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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

For fiscal year ended: December 31, 2006

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

For the transition period from ____________ to ____________

Commission file number: 0-18539

EVANS BANCORP, INC.
(Exact name of registrant as specified in its charter)

New York	**16-1332767**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
14-16 North Main Street, Angola, New York	**14006**
(Address of principal executive offices)	(Zip Code)

(716) 926-2000
Registrant's telephone number (including area code)

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

Title of Each Class	Name of Exchange on Which Registered
Common Stock, Par Value $.50 per share	**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933.
Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934.
Yes ☐ No ☑

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

Indicate by check mark 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. ☑

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☑

On June 30, 2006, the aggregate market value of the registrant's common stock, $.50 par value (the "Common Stock"), held by non-affiliates of the registrant was approximately $61.1 million, based upon the closing price of a share of the registrant's Common Stock as quoted by The NASDAQ Global Market.

As of March 12, 2007, 2,729,483 shares of the registrant’s Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to the registrant's 2007 Annual Meeting of Shareholders, to be held on April 26, 2007, which will be subsequently filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates, are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

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PART I

FORWARD LOOKING STATEMENTS

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

These forward-looking statements are based largely on the expectations of the Company's management and are subject to a number of risks and uncertainties, including but not limited to general economic conditions, either nationally or in the Company's market areas, that are worse than expected; increased competition among depository or other financial institutions; inflation and changes in the interest rate environment that reduce the Company's margins or reduce the fair value of financial instruments; changes in laws or government regulations affecting financial institutions, including changes in regulatory fees and capital requirements; the Company's ability to enter new markets successfully and capitalize on growth opportunities; the Company's ability to successfully integrate acquired entities; changes in accounting pronouncements and practices, as adopted by financial institution regulatory agencies, the Financial Accounting Standards Board ("FASB") and the Public Company Accounting Oversight Board; changes in consumer spending, borrowing and saving habits; changes in the Company's organization, compensation and benefit plans; and other factors discussed elsewhere in this Report on Form 10-K, as well as in the Company's periodic reports filed with the Securities and Exchange Commission (the "SEC"). Many of these factors are beyond the Company's control and are difficult to predict.

Because of these and other uncertainties, the Company's actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained herein. Forward-looking statements speak only as of the date they are made. The Company undertakes no obligation, to publicly update or revise forward-looking information, whether as a result of new, updated information, future events or otherwise.

Item 1. BUSINESS

EVANS BANCORP, INC.

Evans Bancorp, Inc. (the "Company") is a New York business corporation which is registered as a financial holding company under the Bank Holding Company Act of 1956, as amended (the "BHCA"). The principal offices of the Company are located at 14-16 North Main Street, Angola, New York 14006 and its telephone number is (716) 926-2000. The Company was incorporated on October 28, 1988. Except as the context otherwise requires, the Company and its direct and indirect subsidiaries are collectively referred to in this Report as the "Company." The Company's common stock is traded on the NASDAQ Global Market system under the symbol "EVBN."

At December 31, 2006, the Company had consolidated total assets of $473.9 million, deposits of $355.7 million and stockholders' equity of $39.5 million.

The Company's primary business is the operation of its subsidiaries. It does not engage in any other substantial business activities. The Company has two direct wholly-owned subsidiaries: Evans National Bank ("Evans National Bank" or the "Bank"), which provides a full range of banking services to consumer and commercial customers in Western New York, and Evans National Financial Services, Inc. ("ENFS"), which owns 100% of the common stock of ENB Insurance Agency, Inc. ("ENBI"), which sells various premium-based insurance policies on a commission basis. At December 31, 2006, the Bank represented 97.4% and ENFS represented 2.6% of the consolidated assets of the Company. Further discussion of our segments is included in Note 17 to the Company's Consolidated Financial Statements under Item 8 of this Report on Form 10-K.

Evans National Bank

The Bank is a nationally chartered bank that has its headquarters and full-service banking office at 14 North Main Street, Angola, New York, and a total of eleven full-service banking offices in Erie County and Chautauqua County, New York – one in each of Amherst, Angola, Derby, Evans, Forestville, Hamburg, Lancaster, North Boston, North Buffalo, Tonawanda and West Seneca, New York.

At December 31, 2006, the Bank had total assets of $461.5 million, security investments of $137.7 million, net loans of $285.4 million, deposits of $355.7 million and stockholders' equity of $37.8 million compared to total assets of $456.0 million, security investments of $160.0 million, net loans of $256.8 million, deposits of $336.8 million and stockholders' equity of $31.1 million at December 31, 2005. The Bank's principal source of funding is deposits, which it reinvests in the community in the form of loans and investments. The Bank offers deposit products, which include checking and NOW accounts, passbook and statement savings, and certificates of deposit. The Bank's deposits are insured up to the maximum permitted by the Bank Insurance Fund (the "Insurance Fund") of the Federal Deposit Insurance Corporation ("FDIC"). The Bank offers a variety of loan products to its customers, including commercial and consumer loans and commercial and residential mortgage loans.

As is the case with banking institutions generally, the Bank's operations are significantly influenced by general economic conditions and by related monetary and fiscal policies of banking regulatory agencies, including the Federal Reserve Board ("FRB") and FDIC. The Bank is also subject to the supervision, regulation and examination of the Office of the Comptroller of the Currency of the United States of America (the "OCC").

Other Subsidiaries

In addition to the Bank, the Company has the following direct and indirect wholly-owned subsidiaries:

Evans National Leasing, Inc. ("Evans National Leasing" or "ENL"). ENL, a wholly-owned subsidiary of the Bank, was organized in December 2004 to acquire the business and substantially all of the assets, and assume certain liabilities, of M&C Leasing of West Seneca, New York. ENL provides direct financing leasing of commercial small-ticket general business equipment to companies located throughout the contiguous 48 United States.

Evans National Holding Corp. ("ENHC"). ENHC was incorporated in February 2002, and is a wholly-owned subsidiary of the Bank. ENHC operates as a real estate investment trust ("REIT") that holds commercial real estate loans and residential mortgages, which provides additional flexibility and planning opportunities for the business of the Bank.

Evans National Financial Services, Inc. ("Evans National Financial Services" or "ENFS"). ENFS is located at One Grimsby Drive, Hamburg, New York. It was incorporated in September 2004, and is a wholly-owned subsidiary of the Company. ENFS's primary business is to own the business and assets of the Company's non-banking financial services segment subsidiaries.

ENB Insurance Agency, Inc. ("ENB Insurance Agency" or "ENBI"). ENBI, a wholly-owned subsidiary of ENFS, is an insurance agency which sells various premium-based insurance policies on a commission basis, including business and personal insurance, surety bonds, risk management, life, disability and long-term care coverage. ENBI has offices located in Angola, Cattaraugus, Derby, Eden, Gowanda, Hamburg, Jamestown, Lockport, North Boston, Randolph, Silver Creek, South Dayton, and West Seneca, New York.

ENB Associates Inc. ("ENB Associates" or "ENB"). ENB, a wholly-owned subsidiary of ENBI, offers non-deposit investment products, such as annuities and mutual funds.

Frontier Claims Services, Inc. ("FCS"). FCS is a wholly-owned subsidiary of ENBI and provides claims adjusting services to various insurance companies.

The Company also has two special purpose entities: Evans Capital Trust I, a statutory trust formed on September 29, 2004 under the Statutory Trust Act, solely for the purpose of issuing and selling certain securities representing undivided beneficial interests in the assets of the trust, investing the proceeds thereof in certain debentures of the Company and engaging in those activities necessary, advisable or incidental thereto; and ENB Employers Insurance Trust, a Delaware trust company formed in February 2003 for the sole purpose of holding life insurance policies under the Bank's bank-owned life insurance program.

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The Company operates in two reportable segments – banking activities and insurance agency activities. See Note 17 to the Company's Consolidated Financial Statements included under Item 8 of this Report on Form 10-K for more information on the Company's reportable segments.

MARKET AREA

The Company's primary market area is located in Erie County, Niagara County, northern Chautauqua County and northwestern Cattaraugus County, New York. This primary market area is the area where the Bank principally receives deposits and makes loans and ENBI sells insurance. Even though ENL conducts business outside of this defined market area, this activity is not deemed to expand the Company's primary market.

AVERAGE BALANCE SHEET INFORMATION

The table presents the significant categories of the assets and liabilities of the Bank, interest income and interest expense, and the corresponding yields earned and rates paid in 2006, 2005 and 2004. The assets and liabilities are presented as daily averages. The average loan balances include both performing and non-performing loans. Interest income on loans does not include interest on loans for which the Bank has ceased to accrue interest. Securities are stated at fair value. Interest and yield are not presented on a tax-equivalent basis.

	2006			2005			2004		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(dollars in thousands)			(dollars in thousands)			(dollars in thousands)		
Assets									
Interest-earning assets:									
Loans and leases, net	$268,538	$20,405	7.60%	$236,754	$16,234	6.86%	$196,711	$11,815	6.01%
Taxable securities	104,368	4,209	4.03%	124,774	4,663	3.74%	103,173	3,654	3.54%
Tax-exempt securities	44,044	1,881	4.27%	45,751	1,933	4.23%	49,514	2,130	4.30%
Time deposits–other banks	—	—	—%	215	3	1.40%	832	14	1.68%
Federal funds sold	1,097	49	4.47%	4,462	113	2.53%	7,051	95	1.35%
Total interest-earning assets	418,047	26,544	6.35%	411,956	22,946	5.57%	357,281	17,708	4.96%
Non interest-earning assets:									
Cash and due from banks	12,066			11,183			11,163		
Premises and equipment, net	8,194			8,215			6,905		
Other assets	29,022			26,160			18,140		
Total Assets	$467,329			$457,514			$393,489		
Liabilities & Stockholders' Equity									
Interest-bearing liabilities:									
NOW	$ 11,767	22	0.19%	$ 11,976	22	0.18%	$ 11,272	22	0.20%
Regular savings deposits	88,522	926	1.05%	94,841	804	0.85%	86,018	550	0.64%
Muni-vest savings	36,301	1,550	4.27%	51,300	1,454	2.83%	62,060	949	1.53%
Time deposits	151,530	6,481	4.28%	126,945	3,961	3.12%	102,164	2,526	2.47%
Other borrowed funds	46,304	1,800	3.89%	49,939	1,616	3.23%	28,429	872	3.07%
Junior subordinated debentures	11,330	850	7.50%	11,330	662	5.84%	2,765	132	4.77%
Securities sold under agreement to repurchase	8,493	68	0.80%	6,467	50	0.77%	7,160	60	0.84%
Total interest-bearing liabilities	354,247	11,697	3.30%	352,798	8,569	2.43%	299,868	5,111	1.70%
Non interest-bearing liabilities:									
Demand deposits	67,046			62,186			54,318		
Other	8,153			6,419			4,953		

Total liabilities	429,446			421,403			359,139		
Stockholders’ equity	37,883			36,111			34,350		
Total Liabilities & Equity	$467,329			$457,514			$393,489		
Net interest earnings		$14,847			$14,377			$12,597	
Net yield on interest earning assets			3.55%			3.49%			3.53%
Interest rate spread			3.05%			3.14%			3.26%

SECURITIES ACTIVITIES

The primary objective of the Bank's securities portfolio is to provide liquidity while preserving safety of principal. Secondary objectives include: the investment of funds during periods of decreased loan demand, interest rate sensitivity considerations, providing collateral to secure local municipal deposits, supporting local communities through the purchase of tax-exempt securities and tax planning considerations. The Bank's Board of Directors is responsible for establishing overall policy and reviewing performance of the Bank's investments.

Under the Bank's policy, acceptable portfolio investments include: United States ("U.S.") Government obligations, obligations of federal agencies or U.S. Government-sponsored enterprises, mortgage backed securities, municipal obligations (general obligations, revenue obligations, school districts and non-rated issues from the 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), collateralized mortgage obligations, Federal Reserve stock and Federal Home Loan Bank stock.

The Bank's general investment policy is that in-state securities must be rated at least Moody's BAA (or equivalent) at the time of purchase. Out-of-state issues must be rated at least Moody's AA (or equivalent) at the time of purchase. Bonds or securities rated below A are reviewed periodically to assure their continued credit worthiness. While purchase of non-rated municipal securities is permitted, such purchases are limited to 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. The financial statements of the issuers of non-rated securities are reviewed by the Bank and 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 & Poor's. The securities portfolio of the Bank is priced on a monthly basis.

Pursuant to Statement of Financial Accounting Standard ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which establishes accounting treatment for investments in securities, all securities in the Bank's investment portfolio are either designated as "held to maturity" or "available for sale."

Income from securities held in the Bank's investment portfolio represented approximately 22.9% of total interest income of the Company in 2006 as compared to 28.8% in 2005 and 32.7% in 2004. At December 31, 2006, the Bank's securities portfolio of $137.7 million consisted primarily of U.S. and federal agency obligations, state and municipal securities and mortgage-backed securities, including collateralized mortgage obligations ("CMO's"), issued by the Government National Mortgage Association ("GNMA"), Federal National Mortgage Association ("FNMA") and Federal Home Loan Mortgage Corp ("FHLMC").

The following table summarizes the Bank's securities with those designated as "available for sale" valued at fair value and securities designated as "held to maturity" valued at amortized cost as of December 31, 2006, 2005 and 2004:

	2006	2005	2004
		(in thousands)	
Available for Sale:			
Debt securities			
U.S. government agencies	$ 30,891	$ 36,604	$ 29,257
States and political subdivisions	38,438	42,463	44,924
Total debt securities	$ 69,329	$ 79,067	$ 74,181
Mortgage-backed securities			
FNMA	$ 30,168	$ 35,569	$ 43,292
FHLMC	8,448	10,747	12,184
GNMA	1,044	1,334	1,741
CMO's	20,629	24,509	31,893
Total mortgage-backed securities	$ 60,289	$ 72,159	$ 89,110
FRB and Federal Home Loan Bank Stock	3,901	4,384	3,526
Total securities designated as available for sale	$133,519	$155,610	$166,817
Held to Maturity:			
U.S. government agencies	$ 35	$ 35	$ 35
States and political subdivisions	4,176	4,307	3,027
Total securities designated as held to maturity	$ 4,211	$ 4,342	$ 3,062
Total securities	$137,730	$159,952	$169,879

The following table sets forth the contractual maturities and weighted average interest yields of the Bank's securities portfolio (yields on tax-exempt obligations are not presented on a tax-equivalent basis) as of December 31, 2006:

	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
	(dollars in thousands)							
Available for Sale:								
Debt Securities:								
U.S. government agencies	$ 7,927	3.11%	$ 19,984	3.65%	$ 980	5.00%	$ 2,000	7.40%
States and political subdivisions	280	4.28%	11,509	4.51%	24,044	4.64%	2,604	4.81%
Total debt securities	$ 8,207	3.15%	$ 31,493	3.96%	$ 25,024	4.65%	$ 4,604	5.93%
Mortgage-backed Securities:								
FNMA	$ 1,996	3.55%	$ 674	4.92%	$ 5,395	4.70%	$ 22,103	5.10%
FHLMC	336	5.07%	432	5.23%	654	4.67%	7,026	5.09%
GNMA	—	—	—	—	—	—	1,044	5.00%
CMO's	—	—	242	4.25%	3,523	4.00%	16,865	4.38%
Total mortgage-backed securities	$ 2,332	3.77%	$ 1,348	4.90%	$ 9,572	4.44%	$ 47,038	4.84%
Total available for sale	$ 10,539	3.29%	$ 32,841	4.00%	$ 34,596	4.60%	$ 51,642	4.94%
Held to Maturity:								
U.S. government agencies	$ —	—	$ —	—	$ 9	—	$ 26	—
States and political subdivisions	$ 1,855	3.63%	961	3.57%	567	4.67%	793	3.70%
Total held to maturity	$ 1,855	3.63%	961	3.57%	576	4.60%	819	3.58%
Total securities	$ 12,394	3.34%	33,802	3.99%	35,172	4.60%	52,461	4.92%

LENDING AND LEASING ACTIVITIES

General . The Bank has a loan and lease policy, which includes a loan and lease loss allowance policy, which is approved by its Board of Directors on an annual basis. The loan and lease policy governs the conditions under which loans and leases may be made, addresses the lending authorities of Bank officers, charge off policies and desired portfolio mix.

The Bank offers a variety of loan and lease products to its customers, including residential and commercial real estate mortgage loans, commercial loans, direct financing leases, and installment loans. The Bank primarily extends loans to customers located within the Western New York area, except for direct financing leases, which are originated in all 48 contiguous states. Interest income on loans and leases represented approximately 76.9% of the total interest income of the Company in 2006 and approximately 70.7% and 66.7% of total interest income in 2005 and 2004, respectively. The Bank's loan and lease portfolio, after unearned discounts, loan origination costs and allowances for loan losses, totaled $285.4 million and $256.8 million at December 31, 2006 and December 31, 2005, respectively. At December 31, 2006, the Bank had $3.7 million as an allowance for loan losses which is approximately 1.29% of total loans and leases. This compares with approximately $3.2 million at December 31, 2005 which was approximately 1.23% of total loans and leases. The increase of the allowance for loan and lease losses of $0.5 million in 2006 reflects management's assessment of the portfolio composition, of which higher risk commercial real estate loans comprise a significant component, the increase of higher risk leases and its assessment of the New York State and local economy. The net loan portfolio represented approximately 60.2% and 54.8% of the Company's total assets at December 31, 2006 and December 31, 2005, respectively.

Real Estate Loans . Approximately 76.1% of the Bank's loan and lease portfolio at December 31, 2006 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 $220.0 million at December 31, 2006, compared to $209.1 million at December 31, 2005. The real estate loan portfolio increased approximately 5.2% in 2006 over 2005 compared to an increase of 15.0% in 2005 over 2004.

The Bank offers fixed rate residential mortgage loans with terms of 10 to 30 years with, typically, up to an 80% loan-to-value ratio. Fixed rate residential mortgage loans outstanding totaled $49.0 million at December 31, 2006, which was approximately 16.9% of total loans outstanding. In 1995, the Bank entered into a contractual arrangement with FNMA, pursuant to which the Bank sells mortgage loans to FNMA and the Bank retains the servicing rights as to those loans.

In 2006, the Bank sold approximately $2.6 million in mortgages to FNMA under this arrangement, compared to $2.5 million in mortgages sold in 2005. The Bank currently retains the servicing rights on $28.7 million in mortgages sold to FNMA. The Company has recorded a net servicing asset for such loans of approximately $0.2 million at December 31, 2006. The Bank determines with each origination of residential real estate loans which desired maturities, within the context of overall maturities in the loan portfolio, provide the appropriate mix to optimize the Bank's ability to absorb the corresponding interest rate risk within the Company's tolerance ranges.

Since 1993, the Bank has offered adjustable rate residential mortgage loans with terms of up to 30 years. Rates on these mortgage loans remain fixed for a predetermined time and are adjusted annually thereafter. On December 31, 2006, the Bank's outstanding adjustable rate residential mortgage loans were $8.7 million or 3.0% as compared to $6.7 million or 2.6% of total loans at December 31, 2005. This balance did not include any construction mortgage loans, which are discussed below.

The Bank also offers commercial mortgage loans with up to an 80% loan-to-value ratio for up to 20 years on a variable and fixed rate basis. Many of these mortgage loans either mature or are subject to a rate call after three to five years. The Bank's outstanding commercial mortgage loans were $123.7 million at December 31, 2006, which was approximately 42.8% of total loans outstanding. This balance included $28.6 million in fixed rate and $95.1 million in variable rate mortgage loans, which include interest rate calls.

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 15 years and up to an 80% loan-to-value ratio. At December 31, 2006, the real estate loan portfolio included $26.8 million of home equity loans outstanding, which represented approximately 9.3% of its total loans outstanding. This balance included $19.2 million in variable rate and $7.6 million in fixed rate loans.

The Bank also offers both residential and commercial real estate construction loans at up to an 80% loan-to-value ratio at fixed interest or adjustable interest rates and multiple maturities. At December 31, 2006, fixed rate real estate construction loans outstanding were $1.8 million or 0.6% of the Bank's loan portfolio, and adjustable rate construction loans outstanding were $10.0 million or 3.5% of the portfolio.

As of December 31, 2006, approximately $1.7 million or 0.8% of the Bank's real estate loans were 30 to 90 days delinquent, and approximately $0.1 million or 0.1% of real estate loans were non-accruing.

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 $29.6 million and $29.9 million at December 31, 2006 and 2005, respectively. Commercial loans represented approximately 10.2% and 11.5% of the Bank's total loans at December 31, 2006 and 2005, respectively.

As of December 31, 2006, approximately $23 thousand or 0.1% of the Bank's commercial loans were 30 to 90 days past due and $0.4 million or 0.2% of its commercial loans were non-accruing, the latter due primarily to one borrower.

Commercial lending entails significantly more risk than real estate loans. Collateral, where applicable, may consist of inventory, receivables, equipment and other business assets. Approximately 76.8% of the Bank's commercial loans are at variable rates which are tied to the prime rate.

Installment Loans . The Bank's installment loan portfolio (which includes personal loans and revolving credit card balances) totaled $3.1 million and $2.7 million at December 31, 2006 and 2005, respectively, representing approximately 1.1% of the Bank's total loans at December 31, 2006 and 1.1% of the Bank's total loans at December 31, 2005. Traditional installment loans are offered at fixed interest rates with various maturities of up to 60 months, on a secured and unsecured basis. At December 31, 2006, the installment loan portfolio included $0.2 million in fixed rate credit card balances at an interest rate of 15.60% and $0.1 million in the variable rate option. As of December 31, 2006, approximately $34 thousand or 1.1% of the Bank's installment loans were 30 to 90 days past due.

Direct Financing Leases. On December 31, 2004, the Company, together with its newly formed, indirect wholly-owned subsidiary, ENL, acquired M&C Leasing, a general business equipment leasing company located in West Seneca, New York. Direct financing leases totaled $31.7 million and $16.9 million at December 31, 2006 and 2005, respectively, representing approximately 11.0% and 6.5% of the Bank's total loans at December 31, 2006 and 2005, respectively. As of December 31, 2006, approximately $0.3 million or 1.0% of the Bank's direct financing leases were 30-90 days past due.

Other Loans . Other loans totaled $4.0 million at December 31, 2006 and $0.6 million at December 31, 2005. Other loans consisted primarily of: loans to municipalities, hospitals, churches and non-profit organizations, at fixed or variable interest rates with multiple maturities; and overdrafts, which totaled $0.2 million and $0.2 at December 31, 2006 and 2005, respectively.

The Bank's lending limit to any one borrower is subject to regulation by the OCC. The Bank continually monitors its loan portfolio to review compliance with new and existing regulations.

The following table summarizes the major classifications of the Bank's loans and leases (net of deferred origination costs) as of the dates indicated.

	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003	December 31, 2002
			(in thousands)		
Mortgage loans on real estate:					
Residential 1-4 family	$ 57,702	$ 48,580	$ 38,491	$ 30,160	$ 26,712
Commercial and multi-family	123,701	123,727	107,392	99,684	77,919
Construction	11,848	9,270	8,188	5,090	2,174
Second mortgages	8,625	6,454	5,716	6,274	6,919
Home equity lines of credit	18,147	21,082	22,108	18,262	13,780
Total mortgage loans on real estate	220,023	209,113	181,895	159,470	127,504
Direct financing leases	31,742	16,945	4,546	—	—
Commercial loans	29,589	29,920	28,762	24,282	20,460
Consumer loans	3,101	2,747	2,832	2,569	2,352
Other	3,997	642	1,973	1,209	492
Net deferred loan and lease origination costs	654	654	590	537	336
Total loans and leases	289,106	260,021	220,598	188,067	151,144
Allowance for loan and lease losses	(3,739)	(3,211)	(2,999)	(2,539)	(2,146)
Loans and leases, net	$285,367	$256,810	$217,599	$185,528	$148,998

Loan Maturities and Sensitivities of Loans in Interest Rates . The following table shows the maturities of commercial and real estate construction loans outstanding as of December 31, 2006 and the classification of such loans due after one year according to sensitivity to changes in interest rates.

	Within One Year	After One But Within Five Years	After Five Years	Total
		(in thousands)		
Commercial	$ 2,772	$ 14,827	$11,990	$29,589
Real estate construction	3,045	4,958	3,845	11,848
	$ 5,817	$ 19,785	$15,835	$41,437
Loans maturing after one year with:				
Fixed Rates		$ 9,237	$ 1,270	
Variable Rates		10,548	14,565	
		$ 19,785	$15,835	

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Non-accrual, Past Due and Restructured Loans and Leases . The following table summarizes the Bank's non-accrual and accruing loans and leases 90 days or more past due as of the dates listed below. The Bank had no restructured loans or leases 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 the Company's 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 Part II, Item 7 of this Report on Form 10-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Allowance for Loan and Lease Losses," for further information about the Company's non-accrual, past due and restructured loans and leases.

