of government-guaranteed securities with a similar average life, achieving a favorable earnings spread.

The Bank's investments remain concentrated in US government and US government agency securities and tax-advantaged municipal bonds of varied maturity. The tax-equivalent yield on the Bank's investments in federal funds sold and securities was 6.48%, declining from 6.57% in 1997. The yield in 1996 was 6.51%.

In 1994, the Bank adopted Financial Accounting Standard No. 115 which outlines accounting and reporting procedures for investment securities. At that time, all securities in the Bank's portfolio were designated as either "held to maturity" or "available for sale", as were all subsequent purchases. Securities which the Bank designates as held to maturity are stated on the balance sheet at amortized cost, and those designated as available for sale are reported at fair market value. The unrealized gains and losses on available for sale securities are recorded, net of taxes, as a separate component of shareholders' equity. Transferring a security from one category to another results in certain accounting consequences. In 1995, the Financial Accounting Standards Board allowed a one-time reclassification of securities without penalty. As a result of this one-time window of opportunity, the Bank reclassified the majority of its bonds in the held to maturity category as available for sale. On October 1, 1998 the Bank adopted Financial Accounting Standard No. 133 which provided a second opportunity to reclassify securities without penalty. The Bank reclassified approximately $3 million in collateralized mortgage obligations as available for sale. The majority of bonds remaining in the held to maturity category represent the Bank's investment in the local communities which it serves.

DEPOSITS

Total deposits increased $5.7 million in 1998 over 1997. All major categories of deposits increased, with the exception of time deposits of less than $100,000. Demand deposits increased 19.3% over the prior year. Growth in regular savings balances of 7.7% was bolstered by the positive response of customers to the tiered rate Premium Savings product introduced in May of 1997. Time deposits over $100,000 increased 5.8%. Such deposits are obtained from local municipalities through the competitive bidding process and from commercial and retail customers looking for the safety of an insured deposit.

Competition for time deposits under $100,000 has intensified as informed consumers shop for the best return available. Aggressive promotional efforts by other banks offering above the market rates have had an impact on the Bank's certificate of deposit balances, as evidenced in the 8.7% decline in this category since 1997. Alternative savings instruments, such as 401K plans and mutual funds, among others, now attract dollars that at one time would have been deposited into a certificate of deposit or savings account.

The Bank's competitive edge comes from providing value through outstanding customer service. In 1998, the Bank provided customer service training to its entire staff and adopted written customer service standards. In addition, Eas-E Line telephone and personal computer banking was introduced in November, 1998. This service provides customers with access to their accounts during banking and non-banking hours, either by telephone or personal computer.

LIQUIDITY

The Bank seeks to manage its liquidity so that it is able to meet day to day loan demand and deposit fluctuations, while attempting to maximize the amount of net interest income on earning assets. Traditionally, the Bank has utilized its federal funds balances and cash flows from the investment portfolio to fulfill its liquidity requirements. As a member and shareholder of the Federal Home Loan Bank ("FHLB") the Bank also has many borrowing options. The FHLB will make cash advances of various terms at competitive rates to its members. Advances of up to $8.1 million can be drawn on the FHLB, via the Overnight Line of Credit Agreement, and an amount equal to 25% of the Bank's total assets could be borrowed through the advance programs under certain qualifying circumstances. The Bank also has the option to purchase up to $4,000,000 in federal funds from one of its correspondents.

The cash flows from the investment portfolio are laddered to provide funds from principal and interest payments at such times as liquidity needs may arise. Contractual maturities are also laddered, with consideration as to the volatility of market prices to ensure that a sufficient amount of securities are available that could be sold without incurring significant losses. At December 31, 1998, approximately 12% of the Bank's securities had contractual maturities of one year or less and approximately 26% had maturity dates of five years or less. At December 31, 1998 the Bank had net short-term liquidity of $4.0 million as compared to $5.9 million at December 31, 1997. Available assets of $48.1 million less public and purchased funds of $37.5 million resulted in a long-term liquidity ratio of 128% compared to 149% at December 31, 1997.

Liquidity needs can also be met by aggressively pursuing municipal deposits, which are normally awarded on the basis of competitive bidding. The Bank maintains a sufficient amount of US government and government agency securities and New York State municipal bonds that can be pledged as collateral for these deposits.

INTEREST RATE RISK

Interest rate risk occurs when interest-earning assets and interest-bearing liabilities mature or reprice at different times or on a different basis. The Bank's ALCO analyzes the gap position on a monthly basis to determine the Bank's exposure to interest rate risk. The gap position is the difference between the total of the Bank's rate sensitive assets and rate sensitive liabilities maturing or repricing during a given time frame. A "positive" gap results when more assets than liabilities reprice and a "negative" gap results when more liabilities than assets reprice in a given time period. Because assets historically reprice faster than liabilities, a slightly negative gap position is considered preferable. At December 31, 1998, the Bank was in a negative gap position, with $14.9 million more in rate-sensitive liabilities repricing over the next year than in rate sensitive assets. The Bank's asset/liability limit, as defined in its asset/liability policy, is a difference of +/-15% of the Bank's total assets which amounted to +/-$26.1 million at December 31, 1998. Therefore, the Bank's negative gap position was well within its policy limits. The gap ratio (rate sensitive assets/rate sensitive liabilities) at that date was 81%.

The following table provides information about the Bank's on-balance sheet instruments that are sensitive to changes in interest rates. Expected maturity date values for interest-earning assets were calculated by adjusting the contractual maturity date for expectations of prepayments. Expected maturity date values for interest-bearing core deposits were calculated based upon estimates of the period over which the deposits would be outstanding.

Expected maturity date - year ended December 31,	1999	2000	2001	2002	2003	There-after	Total	Fair Value
INTEREST-EARNING ASSETS ($000S)								
Loans Receivable, Fixed Rate	9,632	5,976	4,146	3,726	3,775	16,001	43,256	42,805
Average Interest Rate	8.01%	8.56%	8.72%	8.62%	8.47%	9.64%		
Loans Receivable, Adj. Rate	18,961	3,375	4,340	3,465	3,365	34,494	68,000	68,000
Average Interest Rate	8.75%	9.10%	8.87%	8.93%	8.90%	8.64%		
Investments	15,659	7,427	3,130	3,424	4,484	15,935	50,059	50,059
Average Interest Rate	6.38%	6.54%	6.85%	6.89%	7.18%	7.23%		
INTEREST-BEARING LIABILITIES ($000S)								
Deposits	66,534	18,002	12,731	12,327	8,633	0	118,227	118,746
Average Interest Rate	4.55%	3.19%	2.39%	2.30%	2.52%	0.00%		
Borrowed Funds	4,225	1,000	0	1,000	2,000	1,000	9,225	9,211
Average Interest Rate	5.01%	4.83%	0.00%	4.91%	4.90%	5.07%		

Off-balance sheet financial instruments at December 31, 1998 included $7,077,000 in undisbursed lines of credit at an average interest rate of 9.02%, $2,622,000 in fixed rate loan origination commitments at 8.60%, $12,203,000 in adjustable rate loan origination commitments at 9.41%, and $1,007,000 in adjustable rate letters of credit at an average rate of 9.75%.

MARKET RISK

When rates rise or fall, the market value of the Bank's assets and liabilities will increase or decrease. As part of the Bank's asset/liability policy, the Bank has set limitations on the negative impact to the market value of its balance sheet that would be accepted. The Bank's securities portfolio is priced monthly and adjustments are made on the balance sheet to reflect the market value of the available for sale portfolio per Financial Accounting Standard No.

115. A limitation of a negative ten percent of total capital before FAS 115 (after tax) has been set forth in the asset/liability policy as the maximum impact to equity that would

be acceptable. At year end, the impact to equity as a result of marking available for sale securities to market was an unrealized gain of $443,308. On a quarterly basis, the available for sale portfolio is shocked for immediate rate increases of 100 and 200 basis points. At December 31, 1998, the Bank determined that it would take an immediate increase in excess of 200 basis points to eliminate the current capital cushion. The Bank also reviews the Bank's capital ratios on a quarterly basis. Unrealized gains or losses on available for sale securities are not included in the calculation of these ratios.

CAPITAL EXPENDITURES

Anticipated large capital expenditures during 1999 include approximately $400,000 for leasehold improvements and equipment purchases necessary in establishing a branch office in West Seneca, New York. This additional office is scheduled to open February 1, 1999. Some existing equipment at the Bank's other locations is scheduled to be replaced, and expenses will be incurred as a result of the Bank's Year 2000 initiative. There will also be additional expenditures related to the ongoing Channel Management project which encompasses the technology necessary to provide Eas-E Line telephone and PC banking. Also in 1999, the first stages will be taken to implement Internet banking. This will provide customers with the ability to pay bills via personal computer The Bank believes that it has a sufficiently strong capital base to support these capital expenditures with current assets and retained earnings.

IMPACT OF INFLATION AND CHANGING PRICES

There will always be economic events, such as changes in the economic policies of the Federal Reserve Board, that will have an impact on the profitability of the Company. Inflation may result in impaired asset growth, reduced earnings and substandard capital ratios. The net interest margin can be adversely impacted by the volatility of interest rates throughout the year. Since these factors are unknown, management attempts to structure the balance sheet and the repricing frequency of its interest-sensitive assets and liabilities to avoid a significant concentration that could result in a material negative impact on earnings.

THE NEW MILLENNIUM

The Company has long been aware of the complexity and significance of the issues associated with the arrival of the Millennium (Year 2000). The "Year 2000" problem centers around the world's computer systems and a common programming practice that condenses a century date to just two digits, i.e. "98" to represent 1998, to conserve storage space. As a result, these systems may interpret "00" as 1900 rather than 2000, causing potential data corruption, misinterpretation, or system failure. The Company, with the support and direction of its Board of Directors and Senior Management, has dedicated financial and human resources to formally adopt strategies and work towards resolving all potential Year 2000 issues.

In the third quarter of 1997, the Company began formalizing its strategy to address the data processing and business impacts we anticipated to be associated with Year 2000 issues. Our ultimate approach was to adopt the five-phase format recommended by the Federal Financial Institutions Examination Council, and follow guidance provided us by our regulatory authorities who periodically monitor and evaluate our progress. These phases, and our activities, are described as follows:

AWARENESS PHASE

While this can be considered an ongoing phase relating to education of employees, customers, and vendors, our primary activities defined the Year 2000 problem; obtained Board of Director and Executive level support; established a project team to include the Senior Vice President of Administration, the Bank Auditor, Manager of Data Processing, Manager of Systems Development, representatives from each functional area of the Bank, legal counsel, and the principal of our main-frame software vendor. This committee was responsible for development and implementation of an overall strategy to identify and resolve issues associated with the year 2000.

ASSESSMENT PHASE

Implementing this phase provided an assessment of the size and complexity, identifying affected areas of our business, identified the required resources, and enabled us to develop a comprehensive plan. An inventory of all hardware and software was completed to establish a specific Year 2000 status, i.e. "already deemed compliant", "requiring replacement or renovation", or "becoming obsolete". Priorities were then determined. Certain systems were identified as mission critical. Non-information technology systems were also addressed. Key vendors, such as providers of power, heating, and telephone services, among others, were contacted regarding their Year 2000 readiness. The Bank has received letters certifying Year 2000 compliance from those suppliers whose services are deemed critical to Bank operations. However, in the event of an infra-structure failure, i.e. lack of power, etc., a Bank committee has developed a contingency plan so that business can continue with minimal interruption. The Bank also performed a customer risk assessment in the last quarter of 1998.

RENOVATION PHASE

The Company does not write or create computer code or perform programming activities. We are reliant on vendors and software suppliers to furnish enhancements in a timely manner. Renovation of our core processing system was completed in early 1998 in conjunction with a plan developed by the vendor, other user financial institutions, and our Company. These renovations were successfully tested in collaboration with all user institutions at our back-up site. The renovated system was successfully installed in June 1998. Additional in-house testing was conducted throughout the remainder of the year.

VALIDATION PHASE

This is probably the most critical and intensive phase of the entire project. It is in this phase that we validate, through a variety of testing methods, that each system can process after the turn of the century, with particular emphasis on those identified as "mission critical". As stated above, renovation to our core processing systems was successfully tested, and all testing of mission critical systems was successfully completed by year end 1998. In each case, we followed a comprehensive written test plan involving user representation to validate test results. All systems, including those designated mission critical, have been renovated and successfully tested as of December 31, 1998. Two non-critical systems warranted as "Year 2000 compliant" by the vendor will be tested in the first quarter of 1999. Additionally, fully integrated testing will be performed again within the first and second quarter of 1999.

IMPLEMENTATION PHASE

The Company's Year 2000 ready systems are in place and presently functioning. As part of implementation, we plan continued testing in 1999, along with fully integrated tests. Quality reviews will be conducted throughout 1999 and the year 2000 to ensure proper functioning of our systems. The implementation phase involves contingency planning. The Company maintains a formal Business Resumption Plan, and is in the process of supplementing that plan with a contingency plan relevant to Year 2000 issues. The contingency planning process was well under way by year end 1998, and is expected to be completed by March 31, 1999 and validated by June 30, 1999.

The Company believes, however, that due to the widespread nature of potential Year 2000 issues, the contingency planning process is an ongoing one which will require further modifications as the company obtains additional information, specifically regarding third party Year 2000 readiness.

The Company has identified significant (large) commercial depositors and performed an assessment of their efforts towards Year 2000 readiness. Should these depositors be unable to function financially as a result of their own Year 2000 issues, or significantly reduce their deposit levels, there could be an impact on the Bank's own cash flow. Our initial assessment evaluates this risk as minimal, and all customers identified in this risk assessment are aware of the Year 2000 issues and are planning Year 2000 readiness efforts.

A risk assessment of large commercial borrowers was also completed representing approximately 70 commercial customers, or 74% of commercial loan outstandings. Based on survey results, all are rated as moderate to low risk. We plan to selectively monitor the progress of certain moderate risk borrowers throughout 1999. New commercial loans exceeding our borrowing threshold for risk ratings will be measured to assure information technology utilized by the borrower will be Year 2000 ready.

Management continues to quantify expenses related to Year 2000 readiness. The Company has not been required to provide additional staff for the express purpose of Year 2000 readiness, but rather has utilized existing internal staff. Our budgeted expenses approximate $45,000, of which $15,000 will be allocated for renovation of core processing software. Expenses associated with Year 2000 preparedness are not expected to have a material impact on the financial condition of the Company.

The Company's objective is to migrate to the Year 2000 with minimal impact on customers, and be prepared for January 1, 2000. We believe that the manner in which we have addressed this issue underscores our strengths. The Company has the resources and the technological expertise to address such new issues, but is small enough to enable us to make adjustments to internal programs and systems without affecting the ability to service our customers. The Company cannot provide assurance that failure of third parties to adequately address the Year 2000 issue will not have an adverse impact. To minimize uncertainty, we will assess critical suppliers and customers to determine their readiness. The Company is confident that with the implementation of the Year 2000 initiatives as scheduled, the possibility of significant interruptions to normal operations should be reduced.

The preceding "Year 2000" discussion contains various statements which represent the Company's beliefs or expectations regarding future events. All forward-looking statements involve a number of risks and uncertainties that could cause the actual results to differ materially from the projected results. Factors that cause the differences include, but are not limited to, the actions of governmental agencies or other third parties with respect to Year 2000 problems.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See discussion under item 7 MDA "Interest Rate Risk and Market Risk"

ITEM 8. FINANCIAL STATEMENTS

See Part IV, Item 14, "Exhibits, Financial Statements, Schedules and Reports on Form 8-K"

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth the names, ages and positions of the Directors and Executive Officers of the Company.

