EVANS BANCORP INC
Form 10-Q
November 09, 2009

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United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For quarterly period ended September 30, 2009

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

For the transition period from __________ to __________

Commission file number 0-18539

EVANS BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

(716) 926-2000
(Registrant s telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes o No o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company þ
(Do not check if smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:
Common Stock, $.50 par value: 2,803,038 shares as of November 1, 2009

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PART I FINANCIAL INFORMATION
ITEM I FINANCIAL STATEMENTS
EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2009 AND DECEMBER 31, 2008
(in thousands, except share and per share amounts)

	September 30, 2009	December 31, 2008
ASSETS		
Cash and due from banks	$ 12,653	$ 9,036
Interest-bearing deposits at banks	1,159	115
Securities:		
Available for sale, at fair value	78,816	71,134
Federal Home Loan Bank stock	2,226	2,670
Held to maturity, at amortized cost	2,758	1,951
Loans and leases, net of allowance for loan and lease losses of $6,063 in 2009 and $6,087 in 2008	473,004	401,626
Properties and equipment, net	9,382	9,885
Goodwill	8,101	10,046
Intangible assets	2,262	2,900
Bank-owned life insurance	11,809	11,685
Other assets	11,387	7,926
TOTAL ASSETS	$ 613,557	$ 528,974
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES		
Deposits:		
Demand	$ 83,196	$ 75,959
NOW	11,349	10,775
Regular savings	219,309	154,283
Muni-vest	33,727	26,477
Time	155,184	136,459
Total deposits	502,765	403,953
Securities sold under agreement to repurchase	6,662	6,307
Other short-term borrowings	9,582	30,695
Other liabilities	10,690	12,590
Junior subordinated debentures	11,330	11,330

Long-term borrowings		27,000		18,180
Dividend payable		559		
Total liabilities		568,588		483,055
CONTINGENT LIABILITIES AND COMMITMENTS				
STOCKHOLDERS EQUITY:				
Common stock, $.50 par value; 10,000,000 shares authorized; 2,795,198 and 2,771,788 shares issued and outstanding, respectively		1,398		1,386
Capital surplus		27,043		26,696
Retained earnings		16,015		18,374
Accumulated other comprehensive income (loss), net of tax		513		(537)
Less: Treasury stock, at cost (0 shares)				
Total stockholders equity		44,969		45,919
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	613,557	$	528,974

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UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(in thousands, except share and per share amounts)

	Three Months Ended September 30,	
	2009	2008
INTEREST INCOME		
Loans and leases	$ 7,046	$ 6,908
Interest bearing deposits at banks		13
Securities:		
Taxable	479	360
Non-taxable	399	353
Total interest income	7,924	7,634
INTEREST EXPENSE		
Deposits	1,624	2,115
Other borrowings	242	234
Junior subordinated debentures	90	151
Total interest expense	1,956	2,500
NET INTEREST INCOME	5,968	5,134
PROVISION FOR LOAN AND LEASE LOSSES	634	582
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	5,334	4,552
NON-INTEREST INCOME		
Bank charges	562	597
Insurance service and fees	1,750	1,756
Net gain on sales and calls of securities	10	
Premium on loans sold	13	2
Bank-owned life insurance	111	31
Gain on bargain purchase	671	
Other	712	529
Total non-interest income	3,829	2,915
NON-INTEREST EXPENSE		
Salaries and employee benefits	3,216	2,940
Occupancy	687	631
Repairs and maintenance	153	162
Advertising and public relations	133	125
Professional services	379	243
Technology and communications	173	305
Amortization of intangibles	222	171

FDIC Insurance		167		56
Other		666		621
Total non-interest expense		5,796		5,254
INCOME BEFORE INCOME TAXES		3,367		2,213
INCOME TAXES		931		788
NET INCOME	$	2,436	$	1,425
Net income per common share-basic	$	0.87	$	0.52
Net income per common share-diluted	$	0.87	$	0.52
Cash dividends per common share	$	0.20	$	0.41
Weighted average number of common shares		2,795,198		2,755,274
Weighted average number of diluted shares		2,805,493		2,757,972

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NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(in thousands, except share and per share amounts)

	Nine Months Ended September 30,	
	2009	2008
INTEREST INCOME		
Loans and leases	$ 20,340	$ 19,515
Interest bearing deposits at banks	1	20
Securities:		
Taxable	1,202	1,001
Non-taxable	1,274	1,144
Total interest income	22,817	21,680
INTEREST EXPENSE		
Deposits	5,345	5,937
Other borrowings	630	924
Junior subordinated debentures	315	498
Total interest expense	6,290	7,359
NET INTEREST INCOME	16,527	14,321
PROVISION FOR LOAN AND LEASE LOSSES	9,583	1,814
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	6,944	12,507
NON-INTEREST INCOME		
Bank charges	1,685	1,669
Insurance service and fees	5,698	5,506
Net gain on sales and calls of securities	16	7
Premium on loans sold	67	7
Bank owned life insurance	466	239
Pension curtailment gain		328
Gain on bargain purchase	671	
Other	2,500	1,502
Total non-interest income	11,103	9,258
NON-INTEREST EXPENSE		
Salaries and employee benefits	9,656	8,649
Occupancy	2,064	1,835
Repairs and maintenance	502	452
Advertising and public relations	365	335
Professional services	1,046	764
Technology and communications	572	870

