



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

June 12, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Evans National Bank
Charter Number 11583**

**14 North Main Street
Angola, NY 14006**

**Comptroller of the Currency
Upstate New York (Syracuse)
231 Salina Meadows Parkway, Suite 105
Syracuse, NY 13212**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low and moderate income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Evans National Bank (ENB)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **June 12, 2006**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated "**Satisfactory**".

The primary factors supporting the overall rating are:

- The average loan-to-deposit ratio since the last examination is 66%.
- A substantial majority of all loans originated are within the bank's assessment area (AA).
- An adequate distribution of loans among borrowers of different income levels and businesses of different sizes.
- An adequate distribution of loans among census tracts of different income levels throughout the AAs.
- ENB did not receive any CRA-related complaints during the evaluation period.
- The level of community development activities conducted by the institution is satisfactory.

DESCRIPTION OF INSTITUTION

Evans National Bank ("ENB") is a \$447 million community bank headquartered in Angola, New York, a town approximately 30 miles southwest of Buffalo, NY. ENB is a subsidiary of Evans Bancorp, Inc., a one-bank holding company. Evans Bancorp, Inc. is publicly traded on NASDAQ under the symbol EVBN. ENB is an intrastate bank with ten offices – nine in Erie County and one in Chautauqua County. The majority of the offices are located in rural or suburban communities outside the city of Buffalo. ENB has not closed any offices since the last examination, and has not been involved in any merger or acquisition activity since the last evaluation. Since the last examination, ENB has opened two offices in Erie County. The Lancaster Office in Depew, NY opened on January 5, 2004 in an upper-income census tract. The North Buffalo Office in Buffalo, NY opened January 31, 2005 in a moderate-income census tract.

At March 31, 2006, ENB had \$261 million in net loans (58% of total assets) and \$369 million in deposits. The primary loan products were determined to be loans reported on the Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR) ("home loans") and commercial and commercial real estate loans. As of March 31, 2006, commercial and commercial real estate loans totaled \$147 million, or 56% of the loan portfolio. Additionally, the bank had \$20 million in leases and \$12 million in construction and development loans, which in total, represent 12% of total loans. Residential real estate loans and home equity lines of credit total \$79 million and represent 30% of the loan portfolio. Consumer loans total \$3 million and represent 1% of the loan portfolio.

ENB is in direct competition with a variety of financial institutions including multinational and regional institutions, area community banks, non-bank mortgage companies, and credit unions. The bank is adequately positioned to help meet the credit needs of the community, and it does not have any legal or financial impediments that would hinder its ability to help meet the credit needs of the community.

During our examination, we contacted a local non-profit organization that assists low- and moderate-income individuals and small businesses with financial counseling and support. The community contact indicated that affordable residential and commercial loans continue to be a credit need in the community.

We last evaluated ENB's performance under the CRA as of April 30, 2003, which resulted in a "Satisfactory" rating. The previous report used lending data through December 31, 2002. This evaluation covers ENB's lending performance from January 1, 2003 through March 31, 2006 and its community development activities from May 1, 2003 through June 12, 2006.

DESCRIPTION OF THE ASSESSMENT AREA

ENB has defined two assessment areas for the purposes of CRA. The first assessment area consists of 128 census tracts in Erie County which is located in the Buffalo-Niagara Metropolitan Statistical Area (MSA 15380). The second assessment area consists of 13 census tracts in Chautauqua County and three (3) census tracts in Cattaraugus County. Neither

Chautauqua nor Cattaraugus Counties are located in a defined metropolitan statistical area. The bank's two assessment areas meet all regulatory guidelines and do not arbitrarily exclude any low- or moderate-income areas.

Assessment Area I

Assessment Area I (AAI) consists of 128 census tracts in Erie County and represents 89 percent of the census tracts in the bank's combined assessment area. This AA contains three (3) low-income, ten (10) moderate-income, 70 middle-income, 42 upper-income census tracts and three (3) census tracts not designated for income. AAI has a total population of 555,236 consisting of 148,196 families and 220,421 households. The table below further describes the distribution of the population, families and households based on geographic income categories. The AA consists of 13.4% low-income, 16.7% moderate-income, 23.3% middle-income and 46.6% upper-income families. Of the 231,002 housing units in the AA, 70.0% are owner-occupied, 26.0% are renter-occupied and 5.0% are vacant. The median housing value in the AA is \$98,612 with a median housing age of 47 years.

<i>Selected Characteristics by Income Category of the Census Tract</i>					
<i>Geographic Income Category</i>	<i>Percentage</i>				
	<i>Census tracts</i>	<i>Population</i>	<i>Families</i>	<i>Households</i>	<i>Owner-Occupied Units</i>
<i>Low</i>	2.34	1.41	1.30	1.51	0.61
<i>Moderate</i>	7.81	5.01	4.80	5.65	3.85
<i>Middle</i>	54.69	53.08	53.46	54.21	53.67
<i>Upper</i>	32.81	39.67	40.44	38.63	41.86
<i>NA</i>	2.34	0.83	0.00	0.01	0.00
<i>Total</i>	100.00	100.00	100.00	100.00	100.00

The 2000 U. S. Census Median Family Income for the Buffalo-Niagara Falls MSA is \$49,149. This figure is used to determine the income designation of the MSA's census tracts. The 2006 Updated Median Family Income for this MSA is \$58,300. This figure is used to evaluate the income level of borrowers. The Updated Median Family Income is based on information from the Department of Housing and Urban Development (HUD). Approximately 92 percent of the population of this bank's combined AA resides in this MSA.