INFORMATION REGARDING DIRECTORS

NAME NOMINEES FOR DIRECTORS:	AGE	POSITION	TERM EXPIRES
Robert W. Allen	73	Secretary, Director	1999
William F. Barrett	57	Director	1999
David C. Koch	63	Director	1999
DIRECTORS:			
Phillip Brothman	60	Director	2001
Richard M. Craig	61	Chairman of Board, President, CEO, Director	2000
LaVerne G. Hall	61	Director	2000
Richard C. Stevenson	90	Director	2000
David M. Taylor	48	Director	2001
Thomas H. Waring, Jr.	41	Director	2001

Each Director is elected to hold office for a three year term and until his successor is elected and qualified.

Mr. Allen has been a Director since 1960. He was the Executive Vice President of the Bank until his retirement in 1988.

Mr. Barrett has been a Director since 1971. He is currently self employed as a property and investment manager and the former President of Carl E. Barrett, Ltd., an insurance agency.

Mr. Koch has been a Director since 1979 and is Chairman and Chief Executive Officer of New Era Cap Co., Inc.

Mr. Brothman has been a Director since 1976 and is a partner in the law firm of Hurst, Brothman & Yusick.

Mr. Craig joined Evans National Bank (the "Bank") in 1987 and has served as President and Director since 1988. In 1989 he was appointed Chief Executive Officer, and was, in January 1998, also elected Chairman of the Board. Previously, he was the Administrative Vice President of M&T Bank.

Mr. Hall has been a Director since 1981. He is the former Chairman of the Board of L.G. Hall Building Contractors, Inc.

Mr. Stevenson has been a Director since 1958 and is President of Stevenson Realtors and Chairman of the

Board of Evans Land Corp.

Mr. Taylor has been a Director since 1986 and is President of Concord Nurseries, Inc.

Mr. Waring has been a Director since 1998. He is the principal of Waring Financial Group, an insurance and financial services firm.

The committees of the Board of Directors, which are nominated by the Chairman of the Board and approved by the Board of Directors, are as follows:

LOAN COMMITTEE:

William F. Barrett, Chairman Robert W. Allen Richard M. Craig David C. Koch Thomas H. Waring, Jr.

The Loan Committee met eleven times during 1998. Its purpose is to review and approve loans exceeding $300,000 or loans that are non-conventional.

INVESTMENT COMMITTEE:

Richard M. Craig, Chairman Robert W. Allen David M. Taylor

The Investment Committee met once in 1998. The Investment Committee meets a minimum of once a year to review the liquidity of the investment portfolio and discuss investment strategies.

PLANNING COMMITTEE:

LaVerne G. Hall, Chairman William F. Barrett Richard M. Craig David C. Koch Thomas H. Waring, Jr.

The Planning Committee met three times in 1998. The Planning Committee is responsible for reviewing the strategic plan of the Bank and actions taken to obtain those objectives.

LOAN REVIEW COMMITTEE:

Phillip Brothman, Chairman Richard M. Craig LaVerne G. Hall David M. Taylor

The Loan Review Committee met four times during 1998. Its purpose is to insure the Bank's provision and reserve for credit losses are adequate. The Loan Review Committee meets quarterly with the Bank's Loan Review Officer, who independently conducts the loan review. As a result of her recommendations, loans are graded based upon payment history, credit strength of borrower and other factors. This information is then aggregated to determine the overall adequacy of the credit loss reserve.

AUDIT COMMITTEE:

Phillip Brothman, Chairman Richard M. Craig David C. Koch David M. Taylor

The Audit Committee met five times in 1998. The members of the Audit Committee receive from the internal auditor a quarterly report which describes findings for the prior quarter. The function of the Audit Committee is to insure that the Bank's activities are being conducted in accordance with law, banking rules and regulations, other regulatory and supervisory authorities, and the Bank's internal policies. In addition, the Audit Committee recommends to the Board of Directors the services of a reputable certified public accounting firm. The Committee receives and reviews the reports of the certified public accounting firm and presents them to the Board of Directors with comments and recommendations.

INSURANCE COMMITTEE:

William F. Barrett, Chairman Robert W. Allen Richard M. Craig Richard C. Stevenson

The Insurance Committee met once during 1998. This committee reviews the coverage of insurance policies of the Bank and monitors costs.

HUMAN RESOURCE COMMITTEE:

LaVerne G. Hall, Chairman William F. Barrett Richard M. Craig David C. Koch Richard C. Stevenson Thomas H. Waring, Jr.

The Human Resource Committee met twice during 1998. Its purpose is to review management's recommendation as it relates to job classification, salary ranges and annual merit increases. The committee also reviews fringe benefits. The Human Resource Committee also establishes the compensation of the Executive Officers of the Company. See "Human Resource Committee Report on Executive Compensation".

The Board of Directors of the Company met twelve times during 1998. Each incumbent director of the Company, except for Mr. Koch and Mr. Waring, attended at least 75% of the aggregate of all the meetings of the Board of Directors and the Committees of which they were members.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers and directors, and persons who beneficially own more than ten percent of the Company's stock, to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission. Executive officers, directors and greater than ten percent beneficial owners are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such forms furnished to the Company and written representations from the Company's executive officers and directors, the Company believes that during 1998 all Section 16(a) filing requirements applicable to its executive officers, directors and greater than ten percent beneficial owners were complied with by such persons.

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION OF DIRECTORS

For the year 1998, members of the Board of Directors were compensated at the rate of $750 per meeting, with the Secretary receiving $800 per meeting. Total directors' fees during 1998 amounted to $140,145 (including committee fees and $36,915 of deferred compensation).

EXECUTIVE COMPENSATION

There is shown below information concerning the annual and long-term compensation for service in all capacities to the Company for the years 1998, 1997, and 1996 of the Chief Executive Officer, the Senior Vice President of Administration, and the Senior Vice President of the Loan Division. No other executive officer earned in excess of $100,000.

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION			LONG-TERM COMPENSATION		
NAME OF AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	OTHER(1)	AWARDS STOCK OPTION (SHARES)	PAYOUTS LONG-TERM INCENTIVE PAYOUTS	ALL OTHER COMPENSATION
Richard M. Craig	1998	$160,308	$20,000	$3,206	-0-	-0-	-0-
President & CEO	1997	$151,308	$14,013	$3,026	-0-	-0-	-0-
	1996	$142,385	$13,840	$2,848	-0-	-0-	-0-
James Tilley	1998	$109,335	$14,000	$2,187	-0-	-0-	-0-
Senior Vice	1997	$103,059	$9,991	$2,061	-0-	-0-	-0-
President	1996	$97,095	$9,875	$1,942	-0-	-0-	-0-
William R. Glass	1998	$102,945	$14,000	$2,059	-0-	-0-	-0-
Senior Vice	1997	$96,630	$9,868	$1,933	-0-	-0-	-0-
President	1996	$90,235	$9,743	$1,805	-0-	-0-	-0-

(1) Includes the Bank's contribution to the Employee Savings Plan made for the benefit of Mr. Craig of $3,206 in 1998, $3,026 in 1997, and $2,848 in 1996; for the benefit of Mr. Tilley of $2,187 in 1998, $2,061 in 1997, and $1,942 in 1996; and for the benefit of Mr. Glass of $2,059 in 1998, $1,933 in 1997, and $1,805 in 1996. See "EMPLOYEE SAVINGS PLAN". Does not include personal benefits which did not exceed 10% of Mr. Craig's, Mr. Tilley's, or Mr. Glass' salary and bonus in any year.

EMPLOYMENT AGREEMENTS

Mr. Richard Craig, Mr. James Tilley, and Mr. William Glass have each entered into an Employment Agreement with the Bank which runs through December 31, 2002. Each Employment Agreement provides that salary will be set annually by the Board of Directors. If the Bank terminates the Employment Agreement without cause, the Bank is obligated to continue to pay base salary for the longer of three months or the remainder of the term of the Employment Agreement.

PENSION PLAN

The Bank maintains a defined benefit pension plan for all eligible employees. An employee becomes vested in a pension benefit after five years of service. Upon retirement at age 65, vested participants are entitled to receive a monthly benefit. Prior to a May 1, 1994 amendment to the plan, the monthly benefit under the pension plan was 3% of average monthly compensation multiplied by years of service up to a maximum of fifteen years of service. In 1994, the pension plan was amended to change the benefit to 1% of average monthly compensation multiplied by years of service up to a maximum of thirty years of service. However, the benefits already accrued by employees prior to this amendment were not reduced by the amendment. Mr. Craig, Mr. Tilley, and Mr. Glass are participants in the pension plan, and as of December 31, 1998, Mr. Craig had ten years of credited service and $13,264 of average monthly compensation; Mr. Tilley had nine years of credited service and $8,949 of average monthly compensation; and Mr. Glass had five years of credited service and $8,375 of average monthly compensation.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS

In 1995, the Bank entered into non-qualified Supplemental Executive Retirement Plans ("SERPs") with both Mr. Craig and Mr. Tilley to provide retirement benefits to supplement their benefits under the Bank's pension plan and replace the benefits reduced by the 1994 amendment to the Pension Plan. See "PENSION PLAN". In 1998, Mr. Craig's SERP was amended and the benefits increased. In 1999, the Bank amended Mr. Tilley's agreement increasing his benefit, and also entered into an agreement with Mr. Glass. Under the SERPs, as amended, Mr. Craig, Mr. Tilley, and Mr. Glass are entitled to additional annual pension payments of $92,766, $66,943, and $30,000, respectively, for 20 years after retirement at age 65, unless their employment is terminated earlier. The SERPs also provide death benefits in the same annual amounts in the event the executive dies prior to age 65, which are payable over 10 years. The Bank has purchased a life insurance policy on both Mr. Craig and Mr. Tilley to assist in recovering the amounts of any benefits paid in the future under the SERPs.

EMPLOYEE SAVINGS PLAN

The Bank also maintains a 401(k) salary deferral plan to assist employees in saving for retirement.

All employees are eligible to participate on the first of the month following one year of service, provided they have completed 1,000 hours of service. Eligible employees can contribute up to a maximum of 15% of their base pay. An automatic 1% of base pay contribution is made by the Bank and in addition, the Bank makes a matching contribution at a rate of 25% of the first 4% contributed by a participant. Participants are always 100% vested in their own contributions and the Bank's matching contribution is also 100% vested.

Individual account earnings will depend on the performance of the investment funds in which the participant invests. Specific guidelines govern adjustments to contribution levels, investment decisions and withdrawals from the plan. The benefit is paid as an annuity unless the employee elects one of the optional forms of payment available under the plan. See "Summary Compensation Table" for a summary of the amounts contributed by the Bank to this Plan for the benefit of Mr. Craig, Mr. Tilley, and Mr. Glass.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of January 31, 1999, the number (rounded to the nearest whole share) of outstanding shares of Common Stock beneficially owned by (i) each shareholder known by the Company to beneficially own more than 5% of the Company's Common Stock, (ii) all directors and nominees of the Company individually, and (iii) by all executive officers and directors as a group:

Name	Nature and Amount of Beneficial Ownership	Percent of Class
Robert W. Allen (1)	29,944	1.8%
William F. Barrett (2)	161,345	9.5%
Phillip Brothman (3)	23,810	1.4%
Richard M. Craig (4)	8,123	.5%
LaVerne G. Hall (5)	54,380	3.2%
David C. Koch (6)	25,793	1.5%
Richard C. Stevenson (7)	55,324	3.3%
David M. Taylor (8)	6,840	.4%
Thomas H. Waring, Jr.	509	.03%
Directors and Officers as a Group (11 persons) (1)(2)(3)(4)(5)(6)(7)(8)(9)(10)	367,580	21.6%

(1) Includes 2,764 shares owned by Mr. Allen's wife.

(2) Includes 12,850 shares owned by Mr. Barrett's wife, 30,940 shares owned jointly by Mr. Barrett and his wife and 6,345 shares held for Mr. Barrett's son, as to which he disclaims beneficial ownership.

(3) Includes 1,480 shares owned by Mr. Brothman's wife and 2,713 shares held by a pension plan of which Mr. Brothman is a trustee and a participant.

(4) Includes 5,415 shares owned jointly by Mr. Craig and his wife and 168 shares owned by Mr. Craig's daughter, as to which he disclaims beneficial ownership.

(5) Includes 23,230 shares owned by Mr. Hall's wife.

(6) Includes 1,485 shares owned jointly by Mr. Koch and his wife, and 775 shares owned by Mr. Koch's son, as to which he disclaims beneficial ownership.

(7) Includes 3,669 shares owned by Mr. Stevenson's wife, and also 12,635 shares held by Mr. Stevenson as conservator for Evelyn Simonsen and 1,060 shares held in a trust for F. Evelyn Beardsley as to which he disclaims beneficial ownership.

(8) Includes 300 shares owned jointly by Mr. Taylor and his wife.

(9) Includes 426 shares owned by Mr. James Tilley, Assistant Secretary of Evans Bancorp, Inc., 10 shares held by Mr. Tilley in trust for his grandson, and 76 shares owned jointly by Mr. Tilley and his mother.

(10) Includes 1,000 shares owned by Mr. William Glass, Treasurer of Evans Bancorp, Inc., held jointly with his wife.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Bank has had, and in the future, expects to have banking and fiduciary transactions with Directors and Executive Officers of the Company and some of their affiliates. All such transactions have been in the ordinary course of business and on substantially the same terms (including interest rates on loans) as those prevailing at the time for comparable transactions with others.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS,SCHEDULES, AND REPORTS ON FORM 8-K

The following financial statements and independent auditors' report thereon are included herein or are incorporated by reference are included from 1998 Annual Report to Shareholders pages 58 through 89 in response to Part II, Item 7.

(a) Documents filed as a part of this Report:

None

(b) Documents Incorporated by Reference:

1. FINANCIAL STATEMENTS.

Independent Auditors' Report of Deloitte & Touche LLP

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Stockholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

2. All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the consolidated financial statements or notes thereto.

3. EXHIBITS

Exhibit No	NAME	Page No.
3.1	Certificate of Incorporation (1)	n/a
3.2	Certificate of Amendment to Certificate of Incorporation (3)	n/a
3.3	By-Laws (1)	n/a
3.4	Amended Section 204 of By-Laws (4)	n/a
3.5	Amended Section 203 of By-Laws (6)	n/a
4.1	Specimen common stock certificate (3)	n/a

10.1	Employment Agreement dated August 19, 1997 between the Bank and Richard M. Craig (6)	n/a
10.2	Employment Agreement dated August 19, 1997 between the Bank and James Tilley (6)	n/a
10.3	Employment Agreement dated August 19, 1997 between the Bank and William R. Glass (6)	n/a
10.4	Specimen 1984 Director Deferred Compensation Agreement (2)	n/a
10.5	Specimen 1989 Director Deferred Compensation Agreement (2)	n/a
10.6	Summary of Provisions of Director Deferred Compensation Agreements (2)	n/a
10.7	Evans National Bank Supplemental Executive Retirement Plan for Richard M. Craig dated February 16, 1999 (7)	
10.8	Evans National Bank Supplemental Executive Retirement Plan for James Tilley dated February 16, 1999 (7)	
10.9	Evans National Bank Supplemental Executive Retirement Plan for William R. Glass dated February 16, 1999 (7)	
13.1	1998 Annual Report to Shareholders (7)	
21.1	Subsidiaries of the Registrant (6)	n/a
27	Financial Data Schedule (7)	

FOOTNOTES

(1) Filed as Exhibits to the Company's Registration Statement on Form S-4 (Registration No. 33-25321) and incorporated herein by reference.