Goodwill impairment		1,984		
Amortization of intangibles		668		499
FDIC Insurance		550		96
Other		2,160		1,884
Total non-interest expense		19,567		15,384
(LOSS) INCOME BEFORE INCOME TAXES		(1,520)		6,381
INCOME TAX (BENEFIT) PROVISION		(856)		1,978
NET (LOSS) INCOME		($664)	$	4,403
Net (loss) income per common share-basic		($0.24)	$	1.60
Net (loss) income per common share-diluted		($0.24)	$	1.60
Cash dividends per common share	$	0.61	$	0.78
Weighted average number of common shares		2,783,975		2,750,870
Weighted average number of diluted shares		2,787,617		2,753,534

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UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(in thousands, except share and per share amounts)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2008	$ 1,378	$ 26,380	$ 15,612	$ 16	$ (83)	$ 43,303
Comprehensive income:						
Net Income			4,403			4,403
Unrealized loss on available-for-sale securities, net of tax effect of $119				(186)		(186)
Amortization of prior service cost and net loss, net of tax of ($22)				34		34
Pension curtailment adjustment net of tax effect of $7				9		9
Total comprehensive income						4,260
Cash dividends ($0.78 per common share)			(2,147)			(2,147)
Stock options expense		116				116
Reissued 7,733 shares treasury stock under dividend reinvestment plan		(12)			130	118
Issued 2,969 shares under dividend reinvestment plan	2	44				46
Reissued 6,575 shares treasury stock under employment stock purchase plan		(27)			112	85
Purchased 13,701 shares for treasury					(234)	(234)
Balance, September 30, 2008	$ 1,380	$ 26,501	$ 17,868	$ (127)	$ (75)	$ 45,547
Balance, January 1, 2009	$ 1,386	$ 26,696	$ 18,374	$ (537)	$	$ 45,919

Comprehensive loss:						
Net Loss			(664)			(664)
Unrealized gain on available-for-sale securities, net of reclassification of gain of $10 (after tax), net of tax effect of ($638)				993		993
Amortization of prior service cost and net loss net of tax effect of ($37)				57		57
Total comprehensive income						386
Cash dividends ($0.61 per common share)			(1,695)			(1,695)
Stock options expense		100				100
Reissued 2,000 shares treasury stock under dividend reinvestment plan		(4)			27	23
Issued 13,911 shares under dividend reinvestment plan	7	153				160
Issued 9,499 shares under employee stock purchase plan	5	98				103
Purchased 2,000 shares for treasury					(27)	(27)
Balance, September 30, 2009	$ 1,398	$ 27,043	$ 16,015	$ 513	$	$ 44,969

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UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(in thousands)

	Nine Months Ended September 30,	
	2009	2008
OPERATING ACTIVITIES:		
Interest received	$ 22,160	$ 21,421
Fees received	10,271	8,574
Interest paid	(6,687)	(7,701)
Cash paid to employees and suppliers	(15,068)	(12,006)
Income taxes paid	(831)	(2,345)
Proceeds from sale of loans held for resale	12,691	1,815
Originations of loans held for resale	(13,348)	(1,758)
Net cash provided by operating activities	9,188	8,000
INVESTING ACTIVITIES:		
Available for sales securities:		
Purchases	(64,315)	(64,028)
Proceeds from maturities	59,414	71,907
Held to maturity securities:		
Purchases	(1,211)	(165)
Proceeds from maturities	404	396
Life Insurance proceeds	341	
Additions to properties and equipment	(451)	(1,397)
Increase in loans, net of repayments	(41,878)	(62,398)
Cash received (paid) in acquisitions	8,419	(453)
Cash paid on earn-out agreements	(40)	(40)
Net cash used in investing activities	(39,317)	(56,178)
FINANCING ACTIVITIES:		
Proceeds from borrowings	9,355	11,919
Repayments of borrowings	(21,293)	(34,552)
Increase in deposits	47,605	77,687
Dividends paid	(1,136)	(1,017)
Purchase of treasury stock	(27)	(234)
Issuance of common stock	263	
Re-issuance of treasury stock	23	203