	At December 31,				
	2006	2005	2004	2003	2002
			(in thousands)		
Non-accruing loans and leases:					
Mortgage loans on real estate:					
Residential 1-4 family	$ —	$ —	$ —	$ 30	$ 30
Commercial and multi-family	145	600	278	176	1,074
Construction	—	—	—	—	—
Second mortgages	—	—	—	50	21
Home Equity lines of credit	—	—	—	—	—
Total mortgage loans on real estate	145	600	278	256	1,125
Direct financing leases	—	—	2	—	—
Commercial loans	443	1,175	1,375	40	72
Consumer installment loans					
Other	—	—	—	—	—
Total non-accruing loans and leases	$ 588	$ 1,775	$ 1,655	$ 296	$ 1,197
Accruing loans and leases 90+ days past due	74	95	151	627	—
Total non-performing loans and leases	$ 662	$ 1,870	$ 1,806	$ 923	$ 1,197
Total non-performing loans and leases to total assets	0.15%	0.41%	0.42%	0.27%	0.41%
Total non-performing loans and leases to total loans	0.23%	0.72%	0.82%	0.49%	0.79%

The following table summarizes the Bank's allowance for loan and lease losses and changes in the allowance for loan and lease losses by categories:

ANALYSIS OF THE ALLOWANCE FOR LOAN AND LEASE LOSSES

	2006	2005	2004	2003	2002
			(in thousands)		
BALANCE AT THE BEGINNING OF THE YEAR	$ 3,211	$ 2,999	$ 2,539	$ 2,146	$ 1,786
CHARGE-OFFS:					
Commercial	(212)	(417)	(200)	(54)	(14)
Real estate mortgages	—	(25)	(6)	(30)	(42)
Direct financing leases	(500)	(108)	—	—	—
Installment loans	(44)	(86)	(9)	(11)	(20)
Overdrafted deposit accounts	(42)	(39)	—	—	—
TOTAL CHARGE-OFFS	(798)	(675)	(215)	(95)	(76)
RECOVERIES:					
Commercial	53	—	48	7	2
Real estate mortgages	—	40	8	—	—
Direct financing leases	62	56	—	—	—
Installment loans	63	11	4	1	14
Overdrafted deposit accounts	20	11	—	—	—
TOTAL RECOVERIES	198	118	60	8	16
NET CHARGE-OFFS	(600)	(557)	(155)	(87)	(60)
PROVISION FOR LOAN AND LEASE LOSSES	1,128	769	485	480	420
ADDITION OF ALLOWANCE FROM ACQUISITION	—	—	130	—	—
BALANCE AT END OF YEAR	$ 3,739	$ 3,211	$ 2,999	$ 2,539	$ 2,146
RATIO OF NET CHARGE-OFFS TO AVERAGE NET LOANS AND LEASES OUTSTANDING	0.22%	0.23%	0.08%	0.05%	0.04%

Management's provision for loan and lease losses reflects the continued growth trend in higher risk commercial loans and direct financing leases and management's assessment of the local and New York State economic environment. Both the local and New York State economies have lagged behind national prosperity, which remains unsettled. Marginal job growth, combined with a declining population base, has left the Bank's primary market more susceptible to potential credit problems. This is particularly true of commercial borrowers. Commercial loans represent a segment of significant past growth, as well as a concentration in the Company's commercial real estate portfolio. Commercial real estate values may be susceptible to decline in an adverse economy. Management believes that the provision for loan and lease losses complies with the regulations of the OCC, and is reflective of its assessment of the local environment, as well as a continued trend in commercial loan activity and balance outstanding.

SOURCES OF FUNDS – DEPOSITS

General. Customer deposits represent the primary source of the Bank's funds for lending and other investment purposes. In addition to deposits, other sources of funds include loan and lease repayments, loan sales on the secondary market, interest and dividend income from investments, matured investments, and borrowings from the Federal Home Loan Bank ("FHLB") and from the First Tennessee Bank, which is a correspondent bank.

Deposits . The Bank offers a variety of deposit products, including checking, passbook, statement savings, NOW accounts, certificates of deposit and jumbo certificates of deposit. Bank deposits are insured up to the maximum permitted by the FDIC. At December 31, 2006, the Bank's deposits totaled $355.7 million consisting of the following:

	(In thousands)
Demand deposits	$ 72,125
NOW accounts	11,253
Regular savings	85,084
Muni-vest savings	31,240
Time deposits, $100,000 and over	80,241
Other time deposits	75,806
Total	$ 355,749

The following table shows daily average deposits and average rates paid on significant deposit categories by the Bank (dollars in thousands):

	2006		2005		2004	
	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
Demand deposits	$ 67,046	0.00%	$ 62,186	0.00%	$ 54,318	0.00%
NOW accounts	11,767	0.19%	11,976	0.18%	11,272	0.20%
Regular Savings	88,522	1.05%	94,841	0.85%	86,018	0.64%
Muni-vest savings	36,301	4.27%	51,300	2.83%	62,060	1.53%
Time deposits	151,530	4.28%	126,945	3.12%	102,164	2.47%
Total	$355,166	2.53%	$347,248	1.80%	$315,832	1.28%

Federal Funds Purchased and Other Borrowed Funds. Another source of the Bank's funds for lending and investing activities at December 31, 2006 consisted of short and long term borrowings from the Federal Home Loan Bank.

Other borrowed funds consisted of various advances from the Federal Home Loan Bank with both fixed and variable interest rate terms ranging from 2.84% to 5.33%. The maturities and weighted average rates of other borrowed funds at December 31, 2006 are as follows (dollars in thousands):

	Maturities	Weighted Average Rate
2007	$ 27,508	5.08%
2008	669	3.22%
2009	8,052	3.11%
2010	—	—
2011	—	—
Thereafter	13,000	3.46%
Total	$ 49,229	4.31%

Securities Sold Under Agreements to Repurchase. The Bank enters into agreements with depositors to sell to the depositors securities owned by the Bank and repurchase the identical security, generally within one day. No physical movement of the securities is involved. The depositor is informed that the securities are held in safekeeping by the Bank on behalf of the depositor. Securities sold under agreements to repurchase totaled $9.0 million at December 31, 2006 compared to $6.4 million at December 31, 2005.

MARKET RISK

For information about, and a discussion of, the Company's "Market Risks," see Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations — Market Risks" of this Report on Form 10-K.

The following schedule sets forth the maturities of the Bank's time deposits as of December 31, 2006:

	Time Deposit Maturity Schedule (in thousands)				
	0-3 Mos.	3-6 Mos.	6-12 Mos.	Over 12 Mos.	Total
Time deposits — $100,000 and over	$ 30,405	$ 5,362	$ 22,379	$ 22,095	$ 80,241
Other time deposits	11,969	9,962	42,091	11,784	75,806
Total time deposits	$ 42,374	$ 15,324	$ 64,470	$ 33,879	$156,047

ENVIRONMENTAL MATTERS

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 that the Bank 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 sites may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from such property.

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.

COMPETITION

All phases of the Company's business are highly competitive. The Company competes actively with local, regional and national financial institutions, as well as with bank branches or insurance agency offices in the Company's market area of Erie County, Niagara County, northern Chautauqua County, and northwestern Cattaraugus County, New York. These Western New York counties have a high density of financial institutions, many of which are significantly larger and have greater financial resources than the Company. The Company faces competition for loans, direct financing leases and deposits from other commercial banks, savings banks, savings and loan associations, mortgage banking companies, credit unions, insurance companies and other financial services companies. The Company faces additional competition for deposits and insurance business from non-depository competitors such as the mutual fund industry, securities and brokerage firms, and insurance companies and brokerages. The Company attempts to be 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 and leases.

SUPERVISION AND REGULATION

Bank holding companies and banks are extensively regulated under both federal and state laws and regulations that are intended to protect depositors. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in the applicable law or regulation, or a change in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material adverse effect on the Company's business, financial condition and results of operations.

Bank Holding Company Regulation (BHCA)

As a financial holding company registered under the BHCA, the Company and its non-banking subsidiaries are subject to regulation and supervision under the BHCA by the FRB. The FRB requires periodic reports from the Company, and is authorized by the BHCA to make regular examinations of the Company and its subsidiaries.

The Company is required to obtain the prior approval of the FRB before acquiring direct or indirect ownership or control of more than 5% of the voting shares of a bank or bank holding company. The FRB will not approve any acquisition, merger or consolidation that would have a substantial anti-competitive result, unless the anti-competitive effects of the proposed transaction are outweighed by a greater public interest in meeting the needs and convenience of the public.

The FRB also considers managerial, capital and other financial factors in acting on acquisition or merger applications. A bank holding company may not engage in, or acquire direct or indirect control of more than 5% of the voting shares of any company engaged in any non-banking activity, unless such activity has been determined by the FRB to be closely related to banking or managing banks. The FRB has identified by regulation various non-banking activities in which a bank holding company may engage with notice to, or prior approval by, the FRB.

The FRB has enforcement powers over financial holding companies and their subsidiaries, among other things, to interdict activities that represent unsafe or unsound practices or constitute violations of law, rule, regulation, administrative orders, or written agreements with a federal bank regulator. These powers may be exercised through the issuance of cease and desist orders, civil monetary penalties or other actions.

Bank holding companies and their subsidiary banks are also subject to the provisions of the Community Reinvestment Act (“CRA”). Under the terms of the CRA, the FRB (or other appropriate bank regulatory agency, in the case of the Bank, the OCC) is required, in connection with its examination of a bank, to assess such bank’s record in meeting the credit needs of the communities served by that bank, including low- and moderate-income neighborhoods. Furthermore, such assessment is taken into account in evaluating any application made by a bank holding company or a bank for, among other things, approval of a branch or other deposit facility, office relocation, a merger or an acquisition of bank shares.

Supervision and Regulation of Bank Subsidiaries

The Bank is a nationally chartered banking corporation subject to supervision, examination and regulation of the FRB, the FDIC and the OCC. These regulators have the power to enjoin “unsafe or unsound practices,” require affirmative action to correct any conditions resulting from any violation or practice, issue an administrative order that can be judicially enforced, direct an increase in capital, restrict the growth of a bank, assess civil monetary penalties, and remove a bank’s officers and directors.

The operations of the Bank are subject to numerous statutes and regulations. Such statutes and regulations relate to required reserves against deposits, investments, loans, mergers and consolidations, issuance of securities, payment of dividends, establishment of branches, and other aspects of the Bank’s operations. Various consumer laws and regulations also affect the operations of the Bank, including state usury laws, laws relating to fiduciaries, consumer credit and equal credit, fair credit reporting, and privacy of non-public financial information.

The Bank is subject to Sections 23A and 23B of the Federal Reserve Act and Regulation W thereunder, which govern certain transactions, such as loans, extensions of credit, investments and purchases of assets between member banks and their affiliates, including their parent holding companies. These restrictions limit the transfer from its subsidiaries, including the Bank, of funds to the Company in the form of loans, extensions of credit, investments or purchases of assets (collectively, “Transfers”), and they require that the Bank’s transactions with the Company be on terms no less favorable to the Bank than comparable transactions between the Bank and unrelated third parties. Transfers by the Bank to the Company are limited in amount to 10% of the Bank’s capital and surplus, and transfers to all affiliates are limited in the aggregate to 20% of the Bank’s capital and surplus. Furthermore, such loans and extensions of credit are also subject to various collateral requirements. These regulations and restrictions may limit the Company’s ability to obtain funds from the Bank for its cash needs, including funds for acquisitions, and the payment of dividends, interest and operating expenses.

The Bank is prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property or furnishing of services. For example, the Bank may not generally require a customer to obtain other services from the Bank or the Company, and may not require the customer to promise not to obtain other services from a competitor as a condition to an extension of credit. The Bank is also subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to executive officers, directors, principal stockholders or any related interest of such persons. Extensions of credit: (i) must be made on substantially the same terms (including interest rates and collateral) as, and following credit underwriting procedures that are not less stringent than those prevailing at the time for comparable transactions with persons not covered above and who are not employees, and (ii) must not involve more than the normal risk of repayment or present other unfavorable features. The Bank is also subject to certain lending limits and restrictions on overdrafts to such persons. A violation of these restrictions may result in the assessment of substantial civil monetary penalties on the Bank or any officer, director, employee, agent or other person participating in the conduct of the affairs of the Bank or the imposition of a cease and desist order.

The deposits of the Bank are insured by the FDIC through the Insurance Fund to the extent provided by law. Under the FDIC’s risk-based insurance system, institutions insured through the Insurance Fund are currently assessed premiums based on eligible deposits and the institutions’ capital position and other supervisory factors. Legislation also provides for assessments against institutions insured through the Insurance Fund which will be used to pay certain financing corporation (“FICO”) obligations. In addition to any Insurance Fund assessments, banks insured through the Insurance Fund are expected to make payments for the FICO obligations based on eligible deposits each year. The assessment is determined quarterly.

Regulations promulgated by the FDIC pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 place limitations on the ability of certain insured depository institutions to accept, renew or rollover deposits by offering rates of interest which are significantly higher than the prevailing rates of interest on deposits offered by other depository institutions having the same type of charter in such depository institutions’ normal market area. Under these regulations, well-capitalized institutions may accept, renew or rollover such deposits without restriction, while adequately capitalized institutions may accept, renew or rollover such deposits with a waiver from the FDIC (subject to certain restrictions on payment of rates). Undercapitalized institutions may not accept, renew or rollover such deposits.

Under the Financial Institutions Reform, Recovery and Enforcement Act of 1989, a depository institution insured by the FDIC can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with: (i) the default of a commonly controlled FDIC-insured depository institution, or (ii) any assistance provided by the FDIC to a commonly controlled FDIC-insured institution in danger of default. “Default” is defined generally as the appointment of a conservator or receiver, and “in danger of Default” is defined generally as the existence of certain conditions indicating that a “default” is likely to occur in the absence of regulatory assistance.

The federal regulators have adopted regulations and examination procedures promoting the safety and soundness of individual institutions by specifically addressing, among other things: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate exposure; (v) asset growth; (vi) ratio of classified assets to capital; (vii) minimum earnings; and (viii) compensation and benefits standards for management officials.

The FRB, the OCC and other federal banking agencies have broad enforcement powers, including the power to terminate deposit insurance, and impose substantial fines and other civil and criminal penalties and appoint a conservator or receiver for the assets of a regulated entity. Failure to comply with applicable laws, regulations and supervisory agreements could subject the Company or its subsidiaries, as well as officers, directors and other institution-affiliated parties of these organizations, to administrative sanctions and potential civil monetary penalties.

Capital Adequacy

The FRB, the FDIC and the OCC have adopted risk-based capital adequacy guidelines for bank holding companies and banks under their supervision. Under these guidelines, the so-called “Tier 1 capital” and “Total capital” as a percentage of risk-weighted assets and certain off-balance sheet instruments must be at least 4% and 8%, respectively.

The FRB, the FDIC and the OCC have also imposed a leverage standard to supplement their risk-based ratios. This leverage standard focuses on a banking institution’s ratio of Tier 1 capital to average total assets, adjusted for goodwill and certain other items. Under these guidelines, banking institutions that meet certain criteria, including excellent asset quality, high liquidity, low interest rate exposure and good earnings, and that have received the highest regulatory rating must maintain a ratio of Tier 1 capital to total adjusted average assets of at least 3%.

Institutions not meeting these criteria, as well as institutions with supervisory, financial or operational weaknesses, along with those experiencing or anticipating significant growth, are expected to maintain a Tier 1 capital to total adjusted average assets ratio equal to at least 4%. As reflected in the following table, the risk-based capital ratios and leverage ratios of the Company and the Bank as of December 31, 2006 and 2005 exceeded the required capital ratios for classification as “well capitalized,” the highest classification under the regulatory capital guidelines.

Capital Components and Ratios at December 31,
(dollars in thousands)

	2006		2005	
	Company	Bank	Company	Bank
Capital components				
Tier 1 capital	$ 40,489	$ 37,847	$ 37,226	$ 35,855
Total risk-based capital	44,228	41,575	40,437	39,055
Risk-weighted assets and off-balance sheet instruments	316,763	315,456	295,759	294,409
Risk-based capital ratio				
Tier 1 capital	12.9%	12.0%	12.6%	12.2%
Total risk-based capital	14.0%	13.2%	13.7%	13.3%
Leverage ratio	8.9%	8.4%	8.3%	8.0%

The federal banking agencies, including the FRB and the OCC, maintain risk-based capital standards in order to ensure that those standards take adequate account of interest rate risk, concentration of credit risk, the risk of non-traditional activities and equity investments in non-financial companies, as well as reflect the actual performance and expected risk of loss on certain multifamily housing loans. Bank regulators periodically propose amendments to the risk-based capital guidelines and related regulatory framework, and consider changes to the risk-based capital standards that could significantly increase the amount of capital needed to meet the requirements for the capital tiers described below. While the Company's management studies such proposals, the timing of adoption, ultimate form and effect of any such proposed amendments on the Company's capital requirements and operations cannot be predicted.

The federal banking agencies are required to take "prompt corrective action" in respect of depository institutions and their bank holding companies that do not meet minimum capital requirements, FDICIA established five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A depository institution's capital tier, or that of its bank holding company, depends upon where its capital levels are in relation to various relevant capital measures, including a risk-based capital measure and a leverage ratio capital measure, and certain other factors.

Under the implementing regulations adopted by the federal banking agencies, a bank holding company or bank is considered "well capitalized" if it has: (i) a total risk-based capital ratio of 10% or greater; (ii) a Tier 1 risk-based capital ratio of 6% or greater; and (iii) a leverage ratio of 5% or greater; and is not subject to any order or written directive to meet and maintain a specific capital level for a capital measure. An "adequately capitalized" bank holding company or bank is defined as one that has: (i) a total risk-based capital ratio of 8% or greater; (ii) a Tier 1 risk-based capital ratio of 4% or greater; and (iii) a leverage ratio of 4% or greater (or 3% or greater in the case of a bank with a composite CAMELS rating of (1)). A bank holding company or bank is considered (A) "undercapitalized" if it has: (i) a total risk-based capital ratio of less than 8%; (ii) a Tier 1 risk-based capital ratio of less than 4%; or (iii) a leverage ratio of less than 4% (or 3% in the case of a bank with a composite CAMELS rating of (1)); (B) "significantly undercapitalized" if the bank has: (i) a total risk-based capital ratio of less than 6%; or (ii) a Tier 1 risk-based capital ratio of less than 3%; or (iii) a leverage ratio of less than 3%; and (C) "critically undercapitalized" if the bank has a ratio of tangible equity to total assets equal to or less than 2%. The FRB may reclassify a "well capitalized" bank holding company or bank as "adequately capitalized" or subject an "adequately capitalized" or "undercapitalized" institution to the supervisory actions applicable to the next lower capital category if it determines that the bank holding company or bank is in an unsafe or unsound condition or deems the bank holding company or bank to be engaged in an unsafe or unsound practice and not to have corrected the deficiency. The Company and the Bank currently meet the definition of "well capitalized" institutions.

"Undercapitalized" depository institutions, among other things, are subject to growth limitations; are prohibited, with certain exceptions, from making capital distributions; are limited in their ability to obtain funding from a Federal Reserve Bank; and are required to submit a capital restoration plan. The federal banking agencies may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. In addition, for a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such capital restoration plan and provide appropriate assurances of performance. If a depository institution fails to submit an acceptable plan, including if the holding company refuses or is unable to make the guarantee described in the previous sentence, it is treated as if it is "significantly undercapitalized." Failure to submit or implement an acceptable capital plan also is grounds for the appointment of a conservator or a receiver. "Significantly undercapitalized" depository institutions may be subject to a number of additional requirements and restrictions, including orders to sell sufficient voting stock to become “adequately capitalized,” requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Moreover, the parent holding company of a “significantly undercapitalized” depository institution may be ordered to divest itself of the institution or of non-bank subsidiaries of the holding company. “Critically undercapitalized” institutions, among other things, are prohibited from making any payments of principal and interest on subordinated debt, and are subject to the appointment of a receiver or conservator.

Each federal banking agency prescribes standards for depository institutions and depository institution holding companies relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, a maximum ratio of classified assets to capital, minimum earnings sufficient to absorb losses, a minimum ratio of market value to book value for publicly traded shares and other standards as they deem appropriate. The FRB and the OCC have adopted such standards.

Financial Services Modernization and Other Recent Legislation

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the “Riegle-Neal Act”) facilitates the interstate expansion and consolidation of banking organizations by permitting bank holding companies that are adequately capitalized and managed to acquire banks located in states outside their home states, regardless of whether such acquisitions are authorized under the law of the host state. The Riegle-Neal Act also permits interstate mergers of banks, with some limitations, and the establishment of new branches on an interstate basis, provided that such actions are authorized by the law of the host state.

The Gramm-Leach-Bliley Act of 1999 (the “GLB Act”) permits banks, securities firms and insurance companies to affiliate under a common holding company structure. In addition to allowing new forms of financial services combinations, the GLB Act clarifies how financial services conglomerates will be regulated by the different federal and state regulators. The GLB Act amended by the BHCA and expanded the permissible activities of certain qualifying bank holding companies, known as financial holding companies. In addition to engaging in banking and activities closely related to banking, as determined by the FRB by regulation or order, financial holding companies may engage in activities that are financial in nature or incidental to financial activities that are complementary to a financial activity and do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. Under the GLB Act, all financial institutions, including the Company and the Bank, are required to develop privacy policies, restrict the sharing of non-public customer data with non-affiliated parties at the customer’s request, and establish procedures and practices to protect customer data from unauthorized access.

USA Patriot Act

The USA Patriot Act of 2002 (the “Patriot Act”) imposes additional obligations on U.S. financial institutions, including banks and broker-dealer subsidiaries, to implement policies, procedures and controls which are reasonably designed to prevent, detect and report instances of money laundering and the financing of terrorism. In addition, provisions of the Patriot Act require the federal financial institution regulatory agencies to consider the effectiveness of a financial institution’s anti-money laundering activities when reviewing bank mergers and bank holding company acquisitions.

Sarbanes-Oxley Act of 2002

Since the enactment of the Sarbanes-Oxley Act of 2002 and the SEC’s implementing regulations of the same (collectively, the “Sarbanes-Oxley Act”), companies that have securities registered under the Exchange Act, including the Company, are subject to enhanced and more transparent corporate governance standards, disclosure requirements and accounting and financial reporting requirements. The Sarbanes-Oxley Act, among other things, (i) requires: a public company to establish and maintain audit committees, comprised solely of independent directors, which committee must be empowered to, among other things, engage, supervise and discharge the company’s auditors; that a public company’s financial statements be certified by the principal executive and principal financial officers of such company; increased and quicker public disclosure — real time - obligations by the company and its directors and officers, including disclosures of off-balance sheet transactions and accelerated reporting of transactions in company stock; and (ii) prohibits personal loans to company directors and officers, except certain loans made by insured financial institutions on non-preferential terms and in compliance with other bank regulatory requirements; and (iii) creates or provides for various new and increased civil and criminal penalties for violations of the securities laws.

Monetary Policy and Economic Control

The commercial banking business is affected not only by general economic conditions, but also by the monetary policies of the FRB. Changes in the discount rate on member bank borrowing, availability of borrowing at the “discount window,” open market operations, the imposition of changes in reserve requirements against member banks’ deposits and assets of foreign branches and the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates are some of the instruments of monetary policy available to the FRB. These monetary policies are used in varying combinations to influence overall growth and distributions of bank loans, investments and deposits, and this use may affect interest rates charged on loans or paid on deposits. The monetary policies of the FRB have had a significant effect on the operating results of commercial banks and are expected to continue to do so in the future. The monetary policies of these agencies are influenced by various factors, including inflation, unemployment, and short-term and long-term changes in the international trade balance and in the fiscal policies of the United States Government. Future monetary policies and the effect of such policies on the future business and earnings of the Company cannot be predicted.

SUBSIDIARIES OF THE COMPANY

Evans National Financial Services, Inc. ENFS, a wholly-owned subsidiary of the Company, is a holding company for the financial services business of the Company, including ENBI.

ENB Insurance Agency, Inc. ENBI, a retail property and casualty insurance agency, is a wholly-owned subsidiary of ENFS, formed in connection with the acquisition of M&W Group, Inc. on September 1, 2000. ENBI is headquartered in Angola, New York, with offices located throughout Western New York in Derby, Eden, Gowanda, Hamburg, Lockport, North Boston, Silver Creek, South Dayton, Cattaraugus, Randolph and West Seneca. ENBI is a full-service insurance agency offering personal, commercial and financial services products. It also has a small consulting department. For the year ended December 31, 2006, ENBI had a premium volume of approximately $42.6 million and commission revenue of $6.5 million.