(2) Filed as Exhibits to the original Form 10 (Registration No. 0-18539) and incorporated herein by reference.

(3) Filed as an Exhibit to the Company's Form 10-Q for the quarter ended March 31, 1997 (File No. 0-18539) and incorporated herein by reference.

(4) Filed as an Exhibit to the Company's Form 10-Q for the quarter ended June 30, 1996 (File No. 0-18539) and incorporated herein by reference.

(5) Filed as an Exhibit to the Company's Form 10-QSB for the quarter ended March 31, 1995 (File No. 0-18539) and incorporated herein by reference.

(6) Filed as an Exhibit to the Company's Form 10-K for the year ended December 31, 1997 (File No.0-18539) and incorporated herein by reference.

(7) Filed herewith.

(b) REPORTS ON FORM 8-K.

None.

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, EVANS BANCORP, INC. has duly caused this Annual Report to be signed on its behalf by the undersigned thereunto duly authorized:

EVANS BANCORP, INC.

By: /s/Richard M. Craig
Richard M. Craig,
Chairman

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 in the capacities and on the dates indicated:

SIGNATURE	*TITLE*	*DATE*
/s/Richard M. Craig *Richard M. Craig*	*Chairman* *President* *(Chief Executive Officer), Principal Accounting Officer and Director*	*March 29, 1999*
/s/James Tilley *James Tilley*	*Assistant Secretary*	*March 29, 1999*
/s/William R. Glass *William R. Glass*	*Treasurer*	*March 29, 1999*
/s/Robert W. Allen *Robert W. Allen*	*Director*	*March 29, 1999*
/s/Laverne G. Hall *LaVerne G. Hall*	*Director*	*March 29, 1999*
/s/Richard C. Stevenson *Richard C. Stevenson*	*Director*	*March 29, 1999*
/S/David M. Taylor *David M. Taylor*	*Director*	*March 29, 1999*
/S/Thomas H. Waring *Thomas H. Waring*	*Director*	*March 29, 1999*

EXHIBIT 10.7

AGREEMENT

This Agreement made this 16th day of February, 1999, by and between, EVANS NATIONAL BANK, a New York Banking Corporation, with offices located at 14-16 N. Main Street, Angola 14006, hereinafter referred to as "Bank", and, RICHARD M. CRAIG, an employee of said Bank, hereinafter referred to as "Participant".

WHEREAS, the parties previously entered into a Supplemental Executive Retirement Plan (SERP), dated March 29, 1995; and

WHEREAS, the parties now wish to amend said Plan.

NOW, THEREFORE, it is mutually agreed as follows:

1. ARTICLE II "BENEFIT" is hereby amended as follows:

SECTION 2.1 DEFINED CONTRIBUTION EXCESS BENEFIT

(A) The excess benefit has been determined to be the amount of $92,776.00 paid annually for the term of twenty (20) years certain.

It shall be payable under conditions identical as to vesting, conditions and terms of payment and all other matters, to the benefit payable by The Evans National Bank Pension Plan, (except the benefit from this plan will not be paid in the form of a lump sum and the benefit will not commence prior to the first day of the month coincident with or next following the individual's 65th birthday).

(B) In the event the Participant dies prior to attaining sixty-five (65) years of age, annual payments will be made to Participant's named beneficiary in the amount of $92,776.00 for ten (10) consecutive years commencing thirty (30) days after the Participant's date of death.

SECTION 2.3 BENEFIT ON TERMINATION BEFORE RETIREMENT AT AGE 65

This paragraph will remain the same, except that the figure "$63,882.00" will be replaced by the figure "$92,776.00".

2. ARTICLE III "MISCELLANEOUS" is hereby amended as follows:

SECTION 3.11 ADMINISTRATION IS RENUMBERED SECTION 3.12

NEW SECTION 3.11 "REIMBURSEMENT OF ATTORNEY'S FEES" is added:

In the event the Bank ownership changes and Participant is denied benefits under this Plan and Participant is required to retain legal counsel to secure said benefits, Participant shall be entitled to reimbursement of reasonable legal fees incurred in the pursuit of said benefits. Bank shall reimburse Participant no later than five (5) days after submission of an invoice for said fees from an attorney admitted to practice Law in the State of New York or such other state as may be required because of ownership of the Bank by an out-of-state corporation

2. All terms and conditions of the aforementioned Agreement not specifically changed herein, shall remain the same and are hereby ratified and affirmed as if set forth fully herein.

IN WITNESS WHEREOF, the parties have hereunto set their hands the day and year first above written.

EVANS NATIONAL BANK

BY: /s/Richard M. Craig

RICHARD M. CRAIG, CHAIRMAN

PARTICIPANT:

/s/Richard M. Craig

RICHARD M. CRAIG

Attest:

/s/Robert Allen

Robert Allen, Secretary

EXHIBIT 10.8

AGREEMENT

This Agreement made this 16th day of February, 1999, by and between, EVANS NATIONAL BANK, a New York Banking Corporation, with offices located at 14-16 N. Main Street, Angola 14006, hereinafter referred to as "Bank", and, JAMES TILLEY, an employee of said Bank, hereinafter referred to as "Participant".

WHEREAS, the parties previously entered into a Supplemental Executive Retirement Plan (SERP), dated March 28, 1995; and

WHEREAS, the parties now wish to amend said Plan.

NOW, THEREFORE, it is mutually agreed as follows:

1. ARTICLE II "BENEFIT" is hereby amended as follows:

SECTION 2.1 DEFINED CONTRIBUTION EXCESS BENEFIT

(A) The excess benefit has been determined to be the amount of $66,943.00 paid annually for the term of twenty (20) years certain.

It shall be payable under conditions identical as to vesting, conditions and terms of payment and all other matters, to the benefit payable by The Evans National Bank Pension Plan, (except the benefit from this plan will not be paid in the form of a lump sum and the benefit will not commence prior to the first day of the month coincident with or next following the individual's 65th birthday).

(B) In the event the Participant dies prior to attaining sixty-five (65) years of age, annual payments will be made to Participant's named beneficiary in the amount of $66,943.00 for ten (10) consecutive years commencing thirty (30) days after the Participant's date of death.

SECTION 2.3 BENEFIT ON TERMINATION BEFORE RETIREMENT AT AGE 65

This paragraph will remain the same, except that the figure "$60,319.00" will be replaced by the figure "$66,943.00".

2. ARTICLE III "MISCELLANEOUS" is hereby amended as follows:

SECTION 3.11 ADMINISTRATION IS RENUMBERED SECTION 3.12

NEW SECTION 3.11 "REIMBURSEMENT OF ATTORNEY'S FEES" IS ADDED:

In the event the Bank ownership changes and Participant is denied benefits under this Plan and Participant is required to retain legal counsel to secure said benefits, Participant shall be entitled to reimbursement of reasonable legal fees incurred in the pursuit of said benefits. Bank shall reimburse Participant no later than five (5) days after submission of an invoice for said fees from an attorney admitted to practice Law in the State of New York or such other state as may be required because of ownership of the Bank by an out-of-state corporation

2. All terms and conditions of the aforementioned Agreement not specifically changed herein, shall remain the same and are hereby ratified and affirmed as if set forth fully herein.

IN WITNESS WHEREOF, the parties have hereunto set their hands the day and year first above written.

EVANS NATIONAL BANK

BY: /s/RICHARD M. CRAIG

RICHARD M. CRAIG, CHAIRMAN

PARTICIPANT:

/s/JAMES TILLEY

JAMES TILLEY

Attest:

/s/ROBERT ALLEN

Robert Allen, Secretary

EXHIBIT 10.9

EVANS NATIONAL BANK
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN
WILLIAM R. GLASS

This Plan and Agreement, executed this 16th day of February, 1999, by and between EVANS NATIONAL BANK, a New York Banking Corporation of 14 - 16 N. Main Street, Angola, New York 14006 [hereinafter referred to as "Bank"] and WILLIAM R. GLASS, employee of said Bank [hereinafter referred to as "Participant"].

W I T N E S S E T H

WHEREAS, the Participant is currently employed by the Bank, as the Senior Vice President; and

WHEREAS, the Bank believes it is in the best interests of the Bank and the Participant to establish a plan for the purpose of providing certain benefits for the Participant; and

WHEREAS, the Bank wishes to offer a Supplemental Employee Retirement Plan (SERP) inducement to Participant to remain an employee in the form of additional compensation for services which he has rendered or will hereafter render; and

WHEREAS, the Participant is willing to continue in said position with the Bank on the basis stated herein;

NOW, THEREFORE, it is mutually agreed as follows:

ARTICLE I

EMPLOYMENT

SECTION 1.1 The Bank will employ Participant as an employee at such rate of compensation as may be so determined. The Participant will devote his full energy, skill and best efforts to the affairs of the Bank as required. It is contemplated that such employment will continue until the Participant attains age sixty-five (65) or terminates employment.

ARTICLE II

BENEFIT

SECTION 2.1 DEFINED CONTRIBUTION EXCESS BENEFIT

(A) The excess benefit has been determined to be the amount of $30,000.00 paid annually for the term of twenty (20) years certain.

It shall be payable under conditions identical as to vesting, conditions and terms of payment and all other matters, to the benefit payable by The Evans National Bank Pension Plan, (except the benefit from this plan will not be paid in the form of a lump sum and the benefit will not commence prior to the first day of the month coincident with or next following the individual's 65th birthday).

(B) In the event the Participant dies prior to attaining sixty-five (65) years of age, annual payments will be made to Participant's named beneficiary in the amount of $30,000.00 for ten (10) consecutive years commencing thirty (30) days after the Participant's date of death.

SECTION 2.2 DENIAL OF BENEFIT IN CERTAIN EVENTS

(A) There shall be no benefit hereunder if the Participant in question is discharged for cause.

(B) Discharge for Cause" shall mean a termination of employment for proven embezzlement, intoxication or illegal drug use which materially interferes with job performance; conflict of interest; gross insubordination, or conviction of a felony adversely affecting the ability of said Participant to carry on his normal duties.

SECTION 2.3 BENEFIT ON TERMINATION BEFORE RETIREMENT AT AGE 65

In the event the Participant terminates employment for any reason except "discharge for cause", the benefit to be paid shall be the accrued benefit as set forth in Section 2.1(A), $30,0000.00 multiplied by a fraction not to exceed (1) the numerator of which is the actual number of MONTHS of service of Participant in the Evans National Bank Pension Plan and (2) the denominator of which is the number of MONTHS of service in the Evans National Bank Pension Plan the participant would have completed if the participant had continued until his normal retirement age (65).

Said amount as so determined shall be payable for a term of twenty (20) years certain. It will not be paid in a lump sum and the benefit will not commence prior to the first day of the month coincident with or next following the Participant's sixty-fifth (65) birthday.

SECTION 2.4 BENEFITS PAYABLE ONLY FROM GENERAL CORPORATE ASSETS:
UNSECURED GENERAL CREDITOR STATUS OF EMPLOYEE

(A) The payments to the Employee, his designated beneficiary or any other beneficiary hereunder shall be made from assets which shall continue, for all purposes, to be a part of the general, unrestricted assets of the Corporations; no person shall have nor acquire any interest in any such assets by virtue of the provisions of this Agreement. The Corporation's obligation hereunder shall be an unfunded and unsecured promise to pay money in the future. To the extent that the Employee or any person acquires a right to receive payments from the Corporation under the provisions hereof, such right shall be no greater than the right of any unsecured general creditor of the Corporation; no such person shall have nor require any legal or equitable right, interest or claim in or to any property or assets of the Corporation.

(B) In the event that, in its discretion, the Corporation purchases an insurance policy or policies insuring the life of the Employee (or any other property) to allow the Corporation to recover the cost of providing the benefits, in whole, or in part, hereunder, neither the Employee, his designated beneficiary, any other beneficiary nor any other person shall have nor acquire any rights whatsoever therein or in the proceeds therefrom. The Corporation shall be the sole owner and beneficiary of any such policy or policies and, as such, shall possess and, may exercise all incidents of ownership therein. No such policy, policies or other property shall be held in any trust for the Employee or any other person nor as collateral security for any obligation of the Corporation hereunder.

SECTION 2.5 NO CONTRACT OF EMPLOYMENT

Nothing contained herein shall be construed to be a contract of employment for any term of years, nor as conferring upon the Employee the right to continue to be employed by the Corporation, in any capacity. It is expressly understood by the parties hereto that this Agreement relates exclusively to additional compensation for the Employee's services, payable after termination of his employment with the Corporation, and it is not intended to be an employment contract.

SECTION 2.6 DEATH BENEFICIARY

The "death beneficiary" of the Participant shall be the person, persons, trust, or charitable entity, living or in existence at the time for any distribution hereunder, which Participant shall have most recently designated as highest in priority on a form provided for that purpose by the Bank, signed by the Participant and filed with the Bank. The death or nonexistence of any such beneficiary, either before or after receipt or any distribution hereunder, shall terminate the entire interest of such beneficiary in and to the then undistributed portion of such Participant's account and such undistributed portion shall thereafter be distributed to or for the benefit of the beneficiary or beneficiaries designated as next highest in priority by such Participant. If no such beneficiary be thus designated, or if all of the thus designated beneficiaries do not survive or are no longer in existence at anytime prior to the complete distribution of such account, such account, or the then undistributed balance thereof, shall be distributed by the Bank directly to the person or persons who are heirs as named in the Participant's Last Will and Testament, except to the extent to which the specific bequests of such document are paid by the Participant's other resources; or if there is no such document then in existence, under the laws of descent and distribution, to those persons who would be entitled to the Participant's personal property, and in the proportions to which they would be so entitled, had such Participant died, at the time for such distribution, intestate and resident of State of New York.

ARTICLE III

MISCELLANEOUS

SECTION 3.1 GOVERNING LAW

This Agreement shall be subject to, and governed by, the laws of the State of New York irrespective of the fact that one or more of the parties now is, or may become, a resident of a different state.

SECTION 3.2 VOID LANGUAGE

In the event any parts of this Agreement are found to be void, the remaining provision of this Agreement shall nevertheless be binding with the same effect as though the void parts were deleted.

SECTION 3.3 RULES OF CONSTRUCTION

Wherever in this Agreement, words, including pronouns, are used in the masculine, they shall read and be construed in the feminine or neuter whenever they would so apply, and wherever in this Agreement words, including pronouns, are used in the singular or plural, they shall be read and construed in the plural or singular, respectively, wherever they would so apply.

SECTION 3.4 AGREEMENT BINDING

This Agreement shall be binding upon the parties hereto, their heirs, executors, administrators, successors and assigns. The Bank agrees it will not be a party to any merger, consolidation or reorganization unless and until its obligations hereunder shall be expressly assumed by its successor or successors.

SECTION 3.5 DESIGNATION OF NAMED FIDUCIARY

The Bank is hereby designated as the named fiduciary hereunder, and shall be responsible for the management and control of the operation and administration of the Plan including any and all decisions pertaining to the granting or denial of benefit claims and any and all decisions pertaining to the review of denials of benefit claims.

SECTION 3.6 AMENDMENT

The Plan may be amended at any time, and from time to time, by a written instrument executed by a duly authorized officer of the Bank provided such amendment is communicated to those Participants participating in this Plan, and approved by a majority vote of the Board of Directors of the Bank.