Net cash provided by financing activities	34,790	54,006
Net increase in cash and equivalents	4,661	5,828
CASH AND CASH EQUIVALENTS:		
Beginning of period	9,151	12,604
End of period	$ 13,812	$ 18,432

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UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(in thousands)

	Nine Months Ended September 30,	
	2009	2008
RECONCILIATION OF NET (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net (loss) income	$ (664)	$ 4,403
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	1,289	1,238
Goodwill impairment	1,984	
Deferred tax benefit	(1,548)	(60)
Provision for loan and lease losses	9,583	1,814
Net gain on sales and calls of securities	(16)	(7)
Premium on loans sold	(67)	(7)
Stock options expense	100	116
Proceeds from sale of loans held for resale	12,691	1,815
Originations of loans held for resale	(13,348)	(1,758)
Changes in assets and liabilities affecting cash flow:		
Other assets	(1,146)	(1,349)
Other liabilities	330	1,795
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 9,188	$ 8,000
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Acquisitions:		
Fair value of		
Assets acquired (noncash)	$ 43,516	$
Liabilities assumed	$ 51,215	$

See Notes to Unaudited Consolidated Financial Statements

PART 1 FINANCIAL INFORMATION
ITEM 1 FINANCIAL STATEMENTS
EVANS BANCORP, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies followed by Evans Bancorp, Inc. (the Company), a financial holding company, and its two direct, wholly-owned subsidiaries: (i) Evans Bank, National Association (the Bank), and the Bank s subsidiaries, Evans National Leasing, Inc. (ENL), Evans National Holding Corp. (ENHC) and Suchak Data Systems, Inc. (SDS); and (ii) Evans National Financial Services, Inc. (ENFS), and ENFS s subsidiary, The Evans Agency, Inc. (TEA) and TEA s subsidiaries, Frontier Claims Services, Inc. (FCS) and ENB Associates Inc. (ENBA), in the preparation of the accompanying interim unaudited consolidated financial statements conform with U.S. generally accepted accounting principles (GAAP) and with general practice within the industries in which it operates. 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 Financial Accounting Standards Board s (FASB) Accounting Standards Codification (ASC) became effective on July 1, 2009. At that date, the ASC became FASB s officially recognized source of authoritative U.S. generally accepted accounting principles (GAAP) applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

The accompanying consolidated financial statements are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of the Company s financial position and results of operations for the interim periods have been made.

The results of operations for the three and nine month periods ended September 30, 2009 are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited consolidated financial statements should be read in conjunction with the Audited Consolidated Financial Statements and the Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008. The Company has evaluated subsequent events for potential recognition and/or disclosure through November 9, 2009, the date the consolidated financial statements included in this Quarterly Report on Form 10-Q were filed with the SEC.

2. ACQUISITION

On July 24, 2009, the Bank entered into a definitive purchase and assumption agreement (the Agreement) with the Federal Deposit Insurance Corporation (FDIC) under which the Bank assumed approximately $51 million in liabilities, consisting almost entirely of deposits, and certain other liabilities, consisting primarily of accrued interest, and purchased substantially all of the assets of Waterford Village Bank a community bank located in Clarence, New York (Waterford). Total assets purchased (as calculated post-closing) amounted to approximately $47 million, including a loan portfolio of approximately $42 million. Under the terms of the Agreement, the FDIC made an initial payment of $4.6 million to Evans Bank, which includes the bid price of a $0.8 million discount and approximately $3.8 million for the capital shortfall at the initial closing. The final settlement will be determined 180 days after the purchase date of July 24, 2009.

Of the approximate $42.0 million contractual amount receivable in loans acquired in the acquisition, $40.0 million was not subject to the requirements of ASC Topic 310-30, which measures the value of specifically identified impaired loans or pool of loans. The fair value of the $40.0 million in contractual receivables was reported as $40.1

million at the time of acquisition. This fair value included an estimate of $0.4 million at the acquisition date of contractual cash flows not expected to be collected.
All of the purchased loans and foreclosed real estate purchased by the Bank under the Agreement are covered by a loss sharing agreement between the FDIC and the Bank which is included in the Agreement. Under this loss sharing agreement, the FDIC has agreed to bear 80% of loan and foreclosed real estate losses up to $5.6 million and 95% of losses that exceed $5.6 million. Reimbursable losses are based on the book value of the relevant loans and foreclosed assets as determined by the FDIC as of the date of the acquisition. As a result of the loss sharing agreement with the FDIC, the Company recorded an indemnification asset of $1.4 million which represents 80% of estimated contractual losses on all loans and other assets covered under the loss sharing agreement.
After adjusting to fair value, the amounts recognized at the acquisition date for major classes of assets acquired and liabilities assumed included cash of $8.4 million, loans of $41.0 million, and deposits of $51.2 million.
The Company recognized a bargain purchase gain of $0.7 million as a result of the acquisition. The gain was due primarily to the benefit of the FDIC loss share agreement. Additionally, the loan portfolio purchased was at a discount to market yields resulting in positive value to the loans acquired.
3. SECURITIES
The amortized cost of securities and their approximate fair value at September 30, 2009 and December 31, 2008 were as follows:

	September 30, 2009 (in thousands)			
		Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Available for Sale:				
Debt securities:				
U.S. government agencies	$ 22,694	$ 499	$	$ 23,193
States and political subdivisions	36,641	1,789		38,430
Total debt securities	$ 59,335	$ 2,288	$	$ 61,623
Mortgage-backed securities:				
FNMA	$ 12,626	$ 471	$	$ 13,097
FHLMC	1,678	15	(1)	1,692
GNMA	424	21		445
CMO S	1,063		(15)	1,048
Total mortgage-backed securities	$ 15,791	$ 507	$ (16)	$ 16,282
FRB Stock	911			911
FHLB Stock	2,226			2,226
Total	$ 78,263	$ 2,795	$ (16)	$ 81,042
Held to Maturity:				
Debt securities				

U.S. government agencies	35			35
States and political subdivisions	2,723	21	(31)	2,713
Total	$ 2,758	$ 21	$ (31)	$ 2,748

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	December 31, 2008 (in thousands)			
		Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Available for Sale:				
Debt securities:				
U.S. government agencies	$ 17,790	$ 112	$	$ 17,902
States and political subdivisions	34,490	953	(7)	35,436
Total debt securities	$ 52,280	$ 1,065	$ (7)	$ 53,338
Mortgage-backed securities:				
FNMA	$ 8,060	$ 126	$ (21)	$ 8,165
FHLMC	7,468	130	(11)	7,587
GNMA				
CMO S	1,283		(134)	1,149
Total mortgage-backed securities	$ 16,811	$ 256	$ (166)	$ 16,901
FRB Stock	895			895
FHLB Stock	2,670			2,670
Total	$ 72,656	$ 1,321	$ (173)	$ 73,804
Held to Maturity:				
Debt securities				
U.S. government agencies	35			35
States and political subdivisions	1,916			1,916
Total	$ 1,951	$	$	$ 1,951

Available for sale securities with a total fair value of $72.0 million at September 30, 2009 were pledged as collateral to secure public deposits and for other purposes required or permitted by law.

The Company uses the Federal Home Loan Bank of New York (FHLBNY) as its primary source of overnight funds and also has several long-term advances with FHLBNY. At September 30, 2009, the Company had a total of $9.4 million in borrowed funds with FHLBNY. The Company has placed sufficient collateral in the form of residential and commercial real estate loans at FHLBNY that meet FHLB collateral requirements. As a member of the Federal Home Loan Bank (FHLB) System, the Bank is required to hold stock in FHLBNY. The Bank held $2.2 million in FHLBNY stock as of September 30, 2009 at cost.

There are 12 branches of the FHLB, including New York. Several members have warned that they have either breached risk-based capital requirements or that they are close to breaching those requirements. To conserve capital, some FHLB branches are suspending dividends, cutting dividend payments, and not buying back excess FHLB stock

that members hold. 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 impairment of the Company s FHLB stock. However, FHLBNY currently meets all of its capital requirements, continues to redeem excess stock for members, and has the expressed ability and intent to continue paying dividends. It has maintained a AAA credit rating with a stable outlook. Due to the relatively strong financial health of FHLBNY, there is no impairment in the Bank s FHLB stock as of September 30, 2009.

The scheduled maturities of debt and mortgage-backed securities at September 30, 2009 are summarized below. All maturity amounts are contractual maturities. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call premiums.

	September 30, 2009			
	Available for Sale Securities		Held to Maturity Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)		(in thousands)	
Due in one year or less	$ 4,658	$ 4,746	$ 1,075	$ 1,078
Due after year one through five years	19,705	20,391	560	567
Due after five years through ten years	22,042	23,038	435	442
Due after ten years	28,721	29,730	688	661
Total	$ 75,126	$ 77,905	$ 2,758	$ 2,748

Information regarding unrealized losses within the Company s available for sale securities at September 30, 2009 and December 31, 2008, is summarized below. The securities are primarily U.S. government-guaranteed agency securities or municipal securities. All unrealized losses are considered temporary and related to market interest rate fluctuations.

