

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended: December 31, 2021  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-35021  
**EVANS BANCORP, INC.**  
(Exact name of registrant as specified in its charter)

New York 16-1332767  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

6460 Main Street, Williamsville, New York 14221  
(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	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.50 par value	EVBN	NYSE American 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.

Yes \_\_\_\_\_ No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes \_\_\_\_\_ No X

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 X No \_\_\_\_\_

Indicate by checkmark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes X No \_\_\_\_\_

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

Large accelerated filer	<u>  </u>	Accelerated filer	<u>  </u>
Non-accelerated filer	<u>X</u>	Smaller reporting company	<u>  </u>
		Emerging growth company	<u>  </u>

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

Yes \_\_\_\_\_ No X

On June 30, 2021, the aggregate market value of the registrant's common stock held by non-affiliates was approximately \$193 million, based upon the closing sale price of a share of the registrant's common stock on NYSE American, LLC. As of March 2, 2022, 5,491,710 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 2022 Annual Meeting of Shareholders, to be held on May 3, 2022, 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 “will,” “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “seek,” “look to,” “goal,” “target” and similar expressions identify such forward-looking statements. These forward-looking statements include statements regarding the business plans, prospects, growth and operating strategies of Evans Bancorp, Inc. (the “Company”), 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; loan losses in excess of the Company’s allowance for loan losses; changes in accounting pronouncements and practices, as adopted by financial institution regulatory agencies, the Financial Accounting Standards Board (“FASB”) and the Public Company Accounting Oversight Board; the impact of such changes in accounting pronouncements and practices being greater than anticipated; the ability to realize the benefit of deferred tax assets; changes in the financial performance and/or condition of the Company’s borrowers; changes in consumer spending, borrowing and saving habits; changes in the Company’s organization, compensation and benefit plans; changes in consumer behavior and the effects of government actions taken in response to the COVID-19 pandemic, including restrictions on individual and business activities; and other factors discussed elsewhere in this Annual Report on Form 10-K including the risk factors described in Item 1A, as well as in the Company’s periodic reports filed with the Securities and Exchange Commission. Many of these factors are beyond the Company’s control and are difficult to predict.

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

**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 office of the Company is located at 6460 Main Street, Williamsville, NY 14221 and its telephone number is (716) 926-2000. The Company was incorporated on October 28, 1988, but the continuity of its banking business is traced to the organization of the Evans National Bank of Angola on January 20, 1920. 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 NYSE American, LLC under the symbol “EVBN.”

At December 31, 2021, the Company had consolidated total assets of \$2.2 billion, deposits of \$1.9 billion and stockholders’ equity of \$184 million.

The Company’s primary business is the operation of its subsidiaries. It does not engage in any other substantial business activities. The Company operates two direct wholly-owned subsidiaries: (1) Evans Bank, N.A. (the “Bank”), which provides a full range of banking services to consumer and commercial customers in Western New York (“WNY”) and the Finger Lakes Region; and (2) Evans National Financial Services, LLC (“ENFS”), which owns 100% of the membership interests in The Evans Agency, LLC (“TEA”), which sells various premium-based insurance policies on a commission basis. At December 31, 2021, the Bank represented 99% and ENFS represented 1% of the consolidated assets of the Company. Further discussion of our segments is included in Note 19 to the Company’s Consolidated Financial Statements included under Item 8 of this Annual Report on Form 10-K.

**EVANS BANK, N.A.**

The Bank is a nationally chartered bank that has its headquarters at 6460 Main Street, Williamsville, NY, and a total of 21 full-service banking offices in Erie County, Niagara County, Monroe County and Chautauqua County, NY.

At December 31, 2021, the Bank had total assets of \$2.2 billion, investment securities of \$309 million, net loans of \$1.6 billion and deposits of \$1.9 billion. The Bank offers deposit products, which include checking and negotiable order of withdrawal (“NOW”) accounts, savings accounts, and certificates of deposit, as its principal source of funding. The Bank’s deposits are insured up to the maximum permitted by the Deposit 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”).

**THE EVANS AGENCY, LLC**

TEA, a property and casualty insurance agency, is a wholly-owned subsidiary of ENFS. TEA is headquartered in Williamsville, NY, with offices located throughout WNY. TEA is a full-service insurance agency offering personal, commercial and financial services products. For the year ended December 31, 2021, TEA had total revenue of \$10 million.

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

**OTHER SUBSIDIARIES**

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

**Evans National Holding Corp.** (“ENHC”). ENHC, a wholly-owned subsidiary of the Bank, operates as a real estate investment trust that holds commercial real estate loans and residential mortgages, providing additional flexibility and planning opportunities for the business of the Bank.

**Evans National Financial Services, LLC** (“ENFS”). ENFS 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 subsidiaries.

**Frontier Claims Services, Inc.** (“FCS”). FCS is a wholly-owned subsidiary of TEA and provides claims adjusting services to various insurance companies. FCS ceased operations on December 31, 2021.

The Company also has two special purpose entities: Evans Capital Trust I, a statutory trust formed in September 2004 under the Delaware 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 (“BOLI”) program.

The Company operates in two operating segments – banking activities and insurance agency activities. See Note 19 to the Company's Consolidated Financial Statements included under Item 8 of this Annual Report on Form 10-K for more information on the Company's operating segments.

#### **BUSINESS COMBINATIONS**

On May 1, 2020, the Company successfully completed the acquisition of FSB Bancorp, Inc. (“FSB”), a Maryland corporation and the parent holding company of Fairport Savings Bank. On that date, FSB was merged into the Bank. The Company paid \$17.1 million in cash and issued 422,475 shares of Evans Bancorp, Inc. common stock in exchange for all of the shares of common stock of FSB Bancorp, Inc. outstanding at the time of the acquisition. At the time of closing, FSB had \$321.7 million in total assets, including \$272.1 million in net loans receivable and \$21.4 million in securities, and \$293.1 million in total liabilities, including \$237.7 million in deposits and \$50.6 million in borrowings. This acquisition expanded the Company's geographical footprint into the Finger Lakes Region of New York State.

#### **PANDEMIC UPDATE**

The COVID-19 pandemic has caused significant economic dislocation that has affected, and may continue to affect, the business, financial condition, and results of operations of the Company and its clients. The pandemic caused changes in the behavior of clients, businesses, and their employees, including illness, quarantines, cancellation of events and travel, business and school shutdowns, reduction in commercial activity and financial transactions, supply chain interruptions, increased unemployment, and overall economic and financial market instability. Given the ongoing and dynamic nature of the pandemic, it is difficult to predict the full impact of the pandemic on the Company's business. The extent of such impact will depend on future developments, which are highly uncertain, including the extent to which the outbreak can be controlled and abated and when and how the economy may be fully reopened. The pandemic may adversely impact several industries within our geographic footprint and impair the ability of the Company's clients to fulfill their contractual obligations to the Company. This could cause the Company to experience a material adverse effect on our business operations, asset valuations, financial condition, and results of operations.

## **MARKET AREA**

The Company's footprint is in Western New York and the Finger Lakes Region, primarily Erie County, Monroe County, Niagara County, northern Chautauqua County and northwestern Cattaraugus County, NY. This primary market area is the area where the Bank principally receives deposits and makes loans and TEA sells insurance.

## **MARKET RISK**

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

## **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 and insurance agency offices in the Company's primary market area. The Company's market area has 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 and deposits from other commercial banks, savings banks, internet banks, savings and loan associations, mortgage banking companies, credit unions, and other financial services companies. The Company faces additional competition from non-depository competitors such as the mutual fund industry, securities and brokerage firms, and insurance companies and brokerages. In the personal insurance area, the majority of TEA's competition comes from direct writers, as well as some small local agencies located in the same towns and villages in which TEA has offices. In the commercial business segment, the majority of the competition comes from larger agencies located in and around Buffalo, NY. By offering the large number of carriers which it has available to its customers, TEA has attempted to remain competitive in all aspects of its business.

As an approximate indication of the Company's competitive position, the Bank had the seventh most deposits in the Buffalo, NY metropolitan statistical area according to the FDIC's annual deposit market share report as of June 30, 2021 with 2% of the total market's deposits of \$70 billion. By comparison, the market leaders, M&T Bank and KeyBank, had 77% of the Buffalo, NY metropolitan statistical area deposits combined. 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.

## **HUMAN CAPITAL**

At December 31, 2021, we employed 378 full-time equivalent employees. At that date, the average tenure of all of our full-time employees was approximately 6.3 years while the average tenure of our executive officers was approximately 10.7 years. None of our employees are represented by collective bargaining agreements. We believe our employee relations to be good.

Oversight of our corporate culture is an important element of our board of director's oversight of risk because our people are critical to the success of our corporate strategy. Our board sets the "tone at the top," and holds senior management accountable for embodying, maintaining, and communicating our culture to employees. In that regard, our culture is designed to embrace associates and create opportunities. We uphold that principle in everything we do. That commitment has been a central pillar in our approach to our employees and the communities we have proudly served for over 100 years. Our culture is designed to adhere to the timeless values of integrity, valuing others, talent, passion, ownership & alignment, and customer focus. In keeping with that culture, we expect our people to treat each other and our customers with the highest level of honesty and respect and go out of their way to do the right thing. We dedicate resources to promote a safe and inclusive workplace; attract, develop and retain talented, diverse employees; promote a culture of integrity, caring and excellence; and reward and recognize employees for both the results they deliver and, importantly, how they deliver them. We also seek to design careers that are fulfilling ones, with competitive compensation and benefits alongside a positive work-life balance. We also dedicate resources to fostering professional and personal growth with continuing education, on-the-job training and development programs.

Our employees are key to our success as an organization. We are committed to attracting, retaining and promoting top quality talent regardless of race, color, creed, religion, sex, national origin, age, disability, marital status, citizenship status, military status, sexual orientation, victims of domestic violence, protected veterans status, gender identity,

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genetic information, genetic predisposition or carrier status and any other category protected by law. We are dedicated to providing a workplace for our employees that is inclusive, supportive, and free of any form of discrimination or harassment; rewarding and recognizing our employees based on their individual results and performance as well as that of their department and the company overall; and recognizing and respecting all of the characteristics and differences that make each of our employees unique.

We believe employing a diverse workforce enhances our ability to serve our customers and our communities. By promoting and fostering a workforce that we believe is reflective of our customers and communities, we seek to better understand the financial needs of our prospects and customers and provide them with relevant financial service products. Understanding and supporting our community has always been a priority to us. We provide employees the opportunity to use paid time off to perform community service activities in their choice of ways. In 2021, this amounted to nearly 5,000 hours of community service performed by our employees. Our efforts are designed to enrich the lives of not only those that are in need but also the lives of our employees who participate in these meaningful and rewarding opportunities. As we move forward, we will continue to embrace diversity and approach it in a manner consistent with our philosophy, by focusing on our employees, our customers, and our community.

**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 and customers. Additionally, because the Company is a public company with shares traded on the NYSE American, it is subject to regulation by the Securities and Exchange Commission, as well as the listing standards required by NYSE American. To the extent that the following summary 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 bank 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 merging with or acquiring all or substantially all of the assets of, or 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.

Subject to various exceptions, the BHCA and the Change in Bank Control Act of 1978, together with related regulations, require FRB approval before any person or company acquires "control" of a bank holding company. Control is deemed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Rebuttable control is presumed to exist if a person or company acquires 10% or more, but less than 25%, of any class of the bank holding company's voting securities. The FRB has also issued presumptions involving various relationships that may establish control for BHCA purposes.

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. A bank holding company that meets specified criteria may elect to be regulated as a "financial holding company" and thereby engage in a broader range of nonbanking financial activities. The Company has made such an election.

The FRB has enforcement powers over financial holding companies and their subsidiaries, among other things, to enjoin 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.



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Under federal law, a bank holding company must serve as a source of financial and managerial strength for its subsidiary banks and must not conduct its operations in an unsafe or unsound manner. The expectation is that a holding company will use available resources to provide capital and other support to its subsidiary institution in times of financial stress.

A bank holding company is generally required to give the FRB prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The FRB may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, FRB order or directive, or any condition imposed by, or written agreement with, the FRB. There is an exception to this approval requirement for well-capitalized bank holding companies that meet certain other conditions. To date, the Company has qualified for this exception.

Notwithstanding the above requirements, the FRB has issued a supervisory bulletin which indicates that a holding company should notify and consult with the FRB prior to redeeming or repurchasing common stock or perpetual preferred stock. The supervisory bulletin indicates that such notification is for purposes of allowing FRB supervisory review of, and possible objection to, the proposed repurchase or redemption.

The FRB's supervisory bulletin also covers the payment of dividends. In general, the FRB's policy is that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company is consistent with the organization's capital needs, asset quality and overall financial condition. The supervisory bulletin provides for prior consultation with, and supervisory review of, proposed dividends by the FRB in certain situations, such as where a proposed dividend exceeds earnings for the period for which the dividend would be paid (e.g., calendar quarter) or where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund a proposed dividend. The guidance also provides for FRB consultation for material increases in the amount of a bank holding company's common stock dividend.

Under the prompt corrective action laws, discussed later, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized.

These laws, regulations and policies may inhibit the Company's ability to pay dividends, engage in stock repurchases or otherwise make capital distributions.

**Supervision and Regulation of Bank Subsidiaries**

The Bank is a nationally chartered banking corporation, primarily subject to supervision, examination and regulation by the OCC. The FDIC has certain backup regulatory authority as the deposit insurer.

The operations of the Bank are subject to numerous statutes and regulations. Such statutes and regulations relate to investments, loans, mergers and consolidations, issuance of securities, payment of dividends, establishment of branches and other aspects of the Bank's operations.

Federal statutes and OCC regulations govern the Bank's investment authority. A national bank has authority to originate and purchase all types of loans, including commercial, commercial real estate, consumer and residential mortgage loans. Federal law generally limits a national bank's extensions of credit to a single borrower (or related borrowers) to 15% of the bank's capital and surplus. An additional 10% may be lent if secured by specified readily marketable collateral.

Generally, a national bank is prohibited from investing in corporate equity securities for its own account. Under OCC regulations, a national bank may invest in investment securities, which are generally defined as marketable securities in the form of a note, bond or debenture. The OCC classifies investment securities into five different types and, depending on its type, a national bank may have the authority to purchase, and possibly deal in and underwrite the security, pursuant to specified limits. The OCC has also permitted national banks to purchase certain noninvestment grade securities that can be reclassified and underwritten as loans.

The federal banking agencies have adopted uniform regulations prescribing standards for extensions of credit that are secured by liens on interests in real estate or made for the purpose of financing the construction of a building or other improvements to real estate. Under these regulations, all insured depository institutions, such as the Bank, are required

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to adopt written policies that establish appropriate limits and standards for extensions of credit that are secured by liens or interests in real estate or are made for the purpose of financing permanent improvements to real estate. The policies must establish loan portfolio diversification standards, prudent underwriting standards (including loan-to-value limits) that are clear and measurable, loan administration procedures, and documentation, approval and reporting requirements. The real estate lending policies must reflect consideration of the Interagency Guidelines for Real Estate Lending Policies that have been adopted by the federal bank regulators.

The Bank is subject to Sections 23A and 23B of the Federal Reserve Act and Regulation W thereunder, which govern certain "covered transactions", by a bank with its affiliates, including its parent holding company. Covered transactions include a bank's loans and extensions of credit to an affiliate, purchases of assets from an affiliate, and similar transactions. These restrictions limit the transfer of funds to the Company by the Bank, in the form of loans, extensions of credit, investments or purchases of assets and similar transactions. Generally, the Bank's transactions with an affiliate (including the Company) must be on terms no less favorable to the Bank than comparable transactions between the Bank and unrelated third parties. Covered transactions by the Bank with any affiliate (including the Company) are limited in amount to 10% of the Bank's capital and surplus, and covered transactions with all affiliates are limited in the aggregate to 20% of the Bank's capital and surplus. Furthermore, loans and extensions of credit to affiliates are subject to various collateral requirements. These laws and regulations 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, subject to certain exceptions, 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, and/or any related interest of such persons ("Insiders"). Under these restrictions, the aggregate amount of loans to any Insiders and his or her related interests may not exceed the loans-to-one-borrower limit applicable to national banks, discussed above. Aggregate loans by a bank to its Insiders and their related interests may not exceed the bank's unimpaired capital and surplus. Loans to an executive officer, other than loans for the education of the officer's children and certain loans secured by the officer's residence, may generally not exceed the lesser of (1) \$100,000 or (2) the greater of \$25,000 or 2.5% of the bank's unimpaired capital and surplus. The regulations require that any proposed loan to an Insider, or a related interest of that Insider, be approved in advance by a majority of the Board of Directors of the bank, if that loan, combined with previous loans by the bank to the Insiders and his or her related interests, exceeds specified amounts.

Generally, loans to Insiders and their related interests must be made on substantially the same terms as, and follow credit underwriting procedures that are not less stringent than, those that are prevailing at the time for comparable transactions with persons not affiliated with the institution. The regulations contain a general exception for extensions of credit made pursuant to a benefit or compensation plan of a bank that is widely available to employees of the bank and that does not give any preference to Insiders of the bank over other employees.

As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct special examinations of and to require reporting by, national banks. It may also prohibit an insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the FDIC. The FDIC has the authority to initiate enforcement actions against insured institutions under certain circumstances. The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC.

Deposit insurance premiums are based on an institution's quarterly average total assets minus average tangible equity. For institutions of the Bank's asset size, the FDIC operates a risk-based premium system that determines assessment rates from financial modelling designed to estimate the probability of the bank's failure over a three year period. Assessment rates for institutions of the Bank's size currently range from 1.5 to 30 basis points.

In addition to the foregoing, federal law required the federal regulators to adopt regulations establishing "safety and soundness" standards to promote the safe operation of insured institutions. Such standards specifically address, 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

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earnings; (viii) compensation and benefits standards for management officials; (ix) information security and (x) residential mortgage lending practices. An institution found to be noncompliant with any such standard is required to submit a compliance plan and may be subject to enforcement action if an acceptable plan is not submitted and complied with.

Dividends paid by the Bank have been the Company's primary source of operating funds and are expected to be for the foreseeable future. Capital adequacy requirements serve to limit the amount of dividends that may be paid by the Bank. Under OCC regulations, the Bank may not pay a dividend, without prior OCC approval, if the total amount of all dividends declared during the calendar year, including the proposed dividend, exceed the sum of its retained net income to date during the calendar year and its retained net income over the preceding two years (less dividends paid over the period). As of December 31, 2021, approximately \$41 million was available for the payment of dividends without prior OCC approval. The Bank's ability to pay dividends is also subject to the Bank being in compliance with regulatory capital requirements. At December 31, 2021, the Bank was in compliance with these requirements.

Because the Company is a legal entity separate and distinct from the Bank, the Company's right to participate in the distribution of assets of the Bank in the event of the Bank's liquidation or reorganization would be subject to the prior claims of the Bank's creditors. In the event of a liquidation or other resolution of an insured depository institution, the claims of depositors and other general or subordinated creditors are entitled to a priority of payment over the claims of unsecured, non-deposit creditors, including a parent bank holding company (such as the Company) or any shareholder or creditor thereof.

The OCC has broad enforcement powers over national banks, including the power to issue cease and desist order, impose substantial civil money penalties, remove directors and officers, 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 Bank, as well as officers, directors and other institution-affiliated parties of the Bank, to administrative sanctions and potential civil penalties.

Under the Community Reinvestment Act, or "CRA," as implemented by OCC, a national bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of the communities served by the bank, including low- and moderate-income neighborhoods. The CRA requires the OCC to assess an institution's record of meeting the credit needs of its communities and to take such record into account in its evaluation of certain applications by that institution, including applications to establish branches and acquire other financial institutions. The FRB also must consider the subsidiary bank's CRA rating in connection with bank holding company applications to acquire additional institutions. The CRA requires the OCC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. The Bank's most recent OCC CRA rating was "Outstanding."

The OCC issued a final rule in June 2020 which amended the agency's CRA regulations. The changes were designed to modernize the CRA framework and, according to the OCC, make it "more objective, transparent, consistent in application and reflective of changes in banking." The rule was effective October 1, 2020, however, institutions of the Bank's asset size had until January 1, 2024 to comply with certain of the revised requirements. In July 2021, the OCC announced that it intended to rescind the June 2020 changes to CRA in favor of a future joint rulemaking with the FRB and FDIC. A final rule rescinding the June 2020 rule was issued by the OCC in December 2021, effective January 1, 2022.

**Capital Adequacy**

The Company and its subsidiary bank are required to comply with applicable capital adequacy standards established by the federal banking agencies. In July 2013, the FRB, the OCC, and the FDIC approved final rules (the "Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations. These rules went into effect as to the Company and the Bank on January 1, 2015, subject to phase-in periods for certain components and other provisions. The capital standards applicable to the Company have been fully phased-in. However, legislation enacted in May 2018 required the FRB to raise the threshold of its "small holding company" exception to the applicability of holding company capital requirements to \$3 billion of consolidated assets. That change became effective in August 2018. Consequently, holding companies with less than \$3 billion of consolidated assets, including the Company, are generally not subject to the Capital Rules unless otherwise directed by the FRB. The Bank remains subject to the Capital Rules.

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*Basel III and the Capital Rules.* The Capital Rules generally implemented the Basel Committee’s December 2010 final capital framework referred to as “Basel III” for strengthening international capital standards. The Capital Rules substantially revised the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries. The Capital Rules revised the definitions and the components of regulatory capital, and addressed other issues affecting the numerator in banking institutions’ regulatory capital ratios. The Capital Rules also addressed asset risk weights and other matters affecting the denominator in banking institutions’ regulatory capital ratios.

Among other matters, the Capital Rules: (i) introduced a new capital measure called “Common Equity Tier 1” (“CET1”) and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specified that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting certain revised requirements; (iii) mandated that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expanded the scope of the deductions from and adjustments to capital as compared to the previous regulations.

Pursuant to the Capital Rules, the minimum capital ratios are as follows:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;
- 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and
- 4.0% Tier 1 capital to average consolidated assets as reported on the consolidated financial statements (known as the “leverage ratio”).

The Capital Rules also introduced a new “capital conservation buffer,” composed entirely of CET1, on top of the minimum risk-weighted asset ratios described above, which was designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer face constraints on dividends, equity and other capital instrument repurchases and executive compensation based on the amount of the shortfall. The additional capital conservation buffer of 2.5% of CET1 on top of the minimum risk-weighted asset ratios, effectively results in minimum ratios of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5% and (iii) Total capital to risk-weighted assets of at least 10.5%.

The Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1, subject to specified limits. In addition, the Capital Rules include certain exemptions to address concerns about the regulatory burden on community banks. For example, banking organizations with less than \$15 billion in consolidated assets as of December 31, 2009 are permitted to include in Tier 1 capital trust preferred securities and cumulative perpetual preferred stock issued and included in Tier 1 capital prior to May 19, 2010 on a permanent basis, without any phase out (subject to a limit of 25% of Tier 1 capital). Also, community banks were able to elect, in their March 31, 2015 quarterly filings, to permanently opt-out of the requirement to include most accumulated other comprehensive income (“AOCI”) components in the calculation of common equity Tier 1 capital. Such an election, in effect, continued the AOCI treatment under the previous capital regulations. Under the Capital Rules, the Bank made the one-time, permanent election to continue to exclude AOCI from capital.

Federal law requires that the federal bank regulators take “prompt corrective action” with respect to institutions that do not comply with the minimum regulatory capital requirements. For that purpose, the regulations establish categories of institutions based on their level of capitalization for regulatory purpose.

The Federal Deposit Insurance Act (the “FDIA”) establishes a system of regulatory remedies to resolve the problems of undercapitalized institutions, referred to as prompt corrective action. The federal banking regulators have established five capital categories (“well-capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized”) and must take certain mandatory supervisory actions, and are authorized to take other discretionary actions, with respect to institutions which are undercapitalized, significantly undercapitalized or critically undercapitalized. The severity of these mandatory and discretionary supervisory actions depends upon the capital category in which the institution is placed. The federal regulators have specified by regulation the relevant capital levels for each category, which are set forth below.

**“Well-Capitalized”**

CET1 ratio of 6.5%  
Leverage Ratio of 5%,  
Tier 1 Capital ratio of 8%,  
Total Capital ratio of 10%, and  
Not subject to a written agreement, order, capital directive or regulatory remedy directive requiring a specific capital level.

**“Adequately Capitalized”**

CET1 ratio of 4.5%  
Leverage Ratio of 4%,  
Tier 1 Capital ratio of 6%, and  
Total Capital ratio of 8%.

**“Undercapitalized”**

CET1 Ratio of less than 4.5%  
Leverage Ratio less than 4%,  
Tier 1 Capital ratio less than 6%, or  
Total Capital ratio less than 8%.

**“Significantly Undercapitalized”**

CET1 Ratio of less than 3%  
Leverage Ratio less than 3%,  
Tier 1 Capital ratio less than 4%, or  
Total Capital ratio less than 6%.

**“Critically Undercapitalized”**

Tangible equity to total assets less than 2%.

For purposes of these regulations, the term “tangible equity” includes capital elements counted as Tier 1 Capital for purposes of the risk-based capital standards plus the amount of outstanding cumulative perpetual preferred stock (including related surplus), not included in Tier 1 capital.

An institution that is classified as well-capitalized based on its capital levels may be reclassified as adequately capitalized, and an institution that is adequately capitalized or undercapitalized based upon its capital levels may be treated as though it were undercapitalized or significantly undercapitalized, respectively. Such reclassification can occur if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment.

An institution that is categorized as undercapitalized, significantly undercapitalized or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking regulator. In order for the capital restoration plan to be accepted by the appropriate federal banking agency, the law requires that any parent holding company guarantee that its subsidiary depository institution will comply with its capital restoration plan, subject to certain limitations. The obligation of a controlling bank holding company under the FDIA to fund a capital restoration plan is limited to the lesser of 5.0% of an undercapitalized subsidiary institution’s assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except in accordance with an accepted capital restoration plan or with regulatory approval. Institutions that are significantly undercapitalized or undercapitalized and either fail to submit an acceptable capital restoration plan or fail to implement an approved capital restoration plan may be subject to a number of 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. Critically undercapitalized depository institutions are subject to appointment of a receiver or conservator.

The Bank’s regulatory capital ratios under risk-based capital rules in effect through December 31, 2021 are presented in Note 21 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

In an effort to reduce regulatory burden, legislation enacted in May 2018 required the federal banking agencies to establish an optional “community bank leverage ratio” of between 8% to 10% tangible equity to average total consolidated assets for qualifying institutions with assets of less than \$10 billion of assets. Institutions with capital meeting the specified requirements and electing to follow the alternative framework are deemed to comply with the applicable regulatory capital requirements, including the risk-based requirements, and are considered well-capitalized under the prompt corrective action framework. Eligible institutions may opt into and out of the community bank ratio framework on their quarterly call report.

The federal regulators issued a final rule, effective January 1, 2020, that set the elective community bank leverage ratio at 9% tier 1 capital to average total consolidated assets. Pursuant to federal legislation enacted in 2020, the community bank leverage ratio was temporarily lowered to 8% for 2020. The ratio increased to 8.5% for 2021 and will revert to 9% thereafter. The Bank has not exercised its option to use the community bank leverage ratio alternative as of December 31, 2021.

**Other Laws and Regulations**

In addition to the laws and regulations discussed above, the Bank is also subject to certain fair lending and consumer laws that are designed to protect consumers in transactions with banks. Many of these laws are implemented through regulations issued by the Consumer Financial Protection Bureau though, for institutions of the Bank’s asset size, compliance is subject to examination by the federal banking regulator, i.e., the OCC in the Bank’s case. These laws include, but are not limited to, the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act,

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the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, Federal Financial Privacy Laws, the Right to Financial Privacy Act, and the Fair and Accurate Credit Transactions Reporting Act. These laws, and their implementing regulations, generally regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers.

The USA PATRIOT Act of 2001 gave the federal government new additional powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. The USA Patriot Act placed additional responsibilities upon financial institutions in terms of broadened anti-money laundering compliance programs and due diligence policies and controls to facilitate detection and reporting of money laundering. The Bank has established policies, procedures and systems designed to comply with these laws. Such compliance programs supplement previously existing anti-money laundering compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control regulations. The USA PATRIOT Act also requires the federal banking agencies to take into consideration the effectiveness of such controls in determining whether to approve a merger or other acquisition application. Accordingly, if the Bank seeks to engage in a merger or other acquisition, the Bank's controls designed to combat money laundering are considered as part of the application process.

**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.

**Regulation of Insurance Agency Subsidiary**

TEA is regulated by the New York State Department of Financial Services. As of the date of this report, TEA meets and maintains all licensing and continuing education requirements required by the State of New York.

**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](http://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 its Internet address to be an active link or to otherwise incorporate the contents of the website into this Annual Report on Form 10-K or into any other report filed with or furnished to the SEC. In addition, the SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC on its website, [www.sec.gov](http://www.sec.gov).

**Item 1A. RISK FACTORS**

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

***Credit Risks***

**Commercial Real Estate and Commercial Business Loans Expose the Company to Increased Credit Risks**

At December 31, 2021, the Company's portfolio of commercial real estate loans totaled \$838 million, or 53% of total loans outstanding, and the Company's portfolio of commercial and industrial ("C&I") loans totaled \$237 million, or 15% of total loans outstanding. The Company plans to continue to emphasize the origination of commercial loans as they generally earn a higher rate of interest than other loan products offered by the Bank. However, 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 C&I loans often depends on the successful operations and the income stream of the borrowers. Commercial mortgages are collateralized by real property while C&I loans are typically secured by business assets such as equipment and accounts receivable. Commercial 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 commercial borrowers have more than one commercial real estate or C&I 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. Commercial real estate loans in non-accrual status at December 31, 2021 were \$8.7 million, compared with \$17.5 million at December 31, 2020. C&I loans in non-accrual status were \$4.9 million and \$6.5 million at December 31, 2021 and December 31, 2020, respectively. Increases in the delinquency levels of commercial real estate and C&I loans could result in an increase in non-performing loans and the provision for loan losses, which could have a material adverse effect on the Company's results of operations and financial condition.

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

Unlike larger banks that are more geographically diversified, the Company provides banking and financial services to customers located primarily in Western New York and the Finger Lakes Region of New York State. Therefore, the Company's success depends primarily on the general economic conditions in those areas. The Company's business lending and marketing strategies focus on loans to small and medium-sized businesses in this geographic region. Moreover, the Company's assets are heavily concentrated in mortgages on properties located in Western New York and the Finger Lakes Region of New York State. Accordingly, the Company's business and operations are vulnerable to downturns in the economy of those areas. The concentration of the Company's loans in this geographic region subjects the Company to the 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 Losses is Not Sufficient to Cover Actual Loan Losses, the Company's Earnings Could Decrease**

The Company maintains an allowance for loan losses in order to capture the probable incurred losses inherent in its loan portfolio. There is a risk that the Company may experience significant loan losses which could exceed the recorded amount of the allowance for loan losses. In determining the amount of the Company's recorded allowance, the Company makes various assumptions and judgments about the collectability of its loan 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 portfolio of current economic indicators and their probable impact on borrowers, and the Company's loan quality reviews. The emphasis on the origination of commercial real estate and C&I loans is a significant factor in evaluating the allowance for loan losses. As the Company continues to increase the amount of these loans in the portfolio, additional or increased provisions for loan losses may be necessary and would adversely affect the results of operations. In addition, bank regulators periodically review the Company's loan portfolio and credit underwriting procedures, as well as its allowance for loan losses, and may require the Company to increase its provision for loan losses or recognize further loan charge-offs. At December 31, 2021, the Company had a gross loan portfolio of \$1.6 billion and the allowance for loan losses was \$18.4 million, which represented 1.17% of the total amount of gross loans. If the Company's assumptions and judgments prove to be incorrect or bank regulators require the Company to increase its provision for loan losses or recognize further loan charge-offs, the Company may have to increase its allowance for loan losses or loan charge-offs which could have an adverse effect on the Company's operating results and financial condition. Additionally, there can be no assurances that the Company's allowance for loan losses will be adequate to protect the Company against loan losses that it may incur.

The Company expects to adopt a new accounting standard, referred to as Current Expected Credit Loss (CECL), effective January 1, 2023. CECL requires financial institutions to determine periodic estimates of lifetime expected credit losses on loans and recognize the expected credit losses as allowances for loan losses. This will change our current method of recording allowances for loan losses that are probable, which may require us to increase our allowance for loan losses and to greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for loan losses. An increase in our allowance for loan losses may have a material adverse effect on our financial condition and results of operations.