SECTION 3.7 NON-ASSIGNABILITY OF BENEFITS

Neither the Employee, his designated beneficiary nor any other beneficiary under this Agreement shall have any power or right to transfer, assign, anticipate, hypothecate or otherwise encumber any part or all of the amounts payable hereunder, which are expressly declared to be unassignable and non-transferable. Any such attempted assignment or transfer shall be void and shall terminate this Agreement; the Corporation shall thereupon have no further liability hereunder. No amount payable hereunder shall, prior to actual payment thereof, be subject to seizure by any creditor of any such beneficiary for the payment of any debt, judgment or other obligation, by a proceeding at law or in equity, not transferable by operation of law in the event of the bankruptcy, insolvency or death of the Employee, his designated beneficiary or any other beneficiary hereunder.

SECTION 3.8 CLAIMS FOR BENEFITS

Claims for benefits under the Plan shall be made in writing to the Bank. If such claim for benefits is wholly or partially denied, the Bank shall, within a reasonable period of time, but no later than ninety days after receipt of the claim, notify the claimant of the denial of the claim. Such notice of denial (i)shall be in writing, (ii) shall be written in a manner calculated to be understood by the claimant, and (iii) shall contain (a) the specific reason or reasons for denial of the claim, (b) a specific reference to the pertinent plan provision upon which the denial is based, (c) a description of any additional material or information necessary for the claimant to perfect the claim, along with an explanation why such material or information is necessary, and (d) an explanation of the Plan's claim review procedure.

SECTION 3.9 REQUEST FOR REVIEW OF DENIAL OF CLAIM

Within one hundred twenty (120) days of the receipt by the claimant of the written notice of denial of the claim, or such later time as shall be deemed reasonable taking into account the nature of the benefit subject to the claim and any other attendant circumstances or if the claim has not been granted within a reasonable period of time, the claimant may file a written request with the Bank that it conduct a full and fair review of the denial of the claimant's claim for benefits, including the conduction of a hearing, if deemed necessary by the reviewing party. In connection with the claimant's appeal of the denial of his benefit, the claimant may review pertinent documents and may submit issues and comments in writing.

SECTION 3.10 DECISION ON REVIEW OF DENIAL OF CLAIMS

The Bank shall deliver to the claimant a written decision on the claim promptly, but not later than sixty days, after the receipt of the claimant's request for review, except that if there are special circumstances (such as the need to hold a hearing) which require an extension of time for processing, the aforesaid sixty day period shall be extended to one hundred twenty (120) days. Such decision shall (a) be written in a manner calculated to be understood by the claimant, (b) include specific reasons for the decision, and (c) contain specific references to the pertinent Plan provisions upon which the decision is based.

SECTION 3.11 REIMBURSEMENT OF ATTORNEYS FEES

In the event the Bank ownership changes and Participant is denied benefits under this Plan and Participant is required to retain legal counsel to secure said benefits, Participant shall be entitled to reimbursement of reasonable legal fees incurred in the pursuit of said benefits. Bank shall reimburse Participant no later than five (5) days after submission of an invoice for said fees from an attorney admitted to practice Law in the State of New York or such other state as may be required because of ownership of the Bank by an out-of-state corporation

All terms and conditions of the aforementioned Agreement not specifically changed herein, shall remain the same and are hereby ratified and affirmed as if set forth fully herein.

SECTION 3.12 ADMINISTRATION

The Bank Secretary shall maintain a copy of the Plan, and any amendments thereto.

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands the day and year first above written.

EVANS NATIONAL BANK	*Participant:*
BY: /s/Richard M. Craig	*/s/William R. Glass*
Richard M. Craig, President	*William R. Glass*

Attest:

/s/Robert Allen

Robert Allen, Secretary

EXHIBIT 13.1

Exhibit 13.1

Profile

Evans Bancorp, Inc. is a bank holding company headquartered in Angola, New York and conducts its business through its wholly-owned subsidiary, Evans National Bank. The Bank is a FDIC full-service commercial bank and as of December 31, 1998 had total assets of $174,120,230, total deposits of $144,083,636 and total stockholders' equity of $18,623,413. The Bank's primary market area is located in Western New York State and specifically in southern Erie County, northern Chautauqua County and northwestern Cattaraugus County.

The principal business of the Bank is commercial banking and consists of, among other things, attracting deposits from the general public and using these funds to extend credit and to invest in securities. The Bank offers a variety of loan products to its customers including commercial loans, commercial and residential mortgage loans, and consumer loans. In addition, the Bank offers deposit products to include checking and NOW accounts, passbook and statement savings, and certificates of deposit.

President's Message

With the key components of the financial statements - net income, loans, deposits, and stockholders' equity - at record levels, I am pleased to report that 1998 was another excellent year for Evans Bancorp, Inc. and its subsidiary, Evans National Bank.

Net income in 1998 was $2,043,351, an increase of $241,076, or 13.3% over 1997 net income of $1,802,275. Earnings per share increased $.14, or 13.2%, to $1.20 per share from $1.06 per share in 1997. The Board of Directors declared a cash dividend of $.37 per share during 1998, which compares to $.30 per share in 1997. This is the seventeenth consecutive year there has been an increase in the cash dividend. Other key performance ratios which improved in 1998 include return on average assets of 1.24% as compared to 1.19% in 1997, and 11.63% return on average equity as compared to 11.06% the previous year. Total assets also reached a record high of $174,120,230 at December 31, 1998, which is an increase of $15,578,067, or 9.8%, over last year's total assets of $158,542,163.

Net loans increased by $8,899,022 in 1998 to $110,526,449, an 8.7% increase over 1997's $101,627,427. The quality of the portfolio, as measured by charge-offs, continues to remain at a high level. Actual I charge-offs totaled $71,458 for 1998, which equated to .06% of outstanding loans, as compared to $46,858 in 1997, or .05%. Deposits increased to $144,083,636, or 4.1%, from $138,391,327 for an increase of $5,692,309. Stockholders' Equity increased by $1,584,113, or 9.3%, to $18,623,413 from $17,039,300.

The Bank's Tier I capital ratio of 16.3%, total capital ratio of 16.9% and leverage ratio of 10.5% substantially exceeded the regulatory requirements of 4.0%, 8.0%, and 4.0%, respectively.

In order to meet the challenges of our competitive environment and successfully accommodate the needs of our customers for electronic banking services, the Bank initiated a technology project in 1998 which we refer to as "channel management".

The first phase of the channel management project was a conversion to Cartel, a new ATM network provider established locally to better serve the electronic banking needs of community banks. This further development of the ATM network allows us to drive our own ATMs through an independent service bureau and provide on-line information to our customers. In the fall of 1998, as part of channel management, the Bank introduced a telephone and PC (personal computer) banking service called Eas-E-Line, which has won wide acceptance from our customers. Eas-E-Line provides convenient customer access to account information, with transfer capabilities from any telephone or personal computer. Future channel management phases will include the introduction of Eas-E-Check, a debit card that works like a check, and Internet access, providing a bill-paying service for both businesses and individuals.

Over the past year, the Company has devoted considerable time and planning to be prepared for January 1, 2000 and the much-publicized, anticipated computer and system deficiencies in distinguishing between the years

1900 and 2000. As the new millennium approaches, the Company's objective is to migrate to the Year 2000 with minimal impact on customers.

We initiated our Year 2000 preparation efforts in 1996; however, our most significant activities were accomplished during 1998. Guided by a five-phase approach recommended by the Federal Financial Institutions Examination Council (FFIEC) and our regulatory authority, the Office of the Comptroller of the Currency (OCC), we first developed a comprehensive plan for becoming Year 2000 compliant. Working closely with our core processing software vendor, we successfully tested for Year 2000 readiness all systems which we identified as mission critical. A renovated version of our core processing software was installed in the second quarter of 1998, and we continued to test for compliance through the remainder of the year.

In order to satisfactorily determine the Year 2000 readiness of the Bank's vendors, each was contacted during the course of the year. Additionally, a customer-awareness program was developed to inform customers of the Bank's readiness efforts, which included a public information seminar and readiness notices being sent to each of the Bank's customers. A customer risk assessment was also conducted to assess the Year 2000 efforts of customers we considered significant borrowers and depositors.

Well ahead of schedule, we have entered into the final phase of our Year 2000 plan, which is the Implementation Phase. The Bank's Year 2000-ready systems are currently in place and functioning. We plan to continue testing in 1999, and quality reviews will be conducted throughout 1999 and the year 2000 to ensure proper functioning of our systems.

Although we believe that our systems are ready for the Year 2000, the Bank is also developing contingency plans to minimize significant interruption of normal operation in the event of failure. The contingency planning process commenced during the fourth quarter of 1998, was well under way by year end, and will be completed during the first quarter of 1999. This ongoing planning process will require modification, as we obtain additional information specifically regarding third party readiness. With the support and direction of the Board of Directors and senior management, we will continue to dedicate the necessary resources and strategies to resolve all potential Year 2000 issues.

We believe that the manner in which we have addressed this issue underscores our strengths. The Company has the resources and the technological expertise to address such new issues, but is small enough to enable us to make adjustments to internal programs and systems without affecting the ability to service our customers.

The dedication and efforts of our employees is one of the most important factors in our continuing success. To further enhance the capabilities of our employees, we initiated training programs during the past year. We are confident that these programs in computer, customer service, and sales training will strengthen and enhance individual performance and productivity.

The following employees were recognized during 1998 for their years of service as noted: Barbara H. Harris and Jeffrey L. White (20 years); Patricia R. Grise, Carol A. Mahoney, and David G. Scheffer (15 years); Pamela L. Catalano, William J. Gray, Marlene A. Kwiatkowski, Howard M. Martin, Jr., Rose M. Radecki, and James Tilley (10 years); William R. Glass, Cynthia A. Gracon, and Kim M. Heimburg (5 years).

Evidencing our firm commitment to the betterment of our communities, Evans National Bank's management and employees continue to volunteer and serve in many capacities for a variety of local organizations.

In January of 1998, Thomas H. Waring, Jr. was appointed to the Board of Directors and was elected for a full term at the Stockholders meeting in April, 1998. He has been a valuable and important contributor, and has brought new talents to our Board.

In September of 1998, I concluded my term as President of the Independent Bankers Association of New York State. My tenure further convinced me of the inherent value in the community banking philosophy; that of using local customer deposits to support business and consumer loans which, in turn, increases the quality of life in our communities. I believe that this will continue to be unique to community banks and, along with the delivery of individualized customer service, ensure our industry's continued strength and prosperity.

I am happy to announce that on February 1, 1999, we opened our seventh branch office, located in the Southgate Plaza in West Seneca, New York. Timothy F. Jachlewski was appointed Vice President and Manager of this new facility. Tim comes to us with an extensive background in banking, and is well known to the West Seneca community, having been involved in many local activities and organizations. We believe the addition of this office is a logical extension of our market area, and will provide new opportunities for future growth.

We are proud of the goals realized in 1998, which include strong earnings, and the Bank's positioning for the future. I would like to recognize and thank our employees, the Board of Directors, the stockholders, and our customers for their continued support. We look forward to an exciting year in 1999, and continued success as we enter the new millennium.

Richard M. Craig
Chairman of the Board, President and Chief Executive Officer

EVANS BANCORP, INC.
SELECTED FINANCIAL INFORMATION

For the Year Ended December 31,	1998	1997	1996	1995	1994
RESULTS OF OPERATIONS					
Interest Income	$ 11,851,787	$ 11,072,851	$ 9,799,815	$ 9,226,500	$ 8,206,596
Interest Expense	4,946,730	4,588,056	3,912,761	3,418,782	2,747,297
Net Interest Income	6,905,057	6,484,795	5,887,054	5,807,718	5,459,299
Non-Interest Income	1,220,194	950,662	930,986	763,054	785,551
Non-Interest Expense	5,196,900	4,849,182	4,555,398	4,228,922	3,981,801
Net Income	2,043,351	1,802,275	1,614,642	1,664,783	1,617,049
BALANCE SHEET DATA					
Total Assets	$174,120,230	$158,542,163	$140,898,057	$125,308,204	$114,565,971
Loans - Net	110,526,449	101,627,427	92,087,902	75,468,504	71,998,929
Allowance for Loan Losses	729,199	609,539	546,954	557,961	628,957
Securities	50,059,972	40,400,374	36,054,324	38,954,494	32,341,350
Total Deposits	144,083,636	138,391,327	123,461,379	109,020,551	100,532,031
Stockholders' Equity	18,623,413	17,039,300	15,510,083	14,485,510	12,723,940
PER SHARE DATA					
Net Income	$ 1.20	$ 1.06	$ 0.95	$ 0.97	$ 0.95
Cash Dividend	$ .37	$ 0.30	$ 0.22	$ 0.14	$ 0.09
Book Value at Year End	$ 10.96	$ 10.03	$ 9.13	$ 8.53	$ 7.49
Market Value	$ 45.00	$ 38.00	$ 27.20	$ 22.00	$ 14.00
Weighted Average Shares	1,698,612	1,698,950	1,698,950	1,698,950	1,698,950

(Retroactively adjusted for stock dividends and stock splits)

CORRECTION: Book Value at Year End For 1995 and Earlier and Market Value For 1996 and Earlier Under PER SHARE DATA Have Been Corrected to Reflect the Five-For-One Stock Split in 1997.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Evans National Bank (the "Bank"), a wholly-owned subsidiary of Evans Bancorp, Inc. (the "Company"), is a nationally chartered bank founded in 1920 which is headquartered in Angola, New York. The Bank's principal business is to provide full banking services to consumer and commercial customers in Erie and Chautauqua Counties of Western New York. The Bank serves its market through six banking offices located in Angola, Derby, Evans, Forestville, Hamburg and North Boston, New York. The Bank's principal source of funding is through deposits which it reinvests in the community in the form of loans and investments. Deposits are insured to the applicable limit by the Bank Insurance Fund ("BIF") of the Federal Deposit Insurance Corporation ("FDIC"). The Bank is regulated by the Office of the Comptroller of the Currency.

The following discussion of financial conditions and results of operations of the Company and the Bank should be read in conjunction with the consolidated financial statements and accompanying notes.

RESULTS OF OPERATIONS

Net income of $2,043,351 in 1998 resulted in earnings per share of $1.20. This is an increase of 13.4% over net income for 1997 of $1,802,275 or $1.06 per share. Income in 1997 had improved 11.6% over net income of $1,614,642 or $.95 per share in 1996. The strong earnings performance of the Bank in 1997 and 1998 illustrates the positive income impact of the $2.2 million expansion plan implemented over 1995 and 1996, which included the addition of the Hamburg and Evans branch offices.

Net interest income, the difference between interest income and fees on earning assets, such as loans and securities, and interest expense on deposits, provides the basis for the Bank's results of operations. These results are also affected by non-interest income, the provision for credit losses, non-interest expense, and income taxes.

NET INTEREST INCOME

Net interest income, before the provision for credit losses, increased 6.5% from 1997 to 1998, compared to an increase of 10.2% from 1996 to 1997. The increase in net interest income in 1998 is due to an increase in average earning assets of $12.4 million or 8.8% over 1997. The tax-equivalent yield earned on those assets decreased 20 basis points, from 8.31% in 1997 to 8.11% in 1998. The average cost of funds on interest-bearing liabilities, which increased $9.3 million or 8.3% in 1998, decreased only two basis points, from 4.11% in 1997 to 4.09% in 1998. As a result, the Bank's net interest margin narrowed from 4.59% in 1997 to 4.52% in 1998.

In 1997, the increase of 10.2% in net interest income over 1996 was the result of an increase in the volume of average earning assets of $15.8 million and an increase in the yield earned on those assets, 8.31% compared to 8.27% the previous year. Average interest-bearing liabilities also increased in volume, $13.3 million or 13.6% in 1997 over 1996, and the average cost of funds increased from 3.99% in 1996 to 4.11% in 1997. The Bank's net interest margin was 4.59% in 1997 compared to 4.64% in 1996.