	September 30, 2009 (in thousands)					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale:						
Debt securities:						
U.S. government agencies	$	$	$	$	$	$
States and political subdivisions						
Total debt securities	$	$	$	$	$	$
Mortgage-backed securities:						
FNMA	$	$	$	$	$	$
GNMA						
FHLMC			101	(1)	101	(1)
CMO S			1,048	(15)	1,048	(15)
Total mortgage-backed securities	$	$	$ 1,149	$ (16)	$ 1,149	$ (16)
Total temporarily impaired securities	$	$	$ 1,149	$ (16)	$ 1,149	$ (16)

	December 31, 2008 (in thousands)					
	Less than 12 months		12 months or longer		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Available for Sale:						
Debt securities:						
U.S. government agencies	$	$	$	$	$	$
States and political subdivisions	1,966	(7)			1,966	(7)
Total debt securities	$ 1,966	$ (7)	$	$	$ 1,966	$ (7)
Mortgage-backed securities:						
FNMA	$ 638	$ (8)	$ 1,094	$ (13)	$ 1,732	$ (21)
GNMA						
FHLMC			1,209	(11)	1,209	(11)
CMO S			1,142	(134)	1,142	(134)
Total mortgage-backed securities	$ 638	$ (8)	$ 3,445	$ (158)	$ 4,083	$ (166)
Total temporarily impaired securities	$ 2,604	$ (15)	$ 3,445	$ (158)	$ 6,049	$ (173)

Management has assessed the securities available for sale in an unrealized loss position at September 30, 2009 and December 31, 2008 and determined the decline in fair value below amortized cost to be temporary. In making this determination, management considered the period of time the securities were in a loss position, the percentage decline in comparison to the securities amortized cost, the financial condition of the issuer (primarily government or government-sponsored enterprises) and the Company s ability and intent to hold these securities until their fair value recovers to their amortized cost. Management believes the decline in fair value is primarily related to market interest rate fluctuations and not to the credit deterioration of the individual issuers.

While the Company has not recorded any other-than-temporary impairment charges in 2008 or 2009, gross unrealized losses amount to only 0.02% of the total fair value of the securities portfolio at September 30, 2009, and the gross unrealized position has decreased by $157 thousand from December 31, 2008 to September 30, 2009, it remains possible that the poor economy could negatively impact the securities portfolio in the future. The credit worthiness of the Company s portfolio is largely reliant on the ability of U.S. government sponsored agencies such as FHLB, Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA), and 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 relatively stable past performance is not a guarantee for similar performance of the Company s securities portfolio going forward.

4. FAIR VALUE MEASUREMENTS

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Corporation utilizes valuation techniques that

are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. FASB ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

There are three levels of determining fair value.

Level 1 Inputs uses unadjusted quoted market prices in active markets for identical assets or liabilities at the measurement date.

Level 2 Inputs uses observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 Inputs uses unobservable inputs that are based on the entity s estimates about the assumptions that market participants would be expected to use and which cannot be corroborated by market data.
Observable market data should be used when available.
At September 30, 2009 and December 31, 2008, the estimated fair values of the Company s financial instruments were as follows:

	September 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)		(in thousands)	
Financial assets:				
Cash and cash equivalents	$ 13,812	$ 13,812	$ 9,151	$ 9,151
Securities	$ 83,800	$ 83,790	$ 75,755	$ 75,755
Loans and leases, net	$ 473,004	$ 485,466	$ 401,626	$ 414,381
Financial liabilities:				
Deposits	$ 502,765	$ 506,140	$ 403,953	$ 406,482
Other borrowed funds and securities sold under agreements to repurchase	$ 43,244	$ 44,227	$ 55,182	$ 55,449
Junior subordinated debentures	$ 11,330	$ 11,330	$ 11,330	$ 11,330

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.
Cash and Cash Equivalents. For these short-term instruments, the carrying amount is a reasonable estimate of fair value. Cash and Cash Equivalents includes interest-bearing deposits at other banks.
Securities. Fair values for available-for-sale securities are determined using independent pricing services and market-participating brokers. The pricing service and brokers use a variety of techniques to arrive at fair value including market maker bids, quotes, and pricing models. Inputs to their pricing models include recent trades, benchmark interest rates, spreads, and actual and projected cash flows. Management obtains a single market quote or price estimate for each security. These quoted prices reflect current information based on orderly transactions. These are considered Level 2 inputs under GAAP.
The Company holds certain municipal bonds as held-to-maturity. These bonds are generally small in dollar amount and are issued only by certain local municipalities within the Company s market area. The original terms are negotiated directly and on an individual basis. These bonds are not traded on the open market and management intends to hold the bonds to maturity. The fair value of held-to-maturity securities is estimated by discounting the future cash flows using the current rates at which similar agreements would be made with municipalities with similar credit ratings and for the same remaining maturities.
Loans and Leases, net. The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, net of the appropriate portion of the allowance for loan losses. For variable rate loans, the carrying amount is a reasonable estimate of fair value.
The lease portfolio was classified as held-for-sale and marked to the lower of cost or fair value at June 30, 2009. Management has since made the decision to hold the portfolio until maturity and re-classified the leases as

held-for-investment at September 30, 2009. (See Note 12 Financial Statement Presentation to these Unaudited Consolidated Financial Statements for further information on the classification of the leasing portfolio and the circumstances surrounding management s intent.) Upon transfer of the portfolio back into held-for-investment, the

portfolio is reported at the lower of its carrying value or fair value. At September 30, 2009, the lease portfolio amounts to $36.2 million, which represents the fair value of the portfolio on that date.