**Environmental Factors May Create Liability**

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 in a foreclosure action, 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. The Bank may in the future be required to perform an investigation or clean-up activities in connection with environmental claims. Any such occurrence could have a material adverse effect on our business, financial condition, and results of operations.

**Interest Rate Risks**

**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 are 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, changes in interest rates could result in a decrease in its net interest income. Management is unable to predict fluctuations in market interest rates, which are affected by many factors, including inflation, recession, unemployment, monetary policy, domestic and international disorder and instability in domestic and foreign financial markets, and investor and consumer demand.

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, 2021, the Company's securities available for sale totaled \$306 million. Net unrealized losses on



securities available for sale amounted to \$3.2 million, net of tax. Decreases in the fair value of securities available for sale 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.

The FRB reduced the targeted federal funds rate to near 0% in 2020. These actions put pressure on the Company's net interest margin due to the re-pricing of the variable rate loan portfolio.

The FRB has indicated it expects to increase rates starting in 2022. A significant portion of our loans have fixed interest rates and longer terms than our deposits and borrowings. As is the case with many banks and savings institutions, our emphasis on increasing the development of core deposits, those with no stated maturity date, has resulted in our interest-bearing liabilities having a shorter duration than our assets. Our net interest income could be adversely affected if the rates we pay on deposits and borrowings increase more rapidly than the rates we earn on loans.

#### **The Company Is Required to Transition From the Use of LIBOR**

In 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates the London Interbank Offered Rate ("LIBOR"), announced that it intends to stop persuading or compelling banks to submit rates for the calibration of LIBOR to the administrator of LIBOR after 2021. As of December 31, 2021, the Company ceased issuance of new LIBOR loans. LIBOR will be discontinued after June 2023. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based securities and variable rate loans, subordinated debentures, or other securities or financial arrangements, given LIBOR's role in determining market interest rates globally. Regulators, industry groups and certain committees (e.g. the Alternative Reference Rates Committee) have published recommended fallback language for LIBOR-linked financial instruments, identified recommended alternatives for the LIBOR (e.g. the Secured Overnight Financing Rate), and proposed implementations of the recommended alternatives in floating-rate financial instruments. At this time, it is not possible to predict whether these specific recommendations and proposals will be broadly accepted. Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely affect LIBOR rates and the value of LIBOR-based loans and securities in the Company's portfolio and may impact the availability and cost of hedging instruments and borrowings. The Company has material contracts that are indexed to LIBOR and is monitoring this activity and evaluating the related risks. If the Company is required to implement substitute indices for the calculation of interest rates, it may incur expenses in effecting the transition, and may be subject to disputes or litigation over the appropriateness or comparability to LIBOR of the substitute indices, which could have an adverse effect on the Company's results of operations. Additionally, since alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR. The transition may change the Company's market risk profile, requiring changes to risk and pricing models.

**Regulatory Risks**

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

The Company and its subsidiaries are 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 imposition of deposit insurance premiums and other assessments, the classification of assets by a bank and the adequacy of a bank's allowance for loan losses. Any change in such regulation and oversight could have a material adverse impact on the Bank, the Company and its business, financial condition and results of operations.

Additionally, the Consumer Financial Protection Bureau (the "CFPB") has the authority to issue consumer finance regulations and is authorized, individually or jointly with bank regulatory agencies, to conduct investigations to determine whether any person is, or has, engaged in conduct that violates new and existing consumer financial laws or regulations. Because we have less than \$10 billion in total consolidated assets, the FRB and OCC, not the CFPB, are responsible for examining and supervising our compliance with these consumer protection laws and regulations. In addition, in accordance with a memorandum of understanding entered into between the CFPB and U.S. Department of Justice, the two agencies have agreed to coordinate efforts related to enforcing the fair lending laws, which includes information sharing and conducting joint investigations, and have done so on a number of occasions.

Noncompliance with applicable regulations may lead to adverse consequences for the Company. A successful regulatory challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity and restrictions on expansion. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition and results of operations.

The Company also faces a risk of noncompliance and subsequent enforcement action in connection with federal Bank Secrecy Act (the "BSA") and other anti-money laundering and counter terrorist financing statutes and regulations. The federal banking agencies and the U.S. Treasury Department's Financial Crimes Enforcement Network are authorized to impose significant civil money penalties for violations of those requirements and have recently engaged in coordinated enforcement efforts against banks and other financial services providers with the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. If the Company violates these laws and regulations, or its policies, procedures and systems are deemed deficient, it would be subject to liability, including fines and regulatory actions, which may include restrictions on its ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of its business plan, including its acquisition plans. Any of these results could have a material adverse effect on the Company's business, financial condition, results of operations and growth prospects.

**Future FDIC Insurance Premium Increases May Adversely Affect the Company's Earnings**

The Company is generally unable to control the amount of premiums that it is required to pay for FDIC insurance. If there are additional bank or financial institution failures or other similar occurrences, the FDIC may again increase the premiums assessed upon insured institutions. Such increases and any future increases or required prepayments of FDIC insurance premiums may adversely impact the Company's results of operations.

**The Company is a Financial Holding Company and Depends on Its Subsidiaries for Dividends, Distributions and Other Payments**

The Company is a legal entity separate and distinct from its banking and other subsidiaries. The Company's principal source of cash flow, including cash flow to pay dividends to the Company's stockholders and principal and interest on its outstanding debt, is dividends from the Bank. There are statutory and regulatory limitations on the payment of dividends by the Bank, as well as the payment of dividends by the Company to its stockholders. Regulations of the OCC affect the ability of the Bank to pay dividends and other distributions and to make loans to the Company. If the Bank is unable to make dividend payments and sufficient capital is not otherwise available, the Company may not be able to make dividend payments to its common stockholders or principal and interest payments on its outstanding debt.

**If Regulators Impose Limitations on the Company's Commercial Real Estate Lending Activities, Earnings Could Be Adversely Affected**

In 2006, the federal bank regulatory agencies issued joint guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" (the "CRE Guidance"). Although the CRE Guidance did not establish specific lending limits, it provides that a bank's commercial real estate lending exposure may receive increased supervisory scrutiny where total non-owner occupied commercial real estate loans, including loans secured by apartment buildings, investor commercial real estate and construction and land loans, represent 300% or more of an institution's total risk-based capital and the outstanding balance of the commercial real estate loan portfolio has increased by 50% or more during the preceding 36 months. The Bank's non-owner occupied commercial real estate level equaled 318% of total risk-based capital at December 31, 2021. Including owner-occupied commercial real estate, the ratio of commercial real estate loans to total risk-based capital ratio would be 392% at December 31, 2021. If the Company's regulators were to impose restrictions on the amount of commercial real estate loans it can hold in its portfolio, or require higher capital ratios as a result of the level of commercial real estate loans held, the Company's earnings would be adversely affected.

***Operational Risks***

**The Company's Internal Controls May Fail or Be Circumvented**

Management regularly reviews and updates our internal controls and corporate governance policies and procedures. Any system of controls, however well-designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. A failure to implement and maintain effective internal control over financial reporting could result in errors in our financial statements that may lead to a restatement of our financial statements or cause us to fail to meet our reporting obligations. Any failure or circumvention of our controls and procedures, or failure to comply with regulations related to controls and procedures, could have a material adverse effect on our operations, net income, financial condition, reputation, compliance with laws and regulations, or may result in untimely or inaccurate financial reporting.

**The Potential for Business Interruption Exists Throughout the Company's Organization**

Integral to the Company's performance is the continued efficacy of our technical systems, operational infrastructure, relationships with third parties and the vast array of associates and key executives in the Company's day-to-day and ongoing operations. Failure by any or all of these resources subjects the Company to risks that may vary in size, scale and scope. This includes, but is not limited to, operational or technical failures, pandemics, ineffectiveness or exposure due to interruption in third party support as expected, as well as the loss of key individuals or failure on the part of key individuals to perform properly. Such events could affect the stability of the Company's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue, cause the Company to incur additional expenses, or disrupt our third party vendors' operations, any of which could result in a material adverse effect on the Company's financial condition and results of operations. Although the Company has established disaster recovery plans and procedures, the occurrence of any such events could have a material adverse effect on the Company.

**The COVID-19 Outbreak Has Adversely Affected, and is Likely to Continue to Adversely Affect, the Company's Business and Results of Operations**

The COVID-19 pandemic has caused significant economic dislocation in the United States as many state and local governments, including New York, have imposed restrictions on individual and business activities. This has resulted in an unprecedented slow-down in economic activity and fluctuations in unemployment. In response to the COVID-19 outbreak, the Federal Reserve reduced the benchmark federal funds rate to a target range of 0% to 0.25% and the yields on 10 and 30-year treasury notes declined to historic lows. Various state governments and federal agencies have required lenders to provide forbearance and other relief to borrowers (e.g., waiving late payment and other fees). The federal banking agencies have encouraged financial institutions to prudently work with affected borrowers and recently passed legislation has provided relief from reporting loan classifications due to modifications related to the COVID-19 outbreak. Certain industries have been particularly hard-hit, including the travel and hospitality industry, the restaurant industry and the retail industry. The spread of COVID-19 caused the Company to modify business practices, including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences. The Company has many employees working remotely and may take further actions required by government authorities or that the Company determines are in the best interests of its employees, customers and business partners.

Given the ongoing and dynamic nature of the pandemic, it is difficult to predict the full impact of the COVID-19 outbreak on the Company's business. The extent of such impact will depend on future developments, which are highly uncertain, including the extent to which the outbreak can be controlled and abated and when and how the economy may be fully reopened. As the result of the COVID-19 pandemic and the related adverse local and national economic consequences, the Company may be subject to the following risks, any of which could have a material, adverse effect on our business, financial condition, liquidity, and results of operations:

- demand for the Company's products and services may decline, making it difficult to grow assets and income;
- if the economy is unable to substantially reopen, and high levels of unemployment continue, for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income;
- collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase;
- the Company's allowance for loan losses may have to be increased if borrowers experience financial difficulties beyond forbearance periods, which will adversely affect net income;
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments;
- as the result of the decline in the Federal Reserve Board's target federal funds rate to near 0%, the yield on the Company's assets may decline to a greater extent than the decline in its cost of interest-bearing liabilities, reducing its net interest margin and spread and reducing net income;
- a material decrease in net income or a net loss over several quarters could result in a decrease in the rate or a cancellation of the Company's semi-annual cash dividend;
- cyber security risks are increased as the result of an increase in the number of employees working remotely;
- the Company relies on third party vendors for certain services and the unavailability of a critical service due to the COVID-19 outbreak could have an adverse effect on the Company's operations; and
- government actions in response to the COVID-19 pandemic, including vaccination mandates, may affect the Company's workforce, human capital resources and infrastructure.

Moreover, the Company's future success and profitability substantially depends on its executive officers and directors, many of whom have held positions with the Company for many years. The unanticipated loss or unavailability of key employees due to the outbreak could harm the Company's ability to execute its business strategy. The Company may not be successful in finding and integrating suitable successors in the event of key employee loss or unavailability. Any one or a combination of the factors identified above could negatively impact the Company's business, financial condition and results of operations and prospects.

**Lack of System Integrity or Credit Quality Related to Funds Settlement Could Result in a Financial Loss**

The Bank settles funds on behalf of financial institutions, other businesses and consumers and receives funds from clients, card issuers, payment networks and consumers on a daily basis for a variety of transaction types. Transactions facilitated by the Bank include debit card, credit card and electronic bill payment transactions, supporting consumers, financial institutions and other businesses. These payment activities rely upon the technology infrastructure that facilitates the verification of activity with counterparties and the facilitation of the payment. If the continuity of operations or integrity of processing were compromised this could result in a financial loss to the Bank, and therefore the Company, due to a failure in payment facilitation. In addition, the Bank may issue credit to consumers, financial institutions or other businesses as part of the funds settlement. A default on this credit by a counterparty could result in a financial loss to the Bank, and therefore to the Company.

**Financial Services Companies Depend on the Accuracy and Completeness of Information about Customers and Counterparties**

In deciding whether to extend credit or enter into other transactions, the Company may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports, and other financial information. The Company may also rely on representations of those customers, counterparties, or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports, or other financial information could cause the Company to enter into unfavorable transactions, which could have a material adverse effect on the Company's financial condition and results of operations.

**Because the Nature of the Financial Services Business Involves a High Volume of Transactions, the Company Faces Significant Operational Risks**

The Company relies on the ability of its employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from the Company's operations, including but not limited to, the risk of fraud by employees or persons outside of the Company, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and compliance requirements, and business continuation and disaster recovery. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. In the event of a breakdown in the internal control system, improper operation of systems or improper employee actions, the Company could suffer financial loss, face regulatory action and suffer damage to its reputation, any of which could have a material adverse effect on the Company's financial condition or results of operation.

**The Company's Information Systems May Experience an Interruption or Breach in Security**

The Company relies heavily on communications and information systems to conduct its business. As a financial institution, we process a significant number of customer transactions and possess a significant amount of sensitive customer information. As technology advances, the ability to initiate transactions and access data has become more widely distributed among mobile phones, personal computers, automated teller machines, remote deposit capture sites and similar access points. Any failure, interruption, or breach in security or operational integrity of our communications and information systems, or the systems of third parties on which we rely to process transactions, could result in failures or disruptions in the Company's customer relationship management, general ledger, deposit, loan, and other systems. There can be no assurance that failures, interruptions, or security breaches of the Company's information systems will not occur or, if they do occur, that they will be adequately addressed. Unauthorized third parties regularly seek to gain access to nonpublic, private and other information through computer systems. If customers' personal, nonpublic, confidential, or proprietary information in the Company's possession were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage, and financial loss. Such mishandling or misuse could include, for example, if such information were erroneously provided to parties who are not permitted to have the information, either by fault of the Company's systems, employees or counterparties, or where such information is intercepted or otherwise inappropriately taken by third parties. The occurrence of any failures, interruptions, or security breaches of the Company's information systems could, among other consequences, damage the Company's reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, result in increased insurance premiums, or expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's financial condition and results of operations.

In addition, as cybersecurity and data privacy risks for banking organizations and the broader financial system have significantly increased in recent years, cybersecurity and data privacy issues have become the subject of increasing legislative and regulatory focus. The federal bank regulatory agencies have proposed enhanced cyber risk management standards, which would apply to a wide range of large financial institutions and their third-party service providers, and would focus on cyber risk governance and management, management of internal and external dependencies, and incident response, cyber resilience and situational awareness. We may become subject to new legislation or regulation concerning cybersecurity or the privacy of personally identifiable information and personal financial information or of any other information we may store or maintain. We could be adversely affected if new legislation or regulations are adopted or if existing legislation or regulations are modified such that we are required to alter our systems or require changes to our business practices or privacy policies. If cybersecurity, data privacy, data protection, data transfer or data retention laws are implemented, interpreted or applied in a manner inconsistent with our current practices, we may be subject to fines, litigation or regulatory enforcement actions or ordered to change our business practices, policies or systems in a manner that adversely impacts our operating results. In addition, increased cost of compliance with cybersecurity regulations, at the federal and state level, could have a material adverse effect on the Company's financial condition and results of operations.

**The Company May Be Adversely Affected by the Soundness of Other Financial Institutions**

Financial services institutions are interrelated as a result of counterparty relationships. The Company has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, could lead to losses or defaults by us or by other institutions and impact our business. Many of these transactions expose us to credit risk in the event of default of our counterparty or customer. In addition, our credit risk may be further increased when the collateral held by us cannot be relied upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due to us. Any such losses could materially and adversely affect our results of operations.

The most important counterparty for the Company, in terms of liquidity, is the Federal Home Loan Bank of New York ("FHLBNY"). The Company uses FHLBNY as its primary source of borrowed overnight funds and also has several long-term advances with FHLBNY. At December 31, 2021, the Company had a total of \$32.9 million in borrowed funds with FHLBNY. The Company has placed sufficient collateral in the form of commercial and residential real estate loans at FHLBNY. As a member of the Federal Home Loan Bank System, the Bank is required to hold stock in FHLBNY. The Bank held FHLBNY stock with a fair value of \$3.0 million as of December 31, 2021.

There are 11 branches of the FHLB, including New York. If a branch were at risk of breaching risk-based capital requirements, it could suspend dividends, cut dividend payments, and/or not buy back excess FHLB stock that members hold. FHLBNY has stated that they expect to be able to continue to pay dividends, redeem excess capital stock, and provide competitively priced advances in the future. Nonetheless, the 11 FHLB branches are jointly liable for the consolidated obligations of the FHLB system. To the extent that one FHLB branch cannot meet its obligations to pay its share of the system's debt, other FHLB branches can be called upon to make the payment.

Systemic weakness in the FHLB could result in higher costs of FHLB borrowings, reduced value of FHLB stock, and increased demand for alternative sources of liquidity that are more expensive, such as brokered time deposits, the discount window at the Federal Reserve, or lines of credit with correspondent banks.

**A Decline in the Value of the Company's Deferred Tax Assets Could Adversely Affect the Company's Operating Results and Regulatory Capital Ratios**

The Company's tax strategies depend on the ability to generate taxable income in future periods. The Company's tax strategies will be less effective in the event the Company fails to generate anticipated amounts of taxable income. The value of the Company's deferred tax assets is subject to an evaluation of whether it is more likely than not that they will be realized for financial statement purposes. In making this determination, management considers all positive and negative evidence available, including the Company's historical levels of taxable income, the opportunity for net operating loss carrybacks, and projections for future taxable income over the statutory tax loss carryover period. If the Company were to conclude that a significant portion of deferred tax assets were not more likely than not to be realized, the required valuation allowance could adversely affect the Company's financial position, results of operations and regulatory capital ratios. In addition, the value of the Company's deferred tax assets could be adversely affected by a change in statutory tax rates.

**Strategic Risks**

**Expansion of the Company's Branch Network May Adversely Affect its Financial Results**

The Company cannot assure that the opening of new branches will be accretive to earnings or that it will be accretive to earnings within a reasonable period of time. Numerous factors contribute to the performance of a new branch, such as suitable location, qualified personnel, and an effective marketing strategy. Additionally, it takes time for a new branch to gather sufficient loans and deposits to generate income sufficient to cover its operating expenses. Difficulties the Company experiences in opening new branches may have a material adverse effect on the Company's financial condition and results of operations.

**Mergers and Acquisitions Involve Numerous Risks and Uncertainties**

The Company may pursue mergers and acquisitions opportunities. Mergers and acquisitions involve a number of risks and challenges, including the expenses involved; integration of branches and operations acquired; the outflow of customers from the acquired branches; the successful retention of personnel from acquired companies or branches; competing effectively in geographic areas not previously served; managing growth resulting from the transaction; and dilution in the acquirer's book and tangible book value per share.

**Anti-Takeover Laws and Certain Agreements and Charter Provisions May Adversely Affect Share Value**

Certain provisions of the Company's certificate of incorporation and state and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire control of the Company without approval of the Company's board of directors. Under federal law, subject to certain exemptions, a person, entity or group must notify the FRB before acquiring control of a bank holding company. Acquisition of 10% or more of any class of voting stock of a bank holding company, including shares of the Company's common stock, creates a rebuttable presumption that the acquirer "controls" the bank holding company. Also, a bank holding company must obtain the prior approval of the FRB before, among other things, acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, including the Bank. There also are provisions in the Company's certificate of incorporation that may be used to delay or block a takeover attempt. Taken as a whole, these statutory provisions and provisions in the Company's certificate of incorporation could result in the Company being less attractive to a potential acquirer and thus could adversely affect the market price of the Company's common stock.

**General Risk Factors**

**The Company May Incur Impairment to its Goodwill**

Goodwill arises when a business is purchased for an amount greater than the fair value of the net assets acquired. The Company has recognized goodwill as an asset on our balance sheet in connection with the acquisition of various insurance agencies and the acquisition of FSB on May 1, 2020. The Company evaluates goodwill for impairment at least annually. Although the Company determined that goodwill was not impaired during 2021, a significant and sustained decline in the Company's stock price and market capitalization, a significant decline in our expected future cash flows, a significant adverse change in the business climate, slower growth rates or other factors could result in impairment of goodwill. If the Company were to conclude that a future write-down of the goodwill was necessary, it

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would record the appropriate charge to earnings, which could be materially adverse to its financial condition and results of operations.

**The Company's Business May Be Adversely Affected by Conditions in the Financial Markets and Economic Conditions Generally**

The Company's financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the markets where the Company operates, in Western New York and the Finger Lakes Region of New York State, and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by: declines in economic growth, declines in housing and real estate valuations, business activity or investor or business confidence, limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; natural disasters; or a combination of these or other factors. The Company's performance could be negatively affected to the extent there is deterioration in business and economic conditions, including persistent inflation, supply chain issues or labor shortages, which have direct or indirect material adverse impacts on us, our customers, and our counterparties.

**Strong Competition Within the Company's Market Area May Limit the Company's 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, brokerage and investment banking firms, and financial technology companies 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.

**Loss of Key Employees May Disrupt Relationships with Certain Customers**

The Company's business is primarily relationship-driven in that many of the key employees of the Bank and TEA have extensive customer relationships. Loss of a key employee with such customer relationships may lead to the loss of business if the customers were to follow that employee to a competitor. While management believes that the Company's relationships with its key business producers are good, the Company cannot guarantee that all of its key personnel will remain with the organization. Loss of such key personnel, particularly if they enter into an employment relationship with one of the Company's competitors, could result in the loss of some of the Company's customers. Such losses could have a material adverse effect on the Company's business, financial condition and results of operations.

**Damage to the Company's Reputation Could Adversely Impact our Business**

The Company's business reputation is important to its success. The ability to attract and retain customers, investors, employees and advisors may depend upon external perceptions of the Company. Damage to the Company's reputation could cause significant harm to its business and prospects and may arise from numerous sources, including litigation or regulatory actions, failing to deliver minimum standards of service and quality, compliance failures, unethical behavior and the misconduct of employees, advisors and counterparties. Negative perceptions or publicity regarding these matters could damage the Company's reputation among existing and potential customers, investors, employees and advisors. Adverse developments with respect to the financial services industry may also, by association, negatively impact the Company's reputation or result in greater regulatory or legislative scrutiny or litigation against the Company. Preserving and enhancing the Company's reputation also depends on maintaining systems and procedures that address known risks and regulatory requirements, as well as its ability to identify and mitigate additional risks that arise due to changes in businesses and the marketplaces in which the Company operates, the regulatory environment and client expectations. If any of these developments has a material effect on the Company's reputation, its business could suffer.

Furthermore, shareholders and other stakeholders have begun to consider how corporations are addressing environmental, social and governance ("ESG") issues. Governments, investors, customers and the general public are increasingly focused on ESG practices and disclosures, and views about ESG are diverse and rapidly changing. These



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shifts in investing priorities may result in adverse effects on the trading price of the Company's common stock if investors determine that the Company has not made sufficient progress on ESG matters. The Company could also face potential negative ESG-related publicity in traditional media or social media if shareholders or other stakeholders determine that we have not adequately considered or addressed ESG matters. If the Company, or our relationships with certain customers, vendors or suppliers became the subject of negative publicity, our ability to attract and retain customers and employees, and our financial condition and results of operations, could be adversely impacted.

**Changes in our accounting policies or in accounting standards could materially affect how we report our financial results**

Our accounting policies are fundamental to understanding our financial results and condition. Some of these policies require the use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Some of our accounting policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. If such estimates or assumptions underlying our financial statements are incorrect, we may experience material losses. From time to time, the FASB and the SEC change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our external financial statements. These changes are beyond our control, can be hard to predict and could materially impact how we report our results of operations and financial condition. We could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements in material amounts.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

At December 31, 2021, the Bank conducted its business from its administrative office and 21 branch offices. The administrative offices of the Company and the Bank are located at 6460 Main Street in Williamsville, NY. The administrative office facility is 50,000 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 also owns a building in Derby, NY.

The Bank has 21 branch locations. The Bank owns the building and land for six locations. Of the remaining branch locations, fourteen are leased by the Bank and one is leased by TEA.

TEA operates from the Bank's administrative office. TEA has eight retail locations. The Bank owns three of the locations and leases two of the locations, and TEA owns one location and leases two locations.

**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.

In the opinion of management, there are no proceedings pending to which the Company is a party or to which its property is subject, which, if determined adversely, would have a material effect on the Company's financial statements.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

PART II

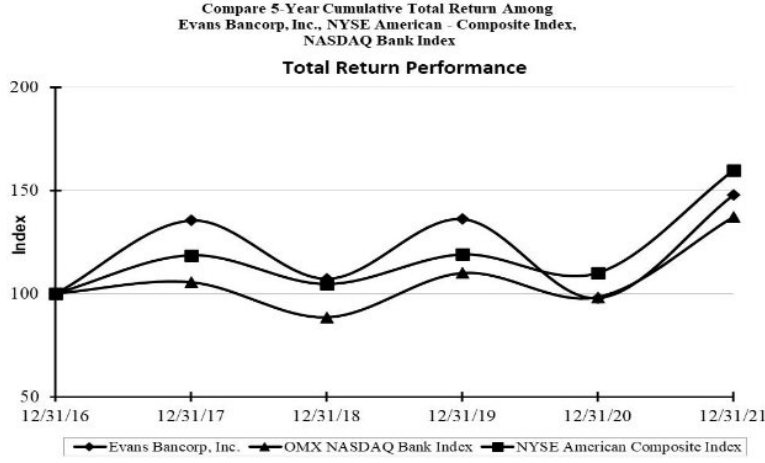
Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

**Market Information.** The Company's common stock is listed on the NYSE American under the symbol "EVBN."

**Holders.** The approximate number of holders of record of the Company's common stock as of March 2, 2022 was 1,251.

**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, 2016 to December 31, 2021) with the cumulative total return of the NYSE American Composite Index and NASDAQ Bank Index. The comparison for each of the periods assumes that \$100 was invested on December 31, 2016 in each of the Company's common stock and the stocks included in the NYSE American Composite Index and NASDAQ Bank Index and that all dividends were reinvested without commissions. This table does not forecast future performance of the Company's stock.



Index	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21
Evans Bancorp, Inc.	100.00	135.54	107.27	136.21	97.87	147.99
NASDAQ Bank	100.00	105.46	88.40	109.95	98.26	137.26
NYSE American - Composite Index	100.00	118.56	104.61	118.96	110.03	159.72

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 deemed to be "soliciting material" or to be "filed" with the SEC under the Securities Act or the Exchange Act, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically request that such information be treated as soliciting material or specifically incorporate it by reference into such a filing.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers.****Issuer Purchases of Equity Securities**

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs (1)</u>
October 2021:				
October 1, 2021 - October 31, 2021	-	\$ -	-	300,000
November 2021:				
November 1, 2021 - November 30, 2021	-	\$ -	-	300,000
December 2021:				
December 1, 2021 - December 31, 2021	-	\$ -	-	300,000
Total:	-	\$ -	-	300,000

(1) On February 25, 2021, the Board of Directors authorized the Company to repurchase up to 300,000 shares of the Company's common stock (the "2021 Repurchase Program"). The 2021 Repurchase program does not expire and may be suspended or discontinued by the Board of Directors at any time. The maximum number of shares that may be purchased under the 2021 Repurchase Program as of December 31, 2021 was 300,000.

**Item 6. [RESERVED]**

**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, 2021 and 2020. The review of the information presented should be read in conjunction with Part I, Item 1: "Business" and Part II, Item 8: "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

The Company is a financial holding company registered under the BHCA. 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 subsidiary, TEA. The Company does not engage in any other substantial business. Unless the context otherwise requires, the term "Company" refers collectively to Evans Bancorp, Inc. and its subsidiaries.

**Impact of Covid-19**

The Company's operations and financial results were substantially impacted by the COVID-19 pandemic during 2020 and 2021. Large portions of the U.S. economy were substantially curtailed for extended periods of time and, as a result, many commercial and consumer customers were negatively affected. The most significant impacts to the Company's financial results are reflected in the provision for loan loss and interest income.

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The Company recognized elevated levels of provisions for credit losses during 2020 that reflected projections of credit losses based on macroeconomic trends and conditions and an increase in criticized assets, primarily related to the identification of a well-defined weakness in the hotel industry which resulted in the classification of \$81 million of loans to clients within that industry as criticized. The Company recorded provisions for credit losses of \$5.4 million during 2020. An improvement in economic trends and conditions and a decrease in criticized assets during 2021 led the Company to recognize provision release of \$1.5 million during 2021. Approximately one third of the hotel portfolio was upgraded, leaving approximately \$50 million in criticized status at year end 2021.

In response to the pandemic, in 2020 the Federal Reserve took actions to lower interest rates that have negatively affected the Company's net interest income since the beginning of the pandemic. The CARES Act and applicable extensions provide relief to borrowers, including the opportunity to defer loan payments while not negatively affecting their credit standing, and also provided funding opportunities for small businesses under the Paycheck Protection Program ("PPP") from approved Small Business Administration ("SBA") lenders. PPP fees recognized in interest income were \$8.8 million and \$2.9 million in 2021 and 2020, respectively.

Continuing uncertainties associated with the COVID-19 pandemic include the duration of any outbreaks and any related variants, the availability and effectiveness of vaccines, restrictions on individual and business activities, the impact to our customers, employees and vendors and the impact to the economy as a whole. The COVID-19 pandemic could continue to have a significant impact on our business. Given the ongoing and dynamic nature of the pandemic, it is difficult to predict the full impact of the COVID-19 outbreak on the Company's business.

**Selected Financial Data**

As of and for the year ended December 31,

	2021	2020	2019
	(in thousands, except for per share data)		
<b>Balance Sheet Data</b>			
Assets	\$ 2,210,640	\$ 2,044,115	\$ 1,460,230
Interest-earning assets	2,103,604	1,929,674	1,373,488
Investment securities	309,124	166,600	130,308
Loans and leases, net	1,553,467	1,673,379	1,211,356
Deposits	1,937,037	1,771,409	1,267,440
Borrowings	67,965	79,663	23,755
Stockholders' equity	183,892	168,905	148,453
<b>Income Statement Data</b>			
Net interest income	\$ 72,785	\$ 59,782	\$ 52,055
Non-interest income	18,847	18,237	18,082
Non-interest expense	61,219	59,860	47,820
Net income	24,043	11,246	17,014
<b>Per Share Data</b>			
Earnings per share - basic	\$ 4.41	\$ 2.15	\$ 3.47
Earnings per share - diluted	4.37	2.13	3.42
Cash dividends	1.20	1.16	1.04
Book value	33.54	31.21	30.12
<b>Performance Ratios</b>			
Return on average assets	1.12 %	0.60 %	1.17 %
Return on average equity	13.71 %	7.06 %	12.08 %
Return on average tangible common stockholders' equity*	14.96 %	7.77 %	13.29 %
Net interest margin	3.57 %	3.37 %	3.82 %
Efficiency ratio	66.81 %	76.72 %	68.18 %
Efficiency ratio (Non-GAAP) **	66.22 %	68.45 %	67.21 %
Dividend payout ratio	27.19 %	53.95 %	29.97 %
<b>Capital Ratios</b>			
Tier 1 capital to average assets	8.57 %	8.21 %	10.33 %
Equity to assets	8.32 %	8.26 %	10.17 %
<b>Asset Quality Ratios</b>			
Total non-performing assets to total assets	0.83 %	1.38 %	0.99 %
Total non-performing loans to total loans	1.17 %	1.66 %	1.17 %
Net charge-offs (recoveries) to average loans	0.03 %	0.01 %	(0.03)%
Allowance for loan losses to non-accrual loans	106.04 %	73.21 %	105.41 %
Allowance for loan losses to total loans	1.17 %	1.21 %	1.24 %

\* The calculation of the average tangible common stockholders' equity ratio excludes goodwill and intangible assets from average stockholders' equity. See Reconciliation of GAAP to Non-GAAP Financial Measures below.

\*\* The calculation of the non-GAAP efficiency ratio excludes amortization of intangibles, gains and losses from investment securities, merger-related expenses and the impact of historic tax credit transactions. See Reconciliation of GAAP to Non-GAAP Financial Measures below.