Management believes this reduction in net interest margin in 1998 is due to several factors. The Federal Reserve Board decreased the federal funds rate three times between September and December, 1998 for a total of 75 basis points. These decreases were followed in the marketplace by corresponding decreases in the prime rate, which immediately impacted the yield earned on variable rate loans. Despite the fact that these interest rate moves were the first initiated by the Federal Reserve since late March of 1997 (a 25 basis point increase), other market rates declined over 1998. Volatility in world financial markets has encouraged investors to turn to the safety provided by the US bond market, driving prices up and yields down on financial instruments which are priced relative to treasury securities. Certain loan pricing was also impacted.

The Bank constantly monitors its exposure to interest rate risk. The proper management of interest-sensitive funds will help protect the Bank's earnings against extreme changes in interest rates. The Bank's Asset/Liability Management Committee ("ALCO") meets monthly for the purpose of evaluating the Bank's short-range and long-range liquidity position and the potential impact on capital and earnings as a result of sudden changes in interest rates. The Bank has adopted an asset/liability policy which specifies minimum limits for liquidity and capital ratios. Maximum limits have been set for the negative impact acceptable on net interest income and the market value of assets as a result of a shift in interest rates. The asset/liability policy also includes guidelines for investment activities and funds management. At its monthly meeting, the ALCO reviews the Bank's status and formulates its strategy based on current economic conditions, interest rate forecasts, loan demand, deposit volatility, and the Bank's earnings objectives.

PROVISION FOR LOAN LOSSES

Loan losses represent the amount charged against earnings to establish a reserve of allowance sufficient to absorb expected loan losses based on management's evaluation of the loan portfolio. Factors considered include loan concentrations, charge-off history, delinquent loan percentages and general economic conditions. In 1998, the Bank increased the amount charged against earnings for loan losses to $150,000 from $60,000 charged against earnings in each of the years 1996 and 1997. Substantial sustained growth in loan volume over the past three years warranted such an increase.

The following table summarizes the Bank's actual loan losses, total of non-performing loans and total allowance for loan losses for 1998, 1997 and 1996, both in dollars and as a percentage of total loans outstanding:

	1998		1997		1996	
Actual Loan Losses	$ 71,458	0.06%	$ 46,858	0.05%	$ 76,604	0.08%
Non-Performing Loans	$1,452,000	1.32%	$ 987,000	0.96%	$ 230,000	0.20%
Allowance for Loan Losses	$ 729,199	0.66%	$ 609,539	0.59%	$ 546,954	0.59%

Although, during 1998, non-performing loans increased over the prior year, all loans in this category are considered well-collateralized and in the process of collection. As a result, no significant losses are anticipated.

NON-INTEREST INCOME

Total non-interest income increased approximately $270,000 in 1998 over 1997 which compares to an increase of approximately $20,000 in 1997 from 1996. Several factors contributed to the increase in 1998, such as an increase in the Bank's service charges implemented June 1, 1998 and fees earned through the merchant VISA program which began in late 1997. Comparatively low rates encouraged consumers to apply for new loans or pursue refinancing, contributing to an increase in loan-related fee income.

Non-interest income also included approximately $165,000 for the cash surrender value of life insurance policies held on certain bank officers. This compares to $64,000 in 1997. The 1998 figure includes a one-time gain of approximately $97,000 which resulted when the original policies were surrendered due to a change of insurer.

Gains realized on the sale of loans and securities totaled $66,208 in 1998 versus $33,809 in 1997. Planned sales of securities had resulted in net losses of $4,450, but these losses were offset by a gain of $14,513 which was realized when one of the Bank's residual bonds was called for full redemption in December. In 1997, net losses on securities transactions were approximately $2,000. Premiums received on sales of student loans to the Student Loan Marketing Association ("SLMA") were approximately $43,000 in 1998 as compared to $28,000 in 1997.

Premiums in 1998 included approximately $28,000 received when the Bank sold the majority of its remaining student loan portfolio to SLMA. The Bank also had an increase in premiums received on sales of mortgages to the Federal National Mortgage Association ("FNMA"). These premiums were approximately $12,800 in 1998 as compared to $8,000 in 1997. The Bank has been affiliated with both SLMA and FNMA since 1995.

NON-INTEREST EXPENSE

In 1998, the ratio of non-interest expense to average assets was 3.14% compared to 3.18% in 1997 and 3.37% in 1996. Non-interest expense categories include salaries, occupancy expense, repairs and maintenance, advertising and professional services , among others. Occupancy expenses remained stable in 1998, and there was little change in the Bank's FDIC insurance assessment. Advertising costs decreased 7.2% and professional services decreased 5.8%. Salary and benefit expense increased 8.3% in 1998, due to additional staffing, merit/promotional increases and costs related to the supplemental employee retirement plan ("SERP"). Miscellaneous other expenses in 1998 included costs related to maintaining foreclosed properties and premiums paid for life insurance policies held on certain bank officers.

TAXES

The provision for taxes in 1998 of $735,000 reflects an effective tax rate of 27%. This compares to $724,000 and 28% in 1997 and $588,000 and 26% in 1996. The Bank maintains a substantial investment in tax-advantaged municipal bonds which contributes to its favorable tax position. In addition, in 1998, the Bank received $97,000 in non-taxable income as the result of surrendering life insurance policies held on certain bank officers due to a change in insurer.

FINANCIAL CONDITION

The Bank had total assets of $174.1 million at December 31, 1998, increasing $15.6 million or 9.8% over December 31, 1997. Net loans of $110.5 million reflected an increase $8.9 million or 8.8% over the prior year. Securities increased $9.7 million or 23.9%. Cash and cash equivalents decreased $3.0 million, or 29.3%. Deposits grew by $5.7 million or 4.1% and capital increased $1.6 million or 9.3%.

LOANS

Loans comprised 69.3% of the Bank's total average earning assets in 1998. Actual year end balances increased 8.8% compared to an increase of 10.4% at December 31, 1997 and 22% at December 31, 1996. The relatively low rates available on most types of loans over the past three years has fueled both new loan activity and refinancing. Expansion of the Bank's trade area has also contributed to the significant loan growth over that time period.

The Bank continues to focus its lending on commercial and residential mortgages, small commercial loans and home equity loans. Commercial mortgages continue to make up the largest segment of the portfolio at 47.7%. Residential mortgages comprise 22.0% of the portfolio and commercial loans total 13.3%. Home equity loans make up 14.2% of total loans. At December 31, 1998, the Bank had a loan-to-deposit ratio of 77.22%. This compares to a loan-to-deposit ratio of 73.9% at December 31, 1997.

The Bank currently retains the servicing rights to $5.0 million in long-term mortgages sold to the Federal National Mortgage Association ("FNMA") since becoming a member in 1995. This arrangement allows the Bank to offer long-term mortgages without exposure to the associated interest rate risks, while retaining customer account relationships.

The Bank continues its contractual arrangement with the Student Loan Marketing Association ("SLMA") whereby SLMA services the Bank's loans to students who are still in school and subsequently purchases those loans. In December, 1998, the Bank sold approximately $1.2 million in student loans to SLMA. As a result, student loan balances decreased nearly 75% in 1998. This compares to growth of 2.3% in 1997 over 1996 and a decrease of 13.4% in 1996 from 1995.

SECURITIES

Securities made up the remaining 30.7% of the Bank's earning assets at December 31, 1998. In previous years, the size of the investment portfolio was determined by the relationship of deposit growth to loan growth. When excess deposits were not needed to fund loans, the investment portfolio was increased. When deposit growth was not sufficient to fund loan demand, maturing investments were not replaced, Federal Funds sold balances were reduced, and when necessary, bonds were sold. In 1998, even though loan growth exceeded deposit growth, there was an increase in the securities portfolio. This was possible through the use of the Federal Home Loan Bank ("FHLB") as an alternative funding source. By utilizing the fixed rate advance program at the FHLB, the Bank was able to borrow $5 million to fund the purchase of government-guaranteed securities with a similar average life, achieving a favorable earnings spread.

The Bank's investments remain concentrated in US government and US government agency securities and tax-advantaged municipal bonds of varied maturity. The tax-equivalent yield on the Bank's investments in federal funds sold and securities was 6.48%, declining from 6.57% in 1997. The yield in 1996 was 6.51%.

In 1994, the Bank adopted Financial Accounting Standard No. 115 which outlines accounting and reporting procedures for investment securities. At that time, all securities in the Bank's portfolio were designated as either "held to maturity" or "available for sale", as were all subsequent purchases. Securities which the Bank designates as held to maturity are stated on the balance sheet at amortized cost, and those designated as available for sale are reported at fair market value. The unrealized gains and losses on available for sale securities are recorded, net of taxes, as a separate component of shareholders' equity. Transferring a security from one category to another results in certain accounting consequences. In 1995, the Financial Accounting Standards Board allowed a one-time reclassification of securities without penalty. As a result of this one-time window of opportunity, the Bank reclassified the majority of its bonds in the held to maturity category as available for sale. On October 1, 1998 the Bank adopted Financial Accounting Standard No. 133 which provided a second opportunity to reclassify securities without penalty. The Bank reclassified approximately $3 million in collateralized mortgage obligations as available for sale. The majority of bonds remaining in the held to maturity category represent the Bank's investment in the local communities which it serves.

DEPOSITS

Total deposits increased $5.7 million in 1998 over 1997. All major categories of deposits increased, with the exception of time deposits of less than $100,000. Demand deposits increased 19.3% over the prior year. Growth in regular savings balances of 7.7% was bolstered by the positive response of customers to the tiered rate Premium Savings product introduced in May of 1997. Time deposits over $100,000 increased 5.8%. Such deposits are obtained from local municipalities through the competitive bidding process and from commercial and retail customers looking for the safety of an insured deposit.

Competition for time deposits under $100,000 has intensified as informed consumers shop for the best return available. Aggressive promotional efforts by other banks offering above the market rates have had an impact on the Bank's certificate of deposit balances, as evidenced in the 8.7% decline in this category since 1997. Alternative savings instruments, such as 401K plans and mutual funds, among others, now attract dollars that at one time would have been deposited into a certificate of deposit or savings account.

The Bank's competitive edge comes from providing value through outstanding customer service. In 1998, the Bank provided customer service training to its entire staff and adopted written customer service standards. In addition, Eas-E Line telephone and personal computer banking was introduced in November, 1998. This service provides customers with access to their accounts during banking and non-banking hours, either by telephone or personal computer.

LIQUIDITY

The Bank seeks to manage its liquidity so that it is able to meet day to day loan demand and deposit fluctuations, while attempting to maximize the amount of net interest income on earning assets. Traditionally, the Bank has utilized its federal funds balances and cash flows from the investment portfolio to fulfill its liquidity requirements. As a member and shareholder of the Federal Home Loan Bank ("FHLB") the Bank also has many borrowing options. The FHLB will make cash advances of various terms at competitive rates to its members. Advances of up to $8.1 million can be drawn on the FHLB, via the Overnight Line of Credit Agreement, and an amount equal to 25% of the Bank's total assets could be borrowed through the advance programs under certain qualifying circumstances. The Bank also has the option to purchase up to $4,000,000 in federal funds from one of its correspondents.

The cash flows from the investment portfolio are laddered to provide funds from principal and interest payments at such times as liquidity needs may arise. Contractual maturities are also laddered, with consideration as to the volatility of market prices to ensure that a sufficient amount of securities are available that could be sold without incurring significant losses. At December 31, 1998, approximately 12% of the Bank's securities had contractual maturities of one year or less and approximately 26% had maturity dates of five years or less. At December 31, 1998 the Bank had net short-term liquidity of $4.0 million as compared to $5.9 million at December 31, 1997. Available assets of $48.1 million less public and purchased funds of $37.5 million resulted in a long-term liquidity ratio of 128% compared to 149% at December 31, 1997.

Liquidity needs can also be met by aggressively pursuing municipal deposits, which are normally awarded on the basis of competitive bidding. The Bank maintains a sufficient amount of US government and government agency securities and New York State municipal bonds that can be pledged as collateral for these deposits.

INTEREST RATE RISK

Interest rate risk occurs when interest-earning assets and interest-bearing liabilities mature or reprice at different times or on a different basis. The Bank's ALCO analyzes the gap position on a monthly basis to determine the Bank's exposure to interest rate risk. The gap position is the difference between the total of the Bank's rate sensitive assets and rate sensitive liabilities maturing or repricing during a given time frame. A "positive" gap results when more assets than liabilities reprice and a "negative" gap results when more liabilities than assets reprice in a given time period. Because assets historically reprice faster than liabilities, a slightly negative gap position is considered preferable. At December 31, 1998, the Bank was in a negative gap position, with $14.9 million more in rate-sensitive liabilities repricing over the next year than in rate sensitive assets. The Bank's asset/liability limit, as defined in its asset/liability policy, is a difference of +/-15% of the Bank's total assets which amounted to +/-$26.1 million at December 31, 1998. Therefore, the Bank's negative gap position was well within its policy limits. The gap ratio (rate sensitive assets/rate sensitive liabilities) at that date was 81%.

The following table provides information about the Bank's on-balance sheet instruments that are sensitive to changes in interest rates. Expected maturity date values for interest-earning assets were calculated by adjusting the contractual maturity date for expectations of prepayments. Expected maturity date values for interest-bearing core deposits were calculated based upon estimates of the period over which the deposits would be outstanding.

Expected maturity date - year ended December 31,	1999	2000	2001	2002	2003	There-after	Total	Fair Value
INTEREST-EARNING ASSETS ($000S)								
Loans Receivable, Fixed Rate	9,632	5,976	4,146	3,726	3,775	16,001	43,256	42,805
Average Interest Rate	8.01%	8.56%	8.72%	8.62%	8.47%	9.64%		
Loans Receivable, Adj. Rate	18,961	3,375	4,340	3,465	3,365	34,494	68,000	68,000
Average Interest Rate	8.75%	9.10%	8.87%	8.93%	8.90%	8.64%		
Investments	15,659	7,427	3,130	3,424	4,484	15,935	50,059	50,059
Average Interest Rate	6.38%	6.54%	6.85%	6.89%	7.18%	7.23%		
INTEREST-BEARING LIABILITIES ($000S)								
Deposits	66,534	18,002	12,731	12,327	8,633	0	118,227	118,746
Average Interest Rate	4.55%	3.19%	2.39%	2.30%	2.52%	0.00%		
Borrowed Funds	4,225	1,000	0	1,000	2,000	1,000	9,225	9,211
Average Interest Rate	5.01%	4.83%	0.00%	4.91%	4.90%	5.07%		

Off-balance sheet financial instruments at December 31, 1998 included $7,077,000 in undisbursed lines of credit at an average interest rate of 9.02%, $2,622,000 in fixed rate loan origination commitments at 8.60%, $12,203,000 in adjustable rate loan origination commitments at 9.41%, and $1,007,000 in adjustable rate letters of credit at an average rate of 9.75%.

MARKET RISK

When rates rise or fall, the market value of the Bank's assets and liabilities will increase or decrease. As part of the Bank's asset/liability policy, the Bank has set limitations on the negative impact to the market value of its balance sheet that would be accepted. The Bank's securities portfolio is priced monthly and adjustments are made on the balance sheet to reflect the market value of the available for sale portfolio per Financial Accounting Standard No.
115. A limitation of a negative ten percent of total capital before FAS 115 (after tax) has been set forth in the asset/liability policy as the maximum impact to equity that would

be acceptable. At year end, the impact to equity as a result of marking available for sale securities to market was an unrealized gain of $443,308. On a quarterly basis, the available for sale portfolio is shocked for immediate rate increases of 100 and 200 basis points. At December 31, 1998, the Bank determined that it would take an immediate increase in excess of 200 basis points to eliminate the current capital cushion. The Bank also reviews the Bank's capital ratios on a quarterly basis. Unrealized gains or losses on available for sale securities are not included in the calculation of these ratios.