ENBI’s primary market area is Erie, Chautauqua, Cattaraugus and Niagara counties. All lines of personal insurance are provided, including automobile, homeowner’s, boat, recreational vehicle, landlord and umbrella coverages. Commercial insurance products are also provided, consisting of property, liability, automobile, inland marine, workers compensation, bonds, crop and umbrella insurance. ENBI also provides the following financial services products: life and disability insurance, Medicare supplements, long term care, annuities, mutual funds, retirement programs and New York State Disability.

ENBI has a small consulting division which does work almost exclusively with school districts. The majority of the work is done in preparing specifications for bidding and reviewing existing insurance programs. The majority of the consulting accounts are located in central and eastern New York.

In the personal insurance area, the majority of ENBI’s competition comes from direct writers, as well as some small local agencies located in the same towns and villages in which ENBI has offices. In the commercial business segment, the majority of the competition comes from larger agencies located in and around Buffalo, New York. By offering the large number of carriers which it has available to its customers, ENBI has attempted to remain competitive in all aspects of its business.

ENBI is regulated by the New York State Insurance Department. It meets and maintains all licensing and continuing education requirements required by the State of New York.

Frontier Claims Services, Inc . FCS, a wholly-owned subsidiary of ENBI, provides insurance adjusting services for insurance companies. FCS is located in Angola, New York.

ENB Associates Inc. ENB, a wholly-owned subsidiary of ENBI, provides non-deposit investment products, such as mutual funds and annuities, to Bank customers at Bank branch locations. ENB has an investment services agreement with O’Keefe Shaw & Co., Inc., through which ENB can purchase and sell securities to its customers.

Evans National Bank. The Bank is a wholly-owned subsidiary of the Company. The Bank’s business is described above.

Evans National Leasing, Inc. ENL, a wholly-owned subsidiary of the Bank, provides direct financing leasing of commercial small-ticket general business equipment to companies located throughout the contiguous 48 United States.

Evans National Holding Corp. ENHC, a wholly-owned subsidiary of the Bank, holds certain real estate loans and provides management services. ENHC is operated as a Real Estate Investment Trust (“REIT”), which provides additional flexibility and planning opportunities for the business of the Bank.

ENB Employers Insurance Trust. ENB Employers Insurance Trust is a Delaware trust company formed for the sole purpose of holding life insurance policies under the Bank's bank-owned life insurance program.

Evans Capital Trust I. Evans Capital Trust I, a wholly-owned subsidiary of the Company, was organized solely to issue and sell certain securities representing undivided beneficial interests of the Trust and investing the proceeds thereof in certain debentures of the Company.

EMPLOYEES

As of December 31, 2006, the Company had no direct employees. As of December 31, 2006, the following table summarizes the employment rosters of the Company's subsidiaries:

	Full Time	Part Time
Bank	115	16
ENL	9	—
ENBI	46	4
FCS	4	—
	174	20

The Company's subsidiaries have good relationships with their employees.

AVAILABLE INFORMATION

The Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished by the Company pursuant to Section 13(a) or 15(d) of the Exchange Act, are available without charge on the Company's website, www.evansbancorp.com — SEC filings section, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. The Company is providing the address to its Internet site solely for the information of investors. The Company does not intend the address to be an active link or to otherwise incorporate the contents of the website into this Report on Form 10-K or into any other report filed with or furnished to the SEC.

Item 1A. RISK FACTORS

The following factors identified by the Company's management represent significant potential risks that the Company faces in its operations.

Commercial Real Estate and Commercial Business Loans Expose the Company to Increased Lending Risks.

At December 31, 2006, the Company's portfolio of commercial real estate loans totaled $123.7 million, or 42.8% of total gross loans and the Company's portfolio of commercial business loans totaled $29.6 million, or 10.2% of total gross loans. The Company plans to continue to emphasize the origination of commercial loans. Commercial loans generally expose a lender to greater risk of non-payment and loss than one-to four-family residential mortgage loans because repayment of commercial real estate and business loans often depends on the successful operations and the income stream of the borrowers. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one-to four-family residential mortgage loans. Also, many of the Company's borrowers have more than one commercial real estate or commercial business loan outstanding with the Company. Consequently, an adverse development with respect to one loan or one credit relationship can expose the Company to a significantly greater risk of loss compared to an adverse development with respect to a one-to four-family residential mortgage loan.

Continuing Concentration of Loans in the Company's Primary Market Area May Increase the Company's Risk.

The Company's success depends primarily on the general economic conditions in western New York State. Unlike larger banks that are more geographically diversified, the Company provides banking and financial services to customers primarily in western New York State. The Company's business lending and marketing strategies focus on loans to small- to medium-sized businesses in this geographic region. Moreover, the Company's assets are heavily concentrated in mortgages on properties located in western New York State. Accordingly, the Company's business and operations are vulnerable to downturns in the economies of western New York State. The concentration of the Company's loans in this geographic region subjects the Company to risk that a downturn in the economy or recession in this region could result in a decrease in loan originations and increases in delinquencies and foreclosures, which would more greatly affect the Company than if the Company's lending were more geographically diversified. In addition, the Company may suffer losses if there is a decline in the value of properties underlying the Company's mortgage loans which would have a material adverse impact on the Company's operations.

In the Event the Company's Allowance for Loan and Lease Losses is Not Sufficient to Cover Actual Loan Losses, the Company's Earnings Could Decrease.

The Company maintains an allowance for loan and lease losses in order to mitigate the effect of possible losses inherent in its loan portfolio. There is a risk that the Company may experience significant loan and lease losses which could exceed the allowance for loan and lease losses the Company has currently set aside. In determining the amount of the Company's allowance, the Company makes various assumptions and judgments about the collectibility of its loan and lease portfolio, including the creditworthiness of its borrowers, the effect of changes in the local economy on the value of the real estate and other assets serving as collateral for the repayment of loans, the effects on the Company's loan and lease portfolio of current economic indicators and their probable impact on borrowers, and the Company's loan quality reviews. In addition, bank regulators periodically review the Company's loan and lease portfolio and credit underwriting procedures, as well as its allowance for loan and lease losses, and may require the Company to increase its provision for loan and lease losses or recognize further loan and lease charge-offs. At December 31, 2006, the Company had a net loan portfolio of approximately $289.1 million and the allowance for loan and lease losses was approximately $3.7 million, which represented 1.29% of the total amount of gross loans and leases. If the Company's assumptions and judgments prove to be incorrect or bank regulators require the Company to increase its provision for loan and lease losses or recognize further loan and lease charge-offs, the Company may have to increase its allowance for loan and lease losses or loan and lease charge-offs which could have an adverse effect on the Company's operating results and financial condition. There can be no assurances that the Company's allowance for loan and lease losses will be adequate to protect the Company against loan and lease losses that it may incur.

Changes in Interest Rates Could Adversely Affect the Company's Business, Results of Operations and Financial Condition.

The Company's results of operations and financial condition may be significantly affected by changes in interest rates. The Company's results of operations depend substantially on its net interest income, which is the difference between the interest income earned on its interest-earning assets and the interest expense paid on its interest-bearing liabilities. Because the Company's interest-bearing liabilities generally re-price or mature more quickly than its interest-earning assets, an increase in interest rates generally would tend to result in a decrease in its net interest income.

Changes in interest rates also affect the value of the Company's interest-earning assets, and in particular, the Company's securities portfolio. Generally, the value of securities fluctuates inversely with changes in interest rates. At December 31, 2006, the Company's securities available for sale totaled $133.5 million. Net unrealized losses on securities available for sale, net of tax, amounted to $1.2 million and are reported as a separate component of stockholders' equity. Decreases in the fair value of securities available for sale, therefore, could have an adverse effect on stockholders' equity or earnings.

The Company also is subject to reinvestment risk associated with changes in interest rates. Changes in interest rates may affect the average life of loans and mortgage-related securities. Decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce borrowing costs. Under these circumstances, the Company is subject to reinvestment risk to the extent that it is unable to reinvest the cash received from such prepayments at rates that are comparable to the rates on existing loans and securities. Additionally, increases in interest rates may decrease loan demand and make it more difficult for borrowers to repay adjustable rate loans.

Strong Competition Within the Company's Market Area May Limit its Growth and Profitability.

Competition in the banking and financial services industry is intense. The Company competes with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally within the Company's market area and elsewhere. Many of these competitors (whether regional or national institutions) have substantially greater resources and lending limits than the Company does, and may offer certain services that the Company does not or cannot provide. The Company's profitability depends upon its continued ability to successfully compete in this market area.

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The Company Operates in a Highly Regulated Environment and May Be Adversely Affected By Changes in Laws and Regulations.

The Company is subject to regulation, supervision and examination by the OCC, FRB, and by the FDIC, as insurer of its deposits. Such regulation and supervision govern the activities in which a bank and its holding company may engage and are intended primarily for the protection of the deposit insurance funds and depositors. Regulatory requirements affect the Company's lending practices, capital structure, investment practices, dividend policy and growth. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of a bank, the classification of assets by a bank and the adequacy of a bank's allowance for loan and lease losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, or legislation, could have a material adverse impact on the Bank, the Company and its business, financial condition and results of operations.

Item 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Item 2. PROPERTIES

The Bank conducts its business from its administrative office and eleven branch offices as of December 31, 2006. The administrative office is located at One Grimsby Drive in Hamburg, New York, and was purchased in June 2004. The administrative office facility is 26,000 square feet and is owned by the Bank. This facility is occupied by the Office of the President and Chief Executive Officer of the Company, as well as the Administrative and Loan Divisions of the Bank.

The Bank's locations are as follows:

Use	Location	Ownership
Bank branch	14 North Main Street, Angola, NY	Own building and land
Bank branch	8599 Erie Road, Evans, NY	Own building and land
Bank branch	25 Main Street, Forestville, NY	Own building and land
Bank branch	6840 Erie Road, Derby, NY	Own building and land
Bank branch	7205 Boston State Road, North Boston, NY	Own building and land
Bank branch	5999 South Park Avenue, Hamburg, NY	Building lease
Bank branch	938 Union Road, West Seneca, NY	Building lease
Bank branch	3388 Sheridan Drive, Amherst, NY	Own building, lease land
Bank branch	4979 Transit Road, Lancaster, NY	Own building, lease land
Bank branch	2670 Delaware Avenue, Buffalo, NY	Own building, lease land
Bank branch	2800 Niagara Falls Boulevard, Tonawanda, NY	Own building, lease land

The Bank also operates in-school branch banking facilities in the West Seneca East High School, 4760 Seneca Street, West Seneca, New York and the West Seneca West High School, 3330 Seneca Street, West Seneca, New York. The in-school branches each have a cash dispensing style ATM located at the sites. There are no lease payments required.

ENBI operates from its headquarters, a 9,300 square foot office located at 16 North Main Street, Angola, New York, which is owned by the Bank, and retail locations as follows:

Use	Location	Ownership
Retail location	5 Commercial Street, Angola, NY	Building lease
Retail location	265 Central Avenue, Silver Creek, NY	Building lease
Retail location	11 Main Street, Cattaraugus, NY	Building lease
Retail location	213 Pine Street, South Dayton, NY	Building lease
Retail location	7 Bank Street, Randolph, NY	Building lease
Retail location	8226 North Main Street, Eden, NY	Building lease
Retail location	25 Buffalo Street, Gowanda, NY	Own building and land
Retail location	2628 Main Street, Lockport, NY	Building lease
Retail location	6840 Erie Road, Derby, NY	Bank-owned building and land
Retail location	5999 South Park Avenue, Hamburg, NY	Bank building lease
Retail location	938 Union Road, West Seneca, NY	Bank building lease
Retail location	7205 Boston State Road, North Boston, NY	Bank-owned building
Retail location	796 Fairmount Avenue, Jamestown, NY	Building lease

Item 3. LEGAL PROCEEDINGS

The nature of the Company'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 Company, there are no proceedings pending to which the Company is a party or to which its property is subject, which, if determined adversely, would have a material effect on the Company's results of operations or financial condition.

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

No matters were submitted to a vote of shareholders during the fourth quarter of fiscal 2006.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information. The Company's common stock is quoted on The NASDAQ Global Market system ("NASDAQ") under the symbol EVBN.

The following table shows, for the periods indicated, the high and low closing sales prices per share of the Company's common stock as reported on NASDAQ for fiscal 2006 and 2005.

	2006		2005	
QUARTER	High	Low	High	Low
FIRST	$21.53	$18.64	$24.48	$20.51
SECOND	$23.38	$19.67	$24.29	$19.78
THIRD	$23.00	$19.91	$21.91	$20.24
FOURTH	$22.81	$19.25	$23.00	$19.07

Holders. The approximate number of holders of record of the Company's common stock at March 12, 2007 was 1,321.

Cash Dividends. The Company paid the following cash dividends on shares of the Company's common stock during fiscal 2005 and 2006:

- A cash dividend of $0.32 per share on April 4, 2005 to holders of record on March 14, 2005.
- A cash dividend of $0.33 per share on October 3, 2005 to holders of record on September 9, 2005.
- A cash dividend of $0.34 per share on April 3, 2006 to holders of record on March 13, 2006.
- A cash dividend on $0.34 per share on October 2, 2006 to holders of record on September 8, 2006.

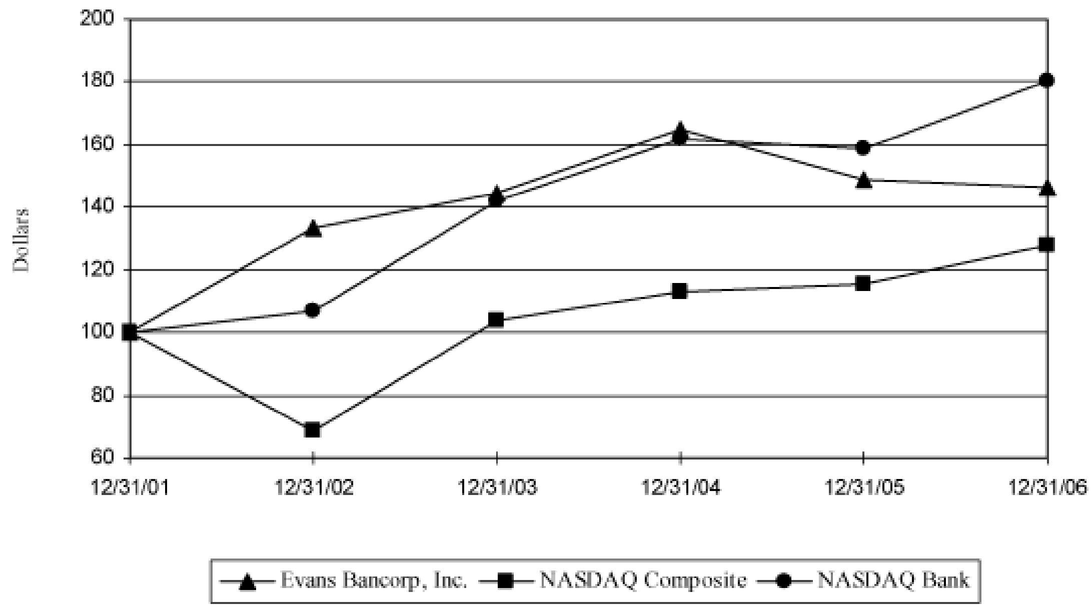
In addition, the Company declared a cash dividend of $0.34 per share payable on April 2, 2007 to holders of record as of March 12, 2007.

The amount and type (cash or stock), 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. The Bank pays a dividend to the Company to provide funds for: debt service on the junior subordinated debentures, a portion of the proceeds of which were contributed to the Bank as capital; dividends the Company pays; treasury stock repurchases; and other Company expenses. There are also various legal limitations with respect to the Bank supplying funds to the Company. In particular, under Federal Banking Law, the prior approval of the FRB and OCC may be required in certain circumstance, prior to the payment of dividends by the Company or Bank. See Notes 8 and 19 to the Company's Consolidated Financial Statements included in Part II, Item 8 to this Report on Form 10-K for additional information concerning contractual and regulatory restrictions on the payment of dividends.

PERFORMANCE GRAPH

The following Performance Graph compares the Company's cumulative total stockholder return on its common stock for a five-year period (December 31, 2001 to December 31, 2006) with the cumulative total return of the NASDAQ Bank Index and NASDAQ Market Index. The comparison for each of the periods assumes that $100 was invested on December 31, 2001 in each of the Company's common stock, the stocks included in the NASDAQ Bank Index and the stocks included in the NASDAQ Market Index, and that all dividends were reinvested without commissions. This table does not forecast future performance of the Company's stock.

Compare 5-Year Cumulative Total Return Among
Evans Bancorp, Inc.,
NASDAQ Market Index and NASDAQ Bank Index



Index	*Period Ending*					
	12/31/01	*12/31/02*	*12/31/03*	*12/31/04*	*12/31/05*	*12/31/06*
Evans Bancorp, Inc.	100.00	133.19	144.22	164.57	148.66	146.20
NASDAQ Composite	100.00	68.76	103.67	113.16	115.57	127.58
NASDAQ Bank	100.00	106.95	142.29	161.73	158.61	180.53

In accordance with and to the extent permitted by applicable law or regulation, the information set forth above under the heading "Performance Graph" shall not be incorporated by reference into any future filing under the Securities Act, as amended, or the Exchange Act and shall not be deemed to be "soliciting material" or to be "filed" with the SEC under the Securities Act or the Exchange Act.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers. The following table includes all Company repurchases, including those made pursuant to publicly announced plans or programs during the quarter ended December 31, 2006.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
October 2006 (October 1, 2006 through October 31, 2006)	1,000	$ 21.37	1,000	47,715
November 2006 (November 1, 2006 through November 30, 2006)	1,800	$ 21.07	1,800	45,915
December 2006 (December 1, 2006 through December 31, 2006)	800	$ 20.85	800	45,115
Total	3,600	$ 21.10	3,600	

All 3,600 shares were purchased in open market transactions pursuant to the Company's repurchase program. On August 18, 2005, the Company announced that its Board of Directors had authorized a new common stock repurchase program, pursuant to which the Company may repurchase up to 75,000 shares of the Company's common stock over the next two years, unless the program is terminated earlier. This program supersedes and replaces the Company's stock repurchase program approved by the Company's Board of Directors on October 21, 2003, pursuant to which a maximum of 50,000 shares of common stock were authorized for repurchase. The Company did not make any repurchases during the quarter ended December 31, 2006, other than pursuant to this publicly announced program, and there were no other publicly announced plans or programs outstanding as of December 31, 2006. The Company has placed such repurchased shares in the treasury and accounts for such shares on a first-in-first-out basis.

Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

(Dollars in thousands except per share data)	2006	2005	2004	2003	2002
	As of and for the year ended December 31,				
Balance Sheet Data					
Assets	$473,894	$468,546	$429,042	$334,677	$288,711
Interest-earning assets	426,836	419,973	391,462	308,722	267,142
Investment securities	137,730	159,952	169,879	120,556	106,672
Loans and leases, net	285,367	256,810	217,599	185,528	148,998
Deposits	355,749	336,808	301,928	266,325	239,507
Borrowings	60,559	81,798	79,364	25,388	8,111
Stockholders' equity	39,543	36,876	35,474	33,324	30,862
Income Statement Data					
Net interest income	$ 14,847	$ 14,377	$ 12,597	$ 10,846	$ 10,395
Non-interest income	10,773	10,376	8,572	7,666	5,474
Non-interest expense	17,728	17,404	14,779	12,739	10,650
Net income	4,921	4,819	4,509	4,069	3,606
Per Share Data					
Earnings per share – basic	$ 1.81	$ 1.77	$ 1.65	$ 1.51	$ 1.34
Earnings per share – diluted	1.80	1.77	1.65	1.51	1.34
Cash dividends	0.68	0.65	0.61	0.57	0.49
Book value	14.46	13.51	13.03	12.37	11.42
Performance Ratios					
Return on average assets	1.05%	1.05%	1.15%	1.25%	1.36%
Return on average equity	12.99	13.34	13.13	12.77	12.51
Net interest margin	3.55	3.49	3.53	3.64	4.27
Efficiency ratio *	67.00	68.23	68.00	67.91	66.61
Dividend payout ratio	37.70	36.58	36.77	37.71	36.18
Capital Ratios					
Tier I capital to average assets	8.90%	8.29%	8.05%	8.30%	9.30%
Equity to assets	8.34	7.87	8.27	9.96	10.69
Asset Quality Ratios					
Total non-performing assets to total assets	0.15%	0.41%	0.42%	0.27%	0.51%
Total non-performing loans and leases to total loans and leases	0.23	0.72	0.82	0.49	0.79
Net charge-offs to average loans and leases	0.22	0.23	0.08	0.05	0.04
Allowance for loan and lease losses to total loans and leases	1.29	1.23	1.36	1.35	1.42
Allowance for loan and lease losses to non- performing loans and leases	564.80	171.71	166.05	276.47	179.27

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8, "Consolidated Financial Statements and Supplementary Data," of this Report on Form 10-K for further information and analysis of changes in the Company's financial condition and results of operations.

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* The calculation of the efficiency ratio excludes amortization of intangibles and goodwill, for comparative purposes. The amounts excluded are $563 thousand, $515 thousand, $385 thousand, $168 thousand, and $79 thousand for 2006, 2005, 2004, 2003 and 2002, respectively.

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

OVERVIEW

This discussion is intended to compare the performance of the Company for the years ended December 31, 2006, 2005 and 2004. The review of the information presented should be read in conjunction with Part I, "Item 1: Business" and Part II, "Item 6: Selected Financial Data" and "Item 8: Financial Statements and Supplementary Financial Data" of this Report on Form 10-K.

The Company is a financial holding company registered under the BHCA. During 2004, the Company reorganized its corporate structure by creating a mid-tier wholly-owned subsidiary, ENFS, which was formed by a dividend in-kind of all of the assets and liabilities of ENBI from the Bank. The Company currently conducts its business through its two direct wholly-owned subsidiaries: the Bank and the Bank's subsidiaries, ENL and ENHC; and ENFS and its subsidiaries, ENBI and ENB. The Company does not engage in any other substantial business. Unless the context otherwise requires, the term "Company" refers to Evans Bancorp, Inc. and its subsidiaries.

The Company's financial objectives are focused on earnings growth and return on average equity. Over the last five years, the Company's compounded annual net income growth has been 8.1%. The compounded annual growth rate for net loans and deposits for the last five years were 14.9% and 11.7%, respectively. To sustain future growth and to meet the Company's financial objectives, the Company has defined a number of strategies. Five of the more important strategies include:

- Expanding the Bank's market reach and penetration through de-novo branching and potential acquisitions;
- Continuing growth of non-interest income through insurance agency internal growth and potential acquisitions;
- Focusing on profitable customer segments;
- Leveraging technology to improve efficiency and customer service; and
- Maintaining a community based approach.

The Company's strategies are designed to direct tactical investment decisions supporting its financial objectives. The Company's most significant revenue source continues to be net interest income, defined as total interest income less interest expense. Interest income accounted for approximately 71% of total income in 2006. To produce net interest income and consistent earnings growth over the long-term, the Company must generate loan and deposit growth at acceptable margins within its market of operation. To generate and grow loans and deposits, the Company must focus on a number of areas including, but not limited to, the economy, branch expansion, sales practices, customer and employee satisfaction and retention, competition, evolving customer behavior, technology, product innovation, interest rates, credit performance of its customers and vendor relationships.

The Company also considers non-interest income important to its continued financial success. Fee income generation is partly related to the Company's loan and deposit operations, such as deposit service charges, as well as selling financial products, such as commercial and personal insurance through ENBI, non-deposit investment products through ENB and private wealth management services through a strategic alliance with Mellon Financial Services Corp.

While the Company reviews and manages all customer units, it has focused increased efforts on five targeted segments: (1) high value consumers, (2) smaller businesses with credit needs under $250,000, (3) medium-sized commercial businesses with credit needs over $250,000 up to $6.2 million, (4) commercial real estate and construction-related businesses, and (5) diversified leasing portfolio. These efforts have resulted in growth in the commercial and leasing portfolios, as well as core deposits during fiscal 2005 and 2006.

To support growth in targeted customer units, the Bank opened two de-novo branches during fiscal 2004 and fiscal 2005, and opened a third in January 2007. With all new and existing branches, the Company has strived to maintain a local community based philosophy. The Bank has emphasized hiring local branch and lending personnel with strong ties to the specific local communities it enters and serves.

The Company has expanded through acquisition, especially in its insurance agency segment, where ENBI acquired two agencies in 2006 which included Fire Service Agency, Inc. and a small book of business from another insurance agency in 2006. Additionally, the Company acquired four companies in 2005 and 2004, including the Truax Agency in July 2005, and Ulrich & Company in October 2004 and Ellwood and Easy PA agencies in January 2004. Historically, the Company has entered a new market for the insurance agency segment through acquisition of an existing book of business.