**Reconciliation of GAAP to Non-GAAP Financial Measures**

We believe the non-GAAP financial measures included above provide useful information to management and investors that is supplementary to our financial condition, results of operations and cash flows computed in accordance with GAAP; however, we acknowledge that our non-GAAP financial measures have a number of limitations. The following reconciliation table provides a more detailed analysis of the non-GAAP financial measures:

	2021	2020	2019
	(in thousands)		
<b>Return on average tangible common stockholders' equity</b>			
Net income (GAAP)	\$ 24,043	\$ 11,246	\$ 17,014
Average shareholders' equity (GAAP)	\$ 175,416	\$ 159,330	\$ 140,801
Deduct: Average goodwill and intangible assets	14,683	14,672	12,775
Average shareholders' equity (non-GAAP)	\$ 160,733	\$ 144,658	\$ 128,026
Return on average tangible common stockholders' equity (non-GAAP)	14.96%	7.77%	13.29%
<b>Efficiency ratio</b>			
Non-interest expense (GAAP)	\$ 61,219	\$ 59,860	\$ 47,820
Deduct: Intangible amortization expense	537	533	448
Deduct: Merger related expense	-	5,958	232
Adjusted non-interest expense (non-GAAP)	\$ 60,682	\$ 53,369	\$ 47,140
Net interest income (GAAP)	\$ 72,785	\$ 59,782	\$ 52,055
Non-interest income (GAAP)	18,847	18,237	18,082
Add: Historic tax credit losses, net	9	618	43
Deduct: Gain on sale of securities	-	667	42
Adjusted total revenue (non-GAAP)	\$ 91,641	\$ 77,970	\$ 70,138
Efficiency ratio (non-GAAP)	66.22%	68.45%	67.21%

See 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.

**Summary**

Net income in 2021 was \$24.0 million, a 114% increase from 2020 net income of \$11.2 million. The increase in the Company's net income during 2021 reflected higher net interest income of \$13.0 million and the prior year's \$6.0 million in merger-related expenses associated with the acquisition of FSB and \$5.4 million provision for loan loss primarily related to the impact of the COVID-19 pandemic. During 2021 the Company released \$1.5 million of the allowance for loan loss. Partially offsetting those benefits were increases of \$5.6 million in salaries and employee benefits cost and \$6.3 million of income tax provision. Net interest income was \$72.8 million in 2021, a 22% increase from 2020, reflecting higher PPP fees of \$5.9 million, \$0.8 million in commercial prepayment fees, \$0.5 million relating to the amortization of fair value marks on acquired loans, and the full year impact of the acquisition of FSB. Net interest margin was 3.57% and 3.37% in 2021 and 2020, respectively.

The Company's release of the allowance for loan losses of \$1.5 million, compared with the provision for loan loss of \$5.4 million during 2020 reflects a decrease in non-performing and criticized loans as well as improvements in the economy related to the effects of the COVID-19 pandemic. The ratio of non-performing loans to total loans was 1.17% compared with 1.66% in 2020.

Non-interest income was \$18.8 million and \$18.2 million in 2021 and 2020, respectively. The largest component of the Company's non-interest income, insurance service and fees, was \$10.5 million in 2021, a decrease of \$0.2 million or 1% from 2020. Deposit service charges were \$2.5 million in 2021, an increase of \$0.3 million from 2020. Included in the increase of non-interest income during 2021 were increases of \$0.4 million in interchange fees, \$0.4 million in loan fees, and \$0.3 million in mortgage servicing rights income. During 2020 the Company recognized gains of \$0.7 million relating to the sale of investment securities and \$0.7 million relating to the sale of the previous administrative headquarters. Partially offsetting those 2020 gains was a \$0.6 million loss on an investment in a historic rehabilitation tax credit. There were no significant gains or losses from the sale of assets or historic tax credit transactions during 2021.

Non-interest expense was \$61.2 million, an increase of \$1.4 million from 2020. Salaries and benefits expense, the largest component of non-interest expenses, increased \$5.6 million compared to 2020. Merger-related costs of \$6.0 million were incurred during 2020, in connection with the acquisition of FSB. As a result of the full year impact of the FSB acquisition, occupancy expense and marketing expense increased \$0.4 million and \$0.3 million, respectively, in 2021 when compared with 2020.

### Strategy

The Company's goal is to continue to increase market share and achieve scale while improving profitability and returning value to shareholders. The Company's biggest strength and earnings driver is commercial and small business lending. The Company expects to continue to focus on building on this competitive advantage by adding personnel in this area. Management has also bolstered its biggest driver of non-interest income, TEA, through both agency and talent acquisition as well as building out its employee benefits and financial services businesses. In addition, management intends to continue to develop strategies to deepen existing customer relationships with tailored product sets that reward the Company's most loyal customers.

The Company's strategies are designed to direct tactical investment decisions supporting its financial objectives. While the Company intends to focus its efforts on the pursuit of these strategies, there can be no assurance that the Company will successfully implement these strategies or that the strategies will produce the desired results. The Company's most significant revenue source continues to be net interest income, defined as total interest income less interest expense. Net interest income accounted for 79% of total revenue in 2021. 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 area. To generate and grow loans and deposits, the Company must focus on a number of areas including, but not limited to, 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 to its financial products, such as commercial and personal insurance sold through TEA. Improved performance in non-interest income can help increase capital ratios because most of the non-interest income is generated without recording assets on the balance sheet. The Company has and will continue to face challenges in increasing its non-interest income as the regulatory environment changes.

The Company has focused its efforts on targeted groups in its community such as (1) smaller businesses with smaller credit needs but rich in deposits and other service needs; (2) middle market commercial businesses; (3) commercial real estate lending; (4) retail customers; and (5) municipal customers. The overarching goal is to cross-sell between our insurance, financial services and banking lines of business to deepen our relationships with all of our customers.

The Company strives to provide a personal touch to customer service and is committed to maintaining a local, community-based philosophy. The Bank has emphasized hiring local branch and lending personnel with strong ties to the specific local communities it serves.

The Bank serves its market through 21 banking offices in Western New York and the Finger Lakes Region of New York State. 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 Deposit Insurance Fund of the FDIC. The Bank is regulated by the OCC.

## APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The Company's Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and follow general practices within the industries in which it operates. Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the Company's 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.

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 Annual Report on Form 10-K. These policies, along with the disclosures presented in the other Notes to the Consolidated Financial Statements contained in this Annual 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.

The more significant areas in which management of the Company applies critical assumptions and estimates include the allowance for loan losses and valuation methodologies.

### Allowance for Loan Losses

The allowance for loan losses ("ALLL") represents management's estimate of probable incurred losses in the Bank's loan portfolio. Determining the amount of the allowance for loan losses requires significant judgment on the part of management and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, consideration of current economic trends and conditions, and other qualitative and quantitative factors, all of which may be susceptible to significant change. Qualitative loss factors are applied to each portfolio segment with the amounts determined by historical loan charge-offs of a peer group of similar-sized regional banks. It is difficult to estimate how potential changes in any one economic factor or input might affect the overall allowance because a wide variety of factors and inputs are considered in estimating the allowance and changes in those factors and inputs considered may not occur at the same rate and may not be consistent across all product types. Additionally, changes in factors and inputs may be directionally inconsistent, such that improvement in one factor may offset deterioration in others.

In estimating the ALLL on loans, management considers the sensitivity of the model and significant judgments and assumptions that could result in an amount that is materially different from management's estimate. Given the concentration of ALLL allocation to the total commercial portfolio and the significant judgments made by management in deriving the qualitative loss factors, management analyzed the impact that changes in judgments could have. The range of impact on the ALLL allocated to the total commercial loan portfolio was between a reduction of \$11.4 million and an increase of \$9.7 million at December 31, 2021. The sensitivity and related range of impact is a hypothetical analysis and is not intended to represent management's judgments or assumptions of qualitative loss factors that were utilized at December 31, 2021 in estimation of the ALLL on loans recognized on the Consolidated Balance Sheet.

If the assumptions underlying the determination of the ALLL prove to be incorrect, the ALLL may not be sufficient to cover actual loan losses and an increase to the ALLL may be necessary to allow for different assumptions or adverse developments. In addition, a problem with one or more loans could require a significant increase to the ALLL.

Management's methodology and policy in determining the allowance for loan losses can be found in Note 1 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. The activity in the allowance for loan losses is depicted in supporting tables in Note 4 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.



**RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2021 AND DECEMBER 31, 2020**

**Net Income**

Net income of \$24.0 million in 2021 consisted of \$22.7 million related to the Company's banking activities and \$1.3 million related to the Company's insurance agency activities. Net income of \$24.0 million in 2021, or \$4.37 per diluted share increased from \$11.2 million, or \$2.13 per diluted share, in 2020.

**Net Interest Income**

Net interest income, the difference between interest income and fee income on interest 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 of and yields earned on interest earning assets as compared to the amounts of and rates paid on interest bearing liabilities.

**AVERAGE BALANCE SHEET INFORMATION**

The following table presents the significant categories of the assets and liabilities of the Company, interest income and interest expense, and the corresponding yields earned and rates paid in 2021, 2020, and 2019. 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. Available-for-sale securities are stated at fair value. Interest and yield are not presented on a tax-equivalent basis.

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	2021			2020			2019		
	Average Outstanding Balance	Interest Earned/Paid (in thousands)	Yield/Rate	Average Outstanding Balance	Interest Earned/Paid (in thousands)	Yield/Rate	Average Outstanding Balance	Interest Earned/Paid (in thousands)	Yield/Rate
<b>ASSETS</b>									
Interest-earning assets:									
Loans, net (1)	\$ 1,661,057	\$ 72,955	4.39 %	\$ 1,526,631	\$ 64,753	4.24 %	\$ 1,188,436	\$ 60,193	5.06 %
Taxable securities	221,965	4,224	1.90 %	152,456	3,587	2.35 %	130,535	3,537	2.71 %
Tax-exempt securities	10,489	214	2.04 %	10,411	246	2.36 %	12,157	313	2.57 %
Interest bearing deposits at banks	144,944	187	0.13 %	82,697	247	0.30 %	32,166	697	2.17 %
<b>Total interest-earning assets</b>	<b>2,038,455</b>	<b>\$ 77,580</b>	<b>3.81 %</b>	<b>1,772,195</b>	<b>\$ 68,833</b>	<b>3.88 %</b>	<b>1,363,294</b>	<b>\$ 64,740</b>	<b>4.75 %</b>
Non interest-earning assets:									
Cash and due from banks	15,197			14,671			13,988		
Premises and equipment, net	18,963			16,531			11,960		
Other assets	79,765			76,911			61,823		
<b>Total Assets</b>	<b>\$ 2,152,380</b>			<b>\$ 1,880,308</b>			<b>\$ 1,451,065</b>		
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>									
Interest-bearing liabilities:									
NOW	\$ 248,441	\$ 269	0.11 %	\$ 197,113	\$ 488	0.25 %	\$ 126,628	\$ 540	0.43 %
Regular savings	952,549	1,514	0.16 %	736,558	3,120	0.42 %	595,605	5,248	0.88 %
Time deposits	202,958	1,081	0.53 %	312,620	4,113	1.32 %	286,181	6,151	2.15 %
Other borrowed funds	39,478	308	0.78 %	35,749	304	0.85 %	10,000	173	1.73 %
Subordinated debt	30,922	1,616	5.23 %	20,836	1,019	4.89 %	11,327	565	4.99 %
Securities sold U/A to repurchase	4,453	7	0.16 %	4,022	7	0.17 %	4,279	8	0.19 %
<b>Total interest-bearing liabilities</b>	<b>1,458,801</b>	<b>\$ 4,795</b>	<b>0.33 %</b>	<b>1,306,898</b>	<b>\$ 9,051</b>	<b>0.69 %</b>	<b>1,034,020</b>	<b>\$ 12,685</b>	<b>1.23 %</b>
Noninterest-bearing liabilities:									
Demand deposits	494,294			388,269			255,125		
Other	23,869			25,811			21,119		
<b>Total liabilities</b>	<b>\$ 1,976,964</b>			<b>\$ 1,720,978</b>			<b>\$ 1,310,264</b>		
Stockholders' equity									
<b>Total Liabilities and Equity</b>	<b>\$ 2,152,380</b>			<b>\$ 1,880,308</b>			<b>\$ 1,451,065</b>		
Net interest earnings		\$ 72,785			\$ 59,782			\$ 52,055	
Net interest margin			3.57 %			3.37 %			3.82 %
Interest rate spread			3.48 %			3.19 %			3.52 %

(1) Included in interest earned were PPP loans fees of \$8.8 million and \$2.9 million as of December 31, 2021 and 2020, respectively. There were no PPP loan fees earned during 2019. Other loan fees included in interest earned were not material during 2021, 2020, and 2019.

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. There are no out-of-period item adjustments included in the following table.

	2021 Compared to 2020 Increase (Decrease) Due to			2020 Compared to 2019 Increase (Decrease) Due to		
	Volume	Rate	Total	(in thousands)		
				Volume	Rate	Total
<b>Interest earned on:</b>						
Loans	\$ 5,846	\$ 2,356	\$ 8,202	\$ 15,357	\$ (10,797)	\$ 4,560
Taxable securities	1,415	(778)	637	550	(500)	50
Tax-exempt securities	2	(34)	(32)	(42)	(25)	(67)
Interest-bearing deposits at banks	126	(186)	(60)	485	(935)	(450)
<b>Total interest-earning assets</b>	<b>\$ 7,389</b>	<b>\$ 1,358</b>	<b>\$ 8,747</b>	<b>\$ 16,350</b>	<b>\$ (12,257)</b>	<b>\$ 4,093</b>
<b>Interest paid on:</b>						
NOW accounts	\$ 104	\$ (323)	\$ (219)	\$ 229	\$ (281)	\$ (52)
Savings deposits	677	(2,283)	(1,606)	1,039	(3,167)	(2,128)
Time deposits	(1,124)	(1,908)	(3,032)	525	(2,563)	(2,038)
Other	345	256	601	807	(223)	584
<b>Total interest-bearing liabilities</b>	<b>\$ 2</b>	<b>\$ (4,258)</b>	<b>\$ (4,256)</b>	<b>\$ 2,600</b>	<b>\$ (6,234)</b>	<b>\$ (3,634)</b>

Net interest income increased by \$13.0 million, or 22%, to \$72.8 million in 2021 from \$59.8 million in 2020. This change primarily resulted from increases of \$5.9 million in PPP fees, \$0.8 million in commercial prepayment fees, \$0.5 million relating to the amortization of fair value marks on acquired loans, and the full year impact of the acquisition of FSB. In addition, interest expense decreased \$4.3 million as the Company continued to align rates on deposits. Overall, the increased volume of interest-earning assets and interest-bearing liabilities positively impacted net interest income by \$7.4 million in 2021, while the rates earned and paid on those respective assets and liabilities had a positive impact of \$5.6 million.

The total commercial loan portfolio average balance, including commercial real estate and C&I loans, increased \$31.0 million, or 3%, from a \$1.17 billion average balance in 2020 to a \$1.20 billion average balance in 2021. This increase was primarily the result of commercial real estate originations, partially offset by a decrease in commercial lines of credit. Average consumer loans, including residential mortgages and home equity lines of credit, increased 27% from \$375.2 million in 2020 to \$476.2 million in 2021. The increase was primarily due to the full year impact of the acquisition of FSB and higher levels of residential mortgage originations.

On the funding side, total average deposits increased \$243.7 million, or 15%, year over year to \$1.9 billion in 2021. The increase from the prior year reflects an accumulation of liquidity by commercial customers in response to the pandemic, including deposits related to PPP loans, and increases in consumer deposits from government stimulus payments and lower consumer spending.

The Company's net interest margin increased from 3.37% in 2020 to 3.57% in 2021. The net interest spread, or the difference between yield on interest-earning assets and rate on interest-bearing liabilities, increased from 3.19% in 2020 to 3.48% in 2021. These changes are primarily attributable to the increase in PPP fees in 2021. The yield on interest-earning assets decreased 7 basis points to 3.81% during 2021, reflecting the changes in the mix of interest-earning assets, including increased interest earning cash balances. Cost of interest-bearing liabilities decreased 36 basis points to 0.33% during 2021. The decrease in the cost of interest-bearing liabilities is the result of lower rates as the Company continues to align rates on deposits. The rate paid on average time deposits decreased from 1.32% in 2020 to 0.53% in 2021. Average time deposits were 14% of total interest-bearing liabilities in 2021, compared with 24% in the prior year period.

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 changes in interest rates. The Bank's Asset/Liability Management Committee ("ALCO") meets monthly for the purpose of evaluating the Bank's short-term and long-term liquidity position and the potential impact on capital and earnings 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

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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.

**Provision for Loan Losses**

The Company's release of allowance for loan losses of \$1.5 million during 2021, compared with the provision for loan losses of \$5.4 million in 2020 reflects a decrease in non-performing and criticized loans as well as improvements in economic trends and conditions related to the COVID-19 pandemic. During 2020, the Company identified a well-defined weakness in the hotel industry and classified the \$81 million of loans to clients within that industry as criticized. During 2021, approximately one third of the hotel portfolio was upgraded, leaving approximately \$50 million in criticized status at year end. At December 31, 2021, criticized assets totaled \$111 million, compared with \$140 million in 2020. The ratio of non-performing loans to total loans was 1.17% at December 31, 2021 compared with 1.66% at the end of 2020. The Company records a specific reserve on impaired loans and a higher reserve percentage on criticized loan balances, or those loans risk-rated special mention or worse, which are collectively evaluated for impairment. At December 31, 2021, criticized loans that were collectively evaluated for impairment totaled \$97 million, compared with \$116 million at December 31, 2020. Overall, total loans collectively evaluated for impairment decreased \$118 million to \$1.6 billion at the end of 2021 from \$1.7 billion as of December 31, 2020, primarily as a result of a decrease in non-accrual loans that paid off or were individually evaluated for impairment during 2020.

A description of how the allowance for loan losses is determined along with tabular data depicting the key factors in calculating the allowance is set forth in Notes 1 and 4 of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

**Non-accrual, Past Due and Restructured Loans**

Non-performing loans decreased \$9.7 million from \$28.1 million at December 31, 2020 to \$18.4 million at December 31, 2021. The decrease in 2021 was primarily driven by three large non-accrual commercial real estate loans that paid off totaling \$8.3 million and a \$2.8 million commercial real estate loan that moved back to accruing status during 2021. Offsetting those decreases was approximately \$5.0 million of commercial loans that moved to non-accrual status during 2021. Non-performing loans included \$17.4 million of non-accruing loans at December 31, 2021 compared with \$27.9 million at December 31, 2020. Total non-accrual loans to total loans was 1.11% and 1.65% at December 31, 2021 and 2020, respectively. There were \$1.0 million of accruing loans categorized as 90 days past due at December 31, 2021 compared with \$0.2 million at December 31, 2020.

Total non-performing loans to total assets was 0.83% at December 31, 2021 compared with 1.38% at December 31, 2020. Total non-performing loans to total loans and leases at December 31, 2021 and 2020 was 1.17% and 1.66%, respectively.

The Company had \$5.7 million in loans that were restructured and deemed to be TDRs at December 31, 2021 with \$1.5 million of those balances in non-accrual status, compared with \$7.3 million and \$5.3 million, respectively, at December 31, 2020. Any TDR that is placed on non-accrual is not returned to accruing status until the borrower makes timely payments as contracted for at least six months and future collection under the revised terms is probable. All of the restructurings were completed in an effort to maximize the Company's ability to collect on loans where borrowers were experiencing financial difficulty. Modifications made to loans in a troubled debt restructuring did not have a material impact on the Company's net income for the years ended December 31, 2021 and 2020. The reserve for a TDR is based upon the present value of the future expected cash flows discounted at the loan's original effective rate or upon the fair value of the collateral less costs to sell, if the loan is deemed collateral dependent. This reserve methodology is used because all TDR loans are considered impaired. In accordance with the CARES Act and federal banking regulators issued guidance, modifications made to a borrower affected by the COVID-19 pandemic did not result in a TDR classification if the loan was current as of December 31, 2019. This COVID-19 related TDR exception expired on January 1, 2022.

See Note 4 of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for further information about the Company's non-accrual, past due and restructured loans.

**Allowance for Loan and Lease Losses**

The following table summarizes the Bank's allocation of the allowance for loan losses by portfolio type for years 2021 and 2020.

	Balance at 12/31/2021	Percent of loans to total loans	Balance at 12/31/2020	Percent of loans to total loans
(in thousands)				
Residential mortgages*	\$ 2,127	27 %	\$ 1,658	22 %
Commercial mortgages*	12,367	53 %	13,249	48 %
Home equities	581	5 %	581	5 %
Commercial and industrial	3,309	15 %	4,882	25 %
Consumer loans**	54	-	45	-
<b>Total</b>	<b>\$ 18,438</b>	<b>100 %</b>	<b>\$ 20,415</b>	<b>100 %</b>

\* includes construction loans

\*\* includes other loans

During 2021, the Company had net loan charge-offs of \$0.5 million, compared with of \$0.1 million in 2020. The ratio of net loan charge-offs to average net loans outstanding was 0.03% in 2021 compared with 0.01% in 2020. There were no significant charge-offs or recoveries in 2021 or 2020. The following table presents by loan category net loan charge-offs (recoveries) to average loans outstanding ratios for 2021 and 2020.

	2021	2020
Residential mortgages*	-%	0.01 %
Commercial mortgages*	-%	-%
Home equities	-%	(0.03)%
Commercial loans	0.10 %	0.01 %
Consumer loans**	1.27 %	1.36 %

\* includes construction loans

\*\* includes other loans

Commercial mortgages comprised 67% of the allowance for loan losses, and correspondingly, the commercial mortgage portfolio made up the largest proportion, or 53%, of the total loan portfolio as of December 31, 2021, as compared with 65% of the allowance and 48% of the total loan portfolio at December 31, 2020. The commercial mortgage percentage of the allowance as it compares to the percentage of total loans primarily reflects the impact of the COVID-19 pandemic on the Company's hotel loan portfolio.

C&I loans comprised 18% of the allowance for loan losses and 15% of the loan portfolio as of December 31, 2021, as compared with 24% of the allowance and 25% of the total loan portfolio at December 31, 2020. These decreases primarily reflect a decrease in commercial lines of credit loans outstanding and the impact of SBA forgiveness of PPP loans during 2021.

Residential mortgages comprised 12% of the allowance for loan losses and 26% of the loan portfolio as of December 31, 2021, as compared with 8% of the allowance and 22% of the total loan portfolio at December 31, 2020. The change in the residential mortgage percentage of the allowance as it compares to the percentage of total loans primarily reflects an increase in residential mortgages originations during 2021. Loans acquired in a business combination are recorded at fair value with no carry-over of an acquired entity's previously established allowance for credit losses. Acquired residential mortgages that were not included in the allowance for loan losses were \$120 million and \$161 million at December 31, 2021 and 2020, respectively.

In addition to acquired loans, PPP loans are excluded from the calculation of the allowance for loan losses because they are 100% guaranteed by the SBA. Total loans excluded from the calculation of the allowance for loan losses were \$180 million and \$397 million at December 31, 2021 and 2020, respectively. Overall, the ratio of the allowance for loan losses to total loans decreased from 1.21% at December 31, 2020 to 1.17% on December 31, 2021. The decrease reflects improved economic trends and conditions relating to the COVID-19 pandemic, as well as a sustained level of low charge-offs, and a decrease in non-performing loans. The non-performing loans to total loans ratio decreased from 1.66% at the end of 2020, to 1.17% at the conclusion of 2021.

The Company evaluates the loan portfolio to ensure that specific credits are appropriately graded and reserved. At least annually, borrowers' financial information is reviewed by the individual relationship managers. Independent of the individual relationship managers, the credit department performs annual reviews on all requisite relationships within the loan portfolio. Additionally, the credit department, the loan review department monitors the management of the Company's commercial loan portfolio. The Company's loan review function reviews a percentage of the commercial loan portfolio based on an annual risk assessment, typically ranging from 35% to 50%. The Company believes that the allowance for loan losses is reflective of a fair assessment of the current environment and credit quality trends.

#### **Non-Interest Income**

Total non-interest income increased by \$0.6 million from \$18.2 million in 2020 to \$18.8 million in 2021. Interchange fee income increased \$0.4 million to \$2.1 million at December 31, 2021. Deposit service charges were up \$0.3 million to \$2.5 million at December 31, 2021. During 2020, certain deposit service fees had been temporarily suspended to assist customers affected by COVID-19. During 2020, the Company recorded a \$0.7 million gain on sale of investment securities and a \$0.7 million gain on sale of the Company's previous administrative headquarters, partially offset by a net loss of \$0.6 million as a result of the recognition of a historic tax credit transaction. Insurance services fees of \$10.5 million decreased \$0.2 million compared to 2020. Insurance revenue remains the largest component of non-interest income at 55% of total non-interest income. TEA is a source of diversification in the earnings of the Company and helps generate income not directly impacted by difficult credit or interest rate environments.

The Company has been actively engaged in the community by financing historic rehabilitation projects in Buffalo and enhances its yield by investing in related tax credits. When a project is completed, the Company recognizes tax benefits with a related reduction in the investment. The impact on non-interest income from historic tax credit investments was a \$0.6 million loss in 2020. There were no significant historic tax credit transactions in 2021.

#### **Non-Interest Expense**

Total non-interest expense increased \$1.4 million, or 2%, from \$59.9 million in 2020 to \$61.2 million in 2021. The largest increases in non-interest expense in 2021 when compared with 2020 was salaries and employee benefits, which increased \$5.6 million, or 17%, primarily due to higher incentive accruals and the full year impact of the FSB

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acquisition. Occupancy expense increased \$0.4 million and marketing expense increased \$0.3 million also reflecting the addition of FSB. In addition, the Company had a \$0.5 million increase in charitable contributions. Offsetting these increases were merger-related expenses of \$6.0 million that were incurred during 2020 in connection with the acquisition of FSB. There were no merger-related expenses during 2021.

The efficiency ratio expresses the relationship of operating expenses to revenues. The Company's GAAP efficiency ratio, or non-interest operating expenses divided by the sum of net interest income and non-interest income, was 66.8% in 2021 compared with 76.7% in 2020. The Company's non-GAAP efficiency ratio, which excludes amortization expense, gains and losses from investment securities, merger-related expenses and the impact of historic tax credit transactions, was 66.2% in 2021 compared with 68.5% in 2020.

**Taxes**

Income tax expense for the year was \$7.9 million, representing an effective tax rate of 24.7% compared with an effective tax rate of 12.2% in 2020. Income tax expense in 2020 included a tax benefit relating to historic tax credit transactions. Excluding the impact of the historic tax credit transaction, the effective tax rate was 23.9% in 2020. There were no significant historic tax credit transactions in 2021. For further discussion of the Company's income taxes, including a reconciliation from the statutory rate to the actual rate for 2021 and 2020, see Note 14 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

**FINANCIAL CONDITION**

The Company had total assets of \$2.2 billion at December 31, 2021, an increase of \$167 million, or 8%, from \$2.0 billion at December 31, 2020. Net loans of \$1.6 billion at the most recent year end were \$120 million, or 7%, lower than at December 31, 2020. Total investment securities increased \$143 million, or 86%, from \$167 million at December 31, 2020 to \$309 million at December 31, 2021, and deposits increased by \$166 million, or 9%, to \$1.9 billion as of the end of 2021. Stockholders' equity was \$184 million at the conclusion of 2021, a \$15 million, or 9% increase from \$169 million at the previous year end.

**Securities Activities**

The primary objectives of the Bank's securities portfolio are to provide liquidity and maximize income while preserving safety of principal. Secondary objectives include: providing collateral to secure local municipal deposits, the investment of funds during periods of decreased loan demand, interest rate sensitivity considerations, 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 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, Small Business Investment Companies (SBIC), Federal Reserve stock and Federal Home Loan Bank stock.

In regard to municipal securities, the Company's general investment policy is that in-state securities must be rated at least Moody's Baa (or equivalent) at the time of purchase. The Company reviews the ratings report and municipality financial statements and prepares a pre-purchase analysis report before the purchase of any municipal securities. Out-of-state issues must be rated by Moody's at least Aa (or equivalent) at the time of purchase. The Company did not own any out-of-state municipal bonds at December 31, 2021 or December 31, 2020. Bonds rated below A are reviewed periodically to ensure their continued creditworthiness. While purchase of non-rated municipal securities is permitted, such purchases are limited to bonds issued by municipalities in the Company's general market area. Those municipalities are typically customers of the Bank whose financial situation is familiar to management. 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.

The Company has not experienced any credit troubles in its municipal bond portfolio and does not believe any credit troubles are imminent. Aside from the non-rated municipal securities to local municipalities discussed above that are considered held-to-maturity, all of the Company's available-for-sale municipal bonds are investment-grade

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government obligation (“G.O.”) bonds. G.O. bonds are generally considered safer than revenue bonds because they are backed by the full faith and credit of the government while revenue bonds rely on the revenue produced by a particular project. All of the Company’s municipal bonds are to municipalities in New York State. To the Company’s knowledge, there has never been a default on a NY G.O. bond in the history of the state. The Company believes that its risk of loss on default of a G.O. municipal bond for the Company is relatively low. However, historical performance does not guarantee future performance.

All fixed and adjustable rate mortgage pools backing the Company’s mortgage-backed securities 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 model to monitor the average life and yield volatility of mortgage pools under various interest rate assumptions.

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 reported at amortized cost and consist of municipal investments that the Bank has made in its local market area. At December 31, 2021, \$3.2 million in securities were designated as held to maturity. Debt and mortgage backed securities designated as available for sale are reported at fair market value.

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

Management believes that it has a sufficient understanding of the third party service’s valuation models, assumptions and inputs used in determining the fair value of securities to enable management to maintain an appropriate system of internal control. On a quarterly basis the Company reviews changes, as submitted by our third-party pricing service provider, in the market value of its securities portfolio. Individual changes in valuations are reviewed for consistency with general interest rate movements and any known credit concerns for specific securities. Additionally, on a quarterly basis the Company has its entire securities portfolio priced by a second pricing service to determine consistency with another market evaluator. If, on the Company’s review or in comparing with another servicer, a material difference between pricing evaluations were to exist, the Company may submit an inquiry to our third party pricing service provider regarding the data used to value a particular security. If the Company determines it has market information that would support a different valuation than our third-party pricing service provider’s evaluation it can submit a challenge for a change to that security’s valuation. There were no material differences in valuations noted in 2021 or 2020.

The available for sale portfolio totaled \$306 million or approximately 99% of the Company’s securities portfolio at December 31, 2021. Net unrealized gains and losses on available for sale securities resulted in an unrealized loss of \$4.3 million at December 31, 2021, as compared with a net unrealized gain of \$3.2 million at December 31, 2020. The change in the net unrealized position of the portfolio in 2021 was due to the increase in market interest rates during the year and the increase in total securities resulting from elevated purchase activity. Unrealized gains and losses on available-for-sale securities are reported, net of taxes, as a separate component of stockholders’ equity. For the year ended December 31, 2021, the impact of net unrealized losses, net of taxes, on stockholders’ equity was \$5.6 million.

Certain securities available for sale were in an unrealized loss position at December 31, 2021. Management assessed those securities available for sale in an unrealized loss position at December 31, 2021 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



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the decline in fair value is primarily related to market interest rate fluctuations and not to the credit deterioration of the individual issuer.

Securities and interest-bearing deposits at banks made up 19% of the Company's total average interest-earning assets in 2021 compared with 14% in 2020. The Company's securities portfolio outstanding balances increased from \$167 million at December 31, 2020 to \$309 million at December 31, 2021 and the Company's interest-bearing deposits at banks increased from \$84 million to \$235 million over the same time period. The interest-bearing deposits are liquid interest-bearing cash accounts at correspondent banks. The increase in interest-bearing deposits reflective of excess liquidity due to growth in funding from customer deposits. At December 31, 2021, the Company's concentration in U.S. government-sponsored agency bonds was 31% of the total securities balance versus 41% at December 31, 2020. Government-sponsored mortgage-backed securities comprised 66% of the portfolio at December 31, 2021, compared with 52% of the portfolio at December 31, 2020, and tax-advantaged municipal bonds made up 3% of the portfolio at December 31, 2021 versus 7% of the portfolio at December 31, 2020.

Income from securities held in the Bank's investment portfolio represented 6% of total interest income of the Company in 2021 and 2020. Taxable securities yields declined to 1.90% in 2021 from 2.35% in 2020, while tax-exempt yields were 2.04% in 2021 and 2.36% in 2020. Returns weakened in 2021 as market interest rates remained low. The tax-exempt portfolio has significantly declined since 2017 as the decrease in the Company's federal tax rate has reduced the effectiveness of municipal bonds.

As a member of both the Federal Reserve System and the FHLB, the Bank is required to hold stock in those entities. The Bank held \$3.0 million and \$3.5 million in FHLB stock as of December 31, 2021 and 2020, respectively, and \$3.0 million and \$2.3 million in FRB stock at December 31, 2021 and 2020, respectively.