CAPITAL EXPENDITURES

Anticipated large capital expenditures during 1999 include approximately $400,000 for leasehold improvements and equipment purchases necessary in establishing a branch office in West Seneca, New York. This additional office is scheduled to open February 1, 1999. Some existing equipment at the Bank's other locations is scheduled to be replaced, and expenses will be incurred as a result of the Bank's Year 2000 initiative. There will also be additional expenditures related to the ongoing Channel Management project which encompasses the technology necessary to provide Eas-E Line telephone and PC banking. Also in 1999, the first stages will be taken to implement Internet banking. This will provide customers with the ability to pay bills via personal computer The Bank believes that it has a sufficiently strong capital base to support these capital expenditures with current assets and retained earnings.

IMPACT OF INFLATION AND CHANGING PRICES

There will always be economic events, such as changes in the economic policies of the Federal Reserve Board, that will have an impact on the profitability of the Company. Inflation may result in impaired asset growth, reduced earnings and substandard capital ratios. The net interest margin can be adversely impacted by the volatility of interest rates throughout the year. Since these factors are unknown, management attempts to structure the balance sheet and the repricing frequency of its interest-sensitive assets and liabilities to avoid a significant concentration that could result in a material negative impact on earnings.

THE NEW MILLENNIUM

The Company has long been aware of the complexity and significance of the issues associated with the arrival of the Millennium (Year 2000). The "Year 2000" problem centers around the world's computer systems and a common programming practice that condenses a century date to just two digits, i.e. "98" to represent 1998, to conserve storage space. As a result, these systems may interpret "00" as 1900 rather than 2000, causing potential data corruption, misinterpretation, or system failure. The Company, with the support and direction of its Board of Directors and Senior Management, has dedicated financial and human resources to formally adopt strategies and work towards resolving all potential Year 2000 issues.

In the third quarter of 1997, the Company began formalizing its strategy to address the data processing and business impacts we anticipated to be associated with Year 2000 issues. Our ultimate approach was to adopt the five-phase format recommended by the Federal Financial Institutions Examination Council, and follow guidance provided us by our regulatory authorities who periodically monitor and evaluate our progress. These phases, and our activities, are described as follows:

AWARENESS PHASE

While this can be considered an ongoing phase relating to education of employees, customers, and vendors, our primary activities defined the Year 2000 problem; obtained Board of Director and Executive level support; established a project team to include the Senior Vice President of Administration, the Bank Auditor, Manager of Data Processing, Manager of Systems Development, representatives from each functional area of the Bank, legal counsel, and the principal of our main-frame software vendor. This committee was responsible for development and implementation of an overall strategy to identify and resolve issues associated with the year 2000.

ASSESSMENT PHASE

Implementing this phase provided an assessment of the size and complexity, identifying affected areas of our business, identified the required resources, and enabled us to develop a comprehensive plan. An inventory of all hardware and software was completed to establish a specific Year 2000 status, i.e. "already deemed compliant", "requiring replacement or renovation", or "becoming obsolete". Priorities were then determined. Certain systems were identified as mission critical. Non-information technology systems were also addressed. Key vendors, such as providers of power, heating, and telephone services, among others, were contacted regarding their Year 2000 readiness. The Bank has received letters certifying Year 2000 compliance from those suppliers whose services are deemed critical to Bank operations. However, in the event of an infra-structure failure, i.e. lack of power, etc., a Bank committee has developed a contingency plan so that business can continue with minimal interruption. The Bank also performed a customer risk assessment in the last quarter of 1998.

RENOVATION PHASE

The Company does not write or create computer code or perform programming activities. We are reliant on vendors and software suppliers to furnish enhancements in a timely manner. Renovation of our core processing system was completed in early 1998 in conjunction with a plan developed by the vendor, other user financial institutions, and our Company. These renovations were successfully tested in collaboration with all user institutions at our back-up site. The renovated system was successfully installed in June 1998. Additional in-house testing was conducted throughout the remainder of the year.

VALIDATION PHASE

This is probably the most critical and intensive phase of the entire project. It is in this phase that we validate, through a variety of testing methods, that each system can process after the turn of the century, with particular emphasis on those identified as "mission critical". As stated above, renovation to our core processing systems was successfully tested, and all testing of mission critical systems was successfully completed by year end 1998. In each case, we followed a comprehensive written test plan involving user representation to validate test results. All systems, including those designated mission critical, have been renovated and successfully tested as of December 31, 1998. Two non-critical systems warranted as "Year 2000 compliant" by the vendor will be tested in the first quarter of 1999. Additionally, fully integrated testing will be performed again within the first and second quarter of 1999.

IMPLEMENTATION PHASE

The Company's Year 2000 ready systems are in place and presently functioning. As part of implementation, we plan continued testing in 1999, along with fully integrated tests. Quality reviews will be conducted throughout 1999 and the year 2000 to ensure proper functioning of our systems. The implementation phase involves contingency planning. The Company maintains a formal Business Resumption Plan, and is in the process of supplementing that plan with a contingency plan relevant to Year 2000 issues. The contingency planning process was well under way by year end 1998, and is expected to be completed by March 31, 1999 and validated by June 30, 1999.

The Company believes, however, that due to the widespread nature of potential Year 2000 issues, the contingency planning process is an ongoing one which will require further modifications as the company obtains additional information, specifically regarding third party Year 2000 readiness.

The Company has identified significant (large) commercial depositors and performed an assessment of their efforts towards Year 2000 readiness. Should these depositors be unable to function financially as a result of their own Year 2000 issues, or significantly reduce their deposit levels, there could be an impact on the Bank's own cash flow. Our initial assessment evaluates this risk as minimal, and all customers identified in this risk assessment are aware of the Year 2000 issues and are planning Year 2000 readiness efforts.

A risk assessment of large commercial borrowers was also completed representing approximately 70 commercial customers, or 74% of commercial loan outstandings. Based on survey results, all are rated as moderate to low risk. We plan to selectively monitor the progress of certain moderate risk borrowers throughout 1999. New commercial loans exceeding our borrowing threshold for risk ratings will be measured to assure information technology utilized by the borrower will be Year 2000 ready.

Management continues to quantify expenses related to Year 2000 readiness. The Company has not been required to provide additional staff for the express purpose of Year 2000 readiness, but rather has utilized existing internal staff. Our budgeted expenses approximate $45,000, of which $15,000 will be allocated for renovation of core processing software. Expenses associated with Year 2000 preparedness are not expected to have a material impact on the financial condition of the Company.

The Company's objective is to migrate to the Year 2000 with minimal impact on customers, and be prepared for January 1, 2000. We believe that the manner in which we have addressed this issue underscores our strengths. The Company has the resources and the technological expertise to address such new issues, but is small enough to enable us to make adjustments to internal programs and systems without affecting the ability to service our customers. The Company cannot provide assurance that failure of third parties to adequately address the Year 2000 issue will not have an adverse impact. To minimize uncertainty, we will assess critical suppliers and customers to determine their readiness. The Company is confident that with the implementation of the Year 2000 initiatives as scheduled, the possibility of significant interruptions to normal operations should be reduced.

The preceding "Year 2000" discussion contains various statements which represent the Company's beliefs or expectations regarding future events. All forward-looking statements involve a number of risks and uncertainties that could cause the actual results to differ materially from the projected results. Factors that cause the differences include, but are not limited to, the actions of governmental agencies or other third parties with respect to Year 2000 problems.

Independent Auditors' Report

TO THE BOARD OF DIRECTORS
Evans Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Evans Bancorp, Inc. and subsidiary (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 1998 and 1997 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Buffalo, New York
January 29, 1999

December 31, 1998 and 1997	1998	1997
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 7,300,780	$ 5,821,532
Federal funds sold	0	4,515,000
Total cash and cash equivalents	7,300,780	10,336,532
Securities:		
Available for sale	45,969,587	33,822,334
Held to maturity	4,090,385	6,578,040
Loans receivable, net of allowance for loan losses of $729,199 and $609,539, respectively	110,526,449	101,627,427
Properties and equipment, net	3,696,658	3,827,672
Other assets	2,536,371	2,350,158
TOTAL ASSETS	$174,120,230	$158,542,163
LIABILITIES AND STOCKHOLDERS' Equity		
LIABILITIES:		
Deposits:		
Demand	$ 25,857,037	$ 21,680,839
NOW and money market	7,554,104	7,093,959
Regular savings	47,676,615	44,264,697
Time	62,995,880	65,351,832
Total deposits	144,083,636	138,391,327
Federal funds purchased	2,225,000	0
Other borrowed funds	7,000,000	0
Other liabilities	2,188,181	3,111,536
Total liabilities	155,496,817	141,502,863
CONTINGENT LIABILITIES AND COMMITMENTS		
STOCKHOLDERS' EQUITY:		
Common stock, $.50 par value, 10,000,000 shares authorized;		
1,698,950 shares issued	849,475	849,475
Capital surplus	10,990,720	10,990,720
Accumulated other comprehensive income (net of tax)	443,308	213,856
Retained earnings	6,400,764	4,985,249
	18,684,267	17,039,300
Less: Treasury stock, at cost (1,352 shares)	(60,854)	0
Total stockholders' equity	18,623,413	17,039,300
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$174,120,230	$158,542,163

See notes to consolidated financial statements.

Evans Bancorp, Inc. and Subsidiary
Consolidated Statements of Income

Years ended December 31, 1998, 1997 and 1996	1998	1997	1996
INTEREST INCOME			
Loans	$ 9,336,407	$ 8,632,716	$ 7,381,871
Federal funds sold	84,316	122,516	201,831
Securities:			
Taxable	1,333,268	1,372,883	1,427,890
Non-taxable	1,097,796	944,736	765,123
Deposits with banks	0	0	23,100
Total interest income	11,851,787	11,072,851	9,799,815
INTEREST EXPENSE ON DEPOSITS AND BORROWINGS	4,946,730	4,588,056	3,912,761
NET INTEREST INCOME	6,905,057	6,484,795	5,887,054
PROVISION FOR LOAN LOSSES	150,000	60,000	60,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,755,057	6,424,795	5,827,054
NON-INTEREST INCOME			
Service charges	708,482	670,366	667,839
Gains on sales of assets, net	66,208	33,809	11,103
Other	445,504	246,487	252,044
Total non-interest income	1,220,194	950,662	930,986
NON-INTEREST EXPENSE			
Salaries and employee benefits	2,807,223	2,592,120	2,602,752
Occupancy	762,380	761,383	637,007
Supplies	115,588	101,534	118,740
Repairs and maintenance	186,772	163,189	147,383
Advertising and public relations	118,021	127,127	131,753
Professional services	290,858	308,617	212,601
FDIC assessments	16,395	15,328	2,000
Other	899,663	779,884	703,162
Total non-interest expense	5,196,900	4,849,182	4,555,398
INCOME BEFORE INCOME TAXES	2,778,351	2,526,275	2,202,642
INCOME TAXES	735,000	724,000	588,000
NET INCOME	$ 2,043,351	$ 1,802,275	$ 1,614,642
Net income per common share - basic	$ 1.20	$ 1.06	$ 0.95
Weighted average number of common shares	1,698,612	1,698,950	1,698,950

See notes to consolidated financial statements.

Evans Bancorp, Inc. and Subsidiary
Consolidated Statements of Stockholders' Equity

Years ended December 31, 1998, 1997 and 1996	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance, January 1, 1996	$ 793,703	$ 8,592,502	$ 4,953,075	$	$ 146,230	$ 14,485,510
Comprehensive income:						
1996 net income			1,614,642			1,614,642
Unrealized (loss) gain on available for sale securities, net of deferred taxes of $120,000					(169,001)	(169,001)
Total comprehensive income						1,445,641
Stock dividends, with fractional shares redeemed for cash	55,772	2,398,218	(2,494,493)			(40,503)
Cash dividends ($.22 per common share)			(380,565)			(380,565)
Balance, December 31, 1996	849,475	10,990,720	3,692,659		(22,771)	15,510,083
Comprehensive income:						
1997 net income			1,802,275			1,802,275
Unrealized gain (loss) on available for sale securities, net of deferred taxes of $100,638					236,627	236,627
Total comprehensive income						2,038,902
Five-for-one stock split						
Purchase of 3,966 shares for treasury				(130,878)		(130,878)
Cash dividends ($.30 per common share)			(509,685)			(509,685)
Sale of 3,966 shares from treasury				130,878		130,878
Balance, December 31, 1997	849,475	10,990,720	4,985,249		213,856	17,039,300
Comprehensive income:						
1998 net income			2,043,351			2,043,351
Unrealized gain (loss) on available for sale securities, net of deferred taxes of $107,977					229,452	229,452
Total comprehensive income						2,272,803
Cash dividends ($.37 per common share)			(627,836)			(627,836)
Purchase of 3,881 shares for treasury				(174,645)		(174,645)
Sale of 2,529 shares from treasury				113,791		113,791
Balance, December 31, 199 8	$ 849,475	$ 10,990,720	$ 6,400,764	$ (60,854)	$ 443,308	$ 18,623,413

See notes to consolidated financial statements.

Evans Bancorp, Inc. and Subsidiary
Consolidated Statements of Cash Flows

Years ended December 31, 1998, 1997 and 1996	1998	1997	1996
OPERATING ACTIVITIES:			
Interest received	$ 11,805,241	$ 11,027,381	$ 10,047,637
Fees received	1,136,626	968,072	1,025,437
Interest paid	(4.952,879)	(4,543,895)	(3,847,407)
Cash paid to employees and suppliers	(4,944,895)	(4,680,322)	(4,443,431)
Income taxes paid	(863,365)	(786,000)	(743,444)
Net cash provided by operating activities	2,180,728	1,985,236	2,038,792
INVESTING ACTIVITIES:			
Available for sale securities:			
Purchases	(35,657,818)	(26,075,499)	(16,562,178)
Proceeds from sales	19,652,675	22,306,088	14,414,736
Proceeds from maturities	7,686,003	686,306	4,597,881
Held to maturity securities:			
Purchases	(3,722,629)	(2,618,319)	(1,177,002)
Proceeds from maturities	2,790,562	1,736,862	1,314,873
Additions to properties and equipment	(414,541)	(466,472)	(1,482,935)
Increase in loans, net of repayments	(13,857,709)	(12,236,511)	(19,258,136)
Proceeds from sales of loans	4,863,285	2,597,162	2,593,290
Proceeds from sale of other real estate owned	49,070	0	0
Proceeds from life insurance polices surrendered	224,009	0	0
Net cash used in investing activities	(18,387,093)	(14,070,383)	(15,559,471)
FINANCING ACTIVITIES:			
Proceeds from borrowing	8,165,920	1,059,080	0
Increase in deposits	5,693,383	14,929,948	14,440,828
Dividends paid	(627,836)	(679,580)	(251,173)
Purchase of treasury stock	(174,645)	(130,878)	0
Sale of treasury stock	113,791	130,878	0
Net cash provided by financing activities	13,170,613	15,309,448	14,189,655
Net (decrease) increase in cash and cash equivalents	(3,035,752)	3,224,301	668,976
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,336,532	7,112,231	6,443,255
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 7,300,780	$ 10,336,532	$ 7,112,231

(Continued)

Evans Bancorp, Inc. and Subsidiary
Consolidated Statements of Cash Flows

Years ended December 31, 1998, 1997 and 1996	1998	1997	1996
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net income	$ 2,043,351	$ 1,802,275	$ 1,614,642
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	381,115	356,663	344,086
Provision for loan losses	150,000	60,000	60,000
Gains on sales of assets	(66,208)	(33,809)	(11,103)
Gains on life insurance policies surrendered	(97,580)	0	0
Changes in assets and liabilities affecting cash flow:			
Other assets	(225,835)	(367,243)	96,609
Other liabilities	(4,115)	167,350	(65,442)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 2,180,728	$ 1,985,236	$ 2,038,792

(Concluded)

See notes to consolidated financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and General - Evans Bancorp, Inc. (the "Company") was organized in October 1988, under the Business Corporation Law of the State of New York as a bank holding company. In January 1989, the shareholders of the Evans National Bank (the "Bank") approved an Agreement and Plan of Reorganization (the "Reorganization") whereby the Bank effectively became a wholly-owned subsidiary of the Company. The Bank is in the commercial banking business, attracting deposits from and making loans to the general public in its immediate geographical area. The Bank's main office is located in Angola, New York and it has branches in Derby, Evans, Forestville, Hamburg and North Boston.