The Bank serves its market through 11 banking offices in Western New York, located in Amherst, Angola, Derby, Evans, Forestville, Hamburg, Lancaster, North Boston, West Seneca, North Buffalo and Tonawanda. The Company's principal source of funding is through deposits, which it reinvests in the community in the form of loans and investments. Deposits are insured up to the maximum permitted by the Insurance Fund of the FDIC. The Bank is regulated by the OCC. The Company operates in two reportable segments – banking activities and insurance agency activities.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

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

The most significant accounting policies followed by the Company are presented in Note 1 to the Consolidated Financial Statements included in Item 8 of this Report on Form 10-K. These policies, along with the disclosures presented in the other Notes to the Company's Consolidated Financial Statements contained in this Report on Form 10-K and in this financial review, provide information on how significant assets and liabilities are valued in the Company's Consolidated Financial Statements and how those values are determined.

Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions and estimates underlying those amounts, management has identified the determination of the allowance for loan and lease losses and valuation of goodwill to be the accounting areas that require the most subjective or complex judgments, and as such, could be most subject to revision as new information becomes available.

Allowance for Loan and Lease Losses

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

Goodwill

The amount of goodwill reflected in the Company's Consolidated Financial Statements is required to be tested by management for impairment on at least an annual basis. The test for impairment of goodwill on an identified reporting unit is considered a critical accounting estimate because it requires judgment on the part of management and the use of estimates related to the growth assumptions and market multiples used in the valuation model.

RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

Note 1 to the Company's Consolidated Financial Statements included in Item 8 of this Report on Form 10-K discusses new accounting policies adopted by the Company during fiscal 2006 and the expected impact of accounting policies recently issued or proposed but not yet required to be adopted. To the extent management believes the adoption of new accounting standards materially affects the Company's financial condition, results of operations, or liquidity, the impacts are discussed in the applicable sections of this Management's Discussion and Analysis of Financial Condition and Results of Operations and the Notes to the Company's Consolidated Financial Statements included in Item 8 of this Report on Form 10-K.

RESULTS OF OPERATIONS FOR YEARS ENDED DECEMBER 31, 2006 AND DECEMBER 31, 2005

Net Income

Net income of $4.9 million in 2006 consists of $4.1 million related to the Company's banking activities and $0.8 million related to the Company's insurance agency activities. The total net income of $4.9 million or $1.81 per share, basic and $1.80 per share, diluted in 2006 compares to $4.8 million or $1.77 per share, basic and diluted for 2005.

Net Interest Income

Net interest income, the difference between interest income and fee income on earning assets, such as loans and securities, and interest expense on deposits and borrowings, provides the primary basis for the Company's results of operations.

Net interest income is dependent on the amounts and yields earned on interest earning assets as compared to the amounts of and rates paid on interest bearing liabilities.

The following table segregates changes in interest earned and paid 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 income and expense due to both volume and rate has been allocated in the table to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

	2006 Compared to 2005 Increase (Decrease) Due to			2005 Compared to 2004 Increase (Decrease) Due to		
			(in thousands)			
	Volume	Rate	Total	Volume	Rate	Total
Interest earned on:						
Loans and leases	$ 2,304	$ 1,868	$ 4,172	$ 2,602	$ 1,754	$ 4,356
Taxable securities	(803)	349	(454)	798	211	1,009
Tax-exempt securities	(73)	21	(52)	(160)	(37)	(197)
Federal funds sold	(118)	54	(64)	(44)	62	18
Time deposits in other banks	(2)	(2)	(4)	(9)	(2)	(11)
Total interest-earning assets	$ 1,308	$ 2,290	$ 3,598	$ 3,187	$ 1,988	$ 5,175
Interest paid on:						
NOW accounts	$ 0	$ 0	$ 0	$ 1	$ (1)	$ 0
Savings deposits	(56)	178	122	61	193	254
Muni-vest	(504)	600	96	(188)	693	505
Time deposits	865	1,656	2,521	690	745	1,435
Federal funds purchased & other borrowings	10	379	389	1,139	125	1,264
Total interest-bearing liabilities	$ 315	$ 2,813	$ 3,128	$ 1,703	$ 1,755	$ 3,458

Net interest income, before the provision for loan and lease losses, increased $0.5 million or 3.3% to $14.8 million in 2006, as compared to $14.4 million in 2005. The increase in 2006 was attributable to the increase in average interest-earning assets of $6.1 million, and an increase of $1.4 million in average interest-bearing liabilities over 2005. This increase accounts, as indicated in the table above, for an increase in net interest income due to volume of approximately $1.0 million. The increase in net interest income due to volume increase on average earning assets was $1.3 million. The main factor for the increase in average earning assets was loans and leases outstanding, which totaled $268.5 million in 2006, up 13.4% from 2005's averages $236.8 million.

Total loan and lease growth continues to be driven by commercial loan and lease growth, which increased 13.0%, from $167.8 million average balance for 2005 to $189.7 million average balance in 2006. The success of the Company's small ticket leasing subsidiary accounted for 66.0% or $14.4 million of the total $21.9 million increase in average commercial loans. Consumer loans increased 14.3% from $71.5 million average balance in 2005 to $81.8 million in 2006.

The increase of $1.3 million in net interest income due to volume increases in average earning assets was offset by a $0.3 million decrease in net interest income from an increase in average interest-bearing liabilities in 2006. The increase in 2006 in interest-bearing liabilities was largely attributable to an increase of $24.6 million or 19.4% in average time deposits from $126.9 million in 2005 to $151.5 million in 2006. The largest increase in time deposits was in time deposits $100,000 and over, due to successful bidding on municipal deposits, along with some runoff of savings and Muni-vest into time deposits.

Additionally, average other borrowed funds, including FHLB advances and trust preferred securities, decreased 5.9% or by $3.6 million in 2006 compared to 2005.

In addition to changes in the composition of the Company's earning assets and interest-bearing liabilities, changes in interest rates and spreads can impact net interest income. Net interest spread, or the difference between yield on earning assets and rate on interest-bearing liabilities, was 3.05% in 2006, down slightly from 3.14% in 2005. The yield on interest-earning assets increased 78 basis points from 5.57% in 2005 to 6.35% in 2006, while the cost of interest-bearing liabilities increased 87 basis points, from 2.43% in 2005 to 3.30% in 2006.

Net interest-free funds consist largely of non-interest-bearing deposit accounts and stockholders' equity, offset by bank-owned life insurance and non-interest-earning assets, including goodwill and intangible assets. Average net interest-free funds totaled $63.8 million in 2006 compared to $59.2 million in 2005. The contribution of net interest-free funds to net interest margin was 0.50% in 2006, compared with 0.35% in 2005. This increase is primarily due to strong growth in non-interest bearing demand deposits in 2006.

Reflecting the changes to the net interest spread and the contribution of interest-free funds as described above, the Company's net interest margin increased from 3.49% during 2005 to 3.55% during 2006.

During 2006, the FRB continued to take steps to increase the level of interest rates by increasing its benchmark overnight federal funds target rate by 100 basis points during the first six months of 2006. The Company believes the continued efforts by the FRB to mitigate potential inflation through raising short-term interest rates, which has flattened the treasury yield curve, will continue to challenge the Company's net interest margin in 2007.

The Bank regularly monitors its exposure to interest rate risk. Management believes that 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 changes in interest rates. The Bank has adopted an asset/liability policy that specifies minimum limits for liquidity and capital ratios. This policy includes setting ranges for the negative impact acceptable on net interest income and on the fair value of equity 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 meetings, ALCO reviews the Bank's status and formulates its strategies based on current economic conditions, interest rate forecasts, loan demand, deposit volatility and the Bank's earnings objectives.

Allowance for Loan and Lease Losses

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

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

The analysis of the allowance for loan and lease losses is composed of three components: specific credit allocation, general portfolio allocation and a subjectively determined allocation. The specific credit allocation includes a detailed review of each loan in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan" and No. 118, "Accounting by Creditors for Impairment of a Loan — Income Recognition and Disclosure," and an allocation is made based on this analysis. The general portfolio allocation consists of an assigned reserve percentage based on the internal credit rating of each loan, using the Bank's historical loss experience and industry loss experience where the Bank does not have adequate or relevant experience.

The subjective portion of the allowance reflects management's current assessment of the New York State and Western New York economies. Both have lagged behind national prosperity, which continues to remain unsettled. Marginal job growth, in conjunction with a declining population base, has left the Bank's primary market more susceptible to potential credit problems. This is particularly true of commercial borrowers. Commercial loans represent a segment of significant past growth, as well as an area of concentration in the Bank's real estate portfolio. Commercial real estate values may be susceptible to decline in an adverse economy. The Bank's management believes that the Bank's loan and lease loss allowance complies with United States Generally Accepted Accounting Principles and regulations promulgated by the OCC, and is reflective of its assessment of the local environment, as well as a continued growth trend in commercial loans. For further information, see Note 1 to the Company's Consolidated Financial Statements included in Item 8 of this Report on Form 10-K.

The Company's provision for loan and lease losses was $1.1 million and $0.8 million in 2006 and 2005, respectively. Total non-performing loans amounted to $0.7 million and $1.9 million at December 31, 2006 and 2005, respectively.

The following table provides an analysis of the allowance for loan and lease losses, the total of charge-offs, non-performing loans and total allowance for loan and lease losses as a percentage of total loans outstanding for the five years ended December 31:

	2006	2005	2004	2003	2002
			(in thousands)		
Balance, beginning of year	$ 3,211	$ 2,999	$ 2,539	$ 2,146	$ 1,786
Provisions for loan and lease losses	1,128	769	485	480	420
Addition to allowance from acquisition	—	—	130	—	—
Recoveries	198	118	60	8	16
Loans and leases charged off	(798)	(675)	(215)	(95)	(76)
Balance, end of year	$ 3,739	$ 3,211	$ 2,999	$ 2,539	$ 2,146
Net charge-offs to total loans and leases	0.21%	0.21%	0.07%	0.05%	0.04%
Non-performing loans and leases to total loans and leases	0.23%	0.72%	0.82%	0.49%	0.79%
Allowance for loan and lease losses to total loans and leases	1.29%	1.23%	1.36%	1.35%	1.42%

An allocation of the allowance for loan and lease losses by portfolio type over the past five years follows (dollars in thousands):

	Balance at 12/31/2006 Attributable to:	Percent of loans in each category to total loans:	Balance at 12/31/2005 Attributable to:	Percent of loans in each category to total loans:	Balance at 12/31/2004 Attributable to:	Percent of loans in each category to total loans	Balance at 12/31/2003 Attributable to:	Percent of loans in each category to total loans	Balance at 12/31/2002 Attributable to:	Percent of loans in each category to total loans
Real estate Loans	$ 1,555	76.1%	$ 1,463	80.4%	$ 1,768	82.5%	$ 1,619	85.1%	$ 844	84.6%
Commercial Loans	889	10.2%	851	11.5%	618	13.0%	384	12.9%	259	13.5%
Consumer Loans	193	1.1%	183	1.1%	187	1.3%	147	1.4%	72	1.6%
All other Loans	40	1.6%	34	0.5%	—	1.1%	—	0.6%	—	0.3%
Direct financing leases	905	11.0%	470	6.5%	130	2.1%	—	—%	—	—%
Unallocated	157	—%	210	—%	296	—%	389	—%	971	—%
Total	$ 3,739	100.0%	$ 3,211	100.0%	$ 2,999	100.0%	$ 2,539	100.0%	$ 2,146	100.0%

Both the total increase in allowance for loan and lease losses and allocation of the allowance to commercial loans and direct financing leases are in response to the higher risk associated with the increase in commercial loans and direct financing leases. The increased allowance to commercial categories addresses the Bank's strategic decision to continue growing this product, as well as the local economy, which has lagged the national economy. Commercial loans are more susceptible to decreases in credit quality in cyclical downturns and the larger individual balances of commercial loans expose the Bank to larger losses. The increased allowance for direct financing leases is in response to the growth of that portfolio during 2006, following the December 31, 2004 acquisition of M&C Leasing by ENL. Similar to commercial loans, direct financing leases are susceptible to decreases in credit quality in cyclical downturns in the economy. The direct financing lease portfolio increased to $31.7 million or 11.0% of total loans at December 31, 2006 from $16.9 million or 6.5% of total loans at December 31, 2005.

The allowance for loan and lease losses is based on management's estimate, and ultimate losses will vary from current estimates. Factors underlying the determination of the allowance for loan and lease losses are continually evaluated by management based on changing market conditions and other known factors. Some factors underlying the allocation of loan losses have changed in 2006 as a result of the evaluation of underlying risk factors within each loan category. The underlying methodology to determine the adequacy of the allowance for loan losses is consistent with prior years.

Non-Interest Income

Total non-interest income increased approximately $0.4 million or 3.8% in 2006 over 2005. This compares to an increase of approximately $1.9 million or 21.8% in 2005 over 2004. As ENBI manages to a soft premium insurance market, its revenue was up slightly to $6.5 million, or a $0.1 million increase from 2005. The largest component of the increase in non-interest income was due to the increased activity in leasing. Fees from leasing increased $0.2 million or 104% compared to 2005. These fees include mainly late charge fees and early rental fees collected.

Non-Interest Expense

Total non-interest expense increased approximately $0.3 million or 1.9% in 2006 over 2005. The ratio of non-interest expense to average assets was 3.79% in 2006 compared to 3.80% in 2005. The largest increase in non-interest expense was in the salaries and employee benefits line, which increased $0.3 million, or 3.6%, in comparison to 2005. The Tonawanda branch of the Bank, increased loan staffing, ENBI acquisitions and merit increases contributed to the increased salary costs. Notably, the leasing operations added personnel to accommodate the growth experienced in 2006, as well as incentives paid to ENL personnel based on performance.

Occupancy and repair and maintenance expense increased approximately $0.1 million or 2.7% from 2005 to 2006, primarily due to ENBI's acquisition growth in both fiscal 2006 and a full year of expense for those acquisitions made in 2005.

Professional services expense decreased $0.1 million, or 15.0%, in 2006 over 2005, mainly due to service for a revenue enhancement and incentive compensation project in 2005 which did not occur in 2006.

Other expenses increased $0.1 million or approximately 3.3% in 2006. Expenses associated with Internet banking, ATM expense, telephone and data line costs, postage costs, maintenance on foreclosed properties and correspondent bank service charges fall under miscellaneous expenses. The increase reflects other transaction-based expenses related to the increased size and volume of the Bank's business.

Amortization of intangibles has increased approximately $0.1 million, reflecting the two insurance agency acquisitions completed 2006.

Taxes

The provision for income taxes in 2006 of $1.8 million reflects an effective tax rate of approximately 27.2%. This compares to $1.8 million or 26.8% in 2005. The increase in effective tax rate is mainly a result of decreased investment in tax advantaged municipal bonds as the Company has shifted those funds to higher yielding loan products. The proposed 2007 New York State budget bill contains a provision that would continue to allow banks with assets under $2 billion the exclusion of dividends paid by a Real Estate Investment Trust subsidiary ("REIT"). Until the bill is enacted as proposed, the Company could lose the tax benefit associated with the REIT if the legislation is changed to exclude the deduction. If the deduction is lost in the budget, the Company may have to increase the 2007 tax provision by approximately $0.2 million as compared to 2006 beginning in the first quarter of 2007.

RESULTS OF OPERATIONS FOR YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

Net Income

Net income of $4.8 million in 2005 consists of $4.0 million related to the Company's banking activities and $0.8 million related to the Company's insurance agency activities. The total net income of $4.8 million or $1.77 per share, basic and diluted in 2005 compares to $4.5 million or $1.65 per share, basic and diluted for 2004.

Net Interest Income

Net interest income, before the provision for loan and lease losses, increased $1.8 million or 14.1% to $14.4 million in 2005, as compared to $12.6 million in 2004. The increase in 2005 was attributable to the increase in average interest-earning assets of $54.7 million, and an increase of $52.9 million in average interest-bearing liabilities over 2004. This increase accounts for an increase in net interest income due to volume of approximately $1.5 million. The increase in net interest income due to volume increase on average earning assets was $3.2 million. The two most significant factors for the increase in average earning assets included higher average securities and loans outstanding, which totaled $170.5 million and $236.8 million in 2005, up 11.7% and 20.4%, respectively, from 2004's averages of $152.7 million and $196.7 million.

Non-Interest Income

Total non-interest income increased approximately $1.8 million or 21.1% in 2005 over 2004. This compares to an increase of approximately $0.9 million or 11.8% in 2004 over 2003. Bank service charge income in 2005 increased $0.2 million over 2004, mainly as a result of higher overdraft fee income.

Insurance fee revenue in 2005 increased $1.3 million over 2004. The increased insurance fee revenue was primarily the result of a full year of income from an acquisition on October 1, 2004.

Additionally, there was $0.2 million in fee income from ENL, which was acquired on December 31, 2004; $0.1 million in life insurance proceeds from a former director; and a $0.2 million increase in bank owned life insurance in 2005.

Non-Interest Expense

Total non-interest expense increased approximately $2.6 million or 17.8% in 2005 over 2004. The ratio of non-interest expense to average assets was 3.80% in 2005 compared to 3.76% in 2004. Non-interest expense categories include those most impacted by branch expansion, the ENL acquisition and the increased operations of ENBI due to acquisitions: salaries and benefits, occupancy, advertising, and supplies, among others. Salary and benefit expense increased 17.8% during 2005 over 2004. Of the $1.4 million increase in salary and benefit expense in 2005 over 2004, the Bank's operations represented approximately $1.0 million, of which $0.4 million was related to the ENL acquisition, and ENBI represented approximately $0.4 million. The North Buffalo branch of the Bank, ENL, increased loan staffing, ENBI expansion and merit increases contributed to the increased salary costs. The first full operating year of an acquisition which was acquired on October 1, 2004, contributed to ENBI's increased salary and benefit expense in 2005.

Occupancy and repair and maintenance expense increased approximately $0.3 million or 12.8% from 2004 to 2005, primarily due to ENBI's acquisition growth and the Bank's new branch in North Buffalo, and the first full operating year of the new administrative offices in Hamburg, New York.

Professional services expense increased $0.3 million, or 34.3%, in 2005 over 2004, mainly due to services for revenue enhancement and incentive compensation, among other projects.

Other expenses increased $0.4 million or approximately 14.0% in 2005. Expenses associated with Internet banking, ATM expense, telephone and data line costs, postage costs, maintenance on foreclosed properties, director fees and correspondent bank service charges fall under miscellaneous expenses. The increase reflects other transaction-based expenses related to the increased size and volume of the Bank's business.

Amortization of intangibles has increased approximately $0.1 million, reflecting the three insurance agency acquisitions completed in 2004 and one in 2005.

Taxes

The provision for income taxes in 2005 of $1.8 million reflects an effective tax rate of approximately 26.8%. This compares to $1.4 million or 23.6% in 2004. The increase in effective tax rate is mainly a result of decreased investment in tax advantaged municipal bonds as the Company has shifted those funds to higher yielding loan products.

FINANCIAL CONDITION

The Company had total assets of $473.9 million at December 31, 2006, an increase of $5.3 million or 1.1% over $468.5 million at December 31, 2005. Net loans of $285.4 million increased 11.1% or $28.6 million over 2005. Securities decreased $22.2 million or 13.9% from 2005. Deposits grew by $18.9 million or 5.6%. Stockholders' equity increased $2.7 million or 7.2%. Net unrealized losses on investment securities held by the Bank of $2.1 million at December 31, 2005 decreased slightly $0.1 million in 2006 to a net unrealized loss of $2.0 million at December 31, 2006.

Loans

Loans comprised 64.2% and 57.5% of the Company's total average earning assets in 2006 and 2005, respectively. Actual year-end balances increased 11.1% in 2006, as compared to an increase of 18.0% in 2005. The Company continues to focus its lending on commercial and residential mortgages, commercial loans, home equity loans and direct financing leases. Commercial mortgages make up the largest segment of the portfolio at 42.8% of total loans. Residential mortgages comprise 20.0% of the loan portfolio and 6.3% are home equity loans. Other commercial loans account for 10.2% of outstanding loans. Commercial loans total $29.6 million at December 31, 2006, reflecting a 1.1% or $0.3 million decrease in 2006 over 2005. Residential mortgages totaled $57.7 million at December 31, 2006, reflecting an 18.8% or $9.1 million increase in 2006 over 2005. Prior to fiscal 2004, a significant portion of fixed rate residential mortgages originated were sold to the secondary market in order to minimize interest rate risk in the Bank's portfolio. In 2005 and 2006, the Bank originated and retained fixed rate residential real estate loans with shorter maturities, reflecting the improving interest rate environment.

At December 31, 2006, the Bank had a loan/deposit ratio of 81.3%. This compares to a loan/deposit ratio of 77.2% at December 31, 2005.

At December 31, 2006, the Bank retained the servicing rights to $28.7 million in long-term mortgages sold to the FNMA. This compares to a loan servicing portfolio principal balance of $28.8 million at December 31, 2005. The arrangement that the Bank has with FNMA allows it to offer long-term mortgages without exposure to the associated interest rate risks, while retaining customer account relationships. In 2006 and 2005, the Bank sold loans to FNMA totaling approximately $2.6 million and $2.5 million, respectively.

Securities and Federal Funds Sold

Securities and federal funds sold made up 35.8% of the Bank's total average interest earning assets in 2006 compared to 42.5% in 2005. These categories provide the Bank with additional sources of liquidity and income. The Bank's securities portfolio outstanding balances declined 13.9% in 2006 from 2005. The Bank continues to have a large concentration in tax-advantaged municipal bonds, which make up 30.9% of the portfolio at December 31, 2006 versus 29.3% at December 31, 2005; U.S. government-sponsored mortgage-backed securities, which make up 43.8% of the portfolio at December 31, 2006 versus 45.1% at December 31, 2005; and U.S. government-sponsored agency bonds of various types, which comprise 22.5% of the total at December 31, 2006 versus 22.9% at December 31, 2005. As a member of both the Federal Reserve System and the Federal Home Loan Bank, the Bank is required to hold stock in those entities. These investments made up 2.8% of the portfolio at December 31, 2006 versus 2.7% of the portfolio at December 31, 2005. The credit quality of the securities portfolio is believed to be strong, with 96.9% of the securities portfolio carrying the equivalent of a Moody's rating of AAA.

Since 2004, the largest security portfolio concentration has been Government-sponsored mortgage-backed securities. The Bank determined the benefit of cash flows from mortgage-backed securities offers benefits in the current interest rate environment.

All fixed and adjustable rate mortgage pools contain a certain amount of risk related to the uncertainty of prepayments of the underlying mortgages. Interest rate changes have a direct impact on prepayment rates. The Company uses a third-party developed computer simulation model to monitor the average life and yield volatility of mortgage pools under various interest rate assumptions.

Federal funds sold balances are largely maintained for liquidity purposes. The average balance maintained in federal funds sold declined in 2006 to 0.3% of total average earning assets from 1.1% in 2005. At December 31, 2006, the Company was in a federal funds purchased position of $24.8 million, which is reported as part of “other borrowed funds” on the Company’s Consolidated Balance Sheets included under Item 8 of this Report on Form 10-K.

The Company manages its available for sale securities portfolio on a total return basis. Management regularly reviews the performance of the Company’s securities and sells specific securities to enhance net interest income and net interest margin. The Company realized $0.1 million in net gains on these sales in 2006 and $0.1 million in net gains in 2005.

SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities,” outlines accounting and reporting requirements for investment securities. The Company designates all securities at the time of purchase as either “held to maturity” or “available for sale.” Securities designated as held to maturity are stated on the Company’s Consolidated Balance Sheets included under Item 8 of this Report on Form 10-K at amortized cost. Those designated as available for sale are reported at fair market value. At December 31, 2006, $4.2 million in securities were designated as held to maturity. These bonds are primarily municipal investments that the Bank has made in its local trade area.

The available for sale portfolio totaled $133.5 million or approximately 96.9% of the Bank’s securities portfolio at December 31, 2006. Net unrealized gains and losses on available for sale securities resulted in a net unrealized loss of $1.9 million at December 31, 2006, as compared to a loss of $2.1 million at December 31, 2005. Unrealized gains and losses on available for sale securities are reported, net of taxes, as a separate component of shareholders’ equity. At December 31, 2006, the impact to equity was a net unrealized loss of approximately $1.2 million.

Management has assessed the securities available for sale in an unrealized loss position at December 31, 2006 and determined the decline in fair value below amortized cost to be temporary. In making this determination, management considered the period of time the securities were in a loss position, the percentage decline in comparison to the securities amortized cost, the financial condition of the issuer (primarily government or government-sponsored enterprises) and the Company’s ability and intent to hold these securities until their fair value recovers to their amortized cost. Management believes the decline in fair value is primarily related to market interest rate fluctuations and not to the credit deterioration of the individual issuer.