Available for sale securities with a total fair value of \$207 million at December 31, 2021 were pledged as collateral to secure public deposits and for other purposes required or permitted by law.

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The following table sets forth the contractual maturities and weighted average interest yields of the Bank's securities portfolio that are not carried at fair value through earnings (yields on tax-exempt obligations are not presented on a tax-equivalent basis) as of December 31, 2021. Expected maturities will differ from contracted maturities since issuers may have the right to call or prepay obligations without penalties.

	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
(\$ in thousands)								
<b>Available for Sale:</b>								
Debt Securities								
U.S. treasuries and government agencies	\$ 1,012	1.63 %	\$ 10,871	1.73 %	\$ 48,597	1.64 %	\$ 36,338	1.70 %
States and political subdivisions	1,039	1.16 %	3,977	2.28 %	1,230	3.45 %	-	- %
Total debt securities	\$ 2,051	1.39 %	\$ 14,848	1.88 %	\$ 49,827	1.68 %	\$ 36,338	1.70 %
Mortgage-backed securities								
FNMA	\$ -	- %	\$ 8,471	2.68 %	\$ 5,068	1.77 %	\$ 49,671	1.97 %
FHLMC	1	5.89 %	-	- %	8,754	1.84 %	29,679	1.75 %
GNMA	-	- %	132	3.74 %	-	- %	31,082	1.76 %
SBA	-	- %	-	- %	-	- %	18,208	2.45 %
CMO	-	- %	-	- %	266	2.74 %	51,563	1.92 %
Total mortgage-backed securities	\$ 1	5.89 %	\$ 8,603	2.70 %	\$ 14,088	1.83 %	\$ 180,203	1.93 %
Total securities designated as available for sale	\$ 2,052	1.39 %	\$ 23,451	2.18 %	\$ 63,915	1.71 %	\$ 216,541	1.89 %
<b>Held to Maturity:</b>								
Debt Securities								
States and political subdivisions	\$ 2,196	1.60 %	\$ 516	3.12 %	\$ 384	3.07 %	\$ 69	2.80 %
Total securities designated as held to maturity	\$ 2,196	1.60 %	\$ 516	3.12 %	\$ 384	3.07 %	\$ 69	2.80 %
Total securities	\$ 4,248	1.50 %	\$ 23,967	2.20 %	\$ 64,299	1.72 %	\$ 216,610	1.89 %

#### LENDING ACTIVITIES

The Bank has a loan policy which is approved by its Board of Directors on an annual basis. The loan policy governs the conditions under which loans may be made, addresses the lending authority of Bank officers, documentation requirements, appraisal policy, charge-off policies and desired portfolio mix. 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 Bank offers a variety of loan products to its customers, including residential and commercial real estate mortgage loans, commercial loans, and installment loans. The Bank primarily extends loans to customers located within the Company's footprint. Interest income on loans represented 94% of the total interest income of the Company in 2021 and 2020. The Bank's loan portfolio, net of the allowances for loan losses, totaled \$1.6 billion and \$1.7 billion at December 31, 2021 and December 31, 2020, respectively. The net loan portfolio represented 81% and 86% of the Company's average interest-earning assets during 2021 and 2020, respectively.

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The following table summarizes the major classifications of the Bank's loans as of the dates indicated:

	December 31,	
	2021	2020
	(in thousands)	
Mortgage loans on real estate:		
Residential Mortgages	\$ 411,060	\$ 365,351
Commercial and multi-family	739,761	706,276
Construction-Residential	5,109	7,509
Construction-Commercial	98,012	106,559
Home equities	81,238	82,602
Total real estate loans	1,335,180	1,268,297
Commercial and industrial loans	237,077	430,350
Consumer and other loans	719	151
Net deferred loan origination fees and costs	(1,071)	(5,004)
Total gross loans and leases	1,571,905	1,693,794
Allowance for loan and lease losses	(18,438)	(20,415)
Loans and leases, net	\$ 1,553,467	\$ 1,673,379

**Real Estate Loans**

Approximately 85% of the Bank's total loan portfolio at December 31, 2021 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 \$1.34 billion at December 31, 2021, compared with \$1.27 billion at December 31, 2020. The real estate loan portfolio increased by 5% in 2021 over 2020, primarily as a result of higher residential mortgage real estate loans.

The Bank offers fixed rate residential mortgage loans with terms of 10 to 30 years with, typically, up to an 80% loan-to-value ("LTV") ratio. Fixed rate residential mortgage loans outstanding totaled \$400 million at December 31, 2021 compared with \$348 million at December 31, 2020, which was 25% and 21% of total loans outstanding, respectively. This balance did not include any construction residential mortgage loans, which are discussed below. Residential mortgage originations in 2021 were \$121 million compared with \$107 million in 2020. The increase was primarily the result of customers refinancing as they were able to benefit from low interest rates.

The Bank has a contractual arrangement with FNMA, pursuant to which the Bank sells certain mortgage loans to FNMA and the Bank retains the servicing rights to those loans. 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. In 2021, the Bank sold \$1 million in mortgages to FNMA under this arrangement, compared with \$15 million in mortgages sold in 2020.

At December 31, 2021, the Company had approximately \$70 million in unpaid principal balances of loans that it services for FHLMC, compared with \$95 million at December 31, 2020. No loans were sold to FHLMC by the Company during the years 2021 and 2020.

At December 31, 2021, the Bank had retained the servicing rights on \$61 million in mortgages sold to FNMA, compared with a \$77 million servicing portfolio of loans sold to FNMA at December 31, 2020. The Company recorded a net servicing asset for such loans of \$0.9 million at December 31, 2021 and 2020.

The Bank offers 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. The Bank's outstanding adjustable rate residential mortgage loans were \$11 million at December 31, 2021 compared with \$16 million at December 31, 2020. At each respective time period adjustable rate residential mortgage loans represented less than 1% of total loans outstanding. With rates on fixed rate mortgage products at still near historic lows, there has been little demand for variable-rate products which has resulted in minimal growth in variable rate mortgage loan balances.

Overall, residential real estate loans increased from \$365 million at December 31, 2020 to \$411 million at December 31, 2021.

The Bank also offers commercial mortgage loans with up to an 80% LTV ratio for up to 20 years on a variable and fixed rate basis. Many of these mortgage loans either mature or are subject to a rate call after three to five years. To the extent required, loans exceeding an 80% LTV are reported on an exception report to the Board of Directors. The Bank's outstanding commercial mortgage loans were \$740 million at December 31, 2021, which was 47% of total loans outstanding, and 5% higher than the \$706 million balance at December 31, 2020. The balance at December 31, 2021 included \$663 million in fixed rate and \$77 million in variable rate commercial 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 85% combined LTV ratio. At December 31, 2021, the real estate loan portfolio included \$81 million of home equity loans, which represented 5% of total loans outstanding, compared with \$83 million and 5% at December 31, 2020, respectively. The total home equity portfolio included \$75 million in variable rate loans and \$6 million in fixed rate loans.

The Bank also offers both residential and commercial real estate construction loans at up to an 80% LTV ratio at fixed interest or adjustable interest rates and multiple maturities. At December 31, 2021, adjustable rate construction loans outstanding totaled \$84 million, or 5% of total loans outstanding, and fixed rate real estate construction loans outstanding totaled \$19 million, or 1% of total loans outstanding. At December 31, 2020, adjustable rate construction loans outstanding totaled \$73 million, or 4% of total loans outstanding, and fixed rate real estate construction loans outstanding totaled \$41 million, or 2% of total loans outstanding.

#### **Commercial and Industrial Loans**

The Bank offers C&I 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 C&I loan portfolio totaled \$237 million at December 31, 2021, compared with \$430 million at December 31, 2020, a 45% decrease. The decrease is attributable to the SBA forgiveness of PPP loans during 2021. At December 31, 2021 there was \$25 million in PPP loans outstanding compared to \$187 million at December 31, 2020. At December 31, 2021 commercial lines of credit were reduced by \$34 million since the end of 2020. Loan growth was muted due to economic factors, including the contraction in economic activity resulting from the pandemic and the reduced demand resulting from the availability of PPP loans. C&I loans represented 15% of the Bank's total loans at the end of 2021 and 25% at the end of 2020.

Collateral for C&I loans, where applicable, may consist of inventory, receivables, equipment and other business assets. At December 31, 2021, 6% of the Bank's C&I loans were at variable rates which are tied to the prime rate or LIBOR.

**Consumer Loans**

The Bank's consumer installment and other loan portfolio totaled \$0.7 million at December 31, 2021 compared with \$0.2 million at December 31, 2020, representing less than 1% of the Bank's total loans outstanding at those dates. Traditional installment loans are offered at fixed interest rates with various maturities of up to 60 months, on a secured and unsecured basis. This segment of the portfolio is done on an accommodation basis for customers. The Company does not actively try to grow the portfolio in a significant way. Other loans consisted primarily of cash reserves, overdrafts, and loan clearing accounts.

**Loan Maturities and Sensitivities of Loans to Changes in Interest Rates**

The following table shows the maturities of loans outstanding as of December 31, 2021 and the classification of those loans according to sensitivity to changes in interest rates.

(in thousands)	Within 1 Year	After 1 - 5 Years	After 5 - 15 Years	After 15 Years	Total
<b>Commercial and Industrial</b>					
Interest rates:					
Fixed Rate	\$ 2,914	\$ 80,043	\$ 62,695	\$ -	\$ 145,652
Variable Rate	62,429	21,808	7,112	76	91,425
<b>Total</b>	<b>\$ 65,343</b>	<b>\$ 101,851</b>	<b>\$ 69,807</b>	<b>\$ 76</b>	<b>\$ 237,077</b>
<b>Commercial Real Estate *</b>					
Interest rates:					
Fixed Rate	\$ 24,519	\$ 155,621	\$ 488,012	\$ 8,320	\$ 676,472
Variable Rate	24,071	46,591	90,526	113	161,301
<b>Total</b>	<b>\$ 48,590</b>	<b>\$ 202,212</b>	<b>\$ 578,538</b>	<b>\$ 8,433</b>	<b>\$ 837,773</b>
<b>Residential Real Estate **</b>					
Interest rates:					
Fixed Rate	\$ 134	\$ 4,639	\$ 88,564	\$ 311,478	\$ 404,815
Variable Rate	9	26	394	10,925	11,354
<b>Total</b>	<b>\$ 143</b>	<b>\$ 4,665</b>	<b>\$ 88,958</b>	<b>\$ 322,403</b>	<b>\$ 416,169</b>
<b>Home Equity</b>					
Interest rates:					
Fixed Rate	\$ 37	\$ 912	\$ 4,674	\$ 915	\$ 6,538
Variable Rate	9	214	11,543	62,934	74,700
<b>Total</b>	<b>\$ 46</b>	<b>\$ 1,126</b>	<b>\$ 16,217</b>	<b>\$ 63,849</b>	<b>\$ 81,238</b>
<b>Consumer and other loans</b>					
Interest rates:					
Fixed Rate	\$ 229	\$ 307	\$ 39	\$ 13	\$ 588
Variable Rate	38	-	-	93	131
<b>Total</b>	<b>\$ 267</b>	<b>\$ 307</b>	<b>\$ 39</b>	<b>\$ 106</b>	<b>\$ 719</b>

\*Includes commercial real estate construction loans

\*\*Includes residential real estate construction loans

**SOURCES OF FUNDS****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 repayments, loan sales on the secondary market, interest and dividend income from investments, matured investments, borrowings from the FHLB and from correspondent banks, and issuance of securities.

**Deposits**

The Bank offers a variety of deposit products, including checking, savings, NOW accounts, certificates of deposit and jumbo certificates of deposit. Bank deposits are insured up to the limits provided by the FDIC.

As of December 31, 2021 the amount of total uninsured deposits, deposits that exceed the limits provided by the FDIC, was \$ 0.7 billion.

The following schedule indicates the amount of time deposits in uninsured accounts by time remaining until maturity at December 31, 2021:

<b>At December 31, 2021:</b>	<b>Dollar Amount</b> (in thousands)
Three months or less	\$ 8,083
Over three through six months	7,196
Over six through twelve months	5,745
Over twelve months	4,282
Total	<u>\$ 25,306</u>

Total deposits at December 31, 2021 increased \$166 million or 9% from the end of 2020. The increase from the prior year reflects an accumulation of liquidity by commercial customers in response to the pandemic, including deposits related to PPP loans, and increases in consumer deposits from government stimulus payments and lower consumer spending.

Included in the increase were total savings of \$194 million, and non-interest bearing demand deposits and NOW deposits of \$86 million, reflecting deposits related to PPP loans and lower consumer spending. Partially offsetting the increase, total time deposits decreased \$114 million from prior year. Economic factors, such as low interest rates, played a role in the changes in deposit mix from prior year.

As of December 31, 2021, savings deposits increased \$194 million, or 23%, over the previous year end. The growth in savings deposits was attributable to \$105 million in commercial savings deposits, \$59 million increase in consumer savings, and \$30 million in municipal savings deposits.

Time deposits were \$164 million as of December 31, 2021, a \$114 million or 41% decrease from December 31, 2020. The Company took a less aggressive stance during 2021 in rates for time deposits as liquidity was higher due to commercial customers response to the pandemic. Consumer time deposits decreased \$106 million or 41% from previous year end. Brokered time deposits, included in other time deposits in the tables above, provide an additional funding source for loan growth. Brokered time deposits decreased \$8 million from December 31, 2020 to December 31, 2021.

#### **Federal Funds Purchased and Other Borrowed Funds**

Another source of the Bank's funds for lending and investing activities is borrowings from the FHLB. The Bank had no outstanding balance on its overnight line of credit with the FHLB as of December 31, 2021 and 2020. The Company's use of its overnight line of credit with FHLBNY varies depending on its ability to fund investment and loan growth with deposits along with the line usage's impact on interest rate risk. At December 31, 2021, the Bank had \$33 million in FHLB borrowings compared with \$44 million at December 31, 2020. The FHLB borrowings as of December 31, 2021 have various maturity dates through 2024 and a weighted average rate of 2.64%.

#### **Subordinated Debt**

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 to investors (the "Capital Securities") and \$0.3 million of common securities to the Company (the "Common Securities"). The Capital Securities represent preferred undivided interests in the assets of the Trust. The Common Securities are wholly-owned by the Company and are the only class of the Trust's securities possessing general voting powers. In connection with the issuance and sale of the Capital Securities, the Company issued an \$11.3 million floating rate junior subordinated debt security, due October 1, 2037, to the Trust. Payments from the Company under the junior subordinated debt security are the sole source of cash flow for the Trust and fund the Trust's payments on its Capital Securities. The interest rate payable to holders of the Capital Securities was 2.86% at December 31, 2021.

On July 9, 2020, the Company issued and sold \$20 million in aggregate principal amount of its 6.00% Fixed-to-Floating Rate Subordinated Notes due July 15, 2030.

#### **Securities Sold Under Agreements to Repurchase**

The Bank enters into agreements with certain customers to sell securities owned by the Bank to those customers and repurchase the identical security within one day. No physical movement of the securities is involved. The customer is informed that the securities are held in safekeeping by the Bank on behalf of the customer. Securities sold under agreements to repurchase totaled \$4.1 million at December 31, 2021 and 2020. Balances can vary day to day based on customer needs.

#### **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. Given the current collateral available, advances of up to \$391 million can be drawn on the FHLB via the Bank's Overnight Line of Credit Agreement. The Bank also has the ability to purchase up to \$18 million in federal funds from 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. The Company's liquidity needs also can be met by more aggressively pursuing time deposits, accessing the brokered time deposit market, including the Certificate of Deposit Account Registry Service ("CDARS") network. Additionally, the Company has access to capital markets as a funding source.

The cash flows from the Company's investment portfolio are laddered, so that securities mature at regular intervals, to provide funds from principal and interest payments at various times as liquidity needs may arise. Contractual maturities are also laddered, with consideration as to the volatility of market prices, so that securities are available for sale from time-to-time without the need to incur significant losses. At December 31, 2021, approximately 1% of the Company's debt securities had maturity dates of one year or less, and approximately 6% had maturity dates of five years or less. In addition, the Company receives regular cash flows on its mortgage-backed securities.

The Company, on an ongoing basis, closely monitors the Company's liquidity position for compliance with internal policies, and believes that available sources of liquidity are adequate to meet funding needs in the normal course of business. As part of that monitoring process, management calculates the 90-day liquidity each month by analyzing the cash needs of the Bank. Included in the calculation are liquid assets and potential liabilities. The Company stresses the potential liabilities calculation to ensure a strong liquidity position. Included in the calculation are assumptions of some significant deposit run-off as well as funds needed for loan closing and investment purchases. At December 31, 2021, in the stress test, the Bank had net short-term liquidity available of \$724 million as compared with \$410 million

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at December 31, 2020. Available assets of \$546 million divided by public and purchased funds of \$356 million resulted in a long-term liquidity ratio of 153% at December 31, 2021, compared with 70% at December 31, 2020.

The Company does not anticipate engaging in any activities, either currently or over the long-term, for which adequate funding would not be available and which would therefore result in significant pressure on liquidity. However, an economic recession could negatively impact the Company's liquidity. The Bank relies heavily on FHLBNY as a source of funds, particularly with its overnight line of credit. In past economic recessions, some FHLB branches have suspended dividends, cut dividend payments, and not bought back excess FHLB stock that members hold in an effort to conserve capital. FHLBNY has stated that it expects to be able to continue to pay dividends, redeem excess capital stock, and provide competitively priced advances in the future. The 11 FHLB branches are jointly liable for the consolidated obligations of the FHLB system. To the extent that one FHLB branch cannot meet its obligations to pay its share of the system's debt, other FHLB branches can be called upon to make the payment.

Systemic weakness in the FHLB could result in higher costs of FHLB borrowings and increased demand for alternative sources of liquidity that are more expensive, such as brokered time deposits, the discount window at the Federal Reserve, or lines of credit with correspondent banks.

**Contractual Obligations**

The Company is party to contractual financial obligations, including repayment of borrowings, operating lease payments, commitments to extend credit, and purchase agreements.

At December 31, 2021, the Company had commitments to extend credit of \$395 million, compared with \$359 million at December 31, 2020. For additional information regarding future financial commitments, this disclosure should be read in conjunction with Note 17 to the Company's Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

**Capital**

Total Company stockholders' equity was \$184 million at December 31, 2021, an increase from \$169 million at December 31, 2020. Equity as a percentage of assets was 8.3% at December 31, 2021 and 2020. Book value per share of common stock increased to \$33.54 at December 31, 2021 from \$31.21 at December 31, 2020. The increase in stockholders' equity and book value per share was primarily the result of \$24 million in net income, offset in part by \$5.6 million unrealized losses on available for sale investment securities, and \$6.5 million in dividends paid to common stockholders in 2021.

The aggregate dividend payment of \$1.20 per share in 2021 was \$0.04, or 3% higher per share than dividends paid in 2020. The Company typically pays a semi-annual dividend in April and October of each year. Management and the Board of Directors of the Company believe that the dividend level is prudent to maintain available capital to support the continued growth of the Company, as well as to manage the Company's and the Bank's capital ratios, while providing a dividend yield (dividend per share divided by stock price) competitive with peers in the industry at an annualized rate of 2.98% at December 31, 2021.

Included in stockholders' equity is accumulated other comprehensive income/(loss) which includes the net after-tax impact of unrealized gains or losses on investment securities classified as available for sale. Net unrealized losses after tax were \$3.2 million at December 31, 2021, compared with net unrealized gains of \$2.4 million at December 31, 2020. Such unrealized gains and 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 had no other-than-temporary impairment charges in its investment portfolio in 2021 or 2020.

The Company and the Bank have consistently maintained regulatory capital ratios above well capitalized standards. For further detail on capital and capital ratios, see Note 21 to the Company's Consolidated Financial Statements included under Item 8 of this Annual Report on Form 10-K.

**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



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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.

ALCO, which includes members of the Bank's senior management, monitors the Bank's interest rate sensitivity with the aid of a 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 the purchase of other financial instruments used for interest rate risk management purposes. In 2021 and 2020, the Bank did not use off-balance sheet financial instruments to manage interest rate risk.

**SENSITIVITY OF NET INTEREST INCOME TO CHANGES IN INTEREST RATES**

	<b>Calculated increase in projected annual net interest income</b>	
	(in thousands)	
	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Changes in interest rates		
+200 basis points	\$ 1,375	\$ (681)
+100 basis points	3,569	2,717
-100 basis points	(2,183)	(1,169)
-200 basis points	NM	NM

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 relate 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. At each of December 31, 2021 and December 31, 2020, the Bank's projected net interest income benefitted more from a 100 basis point increase in market rates compared with a 200 basis point increase in rates. This relationship was due in part to expected increases in deposit rates needed to retain deposit customers if rates moved up 200 basis points but were not required if rates only moved 100 basis points higher. 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, 2021 included \$360 million in undisbursed lines of credit at an average interest rate of 3.18%; \$9 million in fixed rate loan origination commitments at 2.74%; and \$4 million in adjustable rate letters of credit, which if drawn upon, would typically earn an interest rate equal to the prime lending rate plus 2%. Unused overdraft protection lines totaled \$22 million.

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

Expected maturity year ended December 31,	2022	2023	2024	2025	2026	Thereafter	Total	Fair Value
	(in thousands)							
<b>Interest-bearing Assets</b>								
Gross loan and lease receivables	\$ 114,567	\$ 45,715	\$ 74,819	\$ 83,097	\$ 106,528	\$ 1,148,250	\$ 1,572,976	\$ 1,573,420
Average interest	3.64%	4.14%	4.16%	3.82%	3.25%	3.93%	3.87%	3.87%
Investment securities	\$ 4,249	\$ 3,102	\$ 2,864	\$ 8,436	\$ 9,565	\$ 280,908	\$ 309,124	\$ 309,138
Average interest	1.50%	1.75%	2.77%	2.58%	1.84%	1.85%	1.87%	1.87%
<b>Interest-bearing Liabilities</b>								
Interest-bearing deposits	\$ 1,405,737	\$ 26,254	\$ 3,994	\$ 4,735	\$ 3,453	\$ -	\$ 1,444,173	\$ 1,444,407
Average interest	0.35%	1.03%	1.87%	1.56%	0.67%	-%	0.17%	0.17%
Other borrowed funds	\$ 11,820	\$ 13,798	\$ 6,527	\$ -	\$ -	\$ -	\$ 32,145	\$ 32,990
Average interest	2.46%	2.59%	3.06%	-%	-%	-%	2.64%	2.64%
Securities sold under agreements to repurchase	\$ 4,112	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,112	\$ 4,112
Average interest	0.14%	-%	-%	-%	-%	-%	0.14%	0.14%
Subordinated debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,330	\$ 31,330	\$ 32,111
Average interest	-%	-%	-%	-%	-%	4.86%	4.86%	4.86%
Operating lease obligations	\$ 1,095	\$ 924	\$ 789	\$ 647	\$ 575	\$ 1,721	\$ 5,751	\$ 5,210
Average interest	2.75%	2.75%	2.62%	2.45%	2.37%	2.78%	2.67%	2.67%

The amounts in the above table exclude acquisition fair value adjustments and debt issuance costs.

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 acceptable level of the negative impact of such rate fluctuations on the market value of the Company's balance sheet. On a quarterly basis, the balance sheet is shocked for immediate rate movement of 200 basis points. At December 31, 2021, the Company determined it would take an immediate movement 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 by management on a quarterly basis.

**Capital Expenditures**

Significant planned expenditures for 2022 include the purchase of technology to improve workflow automation and operational efficiency. The Company believes it has a sufficient capital base to support these known and potential capital expenditures, currently expected to total approximately \$1.2 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, which 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**

The Company's operating segments have been determined based upon its internal profitability reporting. The Company's operating segments consist 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. Net income from banking activities was \$22.7 million in 2021 compared with \$10.1 million in 2020. The increase in net income from banking activities was driven by higher net interest income of \$13.0 million largely from an increase in PPP fees of \$5.9 million and the full year impact of the 2020 acquisition of FSB. Net interest income, increased 22% from \$59.8 million in 2020 to \$72.8 million in 2021. The prior year also included a \$5.4 million provision for loan loss compared with a release of allowance for loan loss of \$1.5 million in 2021. Non-interest expense increased \$1.5 million to \$52.8 million in 2021 primarily due to increased incentive expenses and the full year impact of the 2020 FSB acquisition, partially offset by \$6.0 million of merger-related expenses incurred during 2020. There were no merger-related expenses during 2021. Total assets of the banking activities segment were \$2.2 billion at December 31, 2021, an increase of \$167 million or 8.2% from December 31, 2020. The year over year increase in total assets is primarily a result of PPP loans and the FSB acquisition.

The insurance activities segment includes activities of TEA, a property and casualty insurance agency with locations in the Western New York area. Net income from insurance activities was \$1.3 million in 2021, an increase from \$1.2 million in 2020. TEA's total assets were \$18.3 million at December 31, 2021 and \$18.6 million at December 31, 2020.

### **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 Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Financial Statements and Supplementary Data consist of the financial statements as indexed and presented below.

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Stockholders and the Board of Directors  
Evans Bancorp, Inc.  
Williamsville, New York

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Evans Bancorp, Inc. (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*Allowance for Loan Losses – Allowance for Loans Collectively Evaluated for Impairment.*

As described in Notes 1 and 4 to the consolidated financial statements, the Company's allowance for loan losses is management's best estimate of probable incurred losses inherent in the loan portfolio as of the balance sheet date. The allowance for loan losses was \$18.4 million as of December 31, 2021, which consists of two components: the allowance related to loans individually evaluated for impairment, representing \$0.5 million and the allowance related to loans collectively evaluated for impairment, representing \$17.9 million.

The general portfolio allocation is segmented into homogeneous pools of loans with similar characteristics. Separate pools of loans include loans pooled by loan grade and by portfolio segment for pass and watch loans. An average historical loss rate over the past ten years multiplied by the loss emergence period factor is applied against these loans. For both the criticized and non-criticized loan pools in the general portfolio allocation, additional qualitative factors are applied. The qualitative factors applied to the general portfolio allocation reflect management's evaluation of various conditions. The conditions evaluated include the following: levels and trends in delinquencies, non-accruals, and criticized loans; trends in volume and terms of loans; effects of any changes in lending policies and credit quality underwriting standards; experience, ability, and depth of management; national and economic trends and conditions; changes in the quality of the loan review system; concentrations of credit risk; changes in collateral value; and large loan risk. The total possible qualitative allocation is determined by comparing peer bank historical charge-off rates to the Bank's historical charge-off rate. The actual qualitative allocation is determined by qualitative factor by loan type based on metrics that management believes are appropriate indicators of whether the Bank is in a low, moderate, or high risk range relative to historical experience for each qualitative factor.

We identified the allowance for loans collectively evaluated for impairment as a critical audit matter because of the necessary judgment applied by us to evaluate management's significant estimates and subjective assumptions relating to 1) the determination of the loss emergence period factor by segment, 2) the determination of additional qualitative factors for criticized loans, 3) the determination of aggregate qualitative allocation, and 4) the classification of commercial loans as criticized or impaired. Changes in these assumptions could have a material effect on the Company's financial results.

The primary procedures we performed to address this critical audit matter included:

- Testing the effectiveness of controls over the evaluation of the allowance related to loans collectively evaluated for impairment, including controls addressing:
  - Data inputs, judgments and calculations used to determine the loss emergence period factor and additional qualitative factors for criticized assets.
  - Problem loan identification and delinquency monitoring.
  - Management's review of the qualitative and quantitative analysis related to the qualitative factors.
  - Independent loan review and independent annual credit reviews of the commercial portfolios.

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- Substantively testing management's process, including evaluating their judgments and assumptions, for developing the allowance for loans collectively evaluated for impairment, which included:
  - Testing the data input and mathematical accuracy of the calculation, including historical losses, loss emergence period factors and additional qualitative factors for criticized loans.
  - Evaluation of the reasonableness of management's judgments related to the historical loss experience and estimated loss emergence period, including the evaluation of triggering events related to default and actual losses. The evaluation of triggering events included evaluation of management's assessment of problem loan identification and delinquencies.
  - Evaluation of reasonableness of management's judgments related to qualitative factors to determine if they are calculated to conform with management's policies and were consistently applied period over period. Our evaluation considered the weight of evidence from internal and external sources and loan portfolio performance.
  - Analytically evaluating the allowance related to loans collectively evaluated for impairment by loan segment year over year for reasonableness.
  - Testing the loan grades of the commercial portfolios.

/s/ Crowe LLP

We have served as the Company's auditor since 2020.

Livingston, New Jersey  
March 9, 2022

**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors  
Evans Bancorp, Inc.:

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows of Evans Bancorp, Inc. and subsidiaries (the Company) for the year ended December 31, 2019 and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the results of operations of the Company and its cash flows for the year ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

*Basis for Opinion*

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 audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ KPMG LLP

We served as the Company's auditor from 2003 to 2020.