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.

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

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

Commitments to extend credit and standby letters of credit. As described in Note 8 Contingent Liabilities and Commitments to these Unaudited Consolidated Financial Statements, the Company was a party to financial instruments with off-balance sheet risk at September 30, 2009 and December 31, 2008. Such financial instruments consist of commitments to extend permanent financing and letters of credit. If the options are exercised by the prospective borrowers, these financial instruments will become interest-earning assets of the Company. If the options expire, the Company retains any fees paid by the counterparty in order to obtain the commitment or guarantee. The fair value of commitments is estimated based upon fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate commitments, the fair value estimation takes into consideration an interest rate risk factor. The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements. The fair value of these off-balance sheet items at September 30, 2009 and December 31, 2008 approximates the recorded amounts of the related fees, which are not considered material.

The following table presents for each of the fair-value hierarchy levels as defined in this footnote, for those financial instruments disclosed in the previous table which are measured at fair value on both a recurring and non-recurring basis at September 30, 2009 and December 31, 2008:

		Fair Value Measurement		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**
September 30, 2009				
Securities available-for-sale	$78,815	$ 0	$ 78,815	$ 0
FHLB stock	$ 2,226	$ 0	$ 2,226	
Impaired loans	$ 5,161	$ 0	$ 0	$ 5,161
December 31, 2008				
Securities available-for-sale	$71,134	$ 0	$ 71,134	$ 0
FHLB stock	$ 2,670		$ 2,670	
Impaired loans	$ 2,700	$ 0	$ 0	$ 2,700

Certain assets are measured at fair value on a nonrecurring basis; that is, they are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). For the Company, these include impaired

loans and goodwill and intangible assets. The Company evaluates and values impaired loans at the time the loan is identified as impaired, and the fair values of such loans are estimated using Level 3 inputs in the fair value hierarchy. 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. Impaired loans had a gross value of $6.1 million, with a valuation allowance of $0.9 million, at September 30, 2009, compared to a gross value for loans and leases of $3.4 million, with a valuation allowance of $0.7 million, at December 31, 2008.

The Company measures the fair value of its reporting units annually, as of December 31st, using Level 3 inputs, utilizing the market value and income methods to determine if its goodwill and intangible assets are impaired. When using the cash flow models, management considers historical information, the Company s operating budget, and the Company s strategic goals in projecting net income and cash flows for the next five years. However, an impairment analysis of the leasing reporting unit was performed at the end of the first quarter of fiscal 2009 due to a material change in circumstances and the decision to exit the national direct financing leasing business. GAAP requires interim impairment testing when there is a material change in circumstances. The analysis resulted in a $2.0 million goodwill impairment charge pertaining to the leasing reporting unit. Due to the fact that the Company incurred a net loss in 2009 and the stock price was below the book value per share at September 30, 2009, management performed a goodwill impairment test in the third quarter. There were no impairment charges as a result of the test.

5. ALLOWANCE FOR LOAN AND LEASE LOSSES

The provision for loan and lease losses represents the amount charged against the Bank s earnings to maintain an allowance for probable loan and lease losses based on management s evaluation of the loan and lease portfolio at the balance sheet date. Factors considered by the Bank s management in establishing the allowance include: the collectability of individual loans and leases, current loan and lease concentrations, charge-off history, delinquent loan and lease percentages, input from regulatory agencies, and general economic conditions.

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

The analysis of the allowance for loan and lease losses is composed of three components: specific credit allocation, general portfolio allocation and a subjective allocation. The specific credit allocation includes a detailed review of the credit and allocation is made based on this analysis. The general portfolio allocation consists of an assigned reserve percentage based on the historical loss experience and other qualitative factors of the loan or lease category.

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

The following table sets forth information regarding the allowance for loan and lease losses for the nine month periods ended September 30, 2009 and 2008.