Deposits

Total deposits increased $18.9 million or 5.6% in 2006 over 2005. The most significant source of funding for the Company is core deposits. Core deposit funding consists of non-interest bearing deposits, NOW accounts, savings deposits, Muni-vest, and time deposits under $100,000. Core deposits increased $3.6 million in 2006 over 2005. Increases of $3.7 million, $1.6 million, and $0.9 million in Muni-vest, time deposits under $100,000, and demand deposits, respectively, were offset by decreases in NOW and savings of $1.1 million and $1.5 million, respectively. The result of higher balances in time deposits over $100,000 was partially due to customer response to higher interest rates offered on time deposits, resulting in a shift of funds from savings to time deposits.

Certificates of deposit in excess of $100,000 increased 23.5% to $80.2 million at December 31, 2006 from $64.9 million at December 31, 2005. These funds are generally not considered core deposits. Many of these deposits are obtained from municipalities through the competitive bidding process. The large increase in these deposits is due to the Bank’s successful bidding on large municipal funds. These funds are normally at a cost of funds less than borrowings.

Pension

The Company maintains a qualified defined benefit pension plan, which covers substantially all employees. Additionally, the Company has entered into individual retirement agreements with certain of its executive officers providing for unfunded supplemental pension benefits under the Company’s Supplemental Executive Retirement Plan (the “SERP”). The Company’s pension expense for the defined benefit pension plan, and the SERP, approximated $0.7 million, $0.6 million and $0.5 million for each of the years ended December 31, 2006, 2005 and 2004, respectively, and is calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on the Company’s plan assets of 7.50% for 2006, 2005 and 2004; compensation rate increases of 4.75% for 2006, 2005 and 2004 for the defined benefit pension plan and 5.00% in 2006, 2005 and 2004 for the SERP.

The expected long-term rate of return on pension plan assets assumption was determined based on historical returns earned by equity and fixed income securities, adjusted to reflect future return expectations based on pension plan targeted asset allocation. In evaluating compensation rate increases, the Company evaluated historical salary data as well as expected future increases. The Company will continue to evaluate its actuarial assumptions, including its expected rate of return and compensation rate increases at least annually, and will adjust as necessary.

The Company bases its determination of pension expense or income on a market-related valuation of assets, which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a three-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return based on the market-related value of assets. Since the market-related value of assets recognizes gains or losses over a three-year period, the future value of assets will be impacted as previously deferred gains or losses are recorded.

The discount rate utilized by the Company for determining future pension obligations is based on a review of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. The discount rate determined on this basis has increased from 5.50% at September 30, 2005, for purposes of the Company's defined benefit pension plan and at December 31, 2005, for purposes of the SERP, both of which are the measurement dates, to 5.75% for both plans at September 30, 2006 and December 31, 2006, respectively.

Liquidity

The Company utilizes cash flows from its investment portfolio and federal funds sold balances to manage the liquidity requirements it experiences due to loan demand and deposit fluctuations. The Bank also has many borrowing options. As a member of the FHLB, the Bank is able to borrow funds at competitive rates. Advances of up to $45.0 million can be drawn on the FHLB via the Bank's Overnight Line of Credit Agreement. 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 ability to purchase up to $10.0 million in federal funds from one of its correspondent banks. By placing sufficient collateral in safekeeping at the Federal Reserve Bank, the Bank could also borrow at the FRB's discount window. Additionally, the Bank has access to capital markets as a funding source.

The cash flows from the investment portfolio are laddered, so that securities mature at regular intervals, to provide funds from principal and interest payments at various times as liquidity needs may arise. Contractual maturities are also laddered, with consideration as to the volatility of market prices, so that securities are available for sale from time-to-time without the need to incur significant losses. At December 31, 2006, approximately 9.0% of the Bank's securities had maturity dates of one year or less, and approximately 33.5% had maturity dates of five years or less. At December 31, 2006, the Bank had net short-term liquidity of $21.6 million as compared to $18.7 million at December 31, 2005. Available assets of $138.6 million, less public and purchased funds of $173.6 million, resulted in a long-term liquidity ratio of 80% at December 31, 2006, versus 90% at December 31, 2005.

Management, on an ongoing basis, closely monitors the Company's liquidity position for compliance with internal policies, and believes that available sources of liquidity are adequate to meet funding needs in the normal course of business. Management does not anticipate engaging in any activities, either currently or the long-term, for which adequate funding would not be available and would therefore result in significant pressure on liquidity.

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

Contractual Obligations

The Company is party to contractual financial obligations, including repayment of borrowings, operating lease payments and commitments to extend credit. The table below presents certain future financial obligations.

	Payments due within time period at December 31, 2006 (in thousands)				
	0-12 Months	1-3 Years	4-5 Years	Due After 5 Years	Total
Securities sold under agreement to repurchase	$ 8,954	$ —	$ —	$ —	$ 8,954
Operating lease obligations	478	907	709	4,211	6,305
Other borrowed funds	27,508	8,721	—	13,000	49,229
Junior subordinated debentures	—	—	—	11,330	11,330
Total	$ 36,940	$ 9,628	$ 709	$ 28,541	$ 75,818
Interest expense on fixed rate debt	$ 733	$ 1,347	$ 901	$ 882	$ 3,863

The Company's variable rate debt included in other borrowed funds is related to short-term funding which is used only to cover seasonal funding needs, which are undeterminable for a particular year.

At December 31, 2006, the Company had commitments to extend credit of $68.1 million compared to $68.5 million at December 31, 2005. For additional information regarding future financial commitments, this disclosure should be read in conjunction with Note 15 to the Company's Consolidated Financial Statements included in Item 8 of this Report on Form 10-K.

Capital

The Company and Bank have consistently maintained regulatory capital ratios at, or above, well capitalized standards. For further detail on capital and capital ratios, see Note 19 to the Company's Consolidated Financial Statements included under Item 8 of this Report on Form 10-K.

Total Company stockholders' equity was $39.5 million at December 31, 2006, up from $36.9 million at December 31, 2005. Equity as a percentage of assets was 8.3% at December 31, 2006, compared to 7.9% at December 31, 2005. Book value per share of common stock rose to $14.46 at December 31, 2006, up from $13.51 at December 31, 2005.

Included in stockholders' equity was accumulated other comprehensive income which reflects the net after-tax impact of unrealized gains or losses on investment securities classified as available for sale. Net unrealized losses were $1.2 million, or $0.43 per share of common stock, at December 31, 2006, as compared to net unrealized gains on available-for-sale investment securities of $1.3 million, and $0.47 per share of common stock, at December 31, 2006. Such unrealized losses are generally due to changes in interest rates and represent the difference, net of applicable income tax effect, between the estimated fair value and amortized cost of investment securities classified as available-for-sale.

The Company paid cash dividends per share of common stock of $0.68 in 2006 and $0.65 in 2005. The dividend payout is continually reviewed by management and the Company's Board of Directors. The dividend payout ratio, which represents cash dividends paid, divided by net income, was 37.70% and 36.58% for the years 2006 and 2005, respectively.

Market Risk

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

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

SENSITIVITY OF NET INTEREST INCOME TO CHANGES IN INTEREST RATES

Changes in interest rates	Calculated (decrease) increase in projected annual net interest income (in thousands) December 31, 2006	December 31, 2005
+200 basis points	$(853)	$(777)
+100 basis points	(424)	(386)
-100 basis points	379	337
-200 basis points	551	542

Many assumptions are utilized by the Bank to calculate the impact that changes in interest rates may have on net interest income. The more significant assumptions related to the rate of prepayments of mortgage-related assets, loan and deposit volumes and pricing, and deposit maturities. The Bank also assumes immediate changes in rates, including 100 and 200 basis point rate changes. In the event that a 100 or 200 basis point rate change cannot be achieved, the applicable rate changes are limited to lesser amounts, such that interest rates cannot be less than zero. These assumptions are inherently uncertain and, as a result, the Bank cannot precisely predict the impact of changes in interest rates on net interest income. Actual results may differ significantly due to the timing, magnitude, and frequency of interest rate changes in market conditions and interest rate differentials (spreads) between maturity/re-pricing categories, as well as any actions, such as those previously described, which management may take to counter such changes. In light of the uncertainties and assumptions associated with the process, the amounts presented in the table, and changes in such amounts, are not considered significant to the Bank's projected net interest income.

Financial instruments with off-balance sheet risk at December 31, 2006 included $21.2 million in undisbursed lines of credit at an average interest rate of 8.1%; $18.0 million in fixed rate loan origination commitments at 6.6%; $21.1 million in adjustable rate loan origination commitments at 7.5%; and $2.5 million in adjustable rate letters of credit at an approximate average rate of 9.0%.

The following table represents expected maturities of interest-bearing assets and liabilities and their corresponding average interest rates.

Expected maturity year ended December 31,	**2007**	**2008**	**2009**	**2010**	**2011**	**Thereafter**	**Total**	**Fair Value**
				(dollars in thousands)				
Interest-Assets								
Net loans receivable	$ 29,788	$14,537	$23,076	$22,122	$17,915	$177,929	$285,367	$281,520
Average interest	8.78%	10.55%	10.23%	10.25%	9.40%	6.76%	7.88%	7.88%
Investment securities	12,395	11,335	8,432	8,233	5,802	91,533	137,730	137,730
Average interest	3.65%	3.66%	3.96%	4.32%	4.18%	4.61%	4.34%	4.34%
Interest – Liabilities								
Interest bearing deposits	249,745	21,118	5,792	536	6,427	6	283,624	284,451
Average interest	3.27%	4.42%	5.46%	4.00%	4.22%	7.50%	3.42%	3.42%
Borrowed funds & Securities sold under agreements to repurchase	36,462	669	8,052	—	—	13,000	58,183	57,092
Average interest	4.03%	3.22%	3.11%	—	—	3.46%	3.77%	3.77%
Junior subordinated debentures	—	—	—	—	—	11,330	11,330	11,330
Average interest	—	—	—	—	—	8.02%	8.02%	8.02%

When rates rise or fall, the market value of the Company's rate-sensitive assets and liabilities increases or decreases. As a part of the Company's asset/liability policy, the Company has set limitations on the negative impact to the market value of its balance sheet that would be acceptable. 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 SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." At December 31, 2006, the impact to equity, net of tax, as a result of marking available for sale securities to market was an unrealized loss of $1.2 million. On a monthly basis, the available for sale portfolio is shocked for immediate rate increases of 200 basis points. At December 31, 2006, the Company determined it would take an immediate increase in rates in excess of 200 basis points to eliminate the current capital cushion in excess of regulatory requirements. The Company's and the Bank's capital ratios are also reviewed on a quarterly basis.

Capital Expenditures

Planned expenditures include replacing a number of technology upgrades to the system, replacing and adding automated teller machines (ATMs) and miscellaneous other facility improvements to existing locations. The Company believes it has a sufficient capital base to support these known and potential capital expenditures of approximately $0.7 million with current assets.

Impact of Inflation and Changing Prices

There will continually be economic events, such as changes in the economic policies of the FRB 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 re-pricing frequency of assets and liabilities to avoid a significant concentration that could result in a negative impact on earnings.

Segment Information

In accordance with the provisions of SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," the Company's reportable segments have been determined based upon its internal profitability reporting system, which are comprised of banking activities and insurance agency activities.

The banking activities segment includes all of the activities of the Bank in its function as a full-service commercial bank. This includes the operations of ENL, which provides direct financing leasing. Net income from banking activities was $4.1 million in 2006, which represents a $0.1 million or 1.6% increase over 2005. The increase in net income from banking activities was driven by increases in net interest income. Total assets of the banking activities segment increased $5.5 million or 1.2% during 2006 to $461.5 million at December 31, 2006, due primarily to growth in loans during 2006.

The insurance activities segment includes activities of ENBI, which is a retail property and casualty insurance agency with twelve locations in the Western New York area. This includes the operations at ENB, which provides non-deposit investment products. Net income from insurance activities was $0.9 million in 2006, which represents a $36 thousand or 4.4% increase from 2005. Total assets of the insurance activities segment were $12.4 million at December 31, 2006, which compares to $12.5 million at December 31, 2005. Total revenues increased $89 thousand, or 1.4% over 2005.

Fourth Quarter Results

Net income was $1.2 million, or $0.43 per basic and diluted share, for the quarter ended December 31, 2006, as compared to $1.1 million, or $0.41 per basic and diluted share, for the quarter ended December 31, 2005.

The Company's net interest margin for the quarter was 3.66%, up 18 basis points from last year's fourth quarter net interest margin of 3.48%. The largest contributing factor to the improvement was the growth of interest free funds, as the bank continues to have success in penetrating its market area with core transactional accounts. Net interest income after the provision for loan and lease losses was $3.5 million in the fourth quarter 2006, up $0.1 million from $3.4 million in the same period of 2005. A higher provision for loan and lease losses reflects the growth in the allowance for loan and lease losses primarily due to a larger loan and lease base over last year.

Total non-interest income for the fourth quarter of 2006 was $2.5 million, or approximately 26.3% of total revenue, an increase of 4.2%, or $0.1 million, over the fourth quarter of 2005. Higher other income was primarily from loan and lease-volume driven revenue, which includes significant increases in lease fee income. Insurance service and fees, although impacted by the soft insurance market, increased slightly in the quarter.

Non-interest expense for the fourth quarter of 2006 increased slightly to $4.4 million from $4.3 million in the fourth quarter of 2005. Slight increases in occupancy, supplies, repair and maintenance, and advertising are related to the opening of the Tonawanda, New York bank branch in December 2006. A $0.1 million decrease in salaries during the quarter was mainly attributable to a decline in profit sharing expenses from the same period in 2005.

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Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this Item is incorporated by reference to the discussion of “Liquidity” and “Market Risk,” including the discussion under the caption “Sensitivity of Net Interest Income to Changes in Interest Rates” included in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial Statements and Supplementary Data consist of the financial statements as indexed and presented below and the Unaudited Quarterly Financial Data presented in Part II, Item 8. of this Report.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Evans Bancorp, Inc.:

We have audited the accompanying consolidated balance sheets of Evans Bancorp, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Evans Bancorp, Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, Evans Bancorp, Inc. and subsidiaries adopted Securities and Exchange Commission Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* as of January 1, 2006 and Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* as of December 31, 2006.

/s/ KPMG LLP
March 22, 2007
Buffalo, New York

EVANS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005
(in thousands, except share and per share amounts)

	2006	2005
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 12,592	$ 15,635
Securities:		
Available for sale, at fair value	133,519	155,610
Held to maturity, at amortized cost	4,211	4,342
Loans and leases, net of allowance for loan and lease losses of $3,739 in 2006 and $3,211in 2005	285,367	256,810
Properties and equipment, net	8,743	8,151
Goodwill	10,003	9,639
Intangible assets	2,298	2,728
Bank-owned life insurance	10,140	9,586
Other assets	7,021	6,045
TOTAL ASSETS	$473,894	$468,546
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Demand	$ 72,125	$ 71,183
NOW	11,253	12,401
Regular savings	85,084	86,558
Muni-vest	31,240	27,521
Time	156,047	139,145
Total deposits	355,749	336,808
Federal funds purchased and agreements to repurchase securities	8,954	8,985
Other short term borrowings	24,753	34,585
Other liabilities	9,089	6,629
Junior subordinated debentures	11,330	11,330
Long term borrowings	24,476	33,333
Total liabilities	434,351	431,670
CONTINGENT LIABILITIES AND COMMITMENTS		
STOCKHOLDERS' EQUITY:		
Common stock, $.50 par value, 10,000,000 shares authorized; 2,745,338 and 2,745,338 shares issued, respectively, and 2,733,056 and 2,729,779 shares outstanding, respectively	1,373	1,373
Capital surplus	26,160	26,155
Retained earnings	14,196	11,087
Accumulated other comprehensive (loss) income, net of tax	(1,917)	(1,387)
Less: Treasury stock, at cost (12,282 and 15,559 shares, respectively)	(269)	(352)
Total stockholders' equity	39,543	36,876
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$473,894	$468,546

See Notes to Consolidated Financial Statements.

EVANS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(in thousands, except share and per share amounts)

	2006	2005	2004
INTEREST INCOME:			
Loans	$ 20,405	$ 16,234	$ 11,815
Federal funds sold/Interest bearing deposits at other banks	49	116	109
Securities:			
Taxable	4,209	4,663	3,654
Non-taxable	1,881	1,933	2,130
Total interest income	26,544	22,946	17,708
INTEREST EXPENSE			
Deposits	8,979	6,241	4,047
Other borrowings	1,868	1,666	932
Junior subordinated debentures	850	662	132
Total interest expense	11,697	8,569	5,111
NET INTEREST INCOME	14,847	14,377	12,597
PROVISION FOR LOAN AND LEASE LOSSES	1,128	769	485
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	13,719	13,608	12,112
NON-INTEREST INCOME:			
Bank charges	1,990	2,077	1,890
Insurance service and fees	6,466	6,377	5,053
Net gain on sales of securities	140	107	245
Premium on loans sold	10	18	17
Bank-owned life insurance	554	513	356
Life insurance proceeds	—	95	—
Other	1,613	1,189	1,011
Total non-interest income	10,773	10,376	8,572
NON-INTEREST EXPENSE:			
Salaries and employee benefits	9,677	9,338	7,927
Occupancy	2,055	1,978	1,805
Supplies	302	337	290
Repairs and maintenance	545	553	439
Advertising and public relations	442	464	337
Professional services	838	986	734
Amortization of intangibles	563	515	385
Other insurance	347	368	349
Other	2,959	2,865	2,513
Total non-interest expense	17,728	17,404	14,779
INCOME BEFORE INCOME TAXES	6,764	6,580	5,905
INCOME TAXES	1,843	1,761	1,396
NET INCOME	$ 4,921	$ 4,819	$ 4,509
Net income per common share – basic	$ 1.81	$ 1.77	$ 1.65
Net income per common share – diluted	$ 1.80	$ 1.77	$ 1.65
Weighted average number of basic common shares	2,725,601	2,722,644	2,725,469
Weighted average number of diluted shares	2,727,331	2,723,960	2,727,363

See Notes to Consolidated Financial Statements.

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EVANS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006, 2005 and 2004
(in thousands, except share and per share)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
BALANCE – December 31, 2003	1,230	19,359	11,145	1,918	(328)	33,324
Comprehensive income:						
2004 net income			4,509			4,509
Unrealized loss on available for sale securities, net of reclassification adjustment and tax effect				(1,320)		(1,320)
Additional minimum pension liability, net of tax effect — $22				(35)		(35)
Total comprehensive income						3,154
Cash dividends ($.61 per common share)			(1,659)			(1,659)
Stock option expense		165				165
Re-issuance of 14,947 shares under dividend reinvestment plan			18		340	358
Issued 31,942 shares for Ellwood and Easy PA acquisition	15	708				723
Re-issuance of 8,602 shares under Employee Stock Purchase Plan			(31)		200	169
Fractional shares paid in cash on stock dividend			(16)			(16)
Stock dividend 5 percent	62	3,129	(3,158)		(33)	—
Purchase of 30,000 shares for treasury					(744)	(744)
BALANCE – December 31, 2004	$ 1,307	$23,361	$10,808	$ 563	$ (565)	$35,474
Comprehensive income:			4,819			4,819
Unrealized loss on available for sale securities, net of reclassification adjustment and tax effect				(1,874)		(1,874)
Additional minimum pension liability, net of tax effect — $51				(76)		(76)
Total comprehensive income						2,869
Cash dividends ($.65 per common share)			(1,764)			(1,764)
Stock option expense		183				183
Re-issuance of 15,856 shares under dividend reinvestment plan		(37)	2		400	365
Re-issuance of 11,312 shares under Employee Stock Purchase Plan		(45)	(23)		274	206
Re-issuance of 800 shares under Directors Stock Option Plan			(3)		19	16
Fractional shares paid in cash on stock dividend			(13)			(13)
Stock dividend 5 percent	66	2,693	(2,739)		(20)	—
Purchase of 19,900 shares for treasury					(460)	(460)
BALANCE – December 31, 2005	$ 1,373	$26,155	$11,087	$ (1,387)	$ (352)	$36,876
Adjustments to initially apply SFAS 158, net of Taxes — $512				(702)		(702)
Impact of adopting SAB 108, net of tax $12			43			43
Comprehensive income:			4,921			4,921
Unrealized gain on available for sale securities, net of reclassification						

adjustment tax effect of $(56)				88		88
Additional minimum pension liability, net of tax effect — $(56)				84		84
Total comprehensive income						5,093
Cash dividends ($.68 per common share)			(1,855)			(1,855)
Stock option expense		93				93
Re-issuance of 18,754 shares under dividend reinvestment plan		(39)			413	374
Re-issuance of 10,873 shares under Employee Stock Purchase Plan		(49)			235	186
Purchase of 26,350 shares for treasury					(565)	(565)
BALANCE – December 31, 2006	$ 1,373	$26,160	$14,196	$ (1,917)	$ (269)	$39,543

See Notes to Consolidated Financial Statements.

EVANS BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(in thousands)

	2006	2005	2004
OPERATING ACTIVITIES:			
Interest received	$ 27,408	$ 23,490	$ 17,971
Fees and commission received	10,120	9,834	8,266
Proceeds from sale of loans held for resale	2,614	2,474	2,553
Originations of loans held for resale	(2,604)	(1,957)	(2,454)
Interest paid	(11,328)	(8,241)	(5,106)
Cash paid to employees and suppliers	(15,742)	(14,186)	(13,298)
Income taxes paid	(2,289)	(1,799)	(1,772)
Net cash provided by operating activities	8,179	9,615	6,160
INVESTING ACTIVITIES:			
Available for sale securities:			
Purchases	(13,331)	(23,225)	(97,341)
Proceeds from sales	2,112	7,070	17,235
Proceeds from maturities	33,256	24,612	27,664
Held to maturity securities:			
Purchases	(2,134)	(1,992)	(3,994)
Proceeds from maturities	2,161	820	3,796
Cash paid for bank-owned life insurance	—	(1,700)	(264)
Additions to properties and equipment	(1,406)	(1,238)	(2,497)
Increase in loans, net of repayments	(29,685)	(41,356)	(28,140)
Proceeds from bank-owned life insurance	—	665	—
Cash paid on earn-out agreements	(57)	(420)	—
Acquisitions	(497)	(133)	(12,537)
Net cash used in investing activities	(9,581)	(36,897)	(96,078)
FINANCING ACTIVITIES:			
Proceeds from borrowing	2,517	23,485	53,845
Proceeds from issuance of junior subordinated debentures	—	—	11,330
Repayment of long-term borrowings	(2,857)	(9,601)	(7,003)
Repayment of short-term borrowings	(18,382)	(12,321)	(2,350)
Increase in deposits	18,941	34,880	35,603
Dividends paid	(1,855)	(1,764)	(1,659)
Fractional shares paid in cash on stock dividends	—	(13)	(16)
Purchase of treasury stock	(565)	(460)	(744)
Re-issuance of treasury stock	560	587	527
Net cash (used in)/provided by financing activities	(1,641)	34,793	89,533
Net (decrease) increase in cash and cash equivalents	(3,043)	7,511	(385)
CASH AND CASH EQUIVALENTS:			
Beginning of year	15,635	8,124	8,509
End of year	$ 12,592	$ 15,635	$ 8,124

(Continued)

EVANS BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(in thousands)

	2006	2005	2004
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net income	$ 4,921	$ 4,819	$ 4,509
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,814	1,901	1,670
Deferred (benefit) tax expense	(291)	(102)	(54)
Provision for loan and lease losses	1,128	769	485
Proceeds from sale of loans held for resale	2,614	2,474	2,553
Originations of loans held for resale	(2,604)	(1,957)	(2,454)
Net gain on sales of assets	(140)	(107)	(239)
Premiums on loans sold	(10)	(18)	(17)
Stock options expense	93	183	165
Changes in assets and liabilities affecting cash flow:			
Other assets	(693)	(125)	953
Other liabilities	1,347	1,778	(1,411)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 8,179	$ 9,615	$ 6,160
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTMENTS AND FINANCIAL ACTIVITIES:			
Acquisition of insurance agencies:			
Fair value of			
Assets acquired, non-cash	$ —	$ —	$ 861
Liabilities assumed	—	—	—
Securities issued	—	—	723

See Notes to Consolidated Financial Statements. (Concluded)

EVANS BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and General - 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. Through August 2004, the Company was registered with the Federal Reserve Board as a bank holding company under the Bank Holding Company Act of 1956, as amended. In August 2004, the Company filed for, and was approved as, a Financial Holding Company under the Bank Holding Company Act. Subsequent to this change, the Company reorganized its corporate structure by creating a mid-tier wholly-owned subsidiary, Evans National Financial Services, Inc., which was formed by a dividend in-kind of all of the assets and liabilities of ENB Insurance Agency, Inc. from Evans National Bank. During 2005, the Company further reorganized by the Bank contributing as a dividend in-kind to ENB Insurance Agency, Inc. ("ENBI"), all the assets and liabilities of ENB Associates Inc. ("ENB"). The Company currently conducts its business through its two subsidiaries: Evans National Bank (the "Bank"), a nationally chartered bank, and its subsidiaries, Evans National Leasing, Inc. ("ENL") and Evans National Holding Corp. ("ENHC"); and Evans National Financial Services, Inc. ("ENFS") and its subsidiary, ENBI. Unless the context otherwise requires, the term "Company" refers to Evans Bancorp, Inc. and its subsidiaries. The Company conducts its business through its subsidiaries. It does not engage in any other substantial business.