The New York State unemployment rate for August 2006 was 4.5%; the Buffalo-Niagara Falls MSA was 4.9%. The unemployment rate for Erie County was 4.9%. Major employers in the area include federal, state, and local governments, local school districts, several health care systems, and two major American auto manufacturers. Competition from other financial institutions is strong from several offices of multi-billion dollar organizations including HSBC, M&T, KeyBank, Citizens, and Bank of America.

Assessment Area II

Assessment Area II (AAI) consists of 16 census tracts in Chautauqua and Cattaraugus Counties and represents 11 percent of the census tracts in the bank's combined assessment area. This AA contains two (2) low-income, three (3) moderate-income, nine (9) middle-income, and two (2) upper-income census tracts. AAI has a total population of 49,926 consisting of 12,260 families

and 18,901 households. The table below further describes the distribution of the population, families and households based on geographic income categories. The AA consists of 19.10% low-income, 18.80% moderate-income, 23.83% middle-income and 38.26% upper-income families. Of the 21,167 housing units in the AA, 62.0% are owner-occupied, 27.0% are renter-occupied and 11.0% are vacant. The median housing value in the AA is \$65,482 with a median housing age of 59 years.

<i>Selected Characteristics by Income Category of the Census tract</i>					
<i>Geographic Income Category</i>	<i>Percentage</i>				
	<i>Census tracts</i>	<i>Population</i>	<i>Families</i>	<i>Households</i>	<i>Owner-Occupied Units</i>
<i>Low</i>	12.50	0.05	0.07	0.06	0.08
<i>Moderate</i>	18.75	13.41	14.10	14.62	12.71
<i>Middle</i>	56.25	72.18	75.78	74.59	78.30
<i>Upper</i>	12.50	14.36	10.05	10.72	9.44
<i>NA</i>	0.00	0.00	0.00	0.00	0.00
<i>Total</i>	100.00	100.00	100.00	100.00	100.00

The 2000 U. S. Census Median Family Income for the Non-MSA portions of New York State is \$41,761. This figure is used to determine the income designation of the Non-MSA's census tracts. The 2006 Updated Median Family Income for the Non-MSA's is \$49,600. This figure is used to evaluate the income level of borrowers. The Updated Median Family Income is based on information from the Department of Housing and Urban Development (HUD). Approximately eight, (8) percent of the population of this bank's combined AA resides in this MSA.

As of August 2006, the Non-MSA unemployment rate was 4.3%. The unemployment rates for Chautauqua and Cattaraugus counties were 4.2% and 4.8% respectively. In Chautauqua County, major employers include state and local governments, local school districts, and several food processors. Competition from other financial institutions is strong from multi-billion dollar institutions such as HSBC, M&T, KeyBank and Community Bank. Some local institutions including Lake Shore Savings and Loan, and Jamestown Savings Bank serve Chautauqua County. In Cattaraugus County, area tourism is a major industry with over 75% of the county being open forest, woodland and farm country. Many of the counties largest employers are located in Olean, NY in southern Cattaraugus County. Olean, NY is not part of this bank's assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

We evaluated loans originated between January 1, 2004 and March 31, 2006, a time period that we believe is representative of the entire time period under evaluation. An evaluation of the bank's lending data and discussions with management indicated ENB's primary products to be loans reported on the Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR) ("home loans") and commercial loans. We refined our evaluation of borrower and geographic distribution to focus on lending activity in AAI since 89% of the bank's combined AA census tracts and 92% of the businesses and farms within the combined AA's are in AAI. A brief review of home loans and commercial and commercial real estate loans in AAI indicate

performance similar to the bank’s performance in AAI.

Loan to Deposit Ratio

ENB’s loan-to-deposit ratio meets the standard for satisfactory performance. ENB’s average loan-to-deposit ratio for the last 12 quarters is 66%. This is consistent with other domestic commercial banks headquartered in Erie County whose average range from 68% to 107%. The four other banks headquartered in Erie County include three small commercial banks and regional bank, M&T. There are no similarly situated institutions headquartered in any of the counties included in the bank’s assessment area.

Lending in the Assessment Area

ENB meets the standard for satisfactory performance for lending in the assessment area (AA). A majority of the home loans and commercial and commercial real estate loans originated during the period are in the bank’s two AAs.