Rochester, New York  
March 12, 2020



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EVANS BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2021 AND DECEMBER 31, 2020  
(in thousands, except share and per share amounts)

	December 31, 2021	December 31, 2020
<b>ASSETS</b>		
Cash and due from banks	\$ 9,856	\$ 13,702
Interest-bearing deposits at banks	234,929	83,902
Securities:		
Available for sale, at fair value (amortized cost: \$310,228 at December 31, 2021; \$159,157 at December 31, 2020)	305,959	162,396
Held to maturity, at amortized cost (fair value: \$3,179 at December 31, 2021; \$4,271 at December 31, 2020)	3,165	4,204
Federal Home Loan Bank common stock, at cost	3,045	3,470
Federal Reserve Bank common stock, at cost	3,039	2,323
Loans, net of allowance for loan losses of \$18,438 at December 31, 2021 and \$20,415 at December 31, 2020	1,553,467	1,673,379
Properties and equipment, net of accumulated depreciation of \$10,283 at December 31, 2021 and \$19,963 at December 31, 2020	17,789	19,305
Goodwill	12,702	12,713
Intangible assets	1,627	2,238
Bank-owned life insurance	34,295	33,989
Operating lease right-of-use asset	4,826	5,282
Other assets	25,941	27,212
<b>TOTAL ASSETS</b>	<b>\$ 2,210,640</b>	<b>\$ 2,044,115</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Demand	\$ 492,864	\$ 436,157
NOW	259,908	230,751
Savings	1,019,925	825,947
Time	164,340	278,554
Total deposits	1,937,037	1,771,409
Securities sold under agreement to repurchase	4,112	4,093
Other borrowings	32,879	44,698
Operating lease liability	5,210	5,694
Other liabilities	16,536	18,444
Subordinated debt	30,974	30,872
Total liabilities	2,026,748	1,875,210
<b>CONTINGENT LIABILITIES AND COMMITMENTS</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, \$0.50 par value, 10,000,000 shares authorized; 5,482,756 and 5,411,384 shares issued at December 31, 2021 and December 31, 2020, respectively, and 5,482,756 and 5,411,384 outstanding at December 31, 2021 and December 31, 2020, respectively	2,744	2,708
Capital surplus	78,795	76,394
Retained earnings	108,024	90,522
Accumulated other comprehensive loss, net of tax	(5,671)	(719)
Total stockholders' equity	183,892	168,905
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 2,210,640</b>	<b>\$ 2,044,115</b>

See Notes to Consolidated Financial Statements

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EVANS BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019  
(in thousands, except share and per share amounts)

	2021	2020	2019
<b>INTEREST INCOME</b>			
Loans	\$ 72,955	\$ 64,753	\$ 60,193
Interest bearing deposits at banks	187	247	697
Securities:			
Taxable	4,224	3,587	3,537
Non-taxable	214	246	313
Total interest income	77,580	68,833	64,740
<b>INTEREST EXPENSE</b>			
Deposits	2,864	7,721	11,939
Other borrowings	315	311	181
Subordinated debt	1,616	1,019	565
Total interest expense	4,795	9,051	12,685
<b>NET INTEREST INCOME</b>	72,785	59,782	52,055
<b>(CREDIT) PROVISION FOR LOAN LOSSES</b>	(1,513)	5,351	75
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	74,298	54,431	51,980
<b>NON-INTEREST INCOME</b>			
Deposit service charges	2,531	2,242	2,569
Insurance service and fees	10,457	10,610	10,688
Gain on loans sold	11	383	154
Bank-owned life insurance	853	680	656
Loss on tax credit investments	(30)	(2,475)	(158)
Refundable state historic tax credit	21	1,857	115
Gain on sale of securities	-	667	-
Interchange fee income	2,116	1,755	1,722
Other	2,888	2,518	2,336
Total non-interest income	18,847	18,237	18,082
<b>NON-INTEREST EXPENSE</b>			
Salaries and employee benefits	38,612	32,990	29,628
Occupancy	4,698	4,296	3,429
Advertising and public relations	1,427	1,128	1,033
Professional services	3,587	3,544	3,510
Technology and communications	5,376	5,234	4,124
Amortization of intangibles	537	533	448
Merger-related expenses	-	5,958	232
FDIC insurance	1,133	1,090	431
Other	5,849	5,087	4,985
Total non-interest expense	61,219	59,860	47,820
<b>INCOME BEFORE INCOME TAXES</b>	31,926	12,808	22,242
<b>INCOME TAX PROVISION</b>	7,883	1,562	5,228
<b>NET INCOME</b>	\$ 24,043	\$ 11,246	\$ 17,014
Net income per common share-basic	\$ 4.41	\$ 2.15	\$ 3.47
Net income per common share-diluted	\$ 4.37	\$ 2.13	\$ 3.42
Weighted average number of common shares outstanding	5,447,057	5,232,881	4,897,803
Weighted average number of diluted shares outstanding	5,501,511	5,268,560	4,968,172

See Notes to Consolidated Financial Statements

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EVANS BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019  
(in thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
NET INCOME	\$ 24,043	\$ 11,246	\$ 17,014
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Unrealized (loss) gain on available-for-sale securities:			
Unrealized (loss) gain on available-for-sale securities	(5,557)	2,369	2,870
Reclassification of gain on sale of securities	-	(494)	-
Total	<u>(5,557)</u>	<u>1,875</u>	<u>2,870</u>
Defined benefit pension plans:			
Amortization of prior service cost	23	23	23
Amortization of actuarial loss	280	330	246
Actuarial losses	302	(364)	(369)
Total	<u>605</u>	<u>(111)</u>	<u>(100)</u>
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	<u>(4,952)</u>	<u>1,864</u>	<u>2,770</u>
COMPREHENSIVE INCOME	<u>\$ 19,091</u>	<u>\$ 13,110</u>	<u>\$ 19,784</u>

See Notes to Consolidated Financial Statements

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EVANS BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019  
(in thousands, except share and per share amounts)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, December 31, 2018</b>	\$ 2,429	\$ 61,225	\$ 73,345	\$ (5,353)	\$ 131,646
Net Income			17,014		17,014
Other comprehensive income				2,770	2,770
Cash dividends (\$1.04 per common share)			(5,092)		(5,092)
Stock compensation expense		937			937
Reissued 500 restricted shares					-
Issued 20,632 restricted shares, net of forfeitures	12	(12)			-
Issued 7,549 shares under Dividend Reinvestment Plan	4	272			276
Issued 11,712 shares in Employee Stock Purchase Plan	6	381			387
Issued 32,516 shares in stock option exercises	16	499			515
Reissued 3,506 shares in stock option exercises					-
<b>Balance, December 31, 2019</b>	<u>\$ 2,467</u>	<u>\$ 63,302</u>	<u>\$ 85,267</u>	<u>\$ (2,583)</u>	<u>\$ 148,453</u>
Net Income			11,246		11,246
Other comprehensive income				1,864	1,864
Cash dividends (\$1.16 per common share)			(5,991)		(5,991)
Stock compensation expense		883			883
Reissued 310 restricted shares					-
Issued 23,338 restricted shares, net of forfeitures	12	(12)			-
Issued 6,813 shares under Dividend Reinvestment Plan	3	148			151
Issued 19,434 shares in Employee Stock Purchase Plan	9	407			416
Issued 9,230 shares in stock option exercises	5	145			150
Issued 422,475 shares in stock consideration	212	11,521			11,733
Reissued 501 shares in stock option exercises					-
<b>Balance, December 31, 2020</b>	<u>\$ 2,708</u>	<u>\$ 76,394</u>	<u>\$ 90,522</u>	<u>\$ (719)</u>	<u>\$ 168,905</u>
Net Income			24,043		24,043
Other comprehensive income				(4,952)	(4,952)
Cash dividends (\$1.20 per common share)			(6,541)		(6,541)
Stock compensation expense		947			947
Issued 18,181 restricted shares, net of forfeitures	9	(9)			-
Issued 8,293 shares under Dividend Reinvestment Plan	4	290			294
Issued 12,166 shares in Employee Stock Purchase Plan	6	393			399
Issued 19,715 shares in stock option exercises	10	187			197
Issued 13,017 shares for earnout	7	593			600
<b>Balance, December 31, 2021</b>	<u>\$ 2,744</u>	<u>\$ 78,795</u>	<u>\$ 108,024</u>	<u>\$ (5,671)</u>	<u>\$ 183,892</u>

See Notes to Consolidated Financial Statements

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EVANS BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019  
(in thousands)

	2021	2020	2019
<b>OPERATING ACTIVITIES:</b>			
Interest received	\$ 71,457	\$ 63,677	\$ 65,036
Fees received	19,197	17,240	17,872
Interest paid	(5,997)	(10,830)	(12,771)
Cash paid to employees and vendors	(58,267)	(59,312)	(45,732)
Income tax paid	(5,790)	(2,953)	(3,102)
Proceeds from sale of loans held for resale	949	15,408	13,008
Originations of loans held for resale	(1,037)	(15,443)	(13,238)
Net cash provided by operating activities	20,512	7,787	21,073
<b>INVESTING ACTIVITIES:</b>			
Available for sales securities:			
Purchases	(189,838)	(91,504)	(48,916)
Proceeds from sales	-	25,553	15,224
Proceeds from maturities, calls, and payments	37,928	55,892	41,332
Held to maturity securities:			
Purchases	(3,845)	(5,361)	(1,592)
Proceeds from maturities, calls, and payments	4,884	3,543	891
Cash paid for bank owned life insurance	-	-	(360)
Additions to properties and equipment	(1,033)	(5,822)	(4,640)
Proceeds from sales of assets	581	1,500	185
Purchase of tax credit investment	(1,913)	-	(3,116)
Sale of other real estate	129	982	-
Net cash used in acquisitions	(900)	(6,490)	-
Net decrease (increase) in loans	131,387	(191,684)	(68,890)
Net cash used in investing activities	(22,620)	(213,391)	(69,882)
<b>FINANCING ACTIVITIES:</b>			
Repayments of short-term borrowings, net	(675)	(16,329)	(717)
(Repayments of) proceeds from long-term borrowings	(10,454)	20,693	-
Debt issuance cost of long term borrowings	-	(509)	-
Net increase in deposits	166,069	265,770	52,382
Dividends paid	(6,541)	(5,991)	(5,092)
Issuance of common stock	890	717	1,178
Net cash provided by financing activities	149,289	264,351	47,751
Net increase (decrease) in cash and equivalents	147,181	58,747	(1,058)
<b>CASH AND CASH EQUIVALENTS:</b>			
Beginning of year	97,604	38,857	39,915
End of year	\$ 244,785	\$ 97,604	\$ 38,857

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EVANS BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019  
(in thousands)

	2021	2020	2019
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net income	\$ 24,043	\$ 11,246	\$ 17,014
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	1,260	1,205	2,049
Deferred tax expense (benefit)	1,520	(1,852)	(571)
(Credit) Provision for loan losses	(1,513)	5,351	75
Loss on tax credit investment	30	2,475	158
Changes in refundable state historic tax credits	(21)	(1,857)	(115)
Net loss (gain) on sales of assets	135	(702)	(3)
Gain on sales of securities	-	(667)	(42)
Gain on loans sold	(11)	(383)	(154)
Stock compensation expense	947	883	937
Proceeds from sale of loans held for resale	949	15,408	13,008
Originations of loans held for resale	(1,037)	(15,443)	(13,238)
Changes in assets and liabilities affecting cash flow:			
Other assets	(8,679)	(5,745)	(4,948)
Other liabilities	2,889	(2,132)	6,903
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 20,512</b>	<b>\$ 7,787</b>	<b>\$ 21,073</b>

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

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

**12, 2011 AND 2010**  
**EVANS BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019**

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**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 ("FRB") 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. The Company currently conducts its business through its two subsidiaries: Evans Bank, N.A. (the "Bank"), a nationally chartered bank, and its subsidiary, Evans National Holding Corp. ("ENHC"); and Evans National Financial Services, LLC ("ENFS") and its subsidiary, The Evans Agency LLC ("TEA"). Unless the context otherwise requires, the term "Company" refers collectively 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 FRB, the Federal Deposit Insurance Corporation ("FDIC"), the Office of the Comptroller of the Currency ("OCC"), the New York State Department of Financial Services ("NYDFS"), and the Securities and Exchange Commission ("SEC").

**Principles of Consolidation**

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

**Accounting Estimates**

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and disclosure of contingent assets and liabilities in order to prepare these consolidated financial statements in conformity with U.S. generally accepted accounting principles. These estimates and assumptions are based on management's best estimates and judgment and management evaluates them on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. We adjust our estimates and assumptions when facts and circumstances dictate. As future events cannot be determined with precision, actual results could differ significantly from our estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in periods as they occur.

**Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks and interest-bearing deposits at banks.

## 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. Management periodically evaluates the financial condition of the municipalities for any indication that the Bank does not expect to recover the entire amortized cost basis of their bonds.

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 or loss, a component of stockholders' equity. Gains and losses on sales of securities are computed using the specific identification method.

Declines in the fair value of investment securities (with certain exceptions for debt securities noted below) that are deemed to be other-than-temporary are charged to earnings as a realized loss and a new cost basis for the securities is established. Declines in the fair value of debt securities below amortized cost are deemed to be other-than-temporary in circumstances where: (1) the Bank has the intent to sell a security; (2) it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis; or (3) the Bank does not expect to recover the entire amortized cost basis of the security. If the Bank intends to sell a security or if it is more likely than not that the Bank will be required to sell the security before recovery, an other-than-temporary impairment write-down is recognized in earnings equal to the difference between the security's amortized cost basis and its fair value. If the Bank does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the other-than-temporary impairment write-down is separated into an amount representing credit loss, which is recognized in earnings, and an amount related to all other factors, which is recognized in other comprehensive income.

The Bank does not engage in securities trading activities.

### Federal Home Loan Bank Stock

The Bank is a member of the Federal Home Loan Bank ("FHLB") System. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are recorded as a component of interest income.

### Federal Reserve Bank Stock

The Bank is a member of the FRB. FRB stock is carried at cost, classified as a restricted security. Both cash and stock dividends are recorded as a component of interest income.

### Loan Servicing Assets

Servicing assets are related to residential mortgage loans sold and are recognized at the time of sale when servicing is retained with the income statement effect recorded in gains on loans sold. Servicing assets are initially recorded at fair value based on the present value of the contractually specified servicing fee, net of estimated servicing costs, over the estimated life of the loan. The servicing assets are subsequently amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. The Company periodically evaluates servicing assets for impairment based upon the fair value of the assets as compared to their carrying amount.

## Loans

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 unamortized deferred fees or costs. Interest income is accrued on the unpaid principal balance and is recognized using the interest method. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the effective yield method of accounting for amortizing loans and straight line over an estimated life for lines of credit.

Loans become past due when the payment date has been missed. If payment has not been received within 30 days, then the loan is delinquent. Delinquent loans are placed into three categories; 30-59 days past due, 60-89 days past due, or 90+ days past due. Loans 90 or more days past due are considered non-performing.



The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent, unless the credit is well secured and in process of collection. If the credit is not well secured and in the process of collection, the loan is placed on non-accrual status and is subject to charge-off if collection of principal or interest is considered doubtful. A loan can also be placed on nonaccrual before it is 90 days delinquent if management determines that it is probable that the Bank will be unable to collect principal or interest due according to the contractual terms of the loan.

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 cost-recovery method, until it again qualifies for an accrual basis. Any cash receipts on non-accrual loans reduce the carrying value of the loans. 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.

The Bank considers a loan 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. These loans are individually assessed for any impairment. 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, less costs to sell, if the loan is collateral dependent. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, estimated costs to sell, and/or management's expertise and knowledge of the client and the client's business. The Company has an appraisal policy in which appraisals are obtained upon a loan being downgraded on the Company's internal loan rating scale to special mention or substandard depending on the amount of the loan, the type of loan and the type of collateral. All impaired nonaccrual loans are either graded special mention or substandard on the internal loan rating scale. Subsequent to the downgrade, if the loan remains outstanding and impaired for at least one year more, management may require another follow-up appraisal. Between receipts of updated appraisals, if necessary, management may perform an internal valuation based on any known changing conditions in the marketplace such as sales of similar properties, a change in the condition of the collateral, or feedback from local appraisers.

The Bank monitors the credit risk in its loan portfolio by reviewing certain credit quality indicators ("CQI"). The primary CQI for its commercial mortgage and commercial and industrial ("C&I") portfolios is the individual loan's credit risk rating. The following list provides a description of the credit risk ratings that are used internally by the Bank when assessing the adequacy of its allowance for loan losses:

- *Acceptable or better:* Credits with a slight risk of loss. The loan is secured by collateral of sufficient value to cover the loan by an acceptable margin. The financial statements of the company demonstrate sufficient net worth and repayment ability. The company has established an acceptable credit history with the bank and typically has a proven track record of performance. Management is experienced, and has an at least average ability to manage the company. The industry has an average or less than average susceptibility to wide fluctuations in business cycles.
- *Watch:* Credits are generally acceptable but warrant greater attention than those rated acceptable or better. Temporary performance issues, if left unresolved, may result in above average risk. The borrower's financial position is not typically strong. Earnings, while still positive, may be inconsistent. Industry issues or external events (such as possible litigation exposure) may cause concern. Although ability to repay is not an immediate concern, more regular monitoring may be necessary as a result of the short-term performance issues or sensitivities to external events that may result in a weakening condition. Any perceived weaknesses are acceptable when viewed against the overall credit and collateral risks assumed. Borrowers are likely fully leveraged when compared to others in a similar industry and their ability to raise capital may be limited.
- *Special Mention:* Credits that have potential weaknesses that warrant management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Borrowers in this category may be experiencing adverse operating trends (declining revenues or margins) or an ill proportioned balance sheet. Adverse economic or market conditions, such as interest rate increases or the entry of a new competitor, may also support a special mention rating. Nonfinancial reasons for rating a credit exposure as special mention include management problems, pending litigation, stale financial statements, an ineffective loan agreement or other material structural weakness, and any other significant deviation from prudent lending practices.

Potential weaknesses in commercial real estate loans may include, construction delays, changes in concept or project plan, slow leasing, rental concessions, deteriorating market conditions, impending expiry of a major lease, or other adverse events that do not currently jeopardize repayment.

- **Substandard:** Credits that are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility of loss if the deficiencies are not corrected.

Substandard assets have a high probability of payment default, or they have other well-defined weaknesses. They are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization. Repayment may depend on collateral or other credit risk mitigates. Although substandard assets in the aggregate will have distinct potential for loss, an individual asset's loss potential does not have to be distinct for the asset to be rated substandard.

A well-defined weakness may manifest itself via:

- significant deterioration in financial condition of the borrower;
- impairment of primary repayment source;
- material deviation from planned absorption of rental or sales units; or
- material deterioration in market conditions.

Commercial real estate credits evidencing one or more of the following characteristics are evaluated for a possible substandard classification:

- slower than projected leasing or sales activity that threatens to result in protracted repayment or default;
- lower than projected lease rates or sales prices that jeopardize repayment capacity;
- changes in concept or plan due to unfavorable market conditions;
- construction or tax liens;
- inability to obtain necessary zoning or permits necessary to develop the project as planned;
- a diversion of needed cash from an otherwise viable property to satisfy the demands of a troubled borrower or guarantor;
- material imbalances in the construction budget;
- significant construction delays;
- expiration of a major lease or default by a major tenant;
- poorly structured or overly liberal repayment terms.

When a project has slowed or stalled and the guarantor is providing some support but the loan has not been restructured, unless the guarantor is providing support of principal payments sufficient to retire the debt under reasonable terms, a substandard classification is typically warranted. If the guarantor is keeping interest payments current and shows a documented willingness and capacity to do so in the future, and collateral values protect against loss, the loan should generally be left on accrual. This level of support; however, does not fully mitigate the well-defined weaknesses in the credit and does not preclude a substandard classification.

- **Doubtful:** Credits that have all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. A doubtful asset has a high probability of total or substantial loss but because of specific pending events that may strengthen the assets, its classification as loss is deferred. Borrowers in this category are usually in default, lack adequate liquidity or capital and lack the resources necessary to remain an operating entity. Because of high probability of loss, nonaccrual accounting treatment is required for doubtful assets.

Circumstances that might warrant a doubtful classification for commercial real estate loans could include collateral values that are uncertain due to a lack of comparisons in an inactive market, impending changes such as zoning classification, environmental issues, or the pending resolution of legal issues that may affect the realization of value in a sale.

- **Loss:** Credits that are considered uncollectable and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. Borrowers in this category are often in bankruptcy, have formally suspended debt repayments, or have otherwise ceased normal business operations. The Company does not maintain an asset on the balance sheet if realizing its value would require long-term litigation or other lengthy recovery efforts.

The Company's consumer loans, including residential mortgages and home equities, are not individually risk rated or reviewed in the Company's loan review process. Consumers are not required to provide the Company with updated financial information as is a commercial customer. Consumer loans also carry smaller balances. Given the lack of updated information since the initial underwriting of the loan and small size of individual loans, the Company does not have credit risk ratings for consumer loans and instead uses

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delinquency status as the credit quality indicator for consumer loans. However, once a consumer loan is identified as impaired, it is individually evaluated for impairment.

Loans acquired in a business combination are recorded at fair value with no carry-over of an acquired entity's previously established allowance for credit losses. Purchased impaired loans represent specifically identified loans with evidence of credit deterioration for which it was probable at acquisition that the Company would be unable to collect all contractual principal and interest payments. For purchased impaired loans, the excess of cash flows expected at acquisition over the estimated fair value of acquired loans is recognized as interest income over the remaining lives of the loans. Subsequent decreases in the expected principal cash flows require the Company to evaluate the need for additions to the Company's allowance for credit losses. Subsequent improvements in expected cash flows result first in the recovery of any related allowance for credit losses and then in recognition of additional interest income over the then remaining lives of the loans. For all other acquired loans, the difference between the fair value and outstanding principal balance of the loans is recognized as an adjustment to interest income over the lives of those loans.

**Allowance for Loan Losses**

The provision for loan losses represents the amount charged against the Bank's earnings to maintain an allowance for probable incurred loan losses inherent in the portfolio based on management's evaluation of the loan portfolio at the balance sheet date. Factors considered by the Bank's management in establishing the allowance include: the collectability of individual loans, current loan concentrations, charge-off history, loss emergence period, delinquent loan percentages, the fair value of the collateral, 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 collectability of the loans in its portfolio by incorporating feedback provided by the Bank's internal loan staff, an independent internal loan review function and information provided by examinations performed by regulatory agencies.

The analysis of the allowance for loan losses is composed of two components: specific credit allocation and general portfolio allocation. The specific credit allocation includes a detailed review of each impaired loan and allocation is made based on this analysis. Factors may include the appraisal value of the collateral, the age of the appraisal, the type of collateral, the performance of the loan to date, the performance of the borrower's business based on financial statements, and legal judgments involving the borrower. The general portfolio allocation consists of an assigned reserve percentage based on the historical loss experience, the loss emergence period, and other qualitative factors of the loan category.

The general portfolio allocation is segmented into homogeneous pools of loans with similar characteristics. Separate pools of loans include loans pooled by loan grade and by portfolio segment. An average historical loss rate over the past ten years multiplied by the loss emergence period factor is applied against these loans.

For both the criticized and non-criticized loan pools in the general portfolio allocation, additional qualitative factors are applied. The qualitative factors applied to the general portfolio allocation reflect management's evaluation of various conditions. The conditions evaluated include the following: levels and trends in delinquencies, non-accruals, and criticized loans; trends in volume and terms of loans; effects of any changes in lending policies and credit quality underwriting standards; experience, ability, and depth of management; national and economic trends and conditions; changes in the quality of the loan review system; concentrations of credit risk; changes in collateral value; and large loan risk. The total possible qualitative allocation is determined by comparing peer bank historical charge-off rates to the Bank's historical charge-off rate. The actual qualitative allocation is determined by qualitative factor by loan type based on metrics that management believes are appropriate indicators of whether the Bank is in a low, moderate, or high risk range relative to historical experience for each qualitative factor.

A loan for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, is considered to be a Troubled Debt Restructuring ("TDR"). The allowances for credit losses on loans on a TDR is measured using the specific credit allocation. On April 7, 2020, federal banking regulators issued a revised Interagency Statement on Loan Modifications and Reporting for Financial Institutions, which, among other things, encouraged financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19, and stated that institutions generally do not need to categorize COVID-19-related modifications as TDRs and that the agencies will not direct supervised institutions to automatically categorize all COVID-19 related loan modifications as TDRs. Similarly, under the CARES Act, provisions were included that allow for loan modifications to not be classified as TDRs if certain criteria were met. The TDR exemption expired on January 1, 2022.

### **Foreclosed Real Estate**

Foreclosed real estate is initially recorded at 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 through a charge to operations if the carrying value of a property exceeds fair value.

### **Operating Leases**

As of December 31, 2021, the Company only had operating leases related to our leased facilities. The Company determines if an arrangement is a lease at inception by assessing whether there is an identified asset and whether the contract conveys the right to control the use of the identified asset for a period of time in exchange for consideration. Operating leases with a term of more than one year are included in operating lease Right-of-Use ("ROU") assets and operating lease liabilities. The Company made a policy election to apply the short-term lease exemption to any operating leases with an original term of less than 12 months, therefore no ROU asset or lease liability is recorded for these operating leases.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized on the lease commencement date based on the present value of lease payments over the lease term. The Company uses the incremental borrowing rate commensurate with the lease term based on the information available at the lease commencement date in determining the present value of lease payments.

### **Insurance Service and Fees**

Commission revenue from selling commercial and personal property and casualty insurance on behalf of the insurance carriers is recognized at the time of the sale of the policy or when a policy renews. Commission revenue from selling benefit plans to commercial customers on behalf of the insurance carriers is recognized each month when the customer continues with the benefit plan. The Company also receives contingent commissions from insurance companies which are based on the overall profitability of their relationship based primarily on the loss experience of the insurance placed by the Company. Contingent commissions from insurance companies are accrued throughout the year based on recent historical results. As loss events occur and overall performance becomes known, accrual adjustments are recorded until the cash is ultimately received. Financial services commissions and insurance claims services revenue are recognized when the services are rendered. Information on insurance service and fee revenue is included in Note 15 to these Consolidated Financial Statements, "Revenue Recognition of Non-interest Income."

### **Goodwill and Other Intangible Assets**

The Company records the excess of the cost of acquired entities over the fair value of identifiable tangible and intangible assets acquired, less liabilities assumed, as goodwill. The Company does not amortize goodwill and any acquired intangible asset with an indefinite useful economic life, but reviews them for impairment at a reporting unit level on an annual basis, or when events or changes in circumstances indicate that the carrying amounts may be impaired. The Company has selected December 31 as the date to perform the annual impairment test. A reporting unit is defined as any distinct, separately identifiable component of one of our operating segments for which complete, discrete financial information is available and reviewed regularly by the segment's management. Goodwill is the only intangible asset with an indefinite life on the Company's balance sheet. The Company amortizes acquired intangible assets with definite useful economic lives, consisting of core deposit intangibles, customer relationships and trade names, over their useful economic lives, which range from 5 to 10 years, utilizing the straight-line method.

### **Business Combinations**

The company accounts for business combinations under the acquisition method of accounting. Upon obtaining control of the acquired entity, the Company records all identifiable assets and liabilities at their estimated fair values. Goodwill is recorded when the consideration paid for an acquired entity exceeds the estimated fair value of the net assets acquired. Changes to the acquisition date fair values of assets acquired and liabilities assumed may be made as adjustments to goodwill over a 12-month measurement period following the date of acquisition. Such adjustments are attributable to additional information obtained related fair value estimates of the assets acquired and liabilities assumed. Certain costs associated with business combinations are expensed as incurred.

### **Subordinated Debt**

Long-term borrowings are carried at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized in interest expense using the interest method. Debt issuance costs are recognized in interest expense over the life of the instrument.

#### **Bank-Owned Life Insurance**

The Bank has purchased insurance on the lives of Company directors and certain members of the Company'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 Company's Consolidated Statements of Income.

#### **Properties and Equipment**

Land is carried at cost. 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.

#### **Income Taxes**

Deferred tax assets and liabilities are recognized for the future tax effects attributable to differences between the financial statement value of existing assets and liabilities and their respective tax bases and carryforwards. 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.

The Bank has invested in partnerships that incur expenses related to the rehabilitation of a certified historic structure located in New York State. At the time the historic structure is placed in service, the Bank is eligible for a federal and New York State tax credit. At the same time, the Bank evaluates its investment, which is valued at the present value of the expected cash flows from its partnership interest. If the investment is determined to be impaired, the Bank will record that impairment loss on its income statement in non-interest income. The federal tax credit impact is included in the Company's estimated effective tax rate calculation and recorded in income tax expense. For New York State, any new credit earned from rehabilitated historic properties placed in service on or after January 1, 2015 not used in the current tax year will be treated as a refund or overpayment of tax to be credited to the next year's tax. Since the realization of the tax credit does not depend on the Bank's generation of future taxable income or the Bank's ongoing tax status or tax position, the refund is not considered an element of income tax accounting. In such cases, the Bank would not record the credit as a reduction of income tax expense; rather, the Bank includes the refundable New York State tax credit in non-interest income with a corresponding receivable recorded in other assets.

#### **Earnings Per Share**

Earnings per common share is determined by dividing net income by the weighted average number of shares outstanding during the period. Diluted 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. Potential common shares that would have the effect of increasing diluted earnings per share are considered to be anti-dilutive and are not included in calculating diluted earnings per share. There were 57,322, 81,770, and 43,385 anti-dilutive shares at December 31, 2021, 2020 and 2019, respectively.

#### **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 the liability related to pension costs, net of tax.

#### **Employee Benefits**

The Bank maintains a non-contributory, qualified, defined benefit pension plan (the "Pension Plan") that covered substantially all employees before it was frozen on January 31, 2008. All benefits eligible participants had accrued in the Pension Plan until the freeze date have been retained. Employees have not accrued additional benefits in the Pension Plan from that date. 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. Employees are eligible to receive these benefits at normal retirement age.

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 12 to these Consolidated Financial Statements, "Employee Benefits and Deferred Compensation Plans."

#### **Stock-based Compensation**

Stock-based compensation expense is recognized over the requisite service period of the stock-based grant based on the estimated grant date value of the stock-based compensation that is expected to vest. The Company accounts for forfeitures of stock awards when they occur. When stock awards are granted, the Company assumes that the service condition will be achieved when determining the initial amount of compensation cost recognized. Information on the determination of the estimated value of stock-based awards used to calculate stock-based compensation expense is included in Note 13 to these Consolidated Financial Statements, "Stock-Based Compensation."

#### **Loss Contingencies**

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

#### **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. The Bank provides guarantees in the form of standby letters of credit, which represent an irrevocable obligation to make payments to a third party if the borrower defaults on its obligation under a borrowing or other contractual arrangement with the third party. The Bank could potentially be required to make payments to the extent of the amount guaranteed by the standby letters of credit based on the terms of the agreement. There were no liabilities recorded on the Consolidated Balance Sheets related to standby letters of credit as of December 31, 2021 and 2020, reflecting management's assessment of the value of the guarantee given the lack of historical activity and the likelihood of current customers to draw on the letters of credit. The Bank has not incurred any losses on its commitments during the past three years and has not recorded a reserve for its commitments.

#### **Fair Value of Assets and Liabilities**

Fair value estimates involve uncertainties and matters of significant judgement regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

#### **Advertising Costs**

Advertising costs are expensed as incurred.

#### **RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS**

The FASB establishes changes to U.S. GAAP in the form of accounting standards updates ("ASUs") to the FASB Accounting Standards Codification. The Company considers the applicability and impact of all ASUs when they are issued by FASB. ASUs adopted by the Company during its current fiscal year did not have a material impact on the Company's consolidated financial position, results of operations, cash flows or disclosures. Accounting standards that have been recently issued but not yet required to be adopted as of December 31, 2021, to the extent management believes their adoption will have a material impact on the Company's financial condition, results of operations, cash flows or disclosures, are discussed below.

**ASU 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments** – Current GAAP requires an “incurred loss” methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. Both financial institutions and users of their financial statements expressed concern that current GAAP restricts the ability to record credit losses that are expected, but do not yet meet the “probable” threshold. The main objective of this ASU (commonly known as the Current Expected Credit Loss Impairment Model, or CECL, in the industry) is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in CECL replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company is developing its approach for determining expected credit losses under the new guidance, including the licensing of new software, working on model development, model validation, development of a qualitative framework, data sourcing, and technology enhancements. The total impact of CECL to the Company’s financial statements is unknown but may be material. The Company will adopt CECL effective January 1, 2023.

**2. ACQUISITIONS**

The Company did not have any acquisitions during 2021. On May 1, 2020, the Company completed the acquisition of FSB Bancorp, Inc., a Maryland corporation and the parent holding company of Fairport Savings Bank (“FSB”). On that date, FSB was merged into Evans Bank, a wholly owned banking subsidiary of the Company. At the time of closing, FSB had \$321.7 million in total assets, including \$272.1 million in net loans receivable and \$21.4 million in securities, and \$293.1 million in total liabilities, including \$237.7 million in deposits and \$50.6 million in borrowings. FSB operated 5 banking offices in New York at the date of acquisition. After application of the election, allocation and proration procedures contained in the merger agreement, the Company paid \$17.1 million in cash and issued 422,475 shares of Evans Bancorp, Inc. common stock in exchange for all of the shares of common stock of FSB Bancorp, Inc. outstanding at the time of the acquisition. The \$11.7 million fair value of the shares issued as part of the consideration paid for FSB was determined on the basis of the closing market price of the Company’s shares on April 30, 2020.

The assets acquired and liabilities assumed have been accounted for under the acquisition method of accounting. Management engaged a third-party specialist to develop the fair value estimate of certain FSB’s assets and liabilities as of the acquisition date. The assets and liabilities, both tangible and intangible were recorded at their fair values as of May 1, 2020 based on management’s best estimate using the information available as of the merger date. The application of the acquisition method of accounting resulted in the recognition of goodwill of \$1.8 million and a core deposit intangible of \$0.2 million. Goodwill arising from the acquisition consisted largely of synergies and the cost savings resulting from the combining of the operations of the companies and is not tax deductible.

There were no merger-related expenses recorded in 2021. Direct acquisition and other charges incurred in connection with the FSB merger were expensed as incurred and totaled \$6.0 million and \$0.2 million during the years ended December 31, 2020 and 2019, respectively. These expenses were recorded in merger-related expense on the consolidated statements of income.

The following table presents selected unaudited pro forma financial information reflecting the FSB merger assuming it was completed as of January 1, 2019. The unaudited pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the financial results of the combined companies had the FSB merger actually been completed at the beginning of the periods presented, nor does it indicate future results for any other interim or full year period. The unaudited pro forma information is based on the actual financial statements of the Company for the periods presented, and on the actual financial statements of FSB for the years ended December 31, 2020 and 2019 until the date of the FSB merger, at which time FSB’s results of operations were included in the Company’s financial statements.

	2020	(in thousands)		2019
Net interest income after provision	\$	56,090	\$	61,790
Non-interest income		18,826		20,019
Non-interest expense		57,409		57,932
Net income		14,723		18,165

The unaudited supplemental pro forma information for the years ended December 31, 2020 and 2019 set forth above reflects adjustments related to (a) purchase accounting fair value adjustments; (b) amortization of core deposit; and (c) adjustments to interest income and expense due to amortization of premiums and accretion of discounts. Direct merger-related expenses incurred in year ended December 31, 2020 are assumed to have occurred prior to January 1, 2019. Furthermore, the unaudited supplemental pro forma information does not reflect management’s estimate of any revenue enhancement opportunities or anticipated potential cost savings for periods that include data as of May 1, 2020 or earlier. The disclosures regarding the results of operations for FSB subsequent to its acquisition date are omitted as this information is not practical to obtain.