Regulatory Requirements – The Company 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"), the Office of the Comptroller of the Currency ("OCC"), and the Securities and Exchange Commission ("SEC").

Principles of Consolidation – The consolidated financial statements include the accounts of the Company, the Bank, ENBI and their subsidiaries. All material inter-company accounts and transactions are eliminated in consolidation.

Accounting Estimates – The preparation of financial statements in conformity with U.S. 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 income and expenses during the reporting period. Actual results could differ from those estimates.

Securities – Securities which the Bank has the positive intent and ability to hold to maturity are classified as held to maturity and are stated at cost, adjusted for discounts and premiums that are recognized in interest income over the period to the earlier of the call date or maturity using the level yield method. These securities represent debt issuances of local municipalities in the Bank's market area for which market prices are not readily available. The amortized cost of the securities approximates market value. Management periodically evaluates the financial condition of the municipalities for impairment.

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 accumulated other comprehensive income (loss), a component of 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 write-down 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 our intent and ability to hold securities until fair values recover to amortized cost, 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.

Derivative Instruments and Hedging Activities - The Company follows the Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities, which require that an entity recognize all derivatives as either assets or liabilities on a balance sheet and measure those instruments at fair value. Changes in the fair value of derivatives must be recognized in earnings when they occur, unless the derivative qualifies as a hedge. If a derivative qualifies as a hedge, a company can elect to use hedge accounting to eliminate or reduce income statement volatility that would arise from reporting changes in a derivative's fair value in income.

Loans – The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout Erie, Chautauqua and Niagara counties. The ability of the Bank's debtors to honor their contracts is dependent upon numerous factors, including the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on those loans at the time they were originated. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method of accounting.

The Bank considers a loan to be impaired when, based on current information and events, it is probable that it will be unable to collect principal or interest due according to the contractual terms of the loan. Loan impairment is measured based on the present value of expected cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

Payments received on impaired loans are applied against the recorded investment in the loan. For loans other than those that the Bank expects repayment through liquidation of the collateral, when the remaining recorded investment in the impaired loan is less than or equal to the present value of the expected cash flows, income is recorded on a cash basis.

The accrual of interest on commercial loans and mortgages is discontinued at the time the loan is 90 days delinquent, unless the credit is well secured and in process of collection. In all cases, loans are placed on non-accrual status and are subject to charge-off at an earlier date if collection of principal or interest is considered doubtful.

All interest due but not collected for loans that are placed on non-accrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until it again qualifies for an accrual basis. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current, the adverse circumstances which resulted in the delinquent payment status are resolved, and payments are made in a timely manner for a period of time sufficient to reasonably assure their future dependability.

Leases – The Bank's leasing operations consists principally of the leasing of various types of small ticket commercial equipment. The Company follows Statement of Financial Accounting Standards No. 13, "Accounting for Leases" for all of its direct financing leases. The net investment in direct financing leases is the sum of all minimum lease payments and estimated residual values, less unearned income. All of the Bank's leases are classified as direct financing leases.

Allowance for Loan and Lease Losses – The allowance for loan losses represents the amount charged against the Bank's earnings to establish a reserve or allowance sufficient to absorb probable loan losses based on the Bank's management's evaluation of the loan portfolio. Factors considered by the Bank's management in establishing the allowance include: the collectibility of individual loans, current loan concentrations, charge-off history, delinquent loan percentages, input from regulatory agencies and general economic conditions.

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

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

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

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 expensed. Assessments are periodically performed by management, and an allowance for 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.

Goodwill and Other Intangible Assets – Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in connection with certain company acquisitions. The Company accounts for goodwill and other intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," which revised the accounting for purchased intangible assets, and in general, requires that goodwill not be amortized, but rather that it be tested for impairment at least annually. Other acquired intangible assets with finite lives are required to be amortized over their estimated lives. Intangible assets are amortized over estimated useful lives ranging from five to ten years. The Company periodically assesses whether events or changes in circumstances indicate that the carrying amounts of intangible assets may be impaired.

Bank-Owned Life Insurance – The Bank has purchased insurance on the lives of Company directors and certain members of Bank's, ENBI's and ENB's management. The policies accumulate asset values to meet future liabilities, including the payment of employee benefits, such as retirement benefits. Increases in the cash surrender value are recorded as other income in the consolidated statements of income.

Properties and Equipment – Properties and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 years. Impairment losses on properties and equipment are realized if the carrying amount is not recoverable from its undiscounted cash flows and exceeds its fair value.

Loan Servicing – The Bank, in its normal course of business, sells certain residential mortgages which it originates to the FNMA. The Company maintains servicing rights on the loans that it sells to FNMA and earns a fee thereon. At December 31, 2006 and 2005, the Company had approximately $28.7 million and $28.8 million, respectively, in unpaid principal balances of loans that it services for FNMA. For the years ended December 31, 2006 and 2005, the Company sold $2.6 million and $2.5 million, respectively, in loans to FNMA. The Company has a related asset of approximately $0.2 million for the servicing portfolio rights as of December 31, 2006. There were no loans held for sale at December 31, 2006 or 2005.

Income Taxes – Income taxes are accounted for under the asset and liability method under SFAS No. 109, "Accounting for Income Taxes." Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the periods in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through income tax expense.

Net Income Per Share – Net income per common share is based on the weighted average number of shares outstanding during each year, retroactively adjusted for stock splits and stock dividends. Dilutive earnings per common share is based on increasing the weighted-average number of shares of common stock by the number of shares of common stock that would be issued assuming the exercise of stock options. Such adjustments to weighted-average number of shares of common stock outstanding are made only when such adjustments are expected to dilute earnings per common share. Basic and diluted earnings per share are the same for December 31, 2005 and 2004. The Company's potential dilutive securities included 1,730, 1,316 and 1,894 shares of common stock for the years ended December 31, 2006, 2005 and 2004, respectively. All share and per share information presented is stated after giving effect to stock dividends. Potential common shares that would have the effect of increasing diluted earnings per share are considered to be anti-dilutive. In accordance with SFAS No. 128, "Earnings Per Share," these shares were not included in calculating diluted earnings per share. As of December 31, 2006, 2005, and 2004, there were 59 thousand, 59 thousand, and 27 thousand shares, respectively, that are not included in calculating diluted earnings per share because their effect was anti-dilutive.

Comprehensive Income – Comprehensive income includes both net income and other comprehensive income, including the change in unrealized gains and losses on securities available for sale, and the change in additional minimum liability related to pension costs, net of tax.

Employee Benefits – The Bank maintains a non-contributory, qualified, defined benefit pension plan ("Pension Plan") that covers substantially all employees who meet certain age and service requirements. The actuarially determined pension benefit in the form of a life annuity is based on the employee's combined years of service, age and compensation. The Bank's policy is to fund the minimum amount required by government regulations.

The Bank maintains a defined contribution 401(k) plan and accrues contributions due under this plan as earned by employees. In addition, the Bank maintains a non-qualified Supplemental Executive Retirement Plan for certain members of senior management, a non-qualified Deferred Compensation Plan for directors and certain members of management, and a non-qualified Executive Incentive Retirement Plan for certain members of management, as described more fully in Note 11 to these "Notes to Consolidated Financial Statements."

Financial Instruments with Off-Balance Sheet Risk – In the ordinary course of business, the Bank has entered into off-balance sheet financial arrangements 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 due from banks and federal funds sold. Generally, federal funds sold are purchased for one-day periods.

Cash 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 $3.8 million and $3.3 million at December 31, 2006 and 2005, respectively.

Reclassifications – Certain reclassifications have been made to the 2005 and 2004 financial statements to conform with the 2006 presentation.

ACCOUNTING CHANGES

Accounting for Defined Benefit Pensions and Other Postretirement Benefits — As of December 31, 2006, the company adopted SFAS No. 158, "Employer's Accounting for Defined Benefit Pensions and Other Postretirement Benefits" (SFAS 158). In accordance with this standard, the Company recorded the funded status of each of its defined benefit pension and postretirement plans as an asset or liability on its Consolidated Balance Sheet with a corresponding offset, net of taxes, recorded in Accumulated Other Comprehensive Income (Loss) Within Stockholders' Equity, resulting in an after-tax decrease in equity of $0.7 million. See Note 11 to "Notes to the Consolidated Financial Statements."

Staff Accounting Bulletin No. 108 - In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. There are two widely recognized methods for quantifying the effects of financial statement misstatements: the "roll-over" and "iron curtain" methods. The roll-over method, the method the Company historically used, focuses primarily on the impact of a misstatement on the income statement, including the reversing effect of prior year misstatements. The iron curtain method focuses primarily on the effect of correcting for the accumulated misstatement as of the balance sheet date, essentially correcting the balance sheet with less emphasis on the reversing effects of prior year errors on the income statements. In SAB 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements under both the roll-over and iron curtain methods. This framework is referred to as the "dual approach." SAB 108 permits companies to initially apply its provisions either by restating prior financial statements as if the dual approach had always been used or recording the cumulative effect of initially applying the dual approach as an adjustment to the balance sheet as of the first day of the fiscal year with an offsetting adjustment recorded to opening retained earnings. Use of the cumulative effect transition method is not permitted for otherwise immaterial misstatements that may be identified by a company and requires such immaterial misstatements to be recorded in current period earnings.

The Company adopted SAB 108 as of January 1, 2006 and completed its analysis of uncorrected misstatements under the "dual approach," concluding that certain adjustments were material under the iron curtain method, that were previously deemed to be immaterial under the rollover method. The Company sells loans to FNMA and retains the rights to service the loans. The Company had previously not recorded an asset for the servicing rights it retains for mortgages sold to

FNMA totaling approximately $164 thousand. The Company has certain operating leases with rent escalation clauses. The Company historically has recorded rent expense based on statement annual rents rather than recognizing total rent expense under the agreements on a straight-line basis over the terms. The corresponding liability recognized to properly record the lease liability on a straight line basis was $139 thousand. Lastly, the Company has historically had an unsupported tax reserve of $30 thousand which was reversed. As of January 1, 2006, the Company has increased retained earnings by approximately $43 thousand, increased other liabilities by approximately $139 thousand and increased other assets by approximately $182 thousand, net of tax effects, to address these items.

Stock-based Compensation - Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), “Share- Based Payment,” (SFAS No. 123R”), an amendment of SFAS No. 123, “Accounting for Stock-Based Compensation.” Prior to that date, the Company recognized expense for stock-based compensation using the fair value method of accounting described in SFAS No. 123. Stock-based compensation expense is recognized over the vesting period of the stock-based grant based on the estimated grant date value of the stock-based compensation that is expected to vest. Information on the determination of the estimated value of stock-based awards used to calculate stock-based compensation expense is included in Note 12 to “Notes to Consolidated Financial Statements.”

FUTURE APPLICATION OF ACCOUNTING STANDARDS

Accounting for Uncertainty in Income Taxes – In July 2006, the FASB issued FIN 48, “Accounting for Uncertainty in Income Taxes,” to set out a consistent framework for tax preparers to use to determine the appropriate level of tax reserves to maintain for uncertain tax positions. This interpretation of FASB Statement No. 109 uses a two-step approach wherein a tax benefit is recognized if a position is more likely than not to be sustained. The amount of the benefit is then measured to be the highest tax benefit that is greater than 50 percent likely to be realized. FIN 48 also sets out disclosure requirements to enhance transparency of an entity’s tax reserves. The Company will be required to adopt this interpretation as of January 1, 2007. The Company expects that the effect of adopting FIN 48 will not have a material effect.

Fair Value Measurements (SFAS 157) – In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (SFAS 157). This standard defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. In addition, SFAS 157 precludes the use of block discounts and supersedes the guidance in EITF 02-3, which prohibited the recognition of day-1 gains on certain derivative trades when determining the fair value of instruments not traded in an active market. With the adoption of this standard, these changes will be reflected as a cumulative effect adjustment to the opening balance of retained earnings. The standard also requires the Company to reflect its own credit standing when measuring the fair value of debt it has issued that is carried at fair value, including derivatives, prospectively from the date of adoption.

SFAS 157 is effective for the Company’s fiscal year beginning January 1, 2008, with earlier adoption permitted for the Company’s fiscal year beginning January 1, 2007. The Company is currently evaluating the potential impact of adopting this standard.

Fair Value Option (SFAS 159) – On February 15, 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (SFAS 159). Under this Standard, the Company may elect to report financial instruments and certain other items at fair value on a contract-by-contract basis with changes in value reported in earnings. This election is irrevocable. SFAS 159 provides an opportunity to mitigate volatility in reported earnings that is caused by measuring hedged assets and liabilities that were previously required to use a different accounting method than the related hedging contracts when the complex provisions of SFAS 133 hedge accounting are not met.

SFAS 159 is effective for years beginning after November 15, 2007. Early adoption within 120 days of the beginning of a company’s 2007 fiscal year is permissible, provided the company has not yet issued interim financial statements for 2007 and has adopted SFAS 157. The Company is currently evaluating the potential impact of adopting this standard.

Split-Dollar Life Insurance - At its September 2006 meeting, the Emerging Issues Task Force (“EITF”) reached a final consensus on Issue 06-04, “Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements.” The consensus stipulates that an agreement by an employer to share a portion of the proceeds of a life insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for under SFAS No. 106 or Accounting Principles Board Opinion (“APB”) No. 12, “Omnibus Opinion — 1967.” The consensus concludes that the purchase of a split-dollar life insurance policy does not constitute a settlement under SFAS No. 106 and, therefore, a liability for the postretirement obligation must be recognized under SFAS No. 106 if the benefit is offered under an arrangement that constitutes a plan or under APB No. 12 if it is not part of a plan. Issue 06-04 is effective for annual or interim reporting periods beginning after December 15, 2007. The provisions of Issue 06-04 should be applied through either a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or retrospective application. The Company has endorsement split-dollar life insurance policies covering certain directors and employees.

Also at its September 2006 meeting, the EITF reached a final consensus on Issue 06-05, “Accounting for Purchases of Life Insurance – Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4.” The consensus concludes that in determining the amount that could be realized under an insurance contract accounted for under FASB Technical Bulletin No. 85-4, “Accounting for purchases of Life Insurance,” the policyholder should (1) consider any additional amounts included in the contractual terms of the policy; (2) assume the surrender value on an individual-life by individual-life policy basis; and (3) not discount the cash surrender value component of the amount that could be realized when contractual restrictions on the ability to surrender a policy exist. Issue 06-05 is effective for fiscal years beginning after December 15, 2006. The consensus in Issue 06-05 should be adopted through either (1) a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or (2) a change in accounting principle through retrospective application to all prior periods. At December 31, 2006, the Company had bank owned life insurance policies with a carrying value of $10.1 million. The Company is currently evaluating the potential impact of adoption of the provisions of Issue 06-04 and Bulletin No. 85-4.

2. SECURITIES

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

	2006 (in thousands)			
		Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Available for Sale:				
Debt securities:				
U.S. government agencies	$ 31,597	$ —	$ (706)	$ 30,891
States and political subdivisions	37,592	895	(49)	38,438
Total debt securities	$ 69,189	$ 895	$ (755)	$ 69,329
Mortgage-backed securities:				
FNMA	31,084	2	(918)	30,168
FHLMC	8,689	15	(256)	8,448
GNMA	1,085	—	(41)	1,044
CMO’s	21,517	—	(888)	20,629
Total mortgage-backed securities	$ 62,375	17	(2,103)	60,289
FRB and FHLB Stock	3,901	—	—	3,901
Total	$135,465	$ 912	$ (2,858)	$133,519
Held to Maturity:				
Debt securities:				
U.S. government agencies	$ 35	$ —	$ —	$ 35
States and political subdivisions	4,176	—	—	4,176
Total	$ 4,211	$ —	$ —	$ 4,211

	2005 (in thousands)			
		Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Available for Sale:				
Debt securities:				
U.S. government agencies	$ 37,655	$ —	$ (1,051)	$ 36,604
States and political subdivisions	41,141	1,366	(44)	42,463
Total debt securities	$ 78,796	$ 1,366	$ (1,095)	$ 79,067
Mortgage-backed securities:				
FNMA	36,602	21	(1,054)	35,569
FHLMC	11,025	8	(286)	10,747
GNMA	1,378	—	(44)	1,334
CMO's	25,515	—	(1,006)	24,509
Total mortgage-backed securities	$ 74,520	29	(2,390)	72,159
FRB and FHLB Stock	4,384	—	—	4,384
Total	$157,700	$ 1,395	$ (3,485)	$155,610
Held to Maturity:				
Debt securities:				
U.S. government agencies	$ 35	$ —	$ —	$ 35
States and political subdivisions	4,307	—	—	4,307
Total	$ 4,342	$ —	$ —	$ 4,342

Available for sale securities with a total fair value of $115.1 million at December 31, 2006 were pledged as collateral to secure public deposits and for other purposes required or permitted by law.

The scheduled maturities of debt and mortgage-backed securities at December 31, 2006 are summarized below. All maturity amounts are contractual maturities. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call premiums.

	Available for Sale Securities		Held to Maturity Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)		(in thousands)	
Due in one year or less	$ 10,631	$ 10,539	$ 1,855	$ 1,855
Due after year one through five years	33,374	32,841	961	961
Due after five years through ten years	34,344	34,596	576	576
Due after ten years	53,215	51,642	819	819
Total	$131,564	$129,618	$ 4,211	$ 4,211

Realized gains and losses from $2.1 million, $7.0 million and $17.2 million gross sales on securities for the years ended December 31, 2006, 2005 and 2004, respectively, are summarized as follows:

	2006	2005	2004
		(in thousands)	
Gross gains	$ 140	$ 113	$ 344
Gross losses	—	(6)	(99)
Net gain	$ 140	$ 107	$ 245

Management has assessed the securities available for sale in an unrealized loss position at December 31, 2005 and 2004 and determined the decline in fair value below amortized cost to be temporary. In making this determination, management considered the period of time the securities were in a loss position, the percentage decline in comparison to the securities amortized cost, the financial condition of the issuer (primarily government or government-sponsored enterprises) and the Company’s ability and intent to hold these securities until their fair value recovers to their amortized cost. Management believes the decline in fair value is primarily related to market interest rate fluctuations and not to the credit deterioration of the individual issuer.

Information regarding unrealized losses within the Company’s available for sale securities is summarized below. The securities are all US government-guaranteed agency securities or fully insured municipal securities. All unrealized losses are considered temporary and related to market interest rate fluctuations.

	2006					
	Less than 12 months		12 months or longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)		(in thousands)		(in thousands)	
Debt securities						
U.S. government agencies	$ 5,927	$ (84)	$ 20,964	$ (622)	$ 26,891	$ (706)
States and political subdivisions	135	—	5,732	(49)	5,867	(49)
Total debt securities	$ 6,062	$ (84)	$ 26,696	$ (671)	$ 32,758	$ (755)
Mortgage-backed securities						
FNMA	$ 1,996	$ (4)	$ 27,662	$ (914)	$ 29,658	$ (918)
FHLMC	332	(4)	7,324	(252)	7,656	(256)
GNMA	—	—	1,044	(41)	1,044	(41)
CMO’s	—	—	20,622	(888)	20,622	(888)
Total mortgage-backed securities	$ 2,328	$ (8)	$ 56,652	$ (2,095)	$ 58,980	$ (2,103)
Total temporarily impaired Securities	$ 8,390	$ (92)	$ 83,348	$ (2,766)	$ 91,738	$ (2,858)

	2005					
	Less than 12 months		12 months or longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)		(in thousands)		(in thousands)	
Debt securities						
U.S. government agencies	$ 10,892	$ (103)	$ 25,712	$ (948)	$ 36,604	$ (1,051)
States and political subdivisions	6,721	(44)	—	—	6,721	(44)
Total debt securities	$ 17,613	$ (147)	$ 25,712	$ (948)	$ 43,325	$ (1,095)
Mortgage-backed securities						
FNMA	$ 13,144	$ (340)	$ 21,189	$ (714)	$ 34,333	$ (1,054)
FHLMC	111	(1)	9,305	(285)	9,416	(286)
GNMA	—	—	1,334	(44)	1,334	(44)
CMO’s	196	(3)	24,309	(1,003)	24,505	(1,006)
Total mortgage-backed securities	$ 13,451	$ (344)	$ 56,137	$ (2,046)	$ 69,588	$ (2,390)
Total temporarily impaired Securities	$ 31,064	$ (491)	$ 81,849	$ (2,994)	$ 112,913	$ (3,485)

3. LOANS AND LEASES, NET

Major categories of loans and leases at December 31, 2006 and 2005 are summarized as follows:

	2006	2005
	(in thousands)	
Mortgage loans on real estate:		
Residential 1-4 family	$ 57,702	$ 48,580
Commercial and multi-family	123,701	123,727
Construction	11,848	9,270
Second mortgages	8,625	6,454
Home equity lines of credit	18,147	21,082
Total mortgage loans on real estate	220,023	209,113
Direct financing leases	31,742	16,945
Commercial loans	29,589	29,920
Consumer loans	3,101	2,747
Other	3,997	642
Net deferred loan and lease origination costs	654	654
	289,106	260,021
Allowance for loan and lease losses	(3,739)	(3,211)
Loans and leases, net	$285,367	$256,810

Other loans include $0.2 million and $0.2 million at December 31, 2006 and 2005, respectively, of overdrawn deposit accounts classified as loans.

Changes in the allowance for loan and lease losses for the years ended December 31, 2006, 2005 and 2004 are as follows:

	2006	2005	2004
		(in thousands)	
Balance, beginning of year	$ 3,211	$ 2,999	$ 2,539
Provision for loan and lease losses	1,128	769	485
Addition of allowance from acquisition	—	—	130
Recoveries	198	118	60
Loans and leases charged off	(798)	(675)	(215)
Balance, end of year	$ 3,739	$ 3,211	$ 2,999

Non-accrual loans, for which an allowance for loan impairment was not required under SFAS No. 114, “Accounting by Creditors for Impairment of a Loan” due to the adequacy of related collateral values, totaled approximately $0.6 million and $1.8 million at December 31, 2006 and 2005, respectively. The average recorded investment in these loans during 2006, 2005 and 2004 was approximately $1.5 million; $1.6 million and $0.3 million, respectively. If such loans had been in an accruing status, the Bank would have recorded additional interest income of approximately $83 thousand; $128 thousand and $38 thousand in 2006, 2005 and 2004, respectively. Actual interest recognized on consolidated statements of income on non-accrual loans was $41 thousand, $140 thousand and $68 thousand in 2006, 2005 and 2004, respectively.

The Bank had no loan commitments to borrowers in non-accrual status at December 31, 2006.

As of December 31, 2006 and 2005, the Bank had no other loans which were impaired as defined by SFAS No. 114.

The following lists the components of the net investment in direct financing leases as of December 31:

	2006	2005
	(in thousands)	
Direct financing lease payments receivable	$ 39,190	$ 20,785
Estimated residual value of leased assets	318	199
Unearned income	(7,766)	(4,039)
Net investment in direct financing leases	$ 31,742	$ 16,945

At December 31, 2006, minimum future lease payments to be received are as follows:

Year Ending December 31:	
2007	$13,030
2008	11,562
2009	8,180
2010	4,712
2011	1,706
Thereafter	—
	$39,190

As of December 31, 2005, there were $24.8 million in loans pledged to FHLB.

4. PROPERTIES AND EQUIPMENT

Properties and equipment at December 31 were as follows:

	2006	2005
	(in thousands)	
Land	$ 268	$ 268
Buildings and improvements	9,204	8,714
Equipment	7,260	6,313
Construction in progress	3	3
	16,735	15,298
Less accumulated depreciation	(7,992)	(7,147)
Properties and equipment, net	$ 8,743	$ 8,151

Depreciation expense totaled $879 thousand in 2006, $834 thousand in 2005 and $730 thousand in 2004.

5. OTHER ASSETS

Other assets at December 31, were as follows:

	2006	2005
	(in thousands)	
Net deferred tax asset	$ 3,176	$ 2,509
Accrued interest receivable	2,052	2,044
Prepaid expenses	535	405
Other	1,258	1,087
Total	$ 7,021	$ 6,045

6. GOODWILL AND INTANGIBLE ASSETS

The Company applies the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," and discloses goodwill separate from other intangible assets in the Consolidated Balance Sheets.