Loan Type	# in AA	Count %	Amount in AA (in 000s)	Amount %	Total # in AA	Total Amount in AA
Home Loans	629	89%	\$42,692	79%	709	\$53,852
Commercial Loans	340	70%	\$102,051	67%	489	\$153,256
Total	969	81%	\$144,743	70%	1,198	\$207,108

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

ENB’s record of lending to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance. In our assessment of borrower distribution, we considered that 7% of the households in the AA are living below the poverty level. It is unlikely that a person with income below the poverty level could afford a home loan.

Home loans to low-income borrowers represent 7.41% of the total loans originated which compares favorably to distribution of low-income family in the area of 13.40% when considering that 7% of the households in the AA are living below the poverty level. Home loans to moderate-income borrowers represent 16.75% of the number of loans originated which compares very favorably to the distribution of moderate-income families in the area of 16.65%. Based on the information in the table on the next page, the borrower distribution of home purchase loans and refinances to low- and moderate-income borrowers in AAI is satisfactory compared to the family distribution in those census tracts.

Borrower Income Level	#	Count %	Amount (in 000s)	Amount %	Family Distribution
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Low	42	7.41%	\$1,207	3.05%	13.40%
Moderate	95	16.75%	\$4,089	10.32%	16.65%
Middle/Upper/N A	430	75.84%	\$34,321	86.63%	69.95%
Total	567	100.00%	\$39,617	100.00%	100.00%

The percentage of loans to businesses with \$1 million or less in revenues is adequate. For this test, we chose a sample of commercial and commercial real estate loans to assess performance. Based on our sample of 39 commercial and commercial real estate loans originated in AAI, 18 or 46% of the number of commercial loans originated, and \$3.8 million, or 43% of the dollar amount, are to businesses with revenues of \$1 million or less. Dun and Bradstreet business demographic information indicates 63% of the businesses within the AA have revenues of \$1 million or less, 7% have revenues in excess of \$1 million, and 30% did not report revenue information.

Revenues	Count	%	Amount	%	Revenue Distribution
<=\$1MM	18	46%	\$3,824,950	43%	63%
\$1MM+	21	54%	\$5,154,720	57%	7%
Did not report	0	0%	\$0	0%	30%
Total	39	100%	\$9,979,670	100%	100.00%

Geographic Distribution of Loans

ENB's geographic distribution of lending throughout the AA meets the standard for satisfactory performance. The geographic distribution of home loans in low- and moderate-income census tracts in AAI is adequate compared to the level of owner-occupied housing in the respective census tracts when considering that two key branch offices were only opened during the evaluation period. In January 2004, management opened the Lancaster Office in Depew, NY which added 22 census tracts to AAI including one moderate-income census tract. In January 2005, management opened the North Buffalo Office in Buffalo, NY which added eight (8) census tracts to AAI including one (1) low- and three (3) moderate-income census tracts. The opening of these two offices increased the number of low-income census tracts by 50% and the number of moderate-income census tracts by 67%.

Census tract Income Level	#	Count %	Amount (in 000s)	Amount %	Owner- occupied housing
Low	0	0.00%	\$0	0.00%	0.61%
Moderate	8	1.41%	\$528	1.33%	3.85%
Middle/Upper/N A	559	98.59%	\$39,089	98.67%	95.54%
Total	567	100.00%	\$39,617	100.00%	100.00%

Commercial and commercial real estate lending in low- and moderate-income census tracts is adequate with 1% of the number of loans originated to businesses located low-income census

tracts and 2% to businesses located in moderate-income census tracts, when considering that two key branch offices were only opened during the evaluation period.

Census tract	Count	%	Amount	%	Geographic Distribution of Businesses
Low	3	1%	\$267,500	<1%	2%
Moderate	6	2%	\$525,000	<1%	5%
Middle	182	57%	\$45,324,055	46%	50%
Upper	128	40%	\$53,436,677	54%	43%
NA	0	0%	\$0	0%	<1%
Total	319	100%	\$99,553,231	100%	100.00%

Community Development Performance

Community development performance is rated satisfactory. ENB’s community development performance in both AA’s demonstrates adequate responsiveness to community development needs through qualified development lending, investments and services.

Community Development Lending

During the evaluation period, ENB originated a \$1.6 million loan to a small size business located in an Economic Development Zone, who is creating and retaining jobs in the area. Management was unable to secure a qualified CD loan opportunity in its own AAs or broader regional area that included its AAs and thus made a qualified loan to a business in another county in the Western NY.

Community Development Investments

ENB’s community development investments during the evaluation period totaled \$30,860 and benefited seven organizations which support affordable housing and provide community services for low- and moderate-income people.

Community Development Services

ENB employees support several organizations throughout the AA’s including 17 organizations involved in community development. These employees offer financial expertise and serve on committees and Board of Directors within these organizations. The community development organizations include those that support affordable housing and provide services for low- and moderate-income people. These organizations also include those that support economic development by financing small businesses that are involved in job creation and retention for low- and moderate-income people.

Response to Complaints

ENB has not received any CRA-related consumer complaints since the last CRA examination.

Results of the Fair Lending Examination

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.