**3. SECURITIES**

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

	2021			
	(in thousands)			
	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
<b>Available for Sale:</b>				
Debt securities:				
U.S. treasuries and government agencies	\$ 99,005	\$ 199	\$ (2,386)	\$ 96,818
States and political subdivisions	6,150	96	-	6,246
Total debt securities	\$ 105,155	\$ 295	\$ (2,386)	\$ 103,064
Mortgage-backed securities:				
FNMA	\$ 64,056	\$ 222	\$ (1,068)	\$ 63,210
FHLMC	38,796	62	(424)	38,434
GNMA	31,814	15	(615)	31,214
SBA	17,919	343	(54)	18,208
CMO	52,488	175	(834)	51,829
Total mortgage-backed securities	\$ 205,073	\$ 817	\$ (2,995)	\$ 202,895
Total securities designated as available for sale	\$ 310,228	\$ 1,112	\$ (5,381)	\$ 305,959
<b>Held to Maturity:</b>				
Debt securities:				
States and political subdivisions	\$ 3,165	\$ 17	\$ (3)	\$ 3,179
Total securities designated as held to maturity	\$ 3,165	\$ 17	\$ (3)	\$ 3,179

	2020			
	(in thousands)			
	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
<b>Available for Sale:</b>				
Debt securities:				
U.S. government agencies	\$ 67,619	\$ 731	\$ (252)	\$ 68,098
States and political subdivisions	7,362	169	(7)	7,524
Total debt securities	\$ 74,981	\$ 900	\$ (259)	\$ 75,622
Mortgage-backed securities:				
FNMA	\$ 24,265	\$ 654	\$ (50)	\$ 24,869
FHLMC	3,739	111	(1)	3,849
GNMA	2,006	58	(1)	2,063
SBA	20,949	914	(33)	21,830
CMO	33,217	946	-	34,163
Total mortgage-backed securities	\$ 84,176	\$ 2,683	\$ (85)	\$ 86,774
Total securities designated as available for sale	\$ 159,157	\$ 3,583	\$ (344)	\$ 162,396
<b>Held to Maturity:</b>				
Debt securities:				
States and political subdivisions	\$ 4,204	\$ 67	\$ -	\$ 4,271
Total securities designated as held to maturity	\$ 4,204	\$ 67	\$ -	\$ 4,271



Available for sale securities with a total fair value of \$207 million and \$135 million were pledged as collateral to secure public deposits and for other purposes required or permitted by law at December 31, 2021 and 2020, respectively.

The scheduled maturity of debt and mortgage-backed securities at December 31, 2021 is 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.

	December 31, 2021	
	Amortized cost	Estimated fair value
	(in thousands)	
<b>Debt securities available for sale:</b>		
Due in one year or less	\$ 2,035	\$ 2,051
Due after one year through five years	14,620	14,848
Due after five years through ten years	50,404	49,827
Due after ten years	38,096	36,338
	<u>105,155</u>	<u>103,064</u>
Mortgage-backed securities available for sale	205,073	202,895
<b>Total</b>	<u>\$ 310,228</u>	<u>\$ 305,959</u>
<b>Debt securities held to maturity:</b>		
Due in one year or less	\$ 2,196	\$ 2,197
Due after one year through five years	516	523
Due after five years through ten years	384	385
Due after ten years	69	74
<b>Total</b>	<u>\$ 3,165</u>	<u>\$ 3,179</u>

Contractual maturities of the Company's mortgage-backed securities generally exceed ten years; however, the effective lives may be significantly shorter due to prepayments of the underlying loans and due to the nature of these securities.

There were no realized gains or losses from sales of securities in 2021. Gross realized gains on sales of investment securities were \$0.7 million in 2020. Gross realized losses on sales of investment securities were less than \$0.1 million in 2020. Gross realized gains and losses on sales of investment securities were both less than \$0.1 million in 2019.

Information regarding unrealized losses within the Company's available for sale securities at December 31, 2021 and 2020 is summarized below. The securities are primarily U.S. government sponsored entities securities or municipal securities. All unrealized losses are considered temporary and related to market interest rate fluctuations.

		2021					
		Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(in thousands)					
<b>Available for Sale:</b>							
Debt securities:							
U.S. government agencies	\$	50,381	\$ (884)	\$ 27,488	\$ (1,502)	\$ 77,869	\$ (2,386)
States and political subdivisions		-	-	-	-	-	-
Total debt securities	\$	50,381	\$ (884)	\$ 27,488	\$ (1,502)	\$ 77,869	\$ (2,386)
Mortgage-backed securities:							
FNMA	\$	48,008	\$ (903)	\$ 2,941	\$ (165)	\$ 50,949	\$ (1,068)
FHLMC		35,851	(423)	76	(1)	35,927	(424)
GNMA		30,252	(615)	143	-	30,395	(615)
SBA		2,824	(25)	1,218	(29)	4,042	(54)
CMO		38,313	(833)	25	(1)	38,338	(834)
Total mortgage-backed securities	\$	155,248	\$ (2,799)	\$ 4,403	\$ (196)	\$ 159,651	\$ (2,995)
<b>Held to Maturity:</b>							
Debt securities:							
States and political subdivisions	\$	1,782	\$ (3)	\$ -	\$ -	\$ 1,782	\$ (3)
Total temporarily impaired securities	\$	207,411	\$ (3,686)	\$ 31,891	\$ (1,698)	\$ 239,302	\$ (5,384)
		2020					
		Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(in thousands)					
<b>Available for Sale:</b>							
Debt securities:							
U.S. government agencies	\$	33,801	\$ (252)	\$ -	\$ -	\$ 33,801	\$ (252)
States and political subdivisions		207	(1)	180	(6)	387	(7)
Total debt securities	\$	34,008	\$ (253)	\$ 180	\$ (6)	\$ 34,188	\$ (259)
Mortgage-backed securities:							
FNMA	\$	3,354	\$ (39)	\$ 1,391	\$ (11)	\$ 4,745	\$ (50)
FHLMC		182	(1)	-	-	182	(1)
GNMA		154	(1)	-	-	154	(1)
SBA		-	-	1,392	(33)	1,392	(33)
CMO		121	-	-	-	121	-
Total mortgage-backed securities	\$	3,811	\$ (41)	\$ 2,783	\$ (44)	\$ 6,594	\$ (85)
<b>Held to Maturity:</b>							
Debt securities:							
States and political subdivisions	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -
Total temporarily impaired securities	\$	37,819	\$ (294)	\$ 2,963	\$ (50)	\$ 40,782	\$ (344)

Management has assessed the securities available for sale in an unrealized loss position at December 31, 2021 and 2020 and determined the decline in fair value below amortized cost to be temporary. In making this determination, management considered the period of time the securities were in a loss position, the percentage decline in comparison to the securities' amortized cost, and the financial condition of the issuer (primarily government or government-sponsored enterprises). In addition, management does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before recovery of their amortized cost. Management believes the decline in fair value is primarily related to market interest rate fluctuations and not to the credit deterioration of the individual issuers. The Company holds no securities backed by sub-prime or Alt-A residential mortgages or commercial mortgages and also does not hold any trust-preferred securities.

The Company did not record any other-than-temporary impairment charges in 2021, 2020, or 2019. The creditworthiness of the Company's portfolio is largely reliant on the ability of U.S. government agencies such as the Federal Home Loan Bank ("FHLB"), Federal National Mortgage Association ("FNMA"), and the Federal Home Loan Mortgage Corporation ("FHLMC"), and municipalities throughout New York State to meet their obligations. In addition, dysfunctional markets could materially alter the liquidity, interest rate, and pricing risk of the portfolio. The stable past performance is not a guarantee for similar performance going forward.

#### 4. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Major categories of loans at December 31, 2021 and 2020 are summarized as follows:

	December 31, 2021	(in thousands)	December 31, 2020
Mortgage loans on real estate:			
Residential mortgages	\$ 411,060		\$ 365,351
Commercial and multi-family	739,761		706,276
Construction-Residential	5,109		7,509
Construction-Commercial	98,012		106,559
Home equities	81,238		82,602
Total real estate loans	1,335,180		1,268,297
Commercial and industrial loans	237,077		430,350
Consumer and other loans	719		151
Unaccrued yield adjustments*	(1,071)		(5,004)
Total gross loans	1,571,905		1,693,794
Allowance for loan losses	(18,438)		(20,415)
Loans, net	<u>\$ 1,553,467</u>		<u>\$ 1,673,379</u>

\*Includes net premiums and discounts on acquired loans and net deferred fees and costs on loans originated, including \$0.8 million and \$4.6 million of PPP fees at December 31, 2021 and 2020, respectively.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") established a loan program administered through the U.S. Small Business Administration (SBA), referred to as the Paycheck Protection Program ("PPP"). PPP loans carry a fixed rate of 1.00%, are 100% guaranteed by the SBA and are forgivable, in whole or in part, if the proceeds are used for payroll and other permitted purposes in accordance with the requirements of the PPP. During 2021 the Company originated \$95 million of PPP loans, compared with \$203 million during 2020. Total PPP loans originated during the life of the program was \$298 million. PPP loans, included in commercial and industrial loans, did not impact the Company's allowance for loan loss as a result of the SBA guarantees. Fees collected from the SBA for these loans totaled \$12.5 million. These fees are deferred and amortized into interest income over the contractual period of the loan. Upon SBA forgiveness or sale of a PPP loan, unamortized fees are then recognized into interest income. PPP fees recognized in interest income were \$8.8 million and \$2.9 million in the years ended December 31, 2021 and 2020, respectively. The outstanding balance of PPP loans was \$25 million and \$187 million as of December 31, 2021 and 2020, respectively.

At December 31, 2021, the outstanding principal balance and the carrying amount of acquired credit-impaired loans totaled \$0.8 million. At December 31, 2020, the outstanding principal balance and the carrying amount of acquired credit-impaired loans were \$0.9 million and \$0.8 million, respectively. The Company is not recording interest on the acquired credit-impaired loans due to the uncertainty of the cash flows relating to such loans. There were no valuation allowances for specifically identified impairment attributable to acquired credit-impaired loans at December 31, 2021 or 2020.

There were \$619 million and \$630 million in residential and commercial mortgage loans pledged to FHLBNY to serve as collateral for potential borrowings as of December 31, 2021 and 2020, respectively.

*Residential Mortgages:* The Company originates adjustable-rate and fixed-rate, one-to-four-family residential real estate loans for the construction, purchase, or refinancing of a mortgage. These loans are collateralized by owner-occupied properties located in the Company's market area and are amortized over a period of 10 to 30 years. Loans on one-to-four-family residential real estate are mostly

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originated in amounts of no more than 80% of the property's appraised value or have private mortgage insurance. Mortgage title insurance and hazard insurance are normally required. Construction loans have a unique risk, because they are secured by an incomplete dwelling.

The Company, in its normal course of business, sells certain residential mortgages which it originates to FNMA. The Company maintains servicing rights on the loans that it sells to FNMA and earns a fee thereon. The Bank determines with each origination of residential real estate loans which desired maturities, within the context of overall maturities in the loan portfolio, provide the appropriate mix to optimize the Bank's ability to absorb the corresponding interest rate risk within the Company's tolerance ranges. This practice allows the Company to manage interest rate risk, liquidity risk, and credit risk. At December 31, 2021 and 2020, the Company had approximately \$61 million and \$77 million, respectively, in unpaid principal balances of loans that it services for FNMA. For the years ended December 31, 2021 and 2020, the Company sold \$1 million and \$15 million, respectively, in loans to FNMA and realized gains on those sales of less than \$0.1 million and \$0.3 million, respectively. Gains or losses recognized upon the sale of loans are determined on a specific identification basis.

At December 31, 2021, the Company also had approximately \$70 million in unpaid principal balances of loans that it services for FHLMC, compared with \$95 million at December 31, 2020. No loans were sold to FHLMC by the Company during the years 2021 and 2020.

The Company had a related asset carried at fair value of approximately \$0.9 million for the servicing portfolio rights at December 31, 2021 and 2020. There were \$0.1 million and \$0.8 million in loans held for sale at December 31, 2021 and 2020, respectively. The carrying value approximates fair value.

*Commercial and Multi-Family Mortgages and Commercial Construction Loans:* Commercial real estate loans are made to finance the purchases of real estate with completed structures or in the midst of being constructed. These commercial real estate loans are secured by first liens on the real estate, which may include apartments, hotels, retail stores or plazas, healthcare facilities, and other non-owner-occupied facilities. These loans are generally less risky than commercial and industrial loans since they are secured by real estate and buildings. The Company offers commercial mortgage loans with up to an 80% LTV ratio for up to 20 years on a variable and fixed rate basis. Many of these mortgage loans either mature or are subject to a rate call after three to five years. The Company's underwriting analysis includes credit verification, independent appraisals, a review of the borrower's financial condition, and the underlying cash flows. Construction loans have a unique risk, because they are secured by an incomplete dwelling.

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

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

*Consumer Loans:* The Company funds a variety of consumer loans, including direct automobile loans, recreational vehicle loans, boat loans, home improvement loans, and personal loans (collateralized and uncollateralized). Most of these loans carry a fixed rate of interest with principal repayment terms typically ranging up to five years, based upon the nature of the collateral and the size of the loan. The majority of consumer loans are underwritten on a secured basis using the underlying collateral being financed. A minimal amount of loans are unsecured, which carry a higher risk of loss. These loans included overdrawn deposit accounts classified as loans of \$0.1 million at December 31, 2021 and 2020.

The Company maintains an allowance for loan losses in order to capture the probable incurred losses inherent in its loan portfolio. If the Company's assumptions and judgments prove to be incorrect or bank regulators require the Company to increase its provision for loan losses or recognize further loan charge-offs, the Company may have to increase its allowance for loan losses or loan charge-offs which could have a material adverse effect on the Company's operating results and financial condition.

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The following tables summarize the allowance for loan losses, as of December 31, 2021 and 2020, respectively, by portfolio segment. The segments presented are at the level management uses to assess and monitor the risk and performance of the portfolio.

2021						
(in thousands)	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total
<b>Allowance for loan losses:</b>						
Beginning balance	\$ 4,882	\$ 13,249	\$ 45	\$ 1,658	\$ 581	\$ 20,415
Charge-offs	(424)	(1)	(147)	-	-	(572)
Recoveries	76	-	30	-	2	108
Provision (Credit)	(1,225)	(881)	126	469	(2)	(1,513)
Ending balance	<u>\$ 3,309</u>	<u>\$ 12,367</u>	<u>\$ 54</u>	<u>\$ 2,127</u>	<u>\$ 581</u>	<u>\$ 18,438</u>
<b>Allowance for loan losses:</b>						
Ending balance:						
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	-
Individually evaluated for impairment	100	345	-	9	41	495
Collectively evaluated for impairment	3,209	12,022	54	2,118	540	17,943
Total	<u>\$ 3,309</u>	<u>\$ 12,367</u>	<u>\$ 54</u>	<u>\$ 2,127</u>	<u>\$ 581</u>	<u>\$ 18,438</u>
<b>Loans:</b>						
Ending balance:						
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ 803	\$ -	\$ 803
Individually evaluated for impairment	5,028	11,925	-	2,598	1,236	20,787
Collectively evaluated for impairment	232,049	825,848	719	412,768	80,002	1,551,386
Total	<u>\$ 237,077</u>	<u>\$ 837,773</u>	<u>\$ 719</u>	<u>\$ 416,169</u>	<u>\$ 81,238</u>	<u>\$ 1,572,976</u>

**Note:** Loan balances do not include \$(1.1) million of unaccreted yield adjustments as of December 31, 2021.

\* includes construction loans

2020

(in thousands)	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total
<b>Allowance for loan losses:</b>						
Beginning balance	\$ 4,547	\$ 9,005	\$ 155	\$ 1,071	\$ 397	\$ 15,175
Charge-offs	(236)	(5)	(74)	(29)	(4)	(348)
Recoveries	199	11	27	-	-	237
Provision (Credit)	372	4,238	(63)	616	188	5,351
Ending balance	<u>\$ 4,882</u>	<u>\$ 13,249</u>	<u>\$ 45</u>	<u>\$ 1,658</u>	<u>\$ 581</u>	<u>\$ 20,415</u>
<b>Allowance for loan losses:</b>						
Ending balance:						
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Individually evaluated for impairment	994	539	3	-	11	1,547
Collectively evaluated for impairment	3,888	12,710	42	1,658	570	18,868
Total	<u>\$ 4,882</u>	<u>\$ 13,249</u>	<u>\$ 45</u>	<u>\$ 1,658</u>	<u>\$ 581</u>	<u>\$ 20,415</u>
<b>Loans:</b>						
Ending balance:						
Loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ 860	\$ -	\$ 860
Individually evaluated for impairment	6,485	18,004	3	2,874	1,624	28,990
Collectively evaluated for impairment	423,865	794,831	148	369,126	80,978	1,668,948
Total	<u>\$ 430,350</u>	<u>\$ 812,835</u>	<u>\$ 151</u>	<u>\$ 372,860</u>	<u>\$ 82,602</u>	<u>\$ 1,698,798</u>

Note: Loan balances do not include \$(5.0) million of unaccreted yield adjustments as of December 31, 2020.

\* includes construction loans

2019

(in thousands)	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total
<b>Allowance for loan losses:</b>						
Beginning balance	\$ 4,368	\$ 8,844	\$ 106	\$ 1,121	\$ 345	\$ 14,784
Charge-offs	(301)	(33)	(156)	(13)	(22)	(525)
Recoveries	797	2	42	-	-	841
Provision (Credit)	(317)	192	163	(37)	74	75
Ending balance	<u>\$ 4,547</u>	<u>\$ 9,005</u>	<u>\$ 155</u>	<u>\$ 1,071</u>	<u>\$ 397</u>	<u>\$ 15,175</u>

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A description of the Company's accounting policies and the methodology used to estimate the allowance for loan losses, including a description of the factors considered in determining the allowance for loan losses, such as historical losses and existing economic conditions, is included in Note 1 to these Consolidated Financial Statements.

The following table provides data, at the class level, of credit quality indicators of certain loans, as of December 31, 2021 and 2020, respectively:

2021				
(in thousands)				
Corporate Credit Exposure – By Credit Rating	Commercial Real Estate Construction	Commercial and Multi-Family Mortgages	Total Commercial Real Estate	Commercial and Industrial
Acceptable or better	\$ 65,211	\$ 480,159	\$ 545,370	\$ 152,675
Watch	19,108	182,502	201,610	64,406
Special Mention	7,045	33,219	40,264	10,200
Substandard	6,648	43,881	50,529	9,796
Doubtful/Loss	-	-	-	-
Total	\$ 98,012	\$ 739,761	\$ 837,773	\$ 237,077

2020				
(in thousands)				
Corporate Credit Exposure – By Credit Rating	Commercial Real Estate Construction	Commercial and Multi-Family Mortgages	Total Commercial Real Estate	Commercial and Industrial
Acceptable or better	\$ 59,020	\$ 317,854	\$ 376,874	\$ 314,322
Watch	17,218	300,061	317,279	95,117
Special Mention	2,041	17,656	19,697	6,555
Substandard	28,280	70,705	98,985	14,356
Doubtful/Loss	-	-	-	-
Total	\$ 106,559	\$ 706,276	\$ 812,835	\$ 430,350

The Company continues to evaluate its loan portfolio in response to the economic impact of the COVID-19 pandemic on its clients. During 2020, the Company reclassified all commercial loans that received a deferral into the watch or criticized categories. Loans that have returned to compliance with contractual payment terms for a sustained period have been upgraded out of the watch or criticized categories. During 2020, the Company identified a well-defined weakness in the hotel industry and classified the \$81 million of loans to clients within that industry as substandard. During 2021, the Company upgraded \$24 million of these loans out of the substandard loan category and received payoffs of \$6 million. As of December 31, 2021, \$50 million of the Company's hotel loan portfolio remained in the substandard loan category. Total criticized assets decreased to \$111 million at December 31, 2021 compared with \$140 million at the end of 2020.

The Company evaluates the loan portfolio to ensure that specific credits are appropriately graded and reserved. At least annually, borrowers' financial information is reviewed by the individual relationship managers. Independent of the individual relationship managers, the credit department performs annual reviews on all requisite relationships within the loan portfolio. Additionally, the credit department, the loan review department monitors the management of the Company's commercial loan portfolio. The Company's loan review function reviews a percentage of the commercial loan portfolio based on an annual risk assessment, typically ranging from 35% to 50%. The Company believes that the allowance for loan losses is reflective of a fair assessment of the current environment and credit quality trends.

The Company's consumer loans, including residential mortgages and home equity loans and lines of credit, are not individually risk rated or reviewed as part of the Company's loan review process. Unlike commercial customers, consumer loan customers are not required to provide the Company with updated financial information. Consumer loans also carry smaller dollar balances. Given the lack of updated information since the initial underwriting of the loan and the small size of individual loans, the Company uses delinquency status as the primary credit quality indicator for consumer loans. Once a consumer loan reaches 60 days past due, management orders an independent appraisal of the underlying collateral and produces a credit report on the borrower. After discounting for potential selling costs and other factors specific to the property or borrower, the book value of the loan is then compared to the collateral value as determined by the appraisal. In situations where the Company holds a junior lien, management accounts for the amount of the senior liens held by other lenders, and the collateral value is more heavily discounted to account for the increased risk. If the loan is ultimately determined to be impaired, it is placed in non-accrual status. Unless the loan is well secured and in the process of collection, all consumer loans that are more than 90 days past due are placed in non-accrual status.

A summary of current, past due, and nonaccrual loans as of December 31, 2021 and 2020 follows:

2021							
(in thousands)							
	Current Balance	30-59 days	60-89 days	90+ days	Non-accruing Loans	Total Balance	
Commercial and industrial	\$ 229,724	\$ 1,336	\$ 568	\$ 548	\$ 4,901	\$ 237,077	
Residential real estate:							
Residential	402,992	3,466	1,563	-	3,039	411,060	
Construction	5,109	-	-	-	-	5,109	
Commercial real estate:							
Commercial	711,481	16,451	6,073	-	5,756	739,761	
Construction	93,842	757	-	480	2,933	98,012	
Home equities	79,644	627	209	-	758	81,238	
Consumer and other	706	9	4	-	-	719	
Total Loans	\$ 1,523,498	\$ 22,646	\$ 8,417	\$ 1,028	\$ 17,387	\$ 1,572,976	

2020							
(in thousands)							
	Current Balance	30-59 days	60-89 days	90+ days	Non-accruing Loans	Total Balance	
Commercial and industrial	\$ 419,409	\$ 4,240	\$ 122	\$ 94	\$ 6,485	\$ 430,350	
Residential real estate:							
Residential	357,135	4,156	1,262	109	2,689	365,351	
Construction	7,509	-	-	-	-	7,509	
Commercial real estate:							
Commercial	667,426	20,024	4,166	-	14,660	706,276	
Construction	94,030	5,616	4,062	-	2,851	106,559	
Home equities	80,044	744	604	14	1,196	82,602	
Consumer and other	111	6	14	17	3	151	
Total Loans	\$ 1,625,664	\$ 34,786	\$ 10,230	\$ 234	\$ 27,884	\$ 1,698,798	



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

	At December 31, 2021			2021	
	Recorded Investment	Unpaid Principal Balance	Related Allowance (in thousands)	Average Recorded Investment	Interest Income Recognized
<b>With no related allowance recorded:</b>					
Commercial and industrial	\$ 4,874	\$ 5,712	\$ -	\$ 5,126	\$ 22
Residential real estate:					
Residential	3,297	3,654	-	3,602	27
Construction	-	-	-	-	-
Commercial real estate:					
Commercial	8,821	9,338	-	11,223	270
Construction	1,395	1,499	-	1,144	-
Home equities	1,127	1,324	-	1,319	12
Consumer and other	-	-	-	-	-
Total impaired loans	\$ 19,514	\$ 21,527	\$ -	\$ 22,414	\$ 331
	At December 31, 2021			2021	
	Recorded Investment	Unpaid Principal Balance	Related Allowance (in thousands)	Average Recorded Investment	Interest Income Recognized
<b>With a related allowance recorded:</b>					
Commercial and industrial	\$ 154	\$ 158	\$ 100	\$ 159	\$ 4
Residential real estate:					
Residential	60	60	9	59	1
Construction	-	-	-	-	-
Commercial real estate:					
Commercial	171	717	16	191	-
Construction	1,538	1,555	329	1,642	-
Home equities	109	109	41	109	-
Consumer and other	-	-	-	-	-
Total impaired loans	\$ 2,032	\$ 2,599	\$ 495	\$ 2,160	\$ 5
	At December 31, 2021			2021	
	Recorded Investment	Unpaid Principal Balance	Related Allowance (in thousands)	Average Recorded Investment	Interest Income Recognized
<b>Total:</b>					
Commercial and industrial	\$ 5,028	\$ 5,870	\$ 100	\$ 5,285	\$ 26
Residential real estate:					
Residential	3,357	3,714	9	3,661	28
Construction	-	-	-	-	-
Commercial real estate:					
Commercial	8,992	10,055	16	11,414	270
Construction	2,933	3,054	329	2,786	-
Home equities	1,236	1,433	41	1,428	12
Consumer and other	-	-	-	-	-
Total impaired loans	\$ 21,546	\$ 24,126	\$ 495	\$ 24,574	\$ 336

	At December 31, 2020			2020	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(in thousands)				
<b>With no related allowance recorded:</b>					
Commercial and industrial	\$ 1,706	\$ 1,947	\$ -	\$ 1,952	\$ 8
Residential real estate:					
Residential	3,703	4,069	-	3,754	60
Construction	-	-	-	-	-
Commercial real estate:					
Commercial	12,210	12,840	-	12,397	209
Construction	1,295	1,352	-	1,315	-
Home equities	1,515	1,741	-	1,565	23
Consumer and other	-	-	-	-	-
Total impaired loans	<u>\$ 20,429</u>	<u>\$ 21,949</u>	<u>\$ -</u>	<u>\$ 20,983</u>	<u>\$ 300</u>

	At December 31, 2020			2020	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(in thousands)				
<b>With a related allowance recorded:</b>					
Commercial and industrial	\$ 4,779	\$ 4,993	\$ 994	\$ 4,938	\$ 25
Residential real estate:					
Residential	-	-	-	-	-
Construction	-	-	-	-	-
Commercial real estate:					
Commercial	2,943	2,953	153	2,943	10
Construction	1,556	1,556	386	1,556	53
Home equities	109	109	11	109	1
Consumer and other	3	3	3	3	-
Total impaired loans	<u>\$ 9,390</u>	<u>\$ 9,614</u>	<u>\$ 1,547</u>	<u>\$ 9,549</u>	<u>\$ 89</u>

	At December 31, 2020			2020	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(in thousands)				
<b>Total:</b>					
Commercial and industrial	\$ 6,485	\$ 6,940	\$ 994	\$ 6,890	\$ 33
Residential real estate:					
Residential	3,703	4,069	-	3,754	60
Construction	-	-	-	-	-
Commercial real estate:					
Commercial	15,153	15,793	153	15,340	219
Construction	2,851	2,908	386	2,871	53
Home equities	1,624	1,850	11	1,674	24
Consumer and other	3	3	3	3	-
Total impaired loans	<u>\$ 29,819</u>	<u>\$ 31,563</u>	<u>\$ 1,547</u>	<u>\$ 30,532</u>	<u>\$ 389</u>

2019

	Average Recorded Investment			Interest Income Recognized		
	With no related allowance recorded:	With related allowance recorded:	Total	With no related allowance recorded:	With related allowance recorded:	Total
Commercial and industrial	\$ 4,046	\$ 2,764	\$ 6,810	\$ 143	\$ 63	\$ 206
Residential real estate:						
Residential	2,823	61	2,884	63	1	64
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	6,293	197	6,490	72	4	76
Construction	1,344	242	1,586	50	9	59
Home equities	1,525	-	1,525	30	-	30
Consumer and other	-	22	22	-	1	1
Total impaired loans	\$ 16,031	\$ 3,286	\$ 19,317	\$ 358	\$ 78	\$ 436

As management identifies impaired loans that are collateral dependent, new appraisals are ordered to determine the fair value of the collateral. It should also be noted that when estimating the fair value of collateral for the purpose of performing an impairment test, management further reduces the appraised value of the collateral to account for estimated selling or carrying costs, age of the appraisal, if applicable, or any other perceived market or borrower-specific risks to the value of the collateral.

The interest income in the preceding table was interest income recognized on accruing TDRs and interest paid prior to loans being identified as non-accrual. Cash basis income on impaired loans is the same as interest income recognized for all periods presented in the preceding table.

The Bank had no loan commitments to borrowers in non-accrual status at December 31, 2021 and 2020.

**Troubled debt restructurings (“TDRs”)**

The following tables summarize the loans that were classified as troubled debt restructurings as of the dates indicated:

	December 31, 2021			
	Total	Nonaccruing	Accruing	Related Allowance
Commercial and industrial	\$ 1,003	\$ 876	\$ 127	\$ -
Residential real estate:				
Residential	989	627	362	-
Construction	-	-	-	-
Commercial real estate:				
Commercial and multi-family	3,236	-	3,236	-
Construction	-	-	-	-
Home equities	490	12	478	-
Consumer and other	-	-	-	-
Total TDR loans	\$ 5,718	\$ 1,515	\$ 4,203	\$ -

	December 31, 2020			
	Total	Nonaccruing	Accruing	Related Allowance
Commercial and industrial	\$ 1,722	\$ 1,722	\$ -	\$ 370
Residential real estate:				
Residential	1,632	587	1,045	-
Construction	-	-	-	-
Commercial real estate:				
Commercial and multi-family	3,408	2,915	493	-
Construction	-	-	-	-
Home equities	552	124	428	-
Consumer and other	-	-	-	-
Total TDR loans	\$ 7,314	\$ 5,348	\$ 1,966	\$ 370

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

The reserve for a TDR is based upon the present value of the future expected cash flows discounted at the loan's original effective interest rate or upon the fair value of the collateral less costs to sell, if the loan is deemed collateral dependent. This reserve methodology is used because all TDR loans are considered impaired.

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

In late March 2020, federal banking regulators issued guidance that modifications made to a borrower affected by the COVID-19 pandemic and governmental shutdown orders do not need to be identified as a TDR if the loan was current at the time a modification plan was implemented. The CARES Act also addressed COVID-19 related modifications and specified that such modifications made on loans that were current as of December 31, 2019 are not TDRs. During 2020, the Company had applied this guidance and had modified approximately 381 commercial loans with principal balances totaling \$368 million and approximately 298 consumer loans with principal balances totaling \$37 million. COVID-19 related modifications made during 2021 were not material. The COVID-19 related TDR exception expired on January 1, 2022.

The following tables show the data for TDR activity by type of concession granted to the borrower during 2021 and 2020:

Troubled Debt Restructurings by Type of Concession	Year ended December 31, 2021			Year ended December 31, 2020		
	Number of Contracts	(Recorded Investment in thousands)		Number of Contracts	(Recorded Investment in thousands)	
		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and Industrial	-	\$ -	\$ -	-	\$ -	\$ -
Residential Real Estate & Construction:						
Combination of concessions	-	-	-	1	56	56
Extension of maturity and interest rate reduction	-	-	-	1	97	97
Commercial Real Estate & Construction	-	-	-	-	-	-
Home Equities	-	-	-	-	-	-
Consumer and other loans	-	-	-	-	-	-

Modifications made to loans in a troubled debt restructuring did not have a material impact on the Company's net income for the years ended December 31, 2021 and 2020. All of the C&I and commercial real estate TDRs were already considered impaired and sufficiently reserved for prior to being identified as a TDR.

The general practice of the Bank is to work with borrowers so that they are able to repay their loan in full. If a borrower continues to be delinquent or cannot meet the terms of a TDR and the loan is determined to be uncollectible, the loan will be charged-off to its collateral value. A loan is considered in default when the loan is 90 days past due. Loans which were classified as TDRs during the preceding twelve months and which subsequently defaulted during the twelve-month periods ended December 31, 2021 and 2020 were not material. Commitments to lend additional amounts on loans classified as TDRs were not material as of December 31, 2021 and 2020.

**5. PROPERTIES AND EQUIPMENT**

Properties and equipment at December 31 were as follows:

	2021	(in thousands)	2020
Land	\$	845	\$ 845
Buildings and improvements		18,563	19,712
Furniture, fixtures, and equipment		8,664	18,711
Less accumulated depreciation		(28,072)	(39,268)
Properties and equipment, net	\$	17,789	\$ 19,305

Depreciation expense totaled \$1.8 million in 2021, \$1.6 million in 2020, and \$1.3 million in 2019. Fixed asset disposals during 2021 included a building and equipment related to information technology services that have been outsourced and various fully depreciated items.