The Company evaluates the carrying amount of goodwill for potential impairment on at least an annual basis.

Changes in the carrying amount of goodwill for the twelve-month period ended December 31, 2006 and 2005, by operating segment, are as follows:

	Banking Activities	Insurance Agency Activities	Total
		(in thousands)	
Balance as of January 1, 2006	$ 1,538	$ 8,101	$ 9,639
Goodwill acquired during the period	364	—	364
Balance as of December 31, 2006	$ 1,902	$ 8,101	$10,003

	Banking Activities	Insurance Agency Activities	Total
		(in thousands)	
Balance as of January 1, 2005	$ 1,453	$ 7,766	$ 9,219
Goodwill acquired during the period	85	335	420
Balance as of December 31, 2005	$ 1,538	$ 8,101	$ 9,639

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

2006	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Amortization Period
		(in thousands)		
Non-compete agreements	$ 638	$ (504)	$ 134	5 years
Insurance expirations	3,392	(1,228)	2,164	7 years
Total	$ 4,030	$ (1,732)	$ 2,298	7 years

2005	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Amortization Period
		(in thousands)		
Non-compete agreements	$ 604	$ (382)	$ 222	5 years
Intangible asset related to pension plan	429	—	429	N/A
Insurance expirations	2,867	(790)	2,077	8 years
Total	$ 3,900	$ (1,172)	$ 2,728	7 years

Amortization expense related to intangibles for the years ended December 31, 2006, 2005 and 2004 were $563 thousand; $515 thousand and $385 thousand, respectively. Estimated amortization expense for each of the five succeeding fiscal years is as follows:

Year Ending December 31	Amount (in thousands)
2007	$569
2008	478
2009	302
2010	285
2011	225

7. DEPOSITS

Time deposits, with minimum denominations of $100 thousand each, totaled $80.2 million and $64.9 million at December 31, 2006 and 2005, respectively.

At December 31, 2006, the scheduled maturities of time deposits are as follows:

	(in thousands)
2007	$ 122,169
2008	21,118
2009	5,792
2010	536
2011	6,426
2012	6
	$ 156,047

8. BORROWED FUNDS AND JUNIOR SUBORDINATED DEBENTURES

Borrowed funds mainly consisted of various advances from the Federal Home Loan Bank with interest rates ranging from 2.84% to 5.33%. The FHLB advances are collateralized by certain qualifying assets of $49.3 million at December 31, 2006. The maturities of other borrowed funds are as follows:

	(in thousands)
2007	$ 27,508
2008	669
2009	8,052
2010	—
2011	—
Thereafter	13,000
Total	$ 49,229

Short-term borrowings outstanding at December 31, 2006 of $24.8 million consisted of an overnight line of credit with the Federal Home Loan Bank. The Bank has the ability to borrow additional funds with the Federal Home Loan Bank based on the available securities collateral of the Bank, and to purchase federal funds through one of the Bank’s correspondent banks.

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

	Federal Funds Purchased	Other Short-Term Borrowings	Total
		(dollars in thousands)	
At December 31, 2006			
Amount Outstanding	24,753	—	24,753
Weighted-average interest rate	5.33%	—	5.33%
For the year ended December 31, 2006			
Highest amount at a month-end	43,178	—	
Daily average amount outstanding	16,718	—	16,718
Weighted-average interest rate	5.03%	—	5.03%
At December 31, 2005			
Amount outstanding	37,135	—	37,135
Weighted-average interest rate	4.19%	—	4.19%
For the year ended December 31, 2005			
Highest amount at a month-end	37,135	4,000	
Daily average amount outstanding	8,287	647	8,934
Weighted-average interest rate	3.89%	2.49%	3.79%
At December 31, 2004			
Amount outstanding	21,100	4,000	25,100
Weighted-average interest rate	2.46%	2.43%	2.46%
For the year ended December 31, 2004			
Highest amount at a month-end	21,100	4,000	
Daily average amount outstanding	2,243	1,027	3,270
Weighted-average interest rate	1.28%	2.20%	1.%

On October 1, 2004, Evans Capital Trust I, a statutory business trust wholly-owned by the Company (the "Trust"), issued $11.0 million in aggregate principal amount of floating rate preferred capital securities due November 23, 2034 (the "Capital Securities") classified on the Company's consolidated balance sheets as Junior Subordinated Debentures. The distribution rate on the Capital Securities of the Trust adjust quarterly based on changes in the three-month London Interbank Offered Rate ("LIBOR") and was 8.02% at December 31, 2006.

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

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

The proceeds from the issuances of the Capital Securities and Common Securities were used by the Trust to purchase $11,330 thousand aggregate liquidation amount of floating rate junior subordinated deferrable interest debentures ("Junior Subordinated Debentures") of the Company, due October 1, 2037, comprised of $11.0 million of capital securities and $330 thousand of common securities. The $330 thousand of common securities represent the initial capital contribution of the Company to the Trust, which, in accordance with the provision of FIN 46R "Consolidation of Variable Interest Entities," has not been consolidated.

The Junior Subordinated Debentures represent the sole assets of the Trust, and payments under the Junior Subordinated Debentures are the sole source of cash flow for the Trust. The interest rate payable on the Junior Subordinated Debentures was 8.02% at December 31, 2006.

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

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

9. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Bank enters into agreements with depositors to sell to the depositors securities owned by the Bank and repurchase the identical security, generally within one day. No physical movement of the securities is involved. The depositor is informed the securities are held in safekeeping by the Bank on behalf of the depositor.

10. COMPREHENSIVE (LOSS) INCOME

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

	2006		
	Before-tax Amount	Income Taxes	Net
		(in thousands)	
Unrealized losses on investment securities:			
Unrealized holding losses during period	$ 284	$ (112)	$ 172
Less: reclassification adjustment for gains realized in net income	140	(56)	84
Net unrealized gain (loss)	144	(56)	88
Decrease in additional minimum pension liability	140	(56)	84
Net other comprehensive income (loss)	$ 284	$ (112)	$ 172

	2005		
	Before-tax Amount	Income Taxes	Net
		(in thousands)	
Unrealized losses on investment securities:			
Unrealized holding losses during period	$ (2,962)	$ 1,152	$ (1,810)
Less: reclassification adjustment for gains realized in net income	107	(43)	64
Net unrealized loss	(3,069)	1,195	(1,874)
Increase in additional minimum pension liability	(127)	51	(76)
Net other comprehensive loss	$ (3,196)	$ 1,246	$ (1,950)

	2004		
	Before-tax Amount	Income Taxes	Net
		(in thousands)	
Unrealized losses on investment securities:			
Unrealized holding losses during period	$ (1,918)	$ 745	$ (1,173)
Less: reclassification adjustment for gains realized in net income	245	(98)	147
Net unrealized loss	(2,163)	843	(1,320)
Increase in additional minimum pension liability	(57)	22	(35)
Net other comprehensive loss	$ (2,220)	$ 865	$ (1,355)

11. EMPLOYEE BENEFITS AND DEFERRED COMPENSATION PLANS

The Bank has two defined benefit pension plans (the “Plans”). On December 31, 2006, the Bank adopted SFAS 158, which requires that it recognize the overfunded or underfunded status of the Plans as an asset or liability on the December 31, 2006 balance sheet. Subsequent changes in the funded status will be recognized through other comprehensive income in the year in which they occur. SFAS 158 also requires that, beginning in 2008, assumptions used to measure the Bank’s annual pension and retiree medical expenses be determined as of the balance sheet date, and all plan assets and liabilities be reported as of that date. In accordance with SFAS 158, prior year amounts have not been adjusted.

The following illustrates the incremental effect of applying SFAS 158, for the Plans, on individual line items on the Company’s Consolidated Balance Sheet as of December 31, 2006:

(in thousands)	Before application of SFAS 158	Adjustment	After application of SFAS 158
Intangible Assets	$ 2,671	$(373)	$ 2,298
Other Assets	6,509	512	7,021
Total Assets	473,755	139	473,894
Other Liabilities	8,248	841	9,089
Total Liabilities	433,510	841	434,351
Accumulated other comprehensive loss, net of tax	(1,215)	(702)	(1,917)
Total stockholders’ equity	40,245	(702)	39,543
Total liabilities and stockholders’ equity	$473,755	$ 139	$473,894

Employees' Pension 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.

Selected Financial Information for the Bank's Employees' Pension Plan is as follows:

	2006	2005
	(in thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 3,444	$ 2,935
Service cost	325	290
Interest cost	202	175
Assumption change	(155)	232
Actuarial gain	252	—
Benefits paid	(42)	(188)
Benefit obligations at end of year	4,026	3,444
Change in plan assets:		
Fair value of plan assets at beginning of year	3,000	2,478
Actual return on plan assets	217	309
Employer contributions	—	401
Benefits paid	(42)	(188)
Fair value of plan assets at end of year	3,175	3,000
Funded status	(851)	(444)
Unrecognized net actuarial loss	—	449
Unrecognized prior service cost	—	(144)
Net amount recognized	(851)	(139)
Amount recognized in the Consolidated Balance Sheets consists of:		
Accrued benefit liabilities	(851)	(139)
Amount recognized in Accumulated Other Comprehensive loss consist of:		
Net actuarial loss	534	N/A
Prior service cost	(124)	N/A
Net transition asset	(3)	N/A
Net amount recognized in equity – pre-tax	$ 407	N/A
Net amount recognized on Consolidated Balance Sheets	(444)	(139)
Accumulated benefit obligation at year end	$ 3,101	$ 2,619

The Plan's assets are primarily invested in equity and fixed income mutual funds. Valuations of the Pension Plan as shown above were conducted as of September 30, 2006 and 2005. Assumptions used by the Bank in the determination of Pension Plan information consisted of the following:

	2006	2005	2004
Weighted-average discount rate	5.75%	5.50%	6.00%
Rate of increase in compensation levels	4.75%	4.75%	4.75%
Expected long-term rate of return on plan assets	7.50%	7.50%	7.50%

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

	2006	2005	2004
		(in thousands)	
Service cost	$ 325	$ 290	$ 217
Interest cost	202	175	155
Expected return on plan assets	(234)	(194)	(169)
Net amortization and deferral	12	(13)	(12)
Net periodic benefit cost	$ 305	$ 258	$ 191

The estimated amounts to be amortized from accumulated other comprehensive loss into net periodic cost in 2007 for amortization of prior service costs, transition asset, and actuarial loss will be $15 thousand, $1 thousand and $29 thousand, respectively.

The expected long-term rate of return on Pension Plan assets assumption was determined based on historical returns earned by equity and fixed income securities, adjusted to reflect future return expectations based on plan targeted asset allocation. Equity and fixed income securities were assumed to earn returns in the ranges of 5.0% to 14.5% and 4.5% to 7.0%, respectively, including a long-term inflation rate estimated at 3.0%. When these overall return expectations are applied to the Pension Plan's targeted allocation, the expected rate of return is determined to be 7.50%, which is approximately the mid-point of the range of expected return. The weighted average asset allocation of the Pension Plan at September 30, 2006 and 2005, the Pension Plan measurement date, was as follows:

	2006	2005
Asset category:		
Equity mutual funds	63.6%	57.1%
Fixed income security mutual funds	36.4%	42.9%
	100.0%	100.0%

The Company's targeted long-term asset allocation on average will approximate 60%-70% with equity managers and 30%-40% with fixed income managers. This allocation is consistent with the Company's goal of diversifying the Pension Plan assets in order to preserve capital while achieving investment results that will contribute to the proper funding of pension obligations and cash flow requirements. The Company's management regularly reviews the Pension Plan's actual asset allocation and periodically rebalances its investments to the targeted allocation when considered appropriate. The Company's management believes that 7.50% is a reasonable long-term rate of return on the Pension Plan's Qualified Plan assets. The Company's management will continue to evaluate its actuarial assumptions, including the expected rate of return, at least annually, and will adjust as necessary. The Company's required minimum contribution to the Pension Plan for the 2007 plan year is approximately $264 thousand.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	(in thousands)
2007	$ 84
2008	84
2009	100
2010	111
2011	140
Years 2012-2016	1,254

Supplemental Executive Retirement Plan – The Bank also maintains a non-qualified supplemental executive retirement plan (the "SERP") covering certain members of the Company's senior management. The SERP was amended during 2003 to provide a benefit based on a percentage of final average earnings, as opposed to the fixed benefit that the superceded plan provided for. The obligations related to the SERP are indirectly funded by various life insurance contracts naming the Bank as beneficiary. The Bank has also indirectly funded the SERP, as well as other benefits provided to other employees through Bank-owned life insurance which was purchased in February 2003. 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.

Selected financial information for the SERP is as follows:

	2006	2005
	(in thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 2,830	$ 2,502
Service cost	117	104
Interest cost	151	148
Actuarial (loss)/gain	(177)	169
Benefits paid	(93)	(93)
Benefit obligations at end of year	2,828	2,830
Change in plan assets:		
Fair value of plan assets at beginning of year	—	—
Actual return on plan assets	—	—
Contributions to the plan	93	93
Benefits paid	(93)	(93)
Fair value of plan assets at end of year	—	—
Funded status	(2,828)	(2,830)
Unrecognized actuarial loss	—	638
Unrecognized prior service cost	—	429
Net amount recognized	(2,828)	(1,763)
Amounts recognized in the Consolidated Balance Sheet consists of:		
Accrued benefit liability	(2,828)	(2,376)
Intangible asset	N/A	429
Amount recognized in Accumulated other Comprehensive loss consist of:		
Additional minimum liability	N/A	184
Net actuarial loss	434	N/A
Prior service cost	373	N/A
Net amount recognized in equity – pre-tax	807	184
Net amount recognized on Consolidated Balance Sheets	(2,021)	(1,763)
Accumulated benefit obligation at year end	$ 2,437	$ 2,376

Valuations of the SERP liability, as shown above, were conducted as of December 31, 2006 and 2005. Assumptions used by the Bank in both years in the determination of SERP information consisted of the following:

	2006	2005	2004
Weighted-average discount rate	5.75%	5.50%	6.00%
Expected long-term rate of return on plan assets	N/A	N/A	N/A
Salary scale	5.00%	5.00%	5.00%

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

	2006	2005	2004
		(in thousands)	
Service cost	$ 117	$ 104	$ 94
Interest cost	151	148	141
Net amortization and deferral	82	78	89
Net periodic benefit cost	$ 350	$ 330	$ 324

The estimated amounts to be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2007 for prior service costs and actuarial loss will be $56 thousand and $13 thousand, respectively.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	(in thousands)
2007	$ 177
2008	205
2009	205
2010	205
2011	275
2012-2016	1,552

Other Compensation Plans

The Company also maintains a non-qualified deferred compensation plan for certain directors. Expenses under this plan were approximately $55 thousand in 2006, $82 thousand in 2005 and $71 thousand in 2004. The estimated present value of the benefit obligation included in other liabilities was $0.9 million at December 31, 2006 and 2005. This obligation is indirectly funded by life insurance contracts naming the Bank as beneficiary. The increase in cash surrender value is included in other non-interest income on the Consolidated Statements of Income.

Effective April 1, 2003, the Company implemented a non-qualified deferred compensation plan whereby certain directors and certain officers may defer a portion of their base pre-tax compensation. Additionally, effective April 1, 2003, the Company implemented a non-qualified executive incentive retirement plan, whereby the Company will defer on behalf of certain officers a portion of their base compensation, as well as an incentive award based upon Company performance, until retirement or termination of service, subject to certain vesting arrangements. Expenses under these plans were approximately $96 thousand in 2006, $69 thousand in 2005 and $38 thousand in 2004. The benefit obligation, included in other liabilities in the Company’s Consolidated Balance Sheets, was $796 thousand and $563 thousand at December 31, 2006 and 2005, respectively.

Many of the benefit plans are indirectly funded by Bank-owned life insurance contracts with a total aggregate cash surrender value of approximately $10.1 million and $9.6 million at December 31, 2006 and 2005, respectively. Increases in cash surrender value are included in the “Other Non-Interest Income” financial statement line on the Company’s Consolidated Statements of Income. Endorsement split-dollar life insurance benefits have also been provided to directors and certain officers of the Bank and its subsidiaries.

The Bank also has a defined contribution retirement and thrift 401(k) Plan (the “401(k) Plan”) for its employees who meet certain length of service and age requirements. The provisions of the 401(k) Plan allow eligible employees to contribute a portion of their annual salary, up to the IRS statutory limit, with a matching contribution by the Bank equal to 1% of the employees’ base compensation plus 25% of the employees’ contribution up to 4% of their annual salary. The Bank can also make discretionary contributions to the 401(k) Plan. The Company’s expense under this plan was approximately $84 thousand, $76 thousand and $71 thousand for the years ended December 31, 2006, 2005 and 2004, respectively.

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

12. STOCK-BASED COMPENSATION

At December 31, 2006, the Company had two stock-based compensation plans, which are described below. In 2004, the FASB issued SFAS No. 123 (revised 2004), "Share Based Payment" ("SFAS No. 123(R)"). SFAS No. 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." Generally, the fair value approach in SFAS No. 123(R) is similar to the fair value approach described in SFAS No. 123 which the Company previously applied. The Company has always used the Black-Scholes-Merton formula to estimate the fair value of stock options granted to employees. The Company adopted SFAS No. 123(R), using the modified-prospective method, beginning January 1, 2006. Based on the terms of its equity compensation plans, the adoption of SFAS No. 123 (R) did not require the Company to record a cumulative effect of adjustment. The compensation cost charged against income for those plans was $93 thousand, $112 thousand and $87 thousand for 2006, 2005 and 2004, respectively, included in "Salaries and Employee Benefits" in the Company's Consolidated Statements of Income. All stock option expense is amortized on a straightline basis over the expected vesting term. In addition, expense for director options was recognized to reflect $0, $71 thousand and $78 thousand in 2006, 2005 and 2004, respectively, as a part of "Other" expense in the Company's Consolidated Statements of Income. There was a tax benefit for the directors' options of $28 thousand and $31 thousand for 2005 and 2004, respectively. The net compensation cost recorded for the directors' options was $43 thousand and $47 thousand for 2005 and 2004, respectively.

Fixed Stock Option Plan

Under the Company's 1999 Employee Stock Option and Long-Term Incentive Plan, as amended (the "Option Plan"), the Company may grant options to officers, directors and key employees for up to 289,406 shares of common stock (as adjusted for stock dividends). Under the Option Plan, the exercise price of each option is not to be less than 100% of the market price of the Company's stock on the date of grant and an option's maximum term is ten years. The Company normally issues shares out of its treasury for any options exercised. The options have vesting schedules from 1 1/2 years through 9 years. At December 31, 2006, there were a total of 203,490 shares available for grant under the Option Plan. All share and per share amounts within this note have been adjusted retroactively to reflect the effect of stock dividends, including the number and exercise price of shares subject to option under the terms of the Option Plan.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2005 and 2004, respectively; dividend yield of 2.89% and 2.76%; expected volatility (based on historical data) of 20.06% and 21.84%; risk-free interest rate of 4.24% and 3.66%; and expected life of 6.53 and 6.55. The weighted average fair value of options granted during the year were $4.63 per share in 2005 and $5.13 per share in 2004. The Company used historical volatility calculated using daily closing prices for its common stock over periods that match the expected term of the option granted to estimate the expected volatility for the grants made in 2004 and 2005. The risk-free interest rate assumption was based upon U.S. Treasury yields appropriate for the expected term of the Company's stock options based upon the date of grant. The expected term of the stock options granted was based upon the options expected vesting schedule and historical exercise patterns. The expected dividend yield was based upon the Company's recent history of paying dividends, and the expectation of paying dividends in the foreseeable future. No options were granted in 2006. Future compensation cost expected to be expensed over the weighted average remaining contractual term for remaining outstanding options is $107 thousand.

Stock options activity for 2006 was as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining contractual Term (years)	Aggregate Intrinsic Value
Balance, December 31, 2005	88,577	$21.32		
Granted	—	—		
Exercised	—	—		
Expired	—	—		
Forfeited	(6,520)	20.94		
Balance, December 31, 2006	82,057	21.35	7.55	$5,925
Exercisable, December 31, 2006	42,774	$21.60	7.32	$1,139

During fiscal years 2006, 2005 and 2004, the following activity occurred under the Company’s plans:

(in thousands)	2006	2005	2004
Total intrinsic value of stock options exercised	$ —	$ —	$ 2
Total fair value of stock awards vested	$255	$160	$74

Employee Stock Purchase Plan

On February 18, 2003, the Board of Directors of the Company adopted the Evans Bancorp, Inc. Employee Stock Purchase Plan (the “Purchase Plan”). As of December 31, 2006, there were 78,990 shares of common stock available to issue to its full-time employees, nearly all of whom are eligible to participate. Under the terms of the Purchase Plan, employees can choose each year to have up to 15% of their annual base earnings withheld to purchase the Company’s common stock. The Company grants options on January 1 and July 1 of each year during the term of the Purchase Plan. The purchase price of the stock is 85% of the lower of its price on the grant date or the exercise date. During fiscal 2006, approximately 68% of eligible employees participated in the Purchase Plan. Under the Purchase Plan, the Company issued 10,873 and 11,312 shares to employees in 2006 and 2005, respectively. Compensation cost is recognized for the fair value of the employees’ purchase rights, which was estimated using the Black-Scholes model with the following assumptions for 2006, 2005 and 2004, respectively: dividend yield of 3.08%, 2.79% and 2.70%; expected life of six months; expected volatility of 20.84%, 22.84% and 25.90%; risk-free interest rates of 4.73%, 3.04% and 1.36%. The weighed average fair value of those purchase rights granted in 2006, 2005 and 2004 was $6.23, $6.82 and $6.84 per share, respectively. The compensation cost that has been charged against income for the Purchase Plan was $63 thousand, $70 thousand and $63 thousand for 2006, 2005 and 2004, respectively.

13. INCOME TAXES

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

	2006	2005 (in thousands)	2004
Income taxes currently payable	$ 2,134	$ 1,863	$ 1,450
Deferred tax benefit	(291)	(102)	(54)
Net provision	$ 1,843	$ 1,761	$ 1,396

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:

	2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Tax provision at statutory rate	$ 2,301	34%	$ 2,237	34%	$ 2,008	34%
Decrease in taxes resulting from:						
Tax-exempt income	(602)	(9)	(722)	(11)	(735)	(12)
Tax-exempt insurance proceeds	—	—	(32)	(1)	—	—
State taxes, net of federal benefit	162	3	184	3	157	3
Other items, net	(18)	(1)	94	2	(34)	(1)
Provision for income taxes	$ 1,843	27%	$ 1,761	27%	$ 1,396	24%

At December 31, 2006 and 2005 the components of the net deferred tax asset were as follows:

	2006	2005
	(in thousands)	
Deferred tax assets:		
Pension premiums	$ 1,432	$ 812
Allowance for loan losses	1,337	1,132
Net unrealized losses on securities	758	814
Deferred compensation	644	524
Stock options granted	83	85
Leases	67	—
Gross deferred tax assets	$ 4,321	$ 3,367
Deferred tax liabilities:		
Depreciation and amortization	$ 659	$ 446
Prepaid expenses	420	412
Mortgage servicing asset	66	—
Gross deferred tax liabilities	$ 1,145	$ 858
Net deferred tax asset	$ 3,176	$ 2,509

The net deferred tax asset at December 31, 2006 and 2005 is included in "other assets" in the accompanying Consolidated Balance Sheets.

In assessing the realizability of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, availability of operating loss carry-backs, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income, the opportunity for net operating loss carry-backs, and projections for future taxable income over the periods which deferred tax assets are deductible, management believes it is more likely than not the Company will generate sufficient taxable income to realize the benefits of these deductible differences at December 31, 2006.

14. RELATED PARTY TRANSACTIONS

The Bank has entered into loan transactions with certain directors, significant shareholders and their affiliates (related parties) in the ordinary course of its business. The aggregate amount of loans to such related parties on December 31, 2006 was $4.5 million and $4.9 million at 2005. During 2006, there were $3.1 million of advances and new loans to such related parties, and repayments amounted to $3.5 million. Terms of these loans have prevailing market pricing that would be offered to a similar customer base.

15. 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, 2006 and 2005 is as follows:

	2006	2005
	(in thousands)	
Commitments to extend credit	$ 65,556	$ 66,479
Standby letters of credit	2,516	2,000
Total	$ 68,072	$ 68,479

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

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

The Company leases certain offices, land and equipment under long-term operating leases. The aggregate minimum annual rental commitments under these leases total approximately $478 thousand in 2007; $468 thousand in 2008; $439 thousand in 2009; $357 thousand in 2010; $352 thousand in 2011; and $4.2 million thereafter. The rental expense under operating leases contained in the Company's Consolidated Statements of Income included $528 thousand, $499 thousand and $422 thousand in 2006, 2005 and 2004, respectively.