Regulatory Requirements - The Bank is subject to the rules, regulations, and reporting requirements of various regulatory bodies, including the Federal Reserve Board ("FRB"), the Federal Deposit Insurance Corporation ("FDIC"), and the Office of the Comptroller of the Currency ("OCC").

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and the Bank. All material intercompany accounts and transactions are eliminated in consolidation.

Accounting Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Securities - Securities for which the Bank has the positive intent and ability to hold to maturity are stated at cost, adjusted for discounts and premiums that are recognized in interest income over the period to the earlier of call date or maturity using a method that approximates level yield. Securities held to maturity have been designated as unavailable to be sold as part of the Bank's asset-liability management activities.

Securities classified as available for sale are stated at fair value, with unrealized gains and losses excluded from earnings and reported, net of deferred income taxes, in stockholders' equity. Gains and losses on sales of securities are computed using the specific identification method.

Securities which have experienced an other than temporary decline in fair value are written down to a new cost basis with the amount of the writedown included in earnings as a realized loss. The new cost basis is not changed for subsequent recoveries in fair value. Factors which management considers in determining whether an impairment in value of an investment is other than temporary include the issuer's financial performance and near term prospects, the financial condition and prospects for the issuer's geographic region and industry, and recoveries in fair value subsequent to the balance sheet date.

The Bank does not engage in securities trading activities.

Allowance for Loan Losses - The allowance for loan losses is established through a provision for loan losses. Recoveries on loans previously charged off are credited directly to the allowance for loan losses. The allowance is an amount that management believes adequate to absorb losses on existing loans that may become uncollectible. Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan-loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay, estimated value of any underlying collateral, and current economic conditions.

In addition, various regulatory agencies, as part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

Foreclosed Real Estate - Foreclosed real estate is initially recorded at the lower of book or fair value (net of costs of disposal) at the date of foreclosure. Costs relating to development and improvement of property are capitalized, whereas costs relating to the holding of property are expenses. Valuations are periodically performed by management, and an allowance for potential additional losses is established by a charge to operations if the carrying value of a property exceeds fair value. Foreclosed real estate is classified as other assets on the consolidated balance sheets.

Properties and Equipment - Properties and equipment are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets which range from 3 to 31 years.

The Bank regularly assesses all of its long-lived assets for impairment and recognizes a loss when the carrying value of an asset exceeds its fair value. The Bank determined that no impairment loss needs to be recognized for applicable assets in 1998 or 1997.

Interest Income on Loans - Interest on loans is accrued and credited to income based on the principal amount outstanding. The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, all unpaid accrued interest is reversed and any cash received is credited to the outstanding principal balance. Such loans are returned to accrual status when they are made current and, in the opinion of management, the borrower has the ability to continue making timely payments. Loan origination and commitment fees and certain direct loan origination costs are deferred and recognized over the lives of the related assets as an adjustment of the loans' yields using the level yield method.

Income Taxes - Deferred tax assets and liabilities are recorded for temporary differences between the financial statement and tax bases of assets and liabilities using the tax rate expected to be in effect when the taxes are actually paid or recovered.

Net Income per Common Share - Net income per common share is based on the weighted average number of shares outstanding during each year, retroactively adjusted for stock dividends and splits. Only basic earnings per share is disclosed because the Company does not have any dilutive securities or other contracts to issue common stock or convert to common stock.

Dividend Reinvestment Plan - The Company has a Dividend Reinvestment Plan (the "Plan") which provides each holder of record of the Bank's common stock the opportunity to reinvest automatically the cash dividends they receive on shares of the Bank's common stock. Stockholders who do not wish to participate in the Plan will continue to receive cash dividends, as declared, in the usual manner. Fifth Third Bank Corporate Trust Services is the administrator of the Plan. Shares purchased under the Plan are held in safekeeping by the Agent until the stockholder terminates his/her participation in the Plan. The Agent also acts as transfer agent and registrar for the Bank's common stock.

Employee Benefits and Deferred Compensation Plan - Costs are charged to salaries and employee benefits expense in the periods in which the services are rendered. Pension costs are funded on a current basis in compliance with the Employee Retirement Income Security Act and are accounted for in compliance with SFAS No. 87, "Employers' Accounting for Pensions".

Off Balance Sheet Financial Instruments - In the ordinary course of business the Bank has entered into off balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when the transactions are executed.

Cash and Cash Equivalents - For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest bearing deposits in other banks and federal funds sold. Generally, federal funds sold are purchased for one-day periods.

Cash and due from banks includes reserve balances that the Bank is required to maintain with Federal Reserve Banks. The required reserves are based upon deposits outstanding and were approximately $720,000 and $657,000 at December 31, 1998 and 1997, respectively.

New Accounting Standards Pronouncements - In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 130, Reporting Comprehensive Income, which became effective for the Company in 1998. SFAS No. 130 establishes standards for reporting and disclosure of comprehensive income and its components in financial statement format. Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. Items considered comprehensive income including foreign currency items, minimum pension liability adjustments and unrealized gains and losses on certain investments in debt and equity securities. The Company has elected to display comprehensive income in the statements of stockholders' equity, net of reclassification adjustments. Reclassification adjustments are made to avoid double counting in comprehensive income items that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income in that period or earlier periods. The reclassification adjustments, net of tax, for the years ended December 31, 1998, 1997, and 1996 amounted to $(25,596), $1,357 and $3,026, respectively.

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information was issued in 1997 by the Financial Accounting Standards Board. This statement establishes standards for the way that public business enterprises report information about operating segments in annual financial statements. Management has determined that the Bank is the Company's only operating segment. As such additional disclosures are not considered necessary.

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, was issued in June 1998. The Company adopted the provisions of SFAS No. 133 effective October 1, 1998. Because the Company does not use derivatives, the adoption of SFAS No. 133 did not impact the Company's earnings or financial position. As allowed by SFAS No. 133 the Company transferred approximately $2,900,000 of certain securities from held to maturity to the available for sale classification. The realized and unrealized gains on the securities transferred were not material to the Company.

2. SECURITIES

The amortized cost of securities and their approximate fair value at December 31 were as follows:

	1998			
		Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Available for Sale:				
U.S. Government and Agency Securities	$ 9,648,523	$ 27,031	$ (13,104)	$ 9,662,450
Mortgage Backed Securities	12,534,756	0	(92,511)	12,442,245
State and Municipal Securities	22,182,635	730,507	0	22,913,142
Other Securities	951,750	0	0	951,750
Total	$ 45,317,664	$ 757,538	$ (105,615)	$ 45,969,587
Held to Maturity:				
U.S. Government and Agency Securities	$ 47,565	$ 0	$ 0	$ 47,565
State and Municipal Securities	4,042,820	0	0	4,042,820
Total	$ 4,090,385	$ 0	$ 0	$ 4,090,385

	1997			
		Unrealized		
	Amortized			Fair
Available for Sale:				
U.S. Government and Agency Securities	$ 11,618,094	$ 23,843	$ (67,225)	$ 11,574,712
Mortgage Backed Securities	1,419,658	30,799	0	1,450,457
State and Municipal Securities	19,477,751	402,202	(13,238)	19,866,715
Other Securities	930,450	0	0	930,450
Total	$ 33,445,953	$ 456,844	$ (80,463)	$ 33,822,334
Held to Maturity:				
U.S. Government and Agency Securities	$ 3,483,199	$ 36,333	$ 0	$ 3,519,532
State and Municipal Securities	3,094,841	0	(4)	3,094,837
Total	$ 6,578,040	$ 36,333	$ (4)	$ 6,614,369

Available for sale securities with a total fair value of $29,445,508 at December 31, 1998 were pledged as collateral to secure public deposits and for other purposes required or permitted by law.

The scheduled maturities of debt securities at December 31, 1998 are summarized below. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call premiums.

	Available for Sale Securities		Held to Maturity Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 2,441,286	$ 2,448,661	$ 3,535,294	$ 3,535,294
Due after year one through five years	6,533,918	6,691,046	153,364	153,364
Due after five years through ten years	14,990,783	15,432,486	167,330	167,330
Due after ten years	21,351,677	21,397,394	234,397	234,397
Total	$ 45,317,664	$ 45,969,587	$ 4,090,385	$ 4,090,385

Realized gains and losses from sales of securities for the years ended December 31, 1998 , 1997 and 1996 are summarized as follows:

	1998	1997	1996
Gross gains	$ 55,727	$ 65,150	$ 103,865
Gross losses	(45,664)	(67,145)	(127,595)
Net gain (loss)	$ 10,063	$ (1,995)	$ (23,730)

On December 1, 1998, a residual bond classified as held to maturity was called prior to the date of maturity. The amortized cost at the call date was $16,627 and the resulting gain was $14,513.

3. LOANS RECEIVABLE, NET

Major categories of loans at December 31, 1998 and 1997 are summarized as follows:

	1998	1997
Real estate - mortgages	$ 92,434,304	$ 85,367,123
Real estate - construction	5,105,251	2,770,719
Commercial	9,835,866	8,938,560
Installment	2,166,133	2,517,892
Student loans	438,670	1,731,492
Other	891,669	509,935
Net deferred loan origination costs	383,755	401,245
	111,255,648	102,236,966
Allowance for loan losses	(729,199)	(609,539)
Loans, net	$110,526,449	$101,627,427

Changes in the allowance for loan losses for the years ended December 31, 1998, 1997 and 1996 were as follows:

	1998	1997	1996
Balance, beginning of year	$ 609,539	$ 546,954	$ 557,961
Provision for loan losses	150,000	60,000	60,000
Recoveries	41,118	49,443	5,597
Loans charged off	(71,458)	(46,858)	(76,604)
Balance, end of year	$ 729,199	$ 609,539	$ 546,954

Loans evaluated for impairment, for which an allowance for loan impairment was not required under SFAS No. 114 due to the adequacy of related collateral values totaled approximately $754,000 and $627,000 at December 31, 1998 and 1997, respectively. The average recorded investment in these loans during 1998, 1997, and 1996 was approximately $690,500, $403,500, and $199,750, respectively. If such loans had been in an accruing status, the Bank would have recorded additional interest income of approximately $71,000, $58,000 and $19,000 in 1998, 1997 and 1996, respectively.

The Bank had no loan commitments to borrowers in non-accrual status at December 31, 1998.

As of December 31, 1998 and 1997, the Bank had no other loans which were impaired as defined by SFAS No. 114.

4. PROPERTIES AND EQUIPMENT

Properties and equipment at December 31 were as follows:

	1998	1997
Land	$ 268,485	$ 268,485
Buildings and improvements	3,362,419	3,313,404
Equipment	2,753,351	2,828,996
	6,384,255	6,410,885
Less accumulated depreciation	(2,687,597)	(2,583,213)
Properties and equipment, net	$ 3,696,658	$ 3,827,672

Depreciation expense totaled $428,020 in 1998, $423,564 in 1997, and $348,671 in 1996.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

Securities - For securities, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

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.

Deposits - The fair value of demand deposits, NOW and money market 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.

Federal Funds Purchased - The carrying amount of federal funds purchased approximate their fair values due to their short-term nature.

Other Borrowed Funds - The fair value of the short-term portion of other borrowed funds approximates its carrying value. The fair value of the long-term portion of other borrowed funds is estimated using a discounted cash flow analysis based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Commitments to extend credit and standby letters of credit - As described in Note 11, the Company was a party to financial instruments with off-balance sheet risk at December 31, 1998 and 1997. 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 fair value of commitments is estimated based upon fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate commitments, the fair value estimation takes into consideration an interest rate risk factor. The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements. The fair value of these off-balance sheet items at December 31, 1998 and 1997 approximates the recorded amounts of the related fees, which are not considered material.

At December 31, 1998 and 1997, the estimated fair values of the Company's financial instruments were as follows:

	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 7,300,780	$ 7,300,780	$ 10,336,532	$ 10,336,532
Securities	$ 50,059,972	$ 50,059,972	$ 40,400,374	$ 40,436,703
Loans	$111,255,648		$102,236,966	
Less: allowance for loan losses	(729,199)		(609,539)	
Loans, net	$110,526,449	$110,804,706	$101,627,427	$102,368,624
Financial Liabilities:				
Deposits	$144,083,636	$144,603,189	$138,391,327	$138,734,550
Federal funds purchased	$ 2,225,000	$ 2,225,000	$ 0	$ 0
Other borrowings	$ 7,000,000	$ 6,986,000	$ 0	$ 0

6. DEPOSITS

Time deposits, with minimum denominations of $100,000 each, totaled $24,208,290 and $22,873,379 at December 31, 1998 and 1997, respectively.

At December 31, 1998, the scheduled maturities of time deposits are as follows:

1999	$ 54,733,991
2000	6,201,593
2001	930,507
2002	526,042
2003	603,747
Total	$ 62,995,880

7. FEDERAL FUNDS PURCHASED AND OTHER BORROWED FUNDS

Federal funds purchased of $2,225,000 at December 31, 1998 mature within four days of year-end.

Other borrowed funds consisted of a $2,000,000 90-day renewable note with an interest rate of 5.15%, and a $5,000,000 long-term borrowing. The long-term borrowing consisted of various advances with interest rates ranging from 4.83% to 5.07%. The maturities of other borrowed funds are as follows:

1999	$ 2,000,000
2000	1,000,000
2001	0
2002	1,000,000
2003	2,000,000
Thereafter	1,000,000
Total	$ 7,000,000

8. EMPLOYEE BENEFITS AND DEFERRED COMPENSATION PLAN

The Bank has a defined benefit pension plan covering substantially all employees. The 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 is using 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 following are reconciliations of the benefit obligation and the fair value of plan assets, the funded status of the plan, the amounts not recognized in the statements of financial position, and the amounts recognized in the statement of financial position.