**6. LEASES**

The Company's leases, consisting of property leases for certain of our bank branches and insurance agency offices, are classified as operating leases. Operating lease Right of Use ("ROU") assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. ROU assets were \$4.8 million and \$5.3 million as of December 31, 2021 and 2020, respectively. Lease liabilities were \$5.2 million and \$5.7 million as of December 31, 2021 and 2020, respectively. As these leases do not provide an implicit rate, we use our incremental borrowing rate in determining the present value of lease payments. Our lease terms include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

Lease expense is recognized on a straight-line basis over the lease term. Operating lease expenses were \$1.1 million and \$1.0 million during the years ended December 31, 2021 and 2020, respectively, and are included in occupancy expense on the consolidated statement of income. Cash paid for amounts included in the measurement of lease liabilities were \$1.1 and \$1.0 million during the years ended December 31, 2021 and 2020, respectively, and are included in cash flows from operating activities on the consolidated statement of cash flows. The weighted average discount rate related to the Company's leases was 2.8% as of December 31, 2021 and 2020. The weighted average remaining lease term related to the Company's leases was 7.4 years and 8.1 years as of December 31, 2021 and 2020, respectively. Future minimum lease payments under non-cancellable leases as of December 31, 2021 were as follows:

	Year Ending December 31,
	(in thousands)
2022	\$ 1,095
2023	924
2024	789
2025	647
2026	575
Thereafter	1,721
Total future minimum lease payments	5,751
Less imputed interest	541
Total	\$ 5,210

ROU assets obtained in exchange for lease obligations were \$0.5 million and \$2.4 million during the years ended December 31, 2021 and December 31, 2020.

**7. GOODWILL AND INTANGIBLE ASSETS**

Assets and liabilities acquired in a business combination are recorded at their estimated fair values as of the acquisition date. The excess of the purchase price of the acquisition over the fair value of net assets acquired is recorded as goodwill. The Company had \$12.7 million in goodwill at December 31, 2021 and 2020, including \$10.9 million in the insurance agency activities segment and \$1.8 million in the banking activities segment. There were no additions to goodwill during 2021. During 2020, the Company recorded additions to goodwill of \$1.8 million in the banking activities segment resulting from the FSB acquisition and \$0.4 million in the insurance activities segment resulting from the acquisition of Benefit Brokers of WNY, LLC.

Goodwill is evaluated for impairment on an annual basis, or whenever events or changes in circumstances indicate that the fair value of a reporting unit may be below its carrying value. The Company measures the fair value of the banking and insurance agency reporting units annually, as of December 31. This analysis indicated that no impairment existed as of the issue date. However, an \$11 thousand impairment of goodwill was recognized in 2021 related to the discontinued operations of a business within the insurance agency reporting unit. There was no impairment of goodwill recognized during 2020.

There were no additions to intangible assets during 2021. During 2020, the Company recorded additions to intangible assets of \$0.2 million of core deposit intangibles in the banking activities segment resulting from the FSB acquisition and \$0.6 million, consisting primarily of customer relationships, in the insurance activities segment resulting from the acquisition of Benefit Brokers of WNY, LLC.

The gross carrying amount and accumulated amortization of other intangible assets at December 31, 2021 and December 31, 2020 were as follows:

	2021		2020	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(in thousands)		(in thousands)	
Amortized intangible asset:				
Other insurance intangibles	\$ 3,325	(1,828)	\$ 3,445	(1,358)
Core deposit intangibles	166	(36)	166	(15)
<b>Total</b>	<b>\$ 3,491</b>	<b>(1,864)</b>	<b>\$ 3,611</b>	<b>(1,373)</b>

Total intangible assets have an estimated weighted average remaining life of 4.8 years. Core deposit intangibles have an estimated weighted average remaining life of 8.3 years. Other insurance intangibles have an estimated weighted average remaining life of 4.5 years. Amortization expense related to intangibles for the years ended December 31, 2021, 2020, and 2019 was \$0.5 million, \$0.5 million, and \$0.4 million, respectively. During 2021, the Company recorded less than \$0.1 million of impairment related to an other insurance intangible asset that was determined to be valueless. There was no impairment of intangible assets recognized during 2020.

Estimated amortization expense for each of the five succeeding fiscal years is as follows:

Year Ending December 31	Amount
	(in thousands)
2022	\$ 400
2023	389
2024	378
2025	218
2026	60
Thereafter	182
	<b>\$ 1,627</b>

## 8. DEPOSITS

Time deposits of \$250 thousand and over, excluding brokered deposits, totaled \$25.3 million and \$43.6 million at December 31, 2021 and 2020, respectively. Brokered time deposits totaled \$8.7 million and \$16.5 million at December 31, 2021 and 2020, respectively.

At December 31, 2021, the scheduled maturities of all time deposits were as follows:

	(in thousands)
2022	\$ 125,872
2023	26,279
2024	4,001
2025	4,735
2026	3,453
	<u>\$ 164,340</u>

## 9. BORROWED FUNDS AND SUBORDINATED DEBT

Other borrowings at December 31, 2021 consisted primarily of various advances from the FHLB with fixed interest rate terms ranging from 1.66% to 3.34%.

The maturities and weighted average rates of other borrowed funds, excluding purchased discounts of \$0.7 million, at December 31, 2021 are as follows:

	<u>Maturities</u>	<u>Weighted Average Rate</u>
	(in thousands)	
2022	\$ 11,820	2.46 %
2023	13,798	2.59 %
2024	6,527	3.06 %
Total	<u>\$ 32,145</u>	2.64 %

The Bank has the ability to borrow additional funds from the FHLB based on the securities or real estate loans that can be used as collateral and to purchase additional federal funds through one of the Bank's correspondent banks. Given the current collateral available, additional advances of up to \$391 million can be drawn on the FHLB via the Bank's Overnight Line of Credit Agreement. The Bank also has the ability to purchase up to \$18 million in federal funds from its correspondent banks. There were \$619 million and \$630 million in residential and commercial mortgage loans pledged to FHLBNY to serve as collateral for potential borrowings as of December 31, 2021 and 2020, respectively.

As a member of the Federal Home Loan Bank System, the Bank is required to hold stock in FHLBNY. The Bank held FHLBNY stock with a carrying value of \$3.0 million and \$3.5 million as of December 31, 2021 and December 31, 2020, respectively.

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The amounts and interest rates of other borrowed funds, excluding purchased discounts of \$0.7 million and \$1.4 million at December 31, 2021 and 2020, respectively, were as follows:

	FHLB Overnight Line of Credit	FHLB Advances	FRB Borrowings	Total Other Borrowings
	(in thousands)			
At December 31, 2021				
Amount outstanding	\$ -	\$ 32,145	\$ -	\$ 32,145
Weighted-average interest rate	-%	2.64%	-%	2.64%
For the year ended December 31, 2021				
Highest amount at a month end	\$ -	\$ 42,434	\$ -	\$ -
Daily average amount outstanding	\$ -	\$ 38,378	\$ 24	\$ 38,403
Weighted-average interest rate	-%	2.55%	0.35%	2.55%
At December 31, 2020				
Amount outstanding	\$ -	\$ 42,600	\$ 693	\$ 43,293
Weighted-average interest rate	-%	2.51%	0.35%	2.47%
For the year ended December 31, 2020				
Highest amount at a month end	\$ -	\$ 50,597	\$ 693	\$ -
Daily average amount outstanding	\$ -	\$ 35,625	\$ 451	\$ 35,625
Weighted-average interest rate	-%	2.35%	0.35%	2.33%
At December 31, 2019				
Amount outstanding	\$ -	\$ 10,000	\$ -	\$ 10,000
Weighted-average interest rate	-%	1.73 %	-%	1.73 %
For the year ended December 31, 2019				
Highest amount at a month end	\$ -	\$ 10,000	\$ -	\$ -
Daily average amount outstanding	\$ 11	\$ 10,000	\$ -	\$ 10,011
Weighted-average interest rate	2.70%	1.73 %	-%	1.73%

Subordinated debt comprised \$20.0 million of subordinated notes and \$11.3 million of trust preferred capital securities at December 31, 2021 and 2020.

On July 9, 2020, the Company issued \$20.0 million of fixed to floating rate subordinated notes. The subordinated notes have an initial fixed interest rate of 6.00% to, but excluding, July 15, 2025, payable semi-annually in arrears. From and including July 15, 2025 to but excluding the maturity date or early redemption date, the interest rate will reset quarterly to an interest rate per annum initially equal to the then-current three-month Secured Overnight Financing Rate provided by the Federal Reserve Bank of New York plus 590 basis points, payable quarterly in arrears. The subordinated notes mature on July 15, 2030. The Company is entitled to redeem the notes, in whole or in part, at any time on or after July 15, 2025, and to redeem the subordinated notes at any time in whole upon certain other events.

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 to various investors (the "Capital Securities") and \$0.3 million of common securities to the Company (the "Common Securities"). The Capital Securities represent preferred undivided interests in the assets of the Trust. The Common Securities represent the initial capital contribution of the Company to the Trust, which have not been consolidated and are included in "Other Assets" on the Company's consolidated balance sheet. Under the Federal Reserve Board's current risk-based capital guidelines, the Capital Securities are includable in the Company's Tier 1 (Core) capital. The Common Securities are wholly-owned by the Company and are the only class of the Trust's securities possessing general voting powers.

The Capital Securities have a distribution rate of three-month LIBOR plus 2.65%, and the distribution dates are February 23, May 23, August 23, and November 23. The distribution rate was 2.86% at December 31, 2021.

The proceeds from the issuances of the Capital Securities and Common Securities were used by the Trust to purchase \$11.3 million in aggregate liquidation amount of floating rate junior subordinated deferrable interest debentures ("Junior Subordinated Debentures") of the Company, due October 1, 2037.



The Junior Subordinated Debentures represent the sole assets of the Trust, and payments under the Junior Subordinated Debentures are the sole source of cash flow for the Trust. The interest rate payable on the Junior Subordinated Debentures was 2.86% at December 31, 2021.

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 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.

**10. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE**

The Bank enters into agreements with customers to sell securities owned by the Bank to the customers and repurchase the identical security, within one business day. No physical movement of the securities is involved. The Bank had \$4.1 million in securities sold under agreement to repurchase at December 31, 2021 and 2020.

**11. COMPREHENSIVE INCOME (LOSS)**

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

	<b>Balance at December 31, 2020</b>	<b>Net Change</b> (in thousands)	<b>Balance at December 31, 2021</b>
Net unrealized gain (loss) on investment securities	\$ 2,397	\$ (5,557)	\$ (3,160)
Net defined benefit pension plan adjustments	(3,116)	605	(2,511)
<b>Total</b>	<b>\$ (719)</b>	<b>\$ (4,952)</b>	<b>\$ (5,671)</b>

	<b>Balance at December 31, 2019</b>	<b>Net Change</b> (in thousands)	<b>Balance at December 31, 2020</b>
Net unrealized gain on investment securities	\$ 522	\$ 1,875	\$ 2,397
Net defined benefit pension plan adjustments	(3,105)	(11)	(3,116)
<b>Total</b>	<b>\$ (2,583)</b>	<b>\$ 1,864</b>	<b>\$ (719)</b>

	<b>Balance at December 31, 2018</b>	<b>Net Change</b> (in thousands)	<b>Balance at December 31, 2019</b>
Net unrealized (loss) gain on investment securities	\$ (2,348)	\$ 2,870	\$ 522
Net defined benefit pension plan adjustments	(3,005)	(100)	(3,105)
<b>Total</b>	<b>\$ (5,353)</b>	<b>\$ 2,770</b>	<b>\$ (2,583)</b>

	2021		
	Before-Tax Amount	Income Tax (Provision) Benefit (in thousands)	Net-of-Tax Amount
<b>Unrealized gain (loss) on investment securities:</b>			
Unrealized gain (loss) on investment securities	\$ (7,508)	\$ 1,951	\$ (5,557)
<b>Defined benefit pension plans adjustments:</b>			
Net actuarial gain (loss)	\$ 404	\$ (102)	\$ 302
Reclassifications from accumulated other comprehensive income for gains (losses)			
Amortization of prior service cost <sup>(a)</sup>	31	(8)	23
Amortization of actuarial loss <sup>(a)</sup>	383	(103)	280
Net change	818	(213)	605
Other Comprehensive Income (Loss)	\$ (6,690)	\$ 1,738	\$ (4,952)

(a) Included in net periodic pension cost as described in Note 12 – “Employee Benefits and Deferred Compensation Plans”

	2020		
	Before-Tax Amount	Income Tax (Provision) Benefit (in thousands)	Net-of-Tax Amount
<b>Unrealized gain (loss) on investment securities:</b>			
Unrealized gain (loss) on investment securities	\$ 3,201	\$ (832)	\$ 2,369
Reclassification from accumulated other comprehensive income for gains (b)	(667)	173	(494)
Net change	2,534	(659)	1,875
<b>Defined benefit pension plans adjustments:</b>			
Net actuarial (loss) gain	\$ (492)	\$ 128	\$ (364)
Reclassifications from accumulated other comprehensive income for gains (losses)			
Amortization of prior service cost <sup>(a)</sup>	31	(8)	23
Amortization of actuarial loss <sup>(a)</sup>	446	(116)	330
Net change	(15)	4	(11)
Other Comprehensive Income (Loss)	\$ 2,519	\$ (655)	\$ 1,864

(a) Included in net periodic pension cost as described in Note 12 – “Employee Benefits and Deferred Compensation Plans”

(b) Included in Gain on sale of investments in the Consolidated Statement of Income

	2019		
	Before-Tax Amount	Income Tax (Provision) Benefit (in thousands)	Net-of-Tax Amount
<b>Unrealized gain (loss) on investment securities:</b>			
Unrealized gain (loss) on investment securities	\$ 3,875	\$ (1,005)	\$ 2,870
<b>Defined benefit pension plans adjustments:</b>			
Net actuarial gain (loss)	\$ (581)	\$ 212	\$ (369)
Reclassifications from accumulated other comprehensive income for gains (losses)			
Amortization of prior service cost <sup>(a)</sup>	32	(9)	23
Amortization of actuarial loss <sup>(a)</sup>	332	(86)	246
Net change	(217)	117	(100)
Other Comprehensive Income (Loss)	\$ 3,658	\$ (888)	\$ 2,770

(a) Included in net periodic pension cost as described in Note 12 – “Employee Benefits and Deferred Compensation Plans”

**12. EMPLOYEE BENEFITS AND DEFERRED COMPENSATION PLANS****Employees' Pension Plan**

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

Selected Financial Information for the Pension Plan is as follows:

	2021	(in thousands)	2020
Change in benefit obligation:			
Benefit obligation at the beginning of the year	\$ 6,837	\$	6,402
Service cost	-		-
Interest cost	165		200
Assumption change	(297)		631
Actuarial loss (gain)	85		(6)
Benefits paid	(239)		(390)
Benefit obligation at the end of the year	<u>6,551</u>		<u>6,837</u>
Change in plan assets:			
Fair value of plan assets at the beginning of year	6,583		6,044
Actual return on plan assets	192		929
Employer contributions	-		-
Benefits paid	(239)		(390)
Fair value of plan assets at the end of year	<u>6,536</u>		<u>6,583</u>
Funded status	\$ (15)	\$	(254)
Amount recognized in the Consolidated Balance Sheets consist of:			
Accrued benefit liabilities	\$ (15)	\$	(254)
Amount recognized in the Accumulated Other Comprehensive Loss consists of:			
Net actuarial loss	\$ 2,254	\$	2,401
Prior service cost	-		-
Net amount recognized in equity - pre-tax	<u>\$ 2,254</u>	<u>\$</u>	<u>2,401</u>
Accumulated benefit obligation at year end	<u>\$ 6,551</u>	<u>\$</u>	<u>6,837</u>

Assumptions used by the Bank in the determination of Pension Plan information consisted of the following:

	2021	2020	2019
Discount rate for projected benefit obligation	2.77 %	2.42 %	3.20 %
Discount rate for net periodic pension cost	2.42 %	3.20 %	4.20 %
Rate of increase in compensation levels	-	-	-
Expected long-term rate of return of plan assets	5.50 %	5.50 %	5.50 %

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

	2021	2020	2019
Service cost	-	-	-
Interest cost	165	200	223
Expected return on plan assets	(356)	(325)	(278)
Net amortization and deferral	100	96	98
Net periodic benefit cost	\$ (91)	\$ (29)	\$ 43

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

The Company did not contribute to the Pension Plan in 2021 and expects that it will not contribute to the Pension Plan in 2022.

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 4.5% to 11% and 4% to 5%, respectively. When these overall return expectations are applied to the Pension Plan's targeted allocation, the expected rate of return was determined to be 5.50%, which is within the range of expected return. The Company's management will continue to evaluate its actuarial assumptions, including the expected rate of return, at least annually, and will adjust as necessary.

The weighted average asset allocation of the Pension Plan at December 31, 2021 and 2020, the Pension Plan measurement date, was as follows:

Asset Category:	2021	2020
Equity mutual funds	33.81 %	30.83 %
Fixed income mutual funds	63.40 %	67.59 %
Cash/Short-term investments	2.79 %	1.58 %
	100.00 %	100.00 %

The portfolio is invested in accordance with sound investment practices. Consistent with this approach, the investment strategy is to diversify the portfolio in order to reduce risk and to maintain sufficient liquidity to meet the obligations of the Plan. The Plan's long-term asset allocation under normal market conditions is 33% equity investment and 67% fixed income assets and other short term investments and cash equivalents. The investment objective of the allocation in equity investments emphasizes long term capital appreciation. These equity investments are diversified across market capitalization, industries, style and geographical location. The investment objective of the fixed income allocation is to generally provide a diversified source of income with an awareness of capital preservation. The primary objective of the investment philosophy is capital preservation.

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The major categories of assets in the Bank's Pension Plan as of year-end are presented in the following table. Assets are segregated according to their investment objective by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (see Note 20 – Fair Value of Financial Instruments).

	2021	2020
	(in thousands)	
Level 1:		
Cash	\$ 22	\$ 11
Mutual funds:		
Short-term investments:		
Money market	160	93
Fixed Income:	4,144	4,450
Equities:		
Large cap	920	783
International large cap	1,290	1,246
	<u>\$ 6,536</u>	<u>\$ 6,583</u>

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

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 increased from 2.42% at December 31, 2020 to 2.77% at December 31, 2021 for the Company's Pension Plan.

Expected benefit payments under the Pension Plan over the next ten years at December 31, 2021 are as follows:

	(in thousands)	
2022	\$	255
2023		280
2024		328
2025		336
2026		341
Year 2027 - 2031		1,704

**Supplemental Executive Retirement Plans**

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

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

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

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

	2021	(in thousands)	2020
<b>Change in benefit obligation:</b>			
Benefit obligation at the beginning of the year	\$ 6,148		\$ 5,747
Service cost	148		155
Interest cost	100		151
Actuarial (gain) loss	(357)		472
Benefits paid	(285)		(377)
Benefit obligation at the end of the year	<u>5,754</u>		<u>6,148</u>
<b>Change in plan assets:</b>			
Fair value of plan assets at the beginning of year	-		-
Actual return on plan assets	-		-
Employer contributions	285		377
Benefits paid	(285)		(377)
Fair value of plan assets at the end of year	<u>-</u>		<u>-</u>
Funded status	\$ (5,754)		\$ (6,148)
<b>Amount recognized in the Consolidated Balance Sheets consist of:</b>			
Accrued benefit liabilities	<u>\$ (5,754)</u>		<u>\$ (6,148)</u>
<b>Amount recognized in the Accumulated Other Comprehensive Loss consists of:</b>			
Net actuarial loss	\$ 1,106		\$ 1,746
Prior service cost	31		62
Net amount recognized in equity - pre-tax	<u>\$ 1,137</u>		<u>\$ 1,808</u>
Accumulated benefit obligation at year end	<u>\$ 5,591</u>		<u>\$ 5,920</u>

Assumptions used by the Bank in the determination of SERP information consisted of the following:

	2021	2020	2019
Discount rate for projected benefit obligation	2.23 %	1.66 %	2.72 %
Discount rate for net periodic pension cost	1.66 %	2.72 %	3.84 %
Salary scale	3.00 %	3.00 %	6.00 %

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 increased from 1.66% at December 31, 2020 to 2.23% at December 31, 2021 (i.e. the measurement date) for the SERP.

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

	2021	2020	2019
	(in thousands)		
Service cost	\$ 148	\$ 155	\$ 146
Interest cost	100	151	202
Net amortization and deferral	314	381	266
Net periodic benefit cost	<u>\$ 562</u>	<u>\$ 687</u>	<u>\$ 614</u>

Expected benefit payments under the SERP over the next ten years at December 31, 2021 are as follows:

	(in thousands)	
2022	\$	408
2023		285
2024		2,750
2025		285
2026		285
Year 2027 - 2031		1,026

**Other Compensation Plans**

The Company has a non-qualified deferred compensation plan whereby directors and certain officers may defer a portion of their base pre-tax compensation. Additionally, the Company has a non-qualified executive incentive retirement plan, whereby the Company defers on behalf of certain officers a portion of their base compensation until retirement or termination of service, subject to certain vesting arrangements. Aggregate expense under these plans was approximately \$0.2 million in 2021, \$0.1 million in 2020, and \$0.2 million in 2019. The benefit obligation, included in other liabilities in the Company's consolidated balance sheets, was \$1.9 million at December 31, 2021 and \$1.8 million at December 31, 2020.

These benefit plans are indirectly funded by bank-owned life insurance contracts with a total aggregate cash surrender value of approximately \$34.3 million and \$34.0 million at December 31, 2021 and 2020, respectively. Increases in cash surrender value are included in other non-interest income on the Company's Consolidated Statements of Income. Endorsement split-dollar life insurance benefits have also been provided to directors and certain officers of the Bank and its subsidiaries during employment.

The Company acquired a deferred compensation plan from FSB during 2020 which requires the Company to make scheduled payments to the participants. At December 31, 2021, this plan consisted of one participant that receives \$5 thousand monthly payments through June 2033. The benefit obligation, included in other liabilities in the Company's consolidated balance sheets, was \$0.7 million at December 31, 2021.

The Company 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. The 401(k) plan includes a Qualified Automatic Contribution Arrangement ("QACA"). This arrangement features automatic deferred contributions with annual escalation, a QACA matching contribution, and an additional matching contribution. Employees vest in employer contributions over six years. The Company's expense under the 401(k) Plan was approximately \$1.4 million in 2021, \$1.2 million in 2020, and \$1.0 million in 2019.

**13. STOCK-BASED COMPENSATION**

At December 31, 2021, the Company had two stock-based compensation plans, which are described below. The compensation cost charged against income for those plans was \$0.7 million in 2021, \$0.6 million in 2020, and \$0.7 million in 2019, and is included in "Salaries and Employee Benefits" in the Company's Consolidated Statements of Income. All stock option and restricted stock expense is recorded on a straight-line basis over the requisite service period. In addition, expenses for director stock-based compensation were recognized to reflect \$0.2 million in 2021, \$0.3 million in 2020, and \$0.2 million in 2019, as part of "Other" expense in the Company's Consolidated Statements of Income.

**2019 Long-Term Equity Incentive Plan**

Under the Company's 2019 Long-Term Equity Incentive Plan (the "2019 Plan") and, prior to the adoption of the 2019 Plan by shareholders in April 2019, under the Company's 2009 Long-Term Incentive Plan (the "2009 Plan" and together with the 2019 Plan, the "Equity Plans"), the Company has granted options or restricted stock to officers, directors and key employees of the Company and its subsidiaries. Under the Equity Plans, the Company was authorized to issue up to 603,883 shares of common stock. Under the Equity Plans, the exercise price of each option is not to be less than 100% of the market price of the Company's stock on the date of grant and an option's maximum term is ten years. If available, the Company normally issues shares out of its treasury for any options exercised or restricted shares issued. The options have vesting schedules from 12 months through 5 years. At December 31, 2021, there were a total of 221,065 shares available for grant under the 2019 Plan. The Company may no longer make grants under the 2009 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:

	2021	2020	2019
Dividend Yield	3.07 %	4.55 %	2.88 %
Expected Life (years)	7.18	7.09	6.96
Expected Volatility	27.54 %	26.64 %	17.36 %
Risk-free Interest Rate	1.51 %	0.63 %	2.47 %
Weighted Average Fair Value	\$ 7.80	\$ 3.41	\$ 5.01

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

Stock options activity for 2021 was as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Balance, December 31, 2020	244,171	\$ 27.71		
Granted	17,040	39.06		
Exercised	(26,223)	15.59		
Expired	(1,657)	42.10		
Forfeited	(688)	39.46		
Balance, December 31, 2021	232,643	\$ 29.77	5.55	\$ 2,597
Exercisable, December 31, 2021	160,990	\$ 28.45	4.21	\$ 2,018



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Future compensation cost expected to be expensed over the weighted average remaining contractual term for remaining outstanding options is \$0.3 million. The unrecognized compensation cost is scheduled to be recognized as follows:

	(in thousands)
2022	\$ 135
2023	50
2024	40
2025	35

Restricted stock award activity for 2021 was as follows:

	Shares	Weighted Average Grant Date Fair Value
Balance, December 31, 2020	43,264	\$ 33.36
Granted	18,490	34.87
Vested	(20,472)	35.77
Forfeited	(308)	39.89
Balance, December 31, 2021	40,974	\$ 32.79

As of December 31, 2021, there was \$0.8 million in unrecognized compensation cost related to restricted share-based compensation arrangements granted under the Equity Plans. The unrecognized compensation cost is scheduled to be recognized as follows:

	(in thousands)
2022	\$ 462
2023	150
2024	119
2025	104

During fiscal years 2021, 2020, and 2019, the following activity occurred under the Company's plans:

	2021	2020	2019
		(in thousands)	
Total intrinsic value of stock options exercised	\$ 488	\$ 206	\$ 770
Total fair value of restricted stock awards vested	\$ 701	\$ 577	\$ 610

**Employee Stock Purchase Plan**

The Company also maintains the Evans Bancorp, Inc. Employee Stock Purchase Plan (the "Purchase Plan"). As of December 31, 2021, there were 60,811 shares of common stock available to issue to full-time employees of the Company and its subsidiaries, nearly all of whom are eligible to participate. Under the terms of the Purchase Plan, employees can choose each year to have up to 15% of their annual base earnings withheld to purchase the Company's common stock. Employees can purchase stock only on June 30 and December 31 each year during the term of the Purchase Plan for 85% of the price on the purchase date. Under the Purchase Plan, the Company issued 12,166, 19,434, and 11,712 shares to employees in 2021, 2020, and 2019, respectively. Compensation cost is calculated by the value of the 15% discount only. The compensation cost that was charged against income for the Purchase Plan was less than \$0.1 million in 2021, 2020, and 2019.

**14. INCOME TAXES**

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
	(in thousands)		
Current federal tax expense	\$ 4,951	\$ 2,283	\$ 4,639
Current state tax expense	1,412	1,131	1,160
Total current tax expense	<u>6,363</u>	<u>3,414</u>	<u>5,799</u>
Deferred federal tax expense (benefit)	\$ 1,165	\$ (1,356)	\$ (513)
Deferred state tax expense (benefit)	355	(496)	(58)
Total deferred tax expense (benefit)	<u>1,520</u>	<u>(1,852)</u>	<u>(571)</u>
Total income tax provision	<u>\$ 7,883</u>	<u>\$ 1,562</u>	<u>\$ 5,228</u>

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:

	<u>2021</u>		<u>2020</u>		<u>2019</u>	
	Amount	Percent	Amount	Percent	Amount	Percent
Tax provision at statutory rate	\$ 6,704	21 %	\$ 2,690	21 %	\$ 4,671	21 %
Change in taxes resulting from:			(in thousands)			
Tax-exempt income	(230)	-	(203)	(2)	(213)	(1)
Historic tax credit	(24)	-	(1,643)	(13)	(81)	-
State taxes, net of federal benefit	1,396	4	502	4	870	4
Other items, net	37	-	216	2	(19)	-
Income tax provision	<u>\$ 7,883</u>	<u>25 %</u>	<u>\$ 1,562</u>	<u>12 %</u>	<u>\$ 5,228</u>	<u>24 %</u>

In 2020, the Company recognized significant impact from its investments in partnerships that incurred expenses related to the rehabilitation of certified historic structures located in New York State after the historic structures were placed in service. At the time a historic structure is placed in service, the Bank is eligible for a federal and New York State tax credit. For New York State, any new credit earned from rehabilitated historic properties placed in service on or after January 1, 2015 not used in the current tax year will be treated as a refund or overpayment of tax to be credited to the next year's tax. Since the realization of the tax credit does not depend on the Bank's generation of future taxable income or the Bank's ongoing tax status or tax position, the refund is not considered an element of income tax accounting. In such cases, the Bank would not record the credit as a reduction of income tax expense; rather, the Bank includes the refundable New York State tax credit in non-interest income with a corresponding receivable recorded in other assets. There were no significant historic tax credit transactions during 2021 and 2019.

The following table presents the impact on the results of operations from the Bank's historic tax credit activity for the years ended December 31, 2021, 2020 and 2019.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Loss on tax credit investment	\$ (30)	\$ (2,475)	\$ (158)
Refundable state historic tax credit	21	1,837	115
Income tax benefit	24	1,643	81
Total HTC income	<u>\$ 15</u>	<u>\$ 1,025</u>	<u>\$ 38</u>

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At December 31, 2021 and 2020 the components of the net deferred tax asset were as follows:

	2021	(in thousands)	2020
Deferred tax assets:			
Pension and SERP plans	\$ 1,687		\$ 1,864
Allowance for loan and lease losses	4,744		5,247
Deferred compensation	576		538
Loss on investment in tax credit	135		415
Stock options granted	193		181
State tax credit carryforward	185		180
Lease liabilities	1,353		1,476
State net operating loss	387		316
Net unrealized losses on securities	1,109		-
Deferred loan fees and costs	-		698
Fair value adjustments of business combinations	623		1,071
Other	29		52
Gross deferred tax assets	<u>\$ 11,021</u>		<u>\$ 12,038</u>
Deferred tax liabilities:			
Depreciation and amortization	\$ 1,187		\$ 1,635
Right of use assets	1,254		1,369
Prepaid expenses	308		265
Net unrealized gains on securities	-		840
Deferred loan fees and costs	161		-
Mortgage servicing asset	238		238
Other	-		35
Gross deferred tax liabilities	<u>\$ 3,148</u>		<u>\$ 4,382</u>
Net deferred tax asset	<u>\$ 7,873</u>		<u>\$ 7,656</u>

The net deferred tax asset at December 31, 2021 and 2020 is included in "other assets" in the Company's consolidated balance sheets.

In assessing the ability of the Company to realize the benefit of the deferred tax assets, management considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized, including assessing all positive and negative evidence and the weight of such evidence. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, availability of operating loss carrybacks, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income, the opportunity for net operating loss carrybacks, and projections for future taxable income over the periods which deferred tax assets are deductible, management believes it is more likely than not that the Company will generate sufficient taxable income to realize the benefits of these deductible differences at December 31, 2021.

Since historic tax credit investments are capital assets for federal income tax purposes, any loss recognized when an investment is ultimately sold will give rise to a capital loss that can only be realized to offset capital gain. As the Company's ability to generate capital gain is limited, its assessment of the deferred tax asset may warrant the need for a valuation allowance to be recorded if it is determined the asset is more-likely-than-not to not be realized. The expected capital loss includes the projected tax basis after claiming the tax credit, tax losses, and cash distributions. There was no valuation allowance at December 31, 2021 and 2020. While the Company does not typically generate capital gains, during 2020, the Company recognized a capital gain in connection with the sale of property that resulted in a reversal of the valuation allowance on the net deferred tax asset for the investment in historic tax credits.

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

The Company did not have any unrecognized tax benefits for the years ended December 31, 2021, 2020, and 2019.

There were no accrued penalties and interest at December 31, 2021 and 2020.

The Company is subject to routine audits of its tax returns by the Internal Revenue Service ("IRS") and various state taxing authorities. The tax years 2018-2020 remain subject to examination by the IRS. The New York State Department of Taxation & Finance is conducting an examination of the tax years 2018-2020. The Company does not expect any material adverse findings from this examination.

**15. REVENUE RECOGNITION OF NON-INTEREST INCOME**

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

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

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

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

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

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

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

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

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

- Insurance claims services revenue is recorded at Frontier Claims Services, Inc. ("FCS").

FCS has signed agreements with insurance companies to perform claims services including investigative and adjustment services related to residential and commercial lines. The performance obligation is for FCS to investigate the insurance claims and inspecting the damage to determine the extent of the insurance company's liability. FCS is paid based on time and materials expended to investigate the claim. The rates paid are determined in the agreement between FCS and the respective insurance companies. Upon completion of its claims inspection work, FCS bills the insurance company for services rendered and recognizes the revenue earned. FCS discontinued operations on December 31, 2021.