16. 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, which is Western New York. The concentrations of credit by type of loan are set forth in Note 3, "Loans, Net." The distribution of commitments to extend credit approximates the distribution of loans outstanding. Standby letters of credit were granted primarily to commercial borrowers. The Bank, as a matter of policy, does not extend credit to any single borrower or group in excess of 15% of capital.

17. SEGMENT INFORMATION

The Company is comprised of two primary business segments: banking and insurance agency activities. The reportable segments are separately managed and their performance is evaluated based on net income. All sources of segment specific revenues and expenses attributed to management's definition of net income. Revenues from transactions between the two segments are not significant. The accounting policies of the segments are the same as those described in Note 1.

The following table sets forth information regarding these segments for the years ended December 31, 2006, 2005 and 2004.

	2006		
	Banking Activities	Insurance Agency Activities	Total
		(in thousands)	
Net interest income (expense)	$15,321	$ (474)	14,847
Provision for loan and lease losses	1,128	—	1,128
Net interest income (expense) after provision for loan losses	14,193	(474)	13,719
Non-interest income	4,167	—	4,167
Insurance services and fees	—	6,466	6,466
Net gain on sales of securities	140	—	140
Non-interest expense	13,154	4,574	17,728
Income before income taxes	5,346	1,418	6,764
Income taxes	1,276	567	1,843
Net income	$ 4,070	$ 851	$ 4,921

	2005		
	Banking Activities	Insurance Agency Activities	Total
		(in thousands)	
Net interest income (expense)	$14,776	$ (399)	14,377
Provision for loan and lease losses	769	—	769
Net interest income (expense) after provision for loan losses	14,007	(399)	13,608
Non-interest income	3,892	—	3,892
Insurance services and fees	—	6,377	6,377
Net gain on sales of securities	107	—	107
Non-interest expense	12,784	4,620	17,404
Income before income taxes	5,222	1,358	6,580
Income taxes	1,218	543	1,761
Net income	$ 4,004	$ 815	$ 4,819

	2004		
	Banking Activities	Insurance Agency Activities	Total
		(in thousands)	
Net interest income (expense)	$12,692	$ (95)	12,597
Provision for loan and lease losses	485	—	485
Net interest income (expense) after provision for credit losses	12,207	(95)	12,112
Non-interest income	3,280	—	3,280
Insurance services and fees	—	5,053	5,053
Net gain on sales of securities	239	—	239
Non-interest expense	10,827	3,952	14,779
Income before income taxes	4,899	1,006	5,905
Income taxes	1,000	396	1,396
Net income	$ 3,899	$ 610	$ 4,509

	December 31, 2006	December 31, 2005
	(in thousands)	
Identifiable Assets, Net		
Banking activities	$ 461,486	$ 456,036
Insurance agency activities	12,408	12,510
Consolidated Total Assets	$ 473,894	$ 468,546

18. 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.

Interest Bearing Deposits at Other Banks - The carrying amount of Interest Bearing Deposits at Other Banks approximates fair value due to their short-term nature.

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

Borrowed Funds – 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.

Junior Subordinated Debentures – The carrying amount of Junior Subordinated Debentures is a reasonable estimate of fair value due to the fact that they bear a floating interest rate that adjusts on a quarterly basis.

Commitments to extend credit and standby letters of credit – As described in Note 15 "Contingent Liabilities and Commitments," the Company was a party to financial instruments with off-balance sheet risk at December 31, 2006 and 2005. 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, 2006 and 2005 approximates the recorded amounts of the related fees, which are not considered material.

At December 31, 2006 and 2005, the estimated fair values of the company's financial instruments were as follows:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)		(in thousands)	
Financial assets:				
Cash and cash equivalents	$ 12,592	$ 12,592	$ 15,635	$ 15,635
Securities	$137,730	$137,730	$159,952	$159,952
Loans and leases, net	$285,367	$281,520	$256,810	$252,280
Financial liabilities:				
Deposits	$355,749	$356,576	$336,808	$337,250
Borrowed funds and securities sold under agreements to repurchase	$ 58,183	$ 57,092	$ 76,903	$ 75,317
Junior Subordinated Debentures	$ 11,330	$ 11,330	$ 11,330	$ 11,330

19. REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table that follows) of total and Tier I capital (as defined in FRB regulations) to risk-weighted assets (as defined in FRB regulations), and of Tier I capital (as defined in FRB regulations) to average assets (as defined in FRB regulations). Management believes as of December 31, 2006 and 2005, that the Company and the Bank met all capital adequacy requirements to which it is subject.

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

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

	2006 (dollars in thousands)							
	Company		Bank		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Risk-Based Capital (to Risk Weighted Assets)	$ 44,228	14.0%	$ 41,575	13.2%	$ 25,341	8.0%	$ 31,676	10.0%
Tier I Capital (to Risk Weighted Assets)	$ 40,489	12.8%	$ 37,847	12.0%	$ 12,671	4.0%	$ 19,006	6.0%
Tier I Capital (to Average Assets)	$ 40,489	8.9%	$ 37,847	8.4%	$ 18,693	4.0%	$ 23,366	5.0%

	2005 (dollars in thousands)							
	Company		Bank		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Risk-Based Capital (to Risk Weighted Assets)	$ 40,437	13.7%	$ 39,055	13.3%	$ 23,661	8.0%	$ 29,576	10.0%
Tier I Capital (to Risk Weighted Assets)	$ 37,226	12.6%	$ 35,855	12.2%	$ 11,830	4.0%	$ 17,746	6.0%
Tier I Capital (to Average Assets)	$ 37,226	8.3%	$ 35,855	8.0%	$ 17,967	4.0%	$ 22,459	5.0%

20. PARENT COMPANY ONLY FINANCIAL INFORMATION

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

CONDENSED BALANCE SHEETS

	December 31,	
	2006	2005
	(in thousands)	
ASSETS		
Cash	$ 84	$ 48
Other equity securities	330	330
Investment in subsidiaries	50,459	47,828
Total assets	$ 50,873	$ 48,206
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Junior subordinated debentures	$ 11,330	$ 11,330
STOCKHOLDERS' EQUITY		
Total Stockholders' Equity	$ 39,543	$ 36,876
Total liabilities and stockholders' equity	$ 50,873	$ 48,206

CONDENSED STATEMENTS OF INCOME

	December 31,		
	2006	2005	2004
		(in thousands)	
Dividends from subsidiaries	$ 3,600	$ 2,940	$ 2,898
Expenses	(1,143)	(823)	(436)
Income before equity in undistributed earnings of subsidiaries	2,457	2,117	2,462
Equity in undistributed earnings of subsidiaries	2,464	2,702	2,047
Net income	$ 4,921	$ 4,819	$ 4,509

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended		
	2006	2005	2004
		(in thousands)	
Operating Activities:			
Net income	$ 4,921	$ 4,819	$ 4,509
Adjustments to reconcile net income to net cash provided by operating activities:			
Change in other equity securities	—	—	(330)
Undistributed earnings of subsidiaries	(2,465)	(2,715)	(2,063)
Net cash provided by operating activities	2,456	2,104	2,116
Investing Activities:			
Investment in subsidiaries	—	—	(11,000)
Net cash used by investing activities	—	—	(11,000)
Financing Activities:			
Proceeds from borrowings	—	—	11,330
Cash dividends paid, net	(1,855)	(1,764)	(1,659)
Purchase of Treasury stock	(565)	(460)	(744)
Net cash (used in) provided by financial activities	(2,420)	(2,224)	8,927
Net increase (decrease) in cash	36	(120)	43
Cash beginning of year	48	168	125
Cash ending of year	$ 84	$ 48	$ 168

21. QUARTERLY FINANCIAL DATA — UNAUDITED

(in thousands, except per share data)	4 th Quarter	3 rd Quarter	2 nd Quarter	1 st Quarter
2006				
Interest income	$ 6,983	$ 6,828	$ 6,519	$ 6,214
Interest expense	3,138	3,100	2,889	2,570
Net interest income	3,845	3,728	3,630	3,644
Net income	1,162	1,282	1,071	1,406
Earnings per share basic	0.43	0.47	0.39	0.52
Earnings per share diluted	0.43	0.47	0.39	0.52
2005				
Interest income	$ 6,046	$ 5,969	$ 5,696	$ 5,235
Interest expense	2,439	2,194	2,099	1,837
Net interest income	3,607	3,775	3,597	3,398
Net income	1,126	1,256	1,175	1,262
Earnings per share basic	0.41	0.46	0.44	0.46
Earnings per share diluted	0.41	0.46	0.44	0.46

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

Not applicable.

Item 9A. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

The Company’s management, with the participation of the Company’s principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rules 13a–15(e) and 15d–15(e) under the Exchange Act). Based on that evaluation, the Company’s principal executive and principal financial officers concluded that the Company’s disclosure controls and procedures as of December 31, 2006 (the end of the period covered by this Report) have been designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes in the Company’s internal control over financial reporting were identified in the fiscal quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Item 9B. OTHER INFORMATION

Not Applicable

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information called for by this item is incorporated herein by reference to the material under the captions, “Information Regarding Directors, Director Nominees and Executive Officers” and “Section 16(a) Beneficial Ownership Reporting Compliance” and to the discussion of director nominees by shareholders and the Audit Committee under the caption “Board of Director Committees” in the Company’s definitive proxy statement relating to its 2007 annual meeting of shareholders to be held on April 26, 2007 (the “Proxy Statement”).

Item 11. EXECUTIVE COMPENSATION

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

The material incorporated herein by reference to the material under the caption, “Compensation Committee Repot” in the Proxy Statement shall be deemed furnished, and not filed, in this Report on Form 10-K and shall not be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, as a result of this furnishing, except to the extent that the Company specifically incorporates it by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

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

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

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

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information called for by this item is incorporated herein by reference to the material under the caption, “Independent Auditors” in the Proxy Statement.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

1. Financial statements: See “Consolidated Financial Statements and Supplementary Data” in Part II, Item 8 of this Report on Form 10-K.
2. All other financial statement schedules are omitted because they are not applicable or the required information is included in the Company’s Consolidated Financial Statements or Notes thereto included in Part II, Item 8. of this Report on Form 10-K.

3. Exhibits

Exhibit No.	Exhibit Description
3.1	Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3a of the Company's Registration Statement on Form S-4 (Registration No. 33-25321) as filed on November 7, 1988).
3.1.1	Certificate of Amendment to the Company's Certificate of Incorporation (incorporated by reference to Exhibit 3.3 of the Company's Form 10-Q for the fiscal quarter ended March 31, 1997 as filed on May 14, 1997).
3.2	Bylaws of the Company (incorporated by reference to Exhibit 3.2.1 of the Company's Form 10-Q for the fiscal quarter ended September 30, 2006, as filed on November 7, 2006.
4.1	Evans Bancorp Employee Stock Purchase Plan (incorporated by reference to Exhibit 4.7 of the Company's Registration Statement on Form S-8 (Registration No. 333-106655 as filed on June 30, 2003).
4.2	Evans Bancorp, Inc. 1999 Stock Option and Long-Term Incentive Plan (incorporated by reference to Exhibit 99.1 of the Company's Registration Statement on Form S-8 (Registration No. 333-123679 as filed on March 30, 2005).
4.3	Evans Bancorp, Inc. Dividend Reinvestment Plan, as amended (incorporated by reference to the Company's Registration Statement on Form S-3D (Registration No. 333-123678 as filed on March 30, 2005).
4.4	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 of the Company's Form 10-Q for the fiscal quarter ended March 31, 1997 as filed on May 14, 1997).
4.5	Indenture between the Company, as Issuer, and Wilmington Trust Company, as Trustee, dated as of October 1, 2004 (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q for the fiscal quarter ended September 30, 2004 as filed on November 4, 2004).
10.1*	Employment Agreement between Evans National Bank and Richard M. Craig (incorporated by reference to Exhibit 10.1 of the Company's Form 10-K for the fiscal year ended December 31, 1997 as filed on March 30, 1998).
10.2*	Employment Agreement between Evans National Bank and James Tilley (incorporated by reference to Exhibit 10.2 of the Company's Form 10-K for the fiscal year ended December 31, 1997 as filed on March 30, 1998).
10.3*	Employment Agreement between Evans National Bank and William R. Glass (incorporated by reference to Exhibit 10.3 of the Company's Form 10-K for the fiscal year ended December 31, 1997 as filed on March 30, 1998).
10.4*	Specimen 1984 Director Deferred Compensation Agreement (incorporated by reference to Exhibit 10.5 of the Company's Form 10 (Registration No. 0-18539) as filed on April 30, 1990).
10.5*	Specimen 1989 Director Deferred Compensation Agreement (incorporated by reference to Exhibit 10.6 of the Company's Form 10 (Registration No. 0-18539) as filed on April 30, 1990).
10.6*	Summary of Provisions of Director Deferred Compensation Agreements (incorporated by reference to Exhibit 10.7 of the Company's Form 10 (Registration No. 0-18539) as filed on April 30, 1990).
10.7	Investment Service Agreement between O'Keefe Shaw & Co., Inc. and ENB Associates Inc. (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the fiscal quarter ended March 31, 2000 as filed on May 8, 2000).
10.8*	Employment Agreement between ENB Insurance Agency, Inc. and Robert Miller (incorporated by reference to Exhibit 10.1 of the Company's current Report on Form 8-K filed on February 26, 2007.
10.9*	Employment Agreement among Evans Bancorp, Inc., Evans National Bank and David J. Nasca dated as of December 1, 2006 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed December 7, 2006).
10.10*	Evans National Bank Executive Life Insurance Plan (incorporated by reference to Exhibit 10.10 to the Company's Form 10-K for the fiscal year ended December 31, 2003 as filed on March 18, 2004).
10.11*	Evans National Bank Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.11 to the Company's Form 10-K for the fiscal year ended December 31, 2003 as filed on March 18, 2004).
10.12*	Evans National Bank Deferred Compensation Plan for Officers and Directors (incorporated by reference to Exhibit 10.12 to the Company's Form 10-K for the fiscal year ended December 31, 2003 as filed on March 18, 2004).

Exhibit No.	Exhibit Description
10.13	Agreement of Sale and Purchase of Assets among ENB Insurance Agency, Inc., Ulrich & Company, Inc., Ulrich Development Company, LLC and David L. Ulrich dated as of October 1, 2004 (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the fiscal quarter ended September 30, 2004 as filed on November 4, 2004).
10.14*	Form of Supplemental Executive Retirement Participatory Agreement incorporated by reference to Exhibit 10.15 of the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed on March 28, 2005).
10.15*	Form of Deferred Compensation Participatory Agreement incorporated by reference to Exhibit 10.16 of the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed on March 28, 2005).
10.16*	Form of Executive Life Insurance Split-Dollar Endorsement Participatory Agreement incorporated by reference to Exhibit 10.17 of the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed on March 28, 2005).
10.17	Form of Floating Rate Junior Subordinated Debt Security due 2034 (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q for the fiscal quarter ended September 30, 2004 as filed on November 4, 2004).
10.18	Amended and Restated Declaration of Trust of Evans Capital Trust I, dated as of October 1, 2004 (incorporated by reference to Exhibit 10.4 of the Company's Form 10-Q for the fiscal quarter ended September 30, 2004 as filed on November 4, 2004).
10.19	Guarantee Agreement of the Company, dated as of October 1, 2004 (incorporated by reference to Exhibit 10.5 of the Company's Form 10-Q for the fiscal quarter ended September 30, 2004 as filed on November 4, 2004).
10.20	Purchase Agreement among the Company, Evans Capital Trust I, and NBC Capital Markets Group, Inc., dated as of October 1, 2004 (incorporated by reference to Exhibit 10.6 of the Company's Form 10-Q for the fiscal quarter ended September 30, 2004 as filed on November 4, 2004).
10.21	Asset Purchase Agreement by and among Evans National Leasing, Inc., Evans Bancorp, Inc., M&C Leasing Co., Inc., APCOT NY Corp., John Gallo, and for certain limited purposes, Brian Gallo, dated as of December 31, 2004 (incorporated by reference to Exhibit 10.22 of the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed March 28, 2005).
10.22	Summary of compensation arrangements for Named Executive Officers and Directors (incorporated by reference to Exhibit 10.1 of the Company's Form 10Q for the fiscal quarter ended March 31, 2006, as filed on May 12, 2006).
21.1	Subsidiaries of the Company (incorporated by reference to Exhibit 10.21 of the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed March 28, 2005).
23.1	Independent Registered Public Accounting Firm's Consent from KPMG LLP (filed herewith).
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 USC Section 1350 Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

* *Indicates a management contract or compensatory plan or arrangement.*

SIGNATURES

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

EVANS BANCORP, INC.

By: /s/ James Tilley
James Tilley,
Chief Executive Officer
Date: March 26, 2007

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

Signature	Title	Date
/s/ James Tilley James Tilley	Chief Executive Officer/Director (Principal Executive Officer and Principal Financial Officer)	March 26, 2007
/s/ David J. Nasca David J. Nasca	President/Director	March 26, 2007
/s/ Phillip Brothman Phillip Brothman	Chairman of the Board/Director	March 26, 2007
/s/ Thomas H. Waring, Jr. Thomas H. Waring, Jr.	Vice Chairman of the Board/Director	March 26, 2007
/s/ James E. Biddle, Jr. James E. Biddle, Jr.	Director	March 26, 2007
/s/ William F. Barrett William F. Barrett	Director	March 26, 2007
/s/ LaVerne G. Hall LaVerne G. Hall	Director	March 26, 2007
/s/ Kenneth C. Kirst Kenneth C. Kirst	Director	March 26, 2007
/s/ Mary Catherine Militello Mary Catherine Militello	Director	March 26, 2007
/s/ Robert G. Miller, Jr. Robert G. Miller, Jr.	Director	March 26, 2007
/s/ John R. O’Brien John R. O’Brien	Director	March 26, 2007
/s/ David M. Taylor David M. Taylor	Director	March 26, 2007
/s/ Nancy W. Ware Nancy W. Ware	Director	March 26, 2007

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4.5	Indenture between the Company, as Issuer, and Wilmington Trust Company, as Trustee, dated as of October 1, 2004 (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q for the fiscal quarter ended September 30, 2004 as filed on November 4, 2004).
10.1*	Employment Agreement between Evans National Bank and Richard M. Craig (incorporated by reference to Exhibit 10.1 of the Company's Form 10-K for the fiscal year ended December 31, 1997 as filed on March 30, 1998).
10.2*	Employment Agreement between Evans National Bank and James Tilley (incorporated by reference to Exhibit 10.2 of the Company's Form 10-K for the fiscal year ended December 31, 1997 as filed on March 30, 1998).
10.3*	Employment Agreement between Evans National Bank and William R. Glass (incorporated by reference to Exhibit 10.3 of the Company's Form 10-K for the fiscal year ended December 31, 1997 as filed on March 30, 1998).
10.4*	Specimen 1984 Director Deferred Compensation Agreement (incorporated by reference to Exhibit 10.5 of the Company's Form 10 (Registration No. 0-18539) as filed on April 30, 1990).
10.5*	Specimen 1989 Director Deferred Compensation Agreement (incorporated by reference to Exhibit 10.6 of the Company's Form 10 (Registration No. 0-18539) as filed on April 30, 1990).
10.6*	Summary of Provisions of Director Deferred Compensation Agreements (incorporated by reference to Exhibit 10.7 of the Company's Form 10 (Registration No. 0-18539) as filed on April 30, 1990).
10.7	Investment Service Agreement between O'Keefe Shaw & Co., Inc. and ENB Associates Inc. (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the fiscal quarter ended March 31, 2000 as filed on May 8, 2000).
10.8*	Employment Agreement between ENB Insurance Agency, Inc. and Robert Miller (incorporated by reference to Exhibit 10.1 of the Company's current Report on Form 8-K filed on February 26, 2007.
10.9*	Employment Agreement among Evans Bancorp, Inc., Evans National Bank and David J. Nasca dated as of December 1, 2006 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed December 7, 2006).
10.10*	Evans National Bank Executive Life Insurance Plan (incorporated by reference to Exhibit 10.10 to the Company's Form 10-K for the fiscal year ended December 31, 2003 as filed on March 18, 2004).
10.11*	Evans National Bank Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.11 to the Company's Form 10-K for the fiscal year ended December 31, 2003 as filed on March 18, 2004).
10.12*	Evans National Bank Deferred Compensation Plan for Officers and Directors (incorporated by reference to Exhibit 10.12 to the Company's Form 10-K for the fiscal year ended December 31, 2003 as filed on March 18, 2004).

Exhibit No.	Exhibit Description
10.13	Agreement of Sale and Purchase of Assets among ENB Insurance Agency, Inc., Ulrich & Company, Inc., Ulrich Development Company, LLC and David L. Ulrich dated as of October 1, 2004 (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the fiscal quarter ended September 30, 2004 as filed on November 4, 2004).
10.14*	Form of Supplemental Executive Retirement Participatory Agreement incorporated by reference to Exhibit 10.15 of the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed on March 28, 2005).
10.15*	Form of Deferred Compensation Participatory Agreement incorporated by reference to Exhibit 10.16 of the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed on March 28, 2005).
10.16*	Form of Executive Life Insurance Split-Dollar Endorsement Participatory Agreement incorporated by reference to Exhibit 10.17 of the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed on March 28, 2005).
10.17	Form of Floating Rate Junior Subordinated Debt Security due 2034 (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q for the fiscal quarter ended September 30, 2004 as filed on November 4, 2004).
10.18	Amended and Restated Declaration of Trust of Evans Capital Trust I, dated as of October 1, 2004 (incorporated by reference to Exhibit 10.4 of the Company's Form 10-Q for the fiscal quarter ended September 30, 2004 as filed on November 4, 2004).
10.19	Guarantee Agreement of the Company, dated as of October 1, 2004 (incorporated by reference to Exhibit 10.5 of the Company's Form 10-Q for the fiscal quarter ended September 30, 2004 as filed on November 4, 2004).
10.20	Purchase Agreement among the Company, Evans Capital Trust I, and NBC Capital Markets Group, Inc., dated as of October 1, 2004 (incorporated by reference to Exhibit 10.6 of the Company's Form 10-Q for the fiscal quarter ended September 30, 2004 as filed on November 4, 2004).
10.21	Asset Purchase Agreement by and among Evans National Leasing, Inc., Evans Bancorp, Inc., M&C Leasing Co., Inc., APCOT NY Corp., John Gallo, and for certain limited purposes, Brian Gallo, dated as of December 31, 2004 (incorporated by reference to Exhibit 10.22 of the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed March 28, 2005).
10.22	Summary of compensation arrangements for Named Executive Officers and Directors (incorporated by reference to Exhibit 10.1 of the Company's Form 10Q for the fiscal quarter ended March 31, 2006, as filed on May 12, 2006).
21.1	Subsidiaries of the Company (incorporated by reference to Exhibit 10.21 of the Company's Form 10-K for the fiscal year ended December 31, 2004, as filed March 28, 2005).
23.1	Independent Registered Public Accounting Firm's Consent from KPMG LLP (filed herewith).
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 USC Section 1350 Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

* *Indicates a management contract or compensatory plan or arrangement.*

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Evans Bancorp, Inc.:

We consent to the incorporation by reference in the Registration Statements (No. 333-106655 and No. 333-123679) on Form S-8 and (No. 333-123678 and No. 333-34347) on Form S-3D of Evans Bancorp, Inc. of our report dated March 22, 2007, with respect to the consolidated balance sheets of Evans Bancorp, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2006, and all related financial statement schedules, which report appears in the December 31, 2006 Annual Report on Form 10-K of Evans Bancorp, Inc.

As discussed in Note 1 to the consolidated financial statements, Evans Bancorp, Inc. and subsidiaries adopted Securities and Exchange Commission Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* as of January 1, 2006 and Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* as of December 31, 2006.

/s/ KPMG LLP
Buffalo, New York
March 22, 2007

Exhibit 31.1

Certification

I, James Tilley, certify that:

1. I have reviewed this annual report on Form 10-K of Evans Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 26, 2007

/s/ James Tilley
James Tilley
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Certification

I, James Tilley, certify that:

1. I have reviewed this annual report on Form 10-K of Evans Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 26, 2007

/s/ James Tilley
James Tilley
Chief Executive Officer
(Principal Financial Officer)

Exhibit 32.1

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

I, James Tilley, the Chief Executive Officer of Evans Bancorp, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge: (1) the Annual Report of Evans Bancorp, Inc. on Form 10-K for the fiscal year ended December 31, 2006 fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and (2) the information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Evans Bancorp, Inc.

Date: March 26, 2007

By	/s/ James Tilley
Name:	James Tilley
Title:	President and Chief Executive Officer (Principal Executive Officer and Principal Financial Officer)