Allowance for loan and lease losses

	Nine months ended September 30,	
	2009	2008
	(in thousands)	
Beginning balance, January 1	$ 6,087	$ 4,555
Charge-offs:		
Commercial	(280)	
Real estate	(35)	(1)
Installment loans	(12)	(4)
Overdrafts	(35)	(41)
Direct financing leases	(9,483)	(1,412)
Total charge-offs	(9,845)	(1,458)
Recoveries:		
Commercial	9	27
Real estate		
Installment loans	1	2
Overdrafts	16	18
Direct financing leases	212	133
Total recoveries	238	180
Net charge-offs	(9,607)	(1,278)
Provision for loan and lease losses	9,583	1,814
Ending balance, September 30	$ 6,063	$ 5,091
Ratio of net charge-offs to average total loans and leases outstanding (annualized)	3.00%	0.49%

6. PER SHARE DATA

The common stock per share information is based upon the weighted average number of shares outstanding during each period. The Company had 10,295 and 3,642 dilutive shares for the three and nine month periods ended September 30, 2009. This compares with 2,698 and 2,664 for the three and nine month periods ended September 30, 2008, respectively.

Potential common shares that would have the effect of increasing diluted earnings per share are considered to be anti-dilutive and not included in calculating diluted earnings per share. For the three and nine months periods ended September 30, 2009, there were approximately 265 thousand and 172 thousand shares, respectively, that were not

included in calculating diluted earnings per share because their effect was anti-dilutive. For the three and nine months periods ended September 30, 2008, there were approximately 109 thousand and 106 thousand shares, respectively, that were not included in calculating diluted earnings per share because their effect was anti-dilutive.

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7. SEGMENT INFORMATION

The Company is comprised of two primary business segments, banking and insurance agency activities. The following tables set forth information regarding these segments for the three and nine month periods ended September 30, 2009 and 2008.

Three Months Ended
September 30, 2009
(in thousands)

	Banking Activities	Insurance Agency Activities	Total
Net interest income (expense)	$ 5,996	$ (28)	$ 5,968
Provision for loan and lease losses	634		634
Net interest income (expense) after provision for loan and lease losses	5,362	(28)	5,334
Non-interest income	2,079		2,079
Insurance service and fees		1,750	1,750
Non-interest expense	4,423	1,373	5,796
Income before income taxes	3,018	349	3,367
Income tax provision	796	135	931
Net income	$ 2,222	$ 214	$ 2,436

Nine Months Ended
September 30, 2009
(in thousands)

	Banking Activities	Insurance Agency Activities	Total
Net interest income (expense)	$ 16,640	$ (113)	$ 16,527
Provision for loan and lease losses	9,583		9,583
Net interest income (expense) after provision for loan and lease losses	7,057	(113)	6,944
Non-interest income	5,405		5,405
Insurance service and fees		5,698	5,698
Non-interest expense	15,505	4,062	19,567
(Loss) Income before income taxes	(3,043)	1,523	(1,520)
Income tax (benefit) provision	(1,444)	588	(856)
Net (loss) income	$ (1,599)	$ 935	$ (664)

Three Months Ended
September 30, 2008
(in thousands)

	Banking Activities	Insurance Agency Activities	Total
Net interest income (expense)	$ 5,200	($66)	$ 5,134
Provision for loan and lease losses	582		582
Net interest income (expense) after provision for loan and lease losses	4,618	(66)	4,552
Non-interest income	1,159		1,159
Insurance service and fees		1,756	1,756
Non-interest expense	3,979	1,275	5,254
Income before income taxes	1,798	415	2,213
Income tax provision	628	160	788
Net income	$ 1,170	$ 255	$ 1,425

Nine Months Ended
September 30, 2008
(in thousands)

	Banking Activities	Insurance Agency Activities	Total
Net interest income (expense)	$ 14,546	($225)	$ 14,321
Provision for loan and lease losses	1,814		1,814
Net interest income (expense) after provision for loan and lease losses	12,732	(225)	12,507
Non-interest income	3,752		3,752
Insurance service and fees		5,506	5,506
Non-interest expense	11,535	3,849	15,384
Income before income taxes	4,949	1,432	6,381
Income tax provision	1,424	554	1,978
Net income	$ 3,525	$ 878	$ 4,403

8. CONTINGENT LIABILITIES AND COMMITMENTS

The unaudited 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 consist of commitments to extend credit and standby letters of credit. A summary of the Bank s commitments and contingent liabilities is as follows:

	September 30 2009	December 31, 2008
	(in thousands)	
Commitments to extend credit	$ 95,563	$ 87,320
Standby letters of credit	3,907	2,807
Total	$ 99,470	$ 90,127

Commitments to extend credit and standby letters of credit include some exposure to credit loss in the event of nonperformance of the customer. The Bank s credit policies and procedures for credit commitments and financial guarantees are the same as those for extensions of credit that are recorded on the Company s unaudited 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 of the Bank. The Bank has not incurred any losses on its commitments during the past two years.

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 is not recorded on the consolidated balance sheets as the fair value of these derivatives is not considered material.

The Company is subject to possible litigation proceedings in the normal course of business. As of September 30, 2009, there were no claims pending against the Company that management considered to be material.