A disaggregation of the total insurance service and other fees at December 31, 2021, 2020, and 2019:

	2021	2020	2019
		(in thousands)	
Commercial property and casualty insurance commissions	\$ 3,993	\$ 4,023	\$ 4,014
Personal property and casualty insurance commissions	3,288	3,388	3,416
Employee benefits sales commissions	902	1,173	1,136
Profit sharing and contingent revenue	1,198	1,077	1,050
Wealth management and other financial services	638	516	517
Insurance claims services revenue	285	292	453
Other insurance-related revenue	153	141	102
Total insurance service and other fees	<u>\$ 10,457</u>	<u>\$ 10,610</u>	<u>\$ 10,688</u>
	100		

**Service charges on deposit accounts**

The Company earns fees from its deposit customers for transaction-based, account maintenance and overdraft. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Similarly, overdraft fees are recognized at the point in time that the overdraft occurs as this corresponds with the Company's performance obligation. Service charges on deposit accounts are withdrawn from the customer's account balance.

**Interchange fee income**

The Company earns interchange fees from cardholder transactions conducted through the Mastercard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized concurrent with the transaction processing services provided to the cardholder. Interchange income is presented on the Consolidated Statements of Income net of expenses.

**16. RELATED PARTY TRANSACTIONS**

The Bank has entered into loan transactions with certain directors, executive officers, significant shareholders and their affiliates (related parties) in the ordinary course of its business. The aggregate outstanding principal balance of loans to such related parties on December 31, 2021 and 2020 was \$1.7 million and \$3.4 million, respectively. During 2021, there were \$2.8 million of advances and new loans to such related parties, and repayments amounted to \$4.5 million. Deposits from related parties were \$2.6 million and \$2.3 million as of December 31, 2021 and 2020, respectively.

**17. CONTINGENT LIABILITIES AND COMMITMENTS**

The Company's consolidated financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk, and liquidity risk. These commitments and contingent liabilities are commitments to extend credit and standby letters of credit. A summary of the Bank's commitments and contingent liabilities at December 31, 2021 and 2020 is as follows:

	December 31, 2021	December 31, 2020
	(in thousands)	
Commitments to extend credit	\$ 394,953	\$ 359,152
Standby letters of credit	4,636	3,803
<b>Total</b>	<b>\$ 399,589</b>	<b>\$ 362,955</b>

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

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

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

The Company leases certain offices, land and equipment under long-term operating leases. The aggregate minimum annual rental commitments under these leases total approximately \$1.1 million in 2022, \$0.9 million 2023, \$0.8 million 2024, \$0.6 million in 2025, \$0.6 million in 2026 and \$1.7 million thereafter. The rental expense under operating leases contained in the Company's Consolidated Statements of Income was \$1.1 million in 2021, \$1.0 million in 2020, and \$0.7 million in 2019.

**18. CONCENTRATIONS OF CREDIT**

All of the Bank's loans, commitments, and standby letters of credit have been granted to customers in the Bank's primary market areas of the Western New York and the Finger Lakes Region of New York State. Investments in state and municipal securities also involve governmental entities within the Bank's primary market area. The concentrations of credit by type of loan are set forth in Note 4 to these Consolidated Financial Statements, "Loans and the Allowance for Loan Losses." 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.

**19. SEGMENT INFORMATION**

The Company is comprised of two primary business segments: banking activities and insurance agency activities. The operating segments are separately managed and their performance is evaluated based on net income. The banking business segment includes both commercial and consumer banking services, including a wide array of lending and depository services as well as offering non-deposit investment products, such as annuities and mutual funds. The insurance agency segment includes the activities of selling various premium-based insurance policies on a commission basis, including business and personal insurance, employee benefits, surety bonds, risk management, life, disability and long-term care coverage, as well as providing claims adjusting services to various insurance companies. All sources of segment specific revenues and expenses contributed to management's definition of net income. Revenues from transactions between the two segments are not significant.

The following tables set forth information regarding these segments for the years ended December 31, 2021, 2020, and 2019.

	2021		
	Banking Activities	Insurance Agency Activities	Total
	(in thousands)		
Net interest income	\$ 72,785	\$ -	\$ 72,785
Credit for loan losses	(1,513)	-	(1,513)
Net interest income after credit for loan losses	74,298	-	74,298
Insurance service and fees	580	9,877	10,457
Other non-interest income	8,136	254	8,390
Amortization expense	21	516	537
Other non-interest expense	52,843	7,839	60,682
Income before income taxes	30,150	1,776	31,926
Income tax provision	7,421	462	7,883
Net income	\$ 22,729	\$ 1,314	\$ 24,043

	2020		
	Banking Activities	Insurance Agency Activities	Total
	(in thousands)		
Net interest income (expense)	\$ 59,793	\$ (11)	\$ 59,782
Provision for loan losses	5,351	-	5,351
Net interest income (expense) after provision for loan losses	54,442	(11)	54,431
Insurance service and fees	488	10,122	10,610
Other non-interest income	7,623	4	7,627
Amortization expense	15	518	533
Other non-interest expense	51,322	8,005	59,327
Income before income taxes	11,216	1,592	12,808
Income tax provision	1,143	419	1,562
Net income	\$ 10,073	\$ 1,173	\$ 11,246

	2019		
	Banking Activities	Insurance Agency Activities (in thousands)	Total
Net interest income (expense)	\$ 52,152	\$ (97)	\$ 52,055
Provision for loan losses	75	-	75
Net interest income (expense) after provision for loan losses	52,077	(97)	51,980
Insurance service and fees	480	10,208	10,688
Other non-interest income	7,232	162	7,394
Amortization expense	-	448	448
Other non-interest expense	38,961	8,411	47,372
Income before income taxes	20,828	1,414	22,242
Income tax provision	4,860	368	5,228
Net income	\$ 15,968	\$ 1,046	\$ 17,014

	December 31, 2021	(in thousands)		December 31, 2020
	<b>Identifiable Assets, Net</b>			
Banking activities	\$	2,192,348	\$	2,025,498
Insurance agency activities		18,292		18,617
Consolidated Total Assets	\$	2,210,640	\$	2,044,115

**20. FAIR VALUE OF ASSETS AND LIABILITIES**

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

There are three levels of inputs to fair value measurements:

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

Observable market data should be used when available.

**ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS**

The following table presents for each of the fair-value hierarchy levels as defined in this footnote, those assets and liabilities which are measured at fair value on a recurring basis at December 31, 2021 and 2020:

(in thousands)	Level 1	Level 2	Level 3	Fair Value
<b>December 31, 2021</b>				
Securities available-for-sale:				
US treasuries and government agencies	\$ -	\$ 96,818	\$ -	\$ 96,818
States and political subdivisions	-	6,246	-	6,246
Mortgage-backed securities	-	202,895	-	202,895
<b>December 31, 2020</b>				
Securities available-for-sale:				
US treasuries and government agencies	\$ -	\$ 68,098	\$ -	\$ 68,098
States and political subdivisions	-	7,524	-	7,524
Mortgage-backed securities	-	86,774	-	86,774

**Securities available for sale**

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

On a quarterly basis the Company reviews changes, as submitted by our third-party pricing service provider, in the market value of its securities portfolio. Individual changes in valuations are reviewed for consistency with general interest rate movements and any known credit concerns for specific securities. Additionally, on a quarterly basis the Company has its entire securities portfolio priced by a second pricing service to determine consistency with another market evaluator. If, on the Company's review or in comparing with another servicer, a material difference between pricing evaluations were to exist, the Company may submit an inquiry to our third-party pricing service provider regarding the data used to value a particular security. If the Company determines it has market information that would support a different valuation than our third-party service provider's evaluation it can submit a challenge for a change to that security's valuation. There were no material differences in valuations noted in 2021 or 2020.

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

**ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A NONRECURRING BASIS**

The Company is required, on a nonrecurring basis, to adjust the carrying value of certain assets or provide valuation allowances related to certain assets using fair value measurements. The following table presents for each of the fair-value hierarchy levels as defined in this footnote, those assets and liabilities which are measured at fair value on a nonrecurring basis at December 31, 2021 and 2020:

(in thousands)	Level 1	Level 2	Level 3	Fair Value
December 31, 2021				
Collateral dependent impaired loans	\$ -	\$ -	\$ 4,608	\$ 4,608
December 31, 2020				
Collateral dependent impaired loans	\$ -	\$ -	\$ 7,496	\$ 7,496

**Impaired loans**

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



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The Company has an appraisal policy in which appraisals are obtained upon a commercial loan being downgraded on the Company's internal loan rating scale to a special mention or a substandard depending on the amount of the loan, the type of loan and the type of collateral. All impaired commercial loans are graded substandard or worse on the internal loan rating scale. For consumer loans, the Company obtains appraisals when a loan becomes 90 days past due or is determined to be impaired, whichever occurs first. Subsequent to the downgrade or reaching 90 days past due, if the loan remains outstanding and impaired for at least one year more, management may require another follow-up appraisal. Between receipts of updated appraisals, if necessary, management may perform an internal valuation based on any known changing conditions in the marketplace such as sales of similar properties, a change in the condition of the collateral, or feedback from local appraisers. Collateral dependent impaired loans had a gross value of \$5.0 million, with an allowance for loan loss of \$0.4 million, at December 31, 2021 compared with \$8.8 million and \$1.3 million, respectively, at December 31, 2020.

At December 31, 2021 and 2020, the estimated fair values of the Company's financial instruments, including those that are not measured and reported at fair value on a recurring basis or nonrecurring basis, were as follows:

	December 31, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)		(in thousands)	
Financial assets:				
Level 1:				
Cash and cash equivalents	\$ 244,785	\$ 244,785	\$ 97,604	\$ 97,604
Level 2:				
Available for sale securities	305,959	305,959	162,396	162,396
FHLB and FRB stock	6,084	N/A	5,793	N/A
Level 3:				
Held to maturity securities	3,165	3,179	4,204	4,271
Loans, net	1,553,467	1,573,420	1,673,379	1,720,878
Financial liabilities:				
Level 1:				
Demand deposits	\$ 492,864	\$ 492,864	\$ 436,157	\$ 436,157
NOW deposits	259,908	259,908	230,751	230,751
Savings deposits	1,019,925	1,019,925	825,947	825,947
Level 2:				
Securities sold under agreement to repurchase	4,112	4,112	4,093	4,093
Other borrowed funds	32,879	32,990	44,698	45,547
Subordinated debt	30,974	32,111	30,872	31,394
Level 3:				
Time deposits	164,340	164,574	278,554	280,059

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.

**FHLB and FRB stock**

The carrying value of FHLB and FRB stock, which are non-marketable equity investments, approximates fair value.

**Deposits**

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

**Borrowed Funds and Securities Sold Under Agreement to Repurchase**

The fair value of securities sold under agreement to repurchase approximates its carrying value. The fair value of other borrowed funds was estimated using a discounted cash flow analysis based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

**Subordinated Debt**

Subordinated debt consists of subordinated notes and trust preferred capital securities. There is no active market for the Company's trust preferred capital securities and there have been no issuances of similar instruments in recent years. The Company looked at a market bond index to estimate a discount margin to value the debentures. The discount margin was very similar to the spread to LIBOR established at the issuance of the debentures. As a result, the Company determined that the fair value of the adjustable-rate debentures approximates their face amount. The Company utilizes active markets with similar assets to determine the fair value of the subordinated notes.

**Pension Plan Assets**

Refer to Note 12 to these Consolidated Financial Statements, "Employee Benefits and Deferred Compensation Plans" for the fair value analysis of the Pension Plan assets.

**21. REGULATORY MATTERS**

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table that follows) of Common Equity Tier I, Total Capital, and Tier I Capital (as defined in FRB regulations) to risk-weighted assets (as defined in FRB regulations), and of Tier I capital (as defined in FRB regulations) to average assets (as defined in FRB regulations). Management believes that as of December 31, 2021 and 2020, the Bank met all capital adequacy requirements to which they are subject.

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

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

	<b>December 31, 2021</b>							
	(in thousands)							
	<b>Bank</b>		<b>Minimum for Capital Adequacy Purposes</b>				<b>Minimum to be Well Capitalized Under Prompt Corrective Action Provisions</b>	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common Equity Tier I (to Risk Weighted Assets)	\$ 200,420	13.68%	\$ 65,940	4.5 %	\$ 95,247	6.5 %		
Total Capital (to Risk Weighted Assets)	\$ 218,740	14.93%	\$ 117,227	8.0 %	\$ 146,534	10.0 %		
Tier I Capital (to Risk Weighted Assets)	\$ 200,420	13.68%	\$ 87,921	6.0 %	\$ 117,227	8.0 %		
Tier I Capital (to Average Assets)	\$ 200,420	9.19%	\$ 87,278	4.0 %	\$ 109,098	5.0 %		

	December 31, 2020								
	(in thousands)								
	Bank		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions				
	Amount	Ratio	Amount	Ratio	Amount	Ratio			
Common Equity Tier I (to Risk Weighted Assets)	\$	181,916	12.69%	\$	64,633	4.5%	\$	93,358	6.5%
Total Capital (to Risk Weighted Assets)	\$	199,863	13.94%	\$	114,902	8.0%	\$	143,628	10.0%
Tier I Capital (to Risk Weighted Assets)	\$	181,916	12.69%	\$	86,177	6.0%	\$	114,902	8.0%
Tier I Capital (to Average Assets)	\$	181,916	8.96%	\$	81,329	4.0%	\$	101,662	5.0%

Dividends are paid as declared by the Board of Directors. Under New York law, the Company may pay dividends only if it is solvent and would not be rendered insolvent by the dividend payment and only from unrestricted and unreserved earned surplus, or if there is no surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

The Company and the Bank are subject to dividend restrictions imposed by the FRB and the OCC, respectively. In general, it is the policy of the FRB that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company is consistent with the organization's capital needs, asset quality and overall financial condition. Dividends may be paid by the Bank only if it would not impair the Bank's capital structure, if the Bank's surplus is at least equal to its common capital and if the dividends declared in any year do not exceed the total of retained net profits in that year combined with retained profits of the preceding two years.

## 22. PARENT COMPANY ONLY FINANCIAL INFORMATION

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

### CONDENSED BALANCE SHEETS

	December 31,	
	2021	2020
	(in thousands)	
<b>ASSETS</b>		
Cash	\$ 1,864	\$ 1,642
Other assets	478	485
Investment in subsidiaries	213,717	198,873
Total assets	<u>\$ 216,059</u>	<u>\$ 201,000</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Subordinated debt	\$ 30,974	\$ 30,872
Other liabilities	1,193	1,223
Total liabilities	<u>32,167</u>	<u>32,095</u>
<b>STOCKHOLDERS' EQUITY</b>		
Total Stockholders' Equity	<u>\$ 183,892</u>	<u>\$ 168,905</u>
Total liabilities and stockholders' equity	<u>\$ 216,059</u>	<u>\$ 201,000</u>

CONDENSED STATEMENTS OF INCOME

	December 31,		
	2021	2020 (in thousands)	2019
Dividends from subsidiaries	\$ 8,100	\$ 4,500	\$ 4,500
Income	-	-	4
Expenses	(2,565)	(3,290)	(1,323)
Income before equity in undistributed earnings of subsidiaries	5,535	1,210	3,181
Equity in undistributed earnings of subsidiaries	18,508	10,036	13,833
Net income	<u>\$ 24,043</u>	<u>\$ 11,246</u>	<u>\$ 17,014</u>

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended		
	2021	2020 (in thousands)	2019
Operating Activities:			
Net income	\$ 24,043	\$ 11,246	\$ 17,014
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed earnings of subsidiaries	(18,508)	(10,036)	(13,833)
Changes in assets and liabilities affecting cash flow:			
Other assets	7	(78)	130
Other liabilities	(30)	(48)	4
Other	361	314	180
Net cash provided by operating activities	<u>5,873</u>	<u>1,398</u>	<u>3,495</u>
Investing Activities:			
Investment in subsidiaries	-	(15,000)	-
Net cash used in investing activities	<u>-</u>	<u>(15,000)</u>	<u>-</u>
Financing Activities:			
Proceeds from issuance of common stock	890	717	1,178
Cash dividends paid	(6,541)	(5,991)	(5,092)
Proceeds from long-term borrowings	-	20,000	-
Debt issuance cost of long term borrowings	-	(509)	-
Net cash (used in) provided by financing activities	<u>(5,651)</u>	<u>14,217</u>	<u>(3,914)</u>
Net increase (decrease) in cash	222	615	(419)
Cash beginning of year	<u>1,642</u>	<u>1,027</u>	<u>1,446</u>
Cash ending of year	<u>\$ 1,864</u>	<u>\$ 1,642</u>	<u>\$ 1,027</u>

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

Not applicable.

**Item 9A. CONTROLS AND PROCEDURES**

- (a) **Disclosure Controls and Procedures.** An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of December 31, 2021. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures as of December 31, 2021 were effective.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believes that the audited consolidated financial statements contained in this Annual Report on Form 10-K fairly present, in all material respects, the Company's financial condition, results of operations and cash flows for the fiscal years presented in conformity with GAAP.

- (b) **Management's Annual Report on Internal Control Over Financial Reporting.** Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of the changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our management under the direction of the audit committee conducted an assessment of the effectiveness of the system of internal control over financial reporting as of December 31, 2021 using the criteria set forth in the report of the Treadway Commission's Committee on Sponsoring Organizations ("COSO") - Internal Control - Integrated Framework (2013). Based on that assessment, our management believes that, as of December 31, 2021, the Company's internal control over financial reporting was effective based on the COSO criteria.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this annual report.

- (c) **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, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. OTHER INFORMATION**

None

**Item 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

None

PART III

**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information called for by this item is incorporated herein by reference to the material under the captions "Information Regarding Directors, Director Nominees and Executive Officers," "Delinquent Section 16(a) Reports," "Corporate Governance – Code of Ethics for Chief Executive Officer and Principal Financial Officers," and "Board of Director Committees – Audit Committee" in the Company's definitive proxy statement relating to its 2022 annual meeting of shareholders to be held on May 3, 2022 (the "Proxy Statement").

**Item 11. EXECUTIVE COMPENSATION**

The information called for by this item is incorporated herein by reference to the material under the captions "Director Compensation," "Executive Compensation," "Corporate Governance – Compensation Risk," "Board of Director Committees – Human Resource and Compensation Committee," "Human Resource and Compensation Committee Interlocks and Insider Participation" and "Human Resource and Compensation Committee Report" in the Proxy Statement.

The material incorporated herein by reference to the material under the caption, "Human Resource and Compensation Committee Report" in the Proxy Statement is deemed "furnished" in this Annual Report on Form 10-K and shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that the Company specifically incorporates it by reference into a document filed under the Securities Act or the Exchange Act.

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

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

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

The information called for by this item is incorporated herein by reference to the material under the captions "Corporate Governance – Independence of Directors" and "Transactions with Related Persons" in the Proxy Statement.

**Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

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

**PART IV**

**Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

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

1. Financial statements: The following audited consolidated financial statements and notes thereto and the material under the caption "Report of Independent Registered Public Accounting Firm" in Part II, Item 8 of this Annual Report on Form 10-K are incorporated herein by reference:  
  
Report of Independent Registered Public Accounting Firm (Crowe LLP)  
Report of Independent Registered Public Accounting Firm (KPMG LLP)  
Consolidated Balance Sheets - December 31, 2021 and 2020  
Consolidated Statements of Income - Years Ended December 31, 2021, 2020 and 2019  
Consolidated Statements of Changes in Stockholders' Equity - Years Ended December 31, 2021, 2020 and 2019  
Consolidated Statements of Cash Flows - Years Ended December 31, 2021, 2020 and 2019  
Notes to Consolidated Financial Statements
2. All other financial statement schedules are omitted because they are not applicable or the required information is included in the Company's Consolidated Financial Statements or Notes thereto included in Part II, Item 8 of this Annual Report on Form 10-K.
3. Exhibits

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

## EXHIBIT INDEX

- 3.1 Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3a to the Company's Registration Statement on Form S-4 (Registration No. 33-25321), as filed on November 7, 1988). (Filed on paper – hyperlink is not required pursuant to Rule 105 of Regulation S-T)
- 3.1.1 Certificate of Amendment to the Company's Certificate of Incorporation (incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1997, as filed on May 14, 1997). (Filed on paper – hyperlink is not required pursuant to Rule 105 of Regulation S-T)
- 3.2 [Amended and Restated Bylaws of the Company, effective as of September 20, 2016 \(incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on September 22, 2016\)](#)
- 4.1 [Indenture between the Company, as Issuer, and Wilmington Trust Company, as Trustee, dated as of October 1, 2004 \(incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-O for the fiscal quarter ended September 30, 2004, as filed on November 4, 2004\)](#)
- 4.2 [Form of Floating Rate Junior Subordinated Debt Security due 2034 \(incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-O for the fiscal quarter ended September 30, 2004, as filed on November 4, 2004\)](#)
- 4.3 [Amended and Restated Declaration of Trust of Evans Capital Trust I, dated as of October 1, 2004 \(incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2004, as filed on November 4, 2004\)](#)
- 4.4 [Guarantee Agreement of the Company, dated as of October 1, 2004 \(incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2004, as filed on November 4, 2004\)](#)
- 4.5 [Description of Evans Bancorp, Inc. Securities \(incorporated by reference to Exhibit 4.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, as filed on March 12, 2020\)](#)
- 4.6 [Indenture, dated as of July 9, 2020, by and between Evans Bancorp, Inc. and UMB Bank, National Association, as trustee, including form of 6.00% Fixed-to-Floating Rate Subordinated Note due 2030 of Evans Bancorp, Inc. \(incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, as filed on July 9, 2020\)](#)
- 10.1 [Evans Bancorp, Inc. Dividend Reinvestment Plan. \(incorporated by reference to the Company's Registration Statement on Form S-3D \(Registration No. 333-249269\), as filed on October 2, 2020\)](#)
- 10.2\* [Evans Bancorp, Inc. 2013 Employee Stock Purchase Plan \(incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A, as filed on March 21, 2013\)](#)
- 10.3\* [Evans Bancorp, Inc. 2009 Long-Term Equity Incentive Plan \(incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A, as filed on April 1, 2009\)](#)
- 10.4\* [Evans National Bank Deferred Compensation Plan for Officers and Directors \(incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, as filed on March 18, 2004\)](#)
- 10.5\* [Form of Deferred Compensation Participatory Agreement \(incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed on March 28, 2005\)](#)
- 10.6\* [Evans National Bank Executive Life Insurance Plan \(incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 as filed on March 18, 2004\)](#)
- 10.7\* [Form of Executive Life Insurance Split-Dollar Endorsement Participatory Agreement \(incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed on March 28, 2005\)](#)
- 10.8\* [First Amendment to the Evans National Bank Executive Life Insurance Plan \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed on May 2, 2007\)](#)
- 10.9\* [Evans National Bank Supplemental Executive Retirement Plan \(incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, as filed on March 18, 2004\)](#)
- 10.10\* [Form of Supplemental Executive Retirement Participatory Agreement \(incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, as filed on March 28, 2005\)](#)
- 10.11\* [Summary of Evans Excels Plan \(incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as filed on March 1, 2018\)](#)
- 10.12\* [Evans Bank, N.A. Supplemental Executive Retirement Plan for Senior Executives \(incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, as filed on March 3, 2014\)](#)
- 10.13\* [Restricted Stock Award Agreement granted by Evans Bancorp, Inc. to Directors under the Evans Bancorp, Inc. 2009 Long-Term Equity Incentive Plan \(incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-O for the fiscal quarter ended June 30, 2010, as filed on August 4, 2010\)](#)
- 10.14\* [Stock Option Agreement granted by Evans Bancorp, Inc. to Directors under the Evans Bancorp, Inc. 2009 Long-Term Equity Incentive Plan \(incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-O for the fiscal quarter ended June 30, 2010, as filed on August 4, 2010\)](#)



Table of Contents

- 10.15\* [Restricted Stock Award Agreement granted by Evans Bancorp, Inc. to Employees under the Evans Bancorp, Inc. 2009 Long-Term Equity Incentive Plan \(incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2010, as filed on August 4, 2010\).](#)
- 10.16\* [Employment Agreement by and among Evans Bank, N.A., the Company and David J. Nasca, executed and delivered by the Company and the Bank on September 14, 2009 and effective as of September 9, 2009 \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed on September 17, 2009\).](#)
- 10.17\* [Stock Option Agreement granted by Evans Bancorp, Inc. to Employees under the Evans Bancorp, Inc. 2009 Long-Term Equity Incentive Plan \(incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2010, as filed on August 4, 2010\).](#)
- 10.18\* [Letter Agreement Regarding Insurance Coverage for James Tilley \(incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-O for the fiscal quarter ended June 30, 2007, as filed on August 14, 2007\).](#)
- 10.19\* [Evans Bancorp, Inc. Executive Severance Plan, as revised on July 26, 2016 \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed on July 29, 2016\).](#)
- 10.20\* [Evans Bancorp, Inc. Change in Control Agreement \(incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as filed on March 3, 2016\).](#)
- 10.21\* [Evans Bank, N.A. 2010 Amended and Restated Executive Incentive Retirement Plan on September 24, 2010 and effective October 1, 2010 \(incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as filed on March 3, 2016\).](#)
- 10.22\* [Evans Bancorp, Inc. Amended and Restated 2019 Long-Term Equity Incentive Plan \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed on April 26, 2019\).](#)
- 10.23\* [Employment Agreement, dated as of July 1, 2018, by and between The Evans Agency, LLC and Aaron Whitehouse \(incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, as filed on March 12, 2020\).](#)
- 10.24\* [Form of Employee Restricted Stock Award Agreement granted by Evans Bancorp, Inc. under the Evans Bancorp, Inc. Amended and Restated 2019 Long Term Equity Incentive Plan \(incorporated by reference to Exhibit 10.2 to the Company's Form S-8 Registration Statement, filed on May 20, 2019\).](#)
- 10.25\* [Form of Employee Stock Option Award Agreement granted by Evans Bancorp, Inc. under the Evans Bancorp, Inc. Amended and Restated 2019 Long Term Equity Incentive Plan \(incorporated by reference to Exhibit 10.3 to the Company's Form S-8 Registration Statement, filed on May 20, 2019\).](#)
- 10.26\* [Form of Director Restricted Stock Award Agreement granted by Evans Bancorp, Inc. under the Evans Bancorp, Inc. Amended and Restated 2019 Long Term Equity Incentive Plan \(incorporated by reference to Exhibit 10.4 to the Company's Form S-8 Registration Statement, filed on May 20, 2019\).](#)
- 10.27\* [Form of Director Stock Option Award Agreement granted by Evans Bancorp, Inc. under the Evans Bancorp, Inc. Amended and Restated 2019 Long Term Equity Incentive Plan \(incorporated by reference to Exhibit 10.5 to the Company's Form S-8 Registration Statement, filed on May 20, 2019\).](#)
- 10.28\* [Non-Competition Agreement, dated as of March 3, 2020, by and between Evans Bancorp, Inc. and Kevin Maroney \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed on May 1, 2020\).](#)
- 10.29\* [Amendment Number One, dated as of September 21, 2020, to the Employment Agreement by and among Evans Bank, N.A., Evans Bancorp, Inc. and David J. Nasca, executed and delivered by the Company and the Bank on September 14, 2009 and effective as of September 9, 2009 \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed on September 25, 2020\).](#)
- 21.1 [Subsidiaries of the Company \(incorporated by reference to Exhibit 21.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, as filed on March 12, 2020\).](#)
- 23.1 [Independent Registered Public Accounting Firm's Consent from Crowe LLP \(filed herewith\).](#)
- 23.2 [Independent Registered Public Accounting Firm's Consent from KPMG LLP \(filed herewith\).](#)
- 24 [Power of Attorney \(included on the signature page of this Annual Report on Form 10-K\).](#)
- 31.1 [Certification of Principal Executive Officer pursuant to Rule 13a-14\(a\) and 15d-14\(a\), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)
- 31.2 [Certification of Principal Financial Officer pursuant to Rule 13a-14\(a\) and 15d-14\(a\), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)
- 32.1 [Certification of Principal Executive Officer pursuant to 18 USC Section 1350 Chapter 63 of Title 18, United States Code, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)
- 32.2 [Certification of Principal Financial Officer pursuant to 18 USC Section 1350 Chapter 63 of Title 18, United States Code, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)
- 101 The following materials from Evans Bancorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2021, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets – December 31, 2021 and 2020; (ii) Consolidated Statements of Income – years ended December 31, 2021, 2020, and 2019; (iii) Consolidated Statements of Comprehensive Income – years ended December 31, 2021, 2020, and 2019; (iv) Consolidated Statements of Stockholder's Equity – years ended December 31, 2021, 2020, and 2019; (v) Consolidated Statements of Cash Flows – years ended December 31, 2021, 2020 and 2019; and (vi) Notes to Consolidated Financial Statements.

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

**Item 16.**            **FORM 10-K SUMMARY**

Not applicable

**SIGNATURES**

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

**EVANS BANCORP, INC.**

By: */s/ David J. Nasca*  
David J. Nasca  
President and Chief Executive Officer  
Date: March 9, 2022

**POWER OF ATTORNEY**

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

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

Signature	Title	Date
<u>/s/ David J. Nasca</u> David J. Nasca	President and Chief Executive Officer/ Director (Principal Executive Officer)	March 9, 2022
<u>/s/ John B. Connerton</u> John B. Connerton	Treasurer (Principal Financial Officer and Principal Accounting Officer)	March 9, 2022
<u>/s/ Lee C. Worham</u> Lee C. Worham	Chairman of the Board / Director	March 9, 2022
<u>/s/ Michael A. Battle</u> Michael A. Battle	Director	March 9, 2022
<u>/s/ James E. Biddle, Jr.</u> James E. Biddle, Jr.	Director	March 9, 2022
<u>/s/ Jody L. Lomeo</u> Jody L. Lomeo	Director	March 9, 2022
<u>/s/ Kevin D. Maroney</u> Kevin D. Maroney	Director	March 9, 2022
<u>/s/ Robert G. Miller, Jr.</u> Robert G. Miller, Jr.	Director	March 9, 2022
<u>/s/ Kimberley A. Minkel</u> Kimberley A. Minkel	Director	March 9, 2022
<u>/s/ Christina P. Orsi</u> Christina P. Orsi	Director	March 9, 2022
<u>/s/ David R. Pfalzgraf, Jr.</u> David R. Pfalzgraf, Jr.	Director	March 9, 2022
<u>/s/ Michael J. Rogers</u> Michael J. Rogers	Director	March 9, 2022
<u>/s/ Nora B. Sullivan</u> Nora B. Sullivan	Director	March 9, 2022
<u>/s/ Thomas H. Waring, Jr.</u> Thomas H. Waring, Jr.	Director	March 9, 2022

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statements (No 333-160262, No. 333-181018, No. 333-188164, and No. 333-231605) on Form S-8 and (No. 333-230819 and No. 333-249269) on Form S-3 of Evans Bancorp, Inc. of our report dated March 9, 2022 relating to the financial statements appearing in this Annual Report on Form 10-K.

/s/ Crowe LLP

Livingston, New Jersey  
March 9, 2022

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**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. 333-160262, No. 333-181018, No. 333-188164, and No. 333-231605) on Form S-8 and (No. 333-249269 and No. 333-230819) on Form S-3 of Evans Bancorp, Inc. of our report dated March 12, 2020, with respect to the consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year ended December 31, 2019, and the related notes of Evans Bancorp, Inc.

/s/ KPMG LLP

Rochester, New York  
March 9, 2022

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**Certification**

I, David J. Nasca, certify that:

1. I have reviewed this 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2022

/s/ David J. Nasca  
David J. Nasca  
President and Chief Executive Officer  
(Principal Executive Officer)

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**Certification**

I, John B. Connerton, certify that:

1. I have reviewed this 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2022

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

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

I, David J. Nasca, the President and Chief Executive Officer of Evans Bancorp, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge: (1) the Annual Report of Evans Bancorp, Inc. on Form 10-K for the fiscal year ended December 31, 2021 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 9, 2022

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

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**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, John B. Connerton, the Treasurer 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, 2021 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 9, 2022

By: /s/ John B. Connerton  
Name: John B. Connerton  
Title: Treasurer  
(Principal Financial Officer and Principal Accounting Officer)

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