	1998	1997
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 1,518,858	$ 1,354,390
Service cost	62,689	51,817
Interest cost	117,378	104,601
Employer contributions	80,333	85,753
Actuarial gain	(45,276)	(46,121)
Benefits paid	(37,222)	(31,582)
Benefit obligations at end of year	1,696,760	1,518,858
Change in plan assets:		
Fair value of plan assets at beginning of year	1,686,230	1,373,109
Actual return on plan assets	99,637	258,950
Employer contributions	80,333	85,753
Benefits paid	(37,222)	(31,582)
Fair value of plan assets at end of year	1,828,978	1,686,230
Funded status	132,218	167,372
Unrecognized net actuarial loss (gain)	7,831	(57,293)
Unrecognized prior service cost	(241,817)	(256,524)
Accrued benefit cost	$ (101,768)	$ (146,445)

The Plan's assets are primarily invested in a money market fund, stocks, and bonds. Valuations of the pension plan as shown above were conducted as of October 1, 1998 and 1997. Assumptions used by the Bank in both years in the determination of pension plan information consisted of the following:

Weighted-average discount rate	7.50 %
Rate of increase in compensation levels	4.75 %
Expected long-term rate of return on plan assets	7.50 %

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

	1998	1997	1996
Service cost	$ 62,689	$ 51,817	$ 44,615
Interest cost	117,378	104,601	94,565
Expected return on plan assets	(128,242)	(106,550)	(87,676)
Net amortization and deferral	(16,169)	(16,169)	(16,169)
Net periodic benefit cost	$ 35,656	$ 33,699	$ 35,335

During the year ended December 31, 1995, the Bank adopted nonqualified supplemental executive retirement plans covering certain members of senior management. The plans provide a fixed benefit which is specific to the participant. The obligations related to these plans are indirectly funded by life insurance contracts (naming the Bank as beneficiary) with aggregate cash surrender values of approximately $61,000 and $72,000 at December 31, 1998 and 1997, respectively. The face values of these policies at both dates was approximately $1,650,000. 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.

The following are reconciliations of the benefit obligation and the fair value of plan assets, the funded status of the plan, the amounts not recognized in the statement of financial position, and the amounts recognized in the statement of financial position.

	1998	1997
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 480,874	$ 356,685
Service cost	56,415	52,064
Interest cost	40,297	34,194
Contributions to the plan	0	0
Actuarial (gain) loss	(9,403)	37,931
Benefits paid	0	0
Benefit obligations at end of year	568,183	480,874
Change in plan assets:		
Fair value of plan assets at beginning of year	0	0
Actual return on plan assets	0	0
Contributions to the plan	0	0
Benefits paid	0	0
Fair value of plan assets at end of year	0	0
Funded status	(568,183)	(480,874)
Unrecognized net actuarial loss	156,092	187,710
Accrued benefit cost	$ (412,091)	$ (293,164)

Valuations of the nonqualified supplemental executive retirement plans as shown above were conducted as of October 1, 1998 and 1997. Assumptions used by the Bank in both years in the determination of pension plan information consisted of the following:

Expected long-term rate of return on plan assets 7.50 %

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

	1998	1997	1996
Service cost	$ 56,415	$ 39,900	$ 50,138
Interest cost	40,297	34,194	25,280
Net amortization and deferral	22,215	22,215	22,215
Net periodic benefit cost	$ 118,927	$ 96,309	$ 97,633

The Bank also maintains a non-qualified deferred compensation plan for certain directors. Accrued costs under this plan were approximately $70,000, $67,000 and $64,000 in 1998, 1997 and 1996, respectively. The estimated present value of the benefit obligation, included in other liabilities, was $734,000 and $700,000 at December 31, 1998 and 1997, respectively. This obligation is indirectly funded by life insurance contracts (naming the Bank as beneficiary) with aggregate cash surrender values of approximately $159,000 and $140,000 at December 31, 1998 and 1997, respectively. The face values of these policies at both dates was approximately $1,036,000. Premiums on the aforementioned life insurance contracts were paid by the Bank in lieu of payment of directors' fees.

The Bank also has a deferred contribution Retirement and Thrift 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 between 1% and 15% of their annual salary, with a matching contribution by the Bank equal to 25% of the employees contribution up to 4% of their annual salary. The Bank can also make discretionary contributions to the Plan. The Bank's expense under this Plan was approximately $36,000, $35,000 and $34,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

9. INCOME TAXES

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

	1998	1997	1996
Income taxes currently payable	$ 839,000	$ 798,000	$ 728,000
Deferred (benefit) income taxes	(104,000)	(74,000)	(140,000)
Net provision	$ 735,000	$ 724,000	$ 588,000

At December 31, 1998 and 1997 the components of the net deferred tax asset were as follows:

	1998	1997
Deferred Tax Assets:		
Allowance for loan losses	$ 208,000	$ 173,000
Pension premiums	205,000	171,000
Deferred compensation	293,000	280,000
Other	32,000	32,000
Gross deferred tax assets	738,000	656,000
Deferred Tax Liabilities:		
Depreciation	22,000	25,000
Prepaid expenses	153,000	160,000
SFAS No. 115	209,000	101,000
Gross deferred tax liabilities	384,000	286,000
Net deferred tax assets	$ 354,000	$ 370,000

The net deferred tax asset at December 31, 1998 and 1997 is included in other assets in the accompanying consolidated financial statements.

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:

	December 31,					
	1998		1997		1996	
	Amount	Percent	Amount	Percent	Amount	Percent
Tax provision at statutory rate	$ 945,000	34%	$ 859,000	34%	$ 749,000	34%
Increase (decrease) in taxes resulting from:						
Tax-exempt income	(373,000)	(13)	(321,000)	(13)	(260,000)	(12)
State taxes, net of federal benefit	162,000	6	136,000	5	110,000	5
Other items, net	1,000	0	50,000	2	(11,000)	(1)
Provision for income taxes	$ 735,000	27%	$ 724,000	28%	$ 588,000	26%

10. RELATED PARTY TRANSACTIONS

The Bank has entered into loan transactions with its directors, significant shareholders and their affiliates (related parties). The aggregate amount of loans to such related parties at December 31, 1998 and 1997 was $4,226,739 and $3,526,206, respectively. During 1998 and 1997, new loans to such related parties amounted to $6,720,286 and $3,366,701, respectively, and repayments amounted to $6,019,753 and $2,088,427.

11. CONTINGENT LIABILITIES AND COMMITMENTS

The 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, 1998 and 1997 is as follows:

	1998	1997
Commitments to extend credit	$ 21,902,497	$ 15,770,264
Standby letters of credit	1,007,055	551,218
Total	$ 22,909,552	$ 16,321,482

Commitments to extend credit and standby letters of credit all include exposure to some credit loss in the event of nonperformance 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.

12. CONCENTRATIONS OF CREDIT

All of the Bank's loans, commitments and standby letters of credit have been granted to customers in the Bank's market area. Investments in state and municipal securities also involve governmental entities within the Bank's market area. The concentrations of credit by type of loan are set forth in Note 3. 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.

13. REGULATORY MATTERS

The Bank is subject to the dividend restrictions set forth by the Comptroller of the Currency. Under such restrictions, the Bank may not, without the prior approval of the Comptroller of the Currency, declare dividends in excess of the sum of the current year's earnings (as defined) plus the retained earnings (as defined) from the prior two years.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 1998 and 1997, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 1998 , the most recent notification from its regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, 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 Bank's category.

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

1998

	Actual		Minimum For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Percent	Amount	Percent	Amount	Percent
Total Capital (to Risk Weighted Assets)	$ 18,889,000	16.9 %	$ 8,926,000	8.0 %	$ 11,158,000	10.0 %
Tier I Capital (to Risk Weighted Assets)	$ 18,170,000	16.3 %	$ 4,463,000	4.0 %	$ 6,695,000	6.0 %
Tier I Capital (to Average Assets)	$ 18,170,000	10.5 %	$ 6,599,000	4.0 %	$ 8,249,000	5.0 %

1997

	Actual		Minimum For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Percent	Amount	Percent	Amount	Percent
Total Capital (to Risk Weighted Assets)	$ 17,422,000	16.9 %	$ 8,234,000	8.0 %	$ 10,292,000	10.0 %
Tier I Capital (to Risk Weighted Assets)	$ 16,812,000	16.3 %	$ 4,117,000	4.0 %	$ 6,175,000	6.0 %
Tier I Capital (to Average Assets)	$ 16,812,000	10.8 %	$ 6,366,080	4.0 %	$ 7,958,000	5.0 %

14. PARENT COMPANY ONLY FINANCIAL INFORMATION

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

CONDENSED BALANCE SHEETS

December 31, 1998 and 1997	1998	1997
ASSETS		
Cash	$ 38,699	$ 6,648
Investment in subsidiary	18,584,714	17,032,652
Total assets	$ 18,623,413	$ 17,039,300
STOCKHOLDERS' EQUITY		
Stockholders' Equity:		
Common stock	$ 849,475	$ 849,475
Capital surplus	10,990,720	10,990,720
Accumulated other comprehensive income	443,308	213,856
Retained earnings	6,400,764	4,985,249
	18,684,267	17,039,300
Less: Treasury stock, at cost (1,352 shares)	(60,854)	0
Total stockholders' equity	$ 18,623,413	$ 17,039,300

CONDENSED STATEMENTS OF INCOME

Years ended December 31, 1998, 1997 and 1996	1998	1997	1996
Dividends from subsidiary	$ 627,836	$ 509,685	$ 421,068
Other revenue	75,000	50,000	0
Expenses	(42,949)	(50,249)	(30,831)
Income before equity in undistributed earnings of subsidiary	659,887	509,436	390,237
Equity in undistributed earnings of subsidiary	1,383,464	1,292,839	1,224,405
Net income	$ 2,043,351	$ 1,802,275	$ 1,614,642

CONDENSED STATEMENTS OF CASH FLOWS

Years ended December 31, 1998, 1997 and 1996	1998	1997	1996
Operating Activities:			
Net income	$ 2,043,351	$ 1,802,275	$ 1,614,642
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed earnings of subsidiary	(1,383,464)	(1,292,839)	(1,224,405)
Increase in dividends receivable	0	0	(169,895)
Net cash provided by operating activities	659,887	509,436	220,342
Financing Activities - Cash dividends paid	(627,836)	(509,685)	(251,173)
Net decrease in cash	32,051	(249	(30,831)
Cash, beginning	6,648	6,897	37,728
Cash, ending	$ 38,699	$ 6,648	$ 6,897

Board of Directors

Evans Bancorp, Inc. and Evans National Bank

BOARD OF DIRECTORS

(standing)
LaVerne G. Hall
Former Chairman - L.G. Hall Building
Contractors, Inc.

Robert W. Allen
Secretary
Retired

William F. Barrett
Property and Investment Manager

Richard M. Craig
Chairman of the Board
President and CEO -
Evans National Bank

David M. Taylor
President - Concord Nurseries, Inc.

(seated)
David C. Koch

Chairman and CEO -
New Era Cap Co., Inc.

Richard C. Stevenson
Chairman - Evans Land Corp.

Thomas H. Waring, Jr.
Principal - Waring Financial Group

Phillip Brothman
Partner - Hurst, Brothman & Yusick

DIRECTORS EMERITUS

Floyd H. Hurst
Carl F. Ulmer

OFFICERS
Evans Bancorp, Inc.
Richard M. Craig, COB
President and CEO

Robert W. Allen
Secretary

James Tilley
Assistant Secretary

William R. Glass
Treasurer

ADVISORY BOARD
Derby
Richard A. Gradl
Raymond S. Hazard

MANAGEMENT TEAM

(front center)
Richard M. Craig, Chairman of the Board, President and CEO;

(left)
William R. Glass, Senior Vice President - Loan Division;

(right)
James Tilley, Senior Vice President - Administration

Evans National Bank Officers

CHAIRMAN OF THE BOARD PRESIDENT AND CHIEF EXECUTIVE OFFICER
Richard M. Craig

SENIOR VICE PRESIDENT
William R. Glass
James Tilley

VICE PRESIDENT
George L. Catalano
Mary E. Doeing
Timothy F. Jachlewski
William J. Gray
Jeffrey L. White

ASSISTANT VICE PRESIDENT
Katherine M. Allen
Susan J. Herold
Rose Marie Hinckley
Robert A. Hohti
Elizabeth A. Mac
Howard M. Martin, Jr.
Cathy E. Rohrich

BANK OFFICER
Rita A. Boyland
Karen M. Blecha
Michelle A. Bress
M. Jane Gonzalez
Nadine G. Houghton
Mary K. Nytz
Mary D. Philbin

Corporate Information

There has never been an organized public trading market for the Company's outstanding common stock. The following table represents the highest and lowest per share prices known to management at which the Company's stock has actually been transferred in private transactions during the periods indicated. In each period for which prices are shown, management has price information for the transaction. The prices do not include any retail markup, markdown or commission.

	1998		1997	
QUARTER	High	Low	High	Low
First	$ 40.00	$ 38.00	$ 27.20	$ 27.20
Second	$ 43.00	$ 40.00	$ 32.00	$ 27.20*
Third	$ 45.00	$ 43.00	$ 33.00	$ 32.00
Fourth	$ 45.00	$ 45.00	$ 38.00	$ 33.00

* Adjusted for five for one stock split

Total shares outstanding were 1,697,598 as of December 31, 1998. There were 1,089 shareholders of record on December 31, 1998.

Upon written request of any shareholder, a copy of the Company's report on Form 10-K for its fiscal year ended December 31, 1998, including the financial statements and the schedules thereto, required to be filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, may be obtained, without charge, from Michelle A. Baumgarden, Evans Bancorp, Inc., 14-16 N. Main Street, Angola, N.Y. 14006.

THE ANNUAL MEETING

The Annual Meeting of the Shareholders of the Company will be held on Tuesday, April 27, 1999 at 12:30 p.m. at Romanello's South

Restaurant, 5793 South Park Avenue, Hamburg, NY.

INQUIRIES

For information or assistance regarding individual stock records, transactions, dividend reinvestment accounts, dividend checks, or stock certificates, contact:
Corporate Trust Services, Fifth Third Bank, 38 Fountain Square Plaza, Mail Drop

1090F5-4129, Cincinnati, OH 45263.

ARTICLE 9

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM EVANS BANCORP INC BALANCE SHEET AND STATEMENTS OF INCOME (AUDITED) AS OF DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

CIK: 0000842518

NAME: EVANS BANCORP INC

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 01 1998
PERIOD END	DEC 31 1998
CASH	7,300,780
INT BEARING DEPOSITS	0
FED FUNDS SOLD	0
TRADING ASSETS	0
INVESTMENTS HELD FOR SALE	45,969,587
INVESTMENTS CARRYING	4,090,385
INVESTMENTS MARKET	0
LOANS	110,526,449
ALLOWANCE	(729,199)
TOTAL ASSETS	174,120,230
DEPOSITS	144,083,636
SHORT TERM	2,225,000
LIABILITIES OTHER	2,188,181
LONG TERM	7,000,000
PREFERRED MANDATORY	849,475
PREFERRED	0
COMMON	0
OTHER SE	17,330,630
TOTAL LIABILITIES AND EQUITY	174,120,230
INTEREST LOAN	9,336,407
INTEREST INVEST	2,431,064
INTEREST OTHER	84,316
INTEREST TOTAL	11,851,787
INTEREST DEPOSIT	4,750,780
INTEREST EXPENSE	4,946,730
INTEREST INCOME NET	6,905,057
LOAN LOSSES	150,000
SECURITIES GAINS	10,063
EXPENSE OTHER	5,196,900
INCOME PRETAX	2,778,351
INCOME PRE EXTRAORDINARY	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	2,043,351
EPS PRIMARY	1.20
EPS DILUTED	0
YIELD ACTUAL	8.11
LOANS NON	754,171
LOANS PAST	698,000
LOANS TROUBLED	0
LOANS PROBLEM	0
ALLOWANCE OPEN	609,539
CHARGE OFFS	71,458
RECOVERIES	41,118
ALLOWANCE CLOSE	729,199
ALLOWANCE DOMESTIC	150,000
ALLOWANCE FOREIGN	0
ALLOWANCE UNALLOCATED	0

End of Filing