9. NET PERIODIC BENEFIT COSTS

On January 31, 2008, the Bank froze its defined benefit pension plan. The plan covered substantially all Company employees. The plan provides benefits that are based on the employees compensation and years of service. Under the freeze, eligible employees will receive at retirement the benefits already earned through January 31, 2008, but do not accrue any additional benefits. As a result, service cost is no longer incurred.

The Bank used 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 used recognized the prior service cost and net gains or losses over the average remaining service period of active employees. The freezing of the defined benefit pension plan was considered a curtailment. This resulted in the elimination of the unrecognized prior service cost and the unrecognized net loss. The elimination of those two components resulted in a $328 thousand gain in the first quarter of 2008.

The Bank also maintains a nonqualified supplemental executive retirement plan covering certain members of the Company s senior management. The Bank uses an actuarial method of amortizing unrecognized net gains or losses which result from actual expense and assumptions being different than those that are projected. The amortization method the Bank uses recognizes the net gains or losses over the average remaining service period of active employees.

The following table presents the net periodic cost for the Bank s defined benefit pension plan and supplemental executive retirement plan for the nine month periods ended September 30, 2009 and 2008.

	Nine months ended September 30, (in thousands)			
	Pension Benefits		**Supplemental Executive Retirement Plan**	
	2009	2008	2009	2008
Service cost	$	$	$ 45	$ 44
Interest cost	161	177	135	131
Expected return on plan assets	(127)	(219)		
Amortization of prior service cost			42	42
Amortization of the net loss	42		10	14
Net periodic cost (benefit)	$ 76	$ (42)	$ 232	$ 231

The minimum required contribution for the defined benefit pension plan for 2009 is $0.

10. SHARE BASED PAYMENTS

The Company granted a total of 89,780 stock options and 10,210 restricted shares during the third quarter of 2009. All options were granted at an exercise price of $12.99 per share and were granted under the Company s Long-Term Equity Incentive Plan. Each of the awards vest over a four year period, with 25% of the shares covered by each such award vesting on the first four anniversaries of the grant date. The awards expire 10 years after the grant date.

11. RECENT ACCOUNTING PRONOUNCEMENTS

As discussed in Note 1 Organization and Summary of Significant Accounting Policies to these Unaudited Consolidated Financial Statements, on July 1, 2009, the ASC became FASB s officially recognized source of authoritative GAAP applicable to all public and non-public non-governmental entities, superseding existing FASB, AICPA, EITF and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

FASB ASC Topic 715, Compensation Retirement Benefits. New authoritative accounting guidance under ASC Topic 715, Compensation Retirement Benefits, provides guidance related to an employer s disclosures about plan assets of defined benefit pension or other post-retirement benefit plans. Under ASC Topic 715, disclosures should provide users of financial statements with an understanding of how investment allocation decisions are made, the factors that are pertinent to an understanding of investment policies and strategies, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period and significant concentrations of risk within plan assets. The disclosures required by ASC Topic 715 will be included in the Company s financial statements beginning with the financial statements for the year ended December 31, 2009.

FASB ASC Topic 820, Fair Value Measurements and Disclosures. Further new authoritative accounting guidance (Accounting Standards Update No. 2009-5) under ASC Topic 820 provides guidance for measuring the fair value of a liability in circumstances in which a quoted price in an active market for the identical liability is not available. In such instances, a reporting entity is required to measure fair value utilizing a valuation technique that uses (i) the quoted price of the identical liability when traded as an asset, (ii) quoted prices for similar liabilities or similar liabilities when traded as assets, or (iii) another valuation technique that is consistent with the existing principles of ASC Topic 820, such as an income approach or market approach. The new authoritative accounting guidance also

clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The forgoing new authoritative accounting guidance under ASC Topic 820 will be effective for the Company s financial statements beginning October 1, 2009 and is not expected to have a significant impact on the Company s financial statements.

FASB ASC Topic 860, Transfers and Servicing. New authoritative accounting guidance under ASC Topic 860, Transfers and Servicing, amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a qualifying special-purpose entity and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new authoritative accounting guidance under ASC Topic 860 will be effective January 1, 2010 and is not expected to have a significant impact on the Company s financial statements.

12. FINANCIAL STATEMENT PRESENTATION

Given the high risk of the Company s lease portfolio in the current economic recession, in April 2009 management decided that the business model of ENL was no longer a good strategic fit, and decided to exit the national leasing business. As it was the Company s intent to sell the leasing portfolio as of June 30, 2009, the portfolio was classified as held for sale on the Company s balance sheet and was written down to the lower of its carrying value or fair value on that date. The adjustment was a $7.1 million charge to the allowance for loan and lease losses. Consequently, in accordance with GAAP, the Unaudited Consolidated Statements of Operations in the Company s Quarterly Report on Form 10-Q for the three and six month periods ended June 30, 2009 were presented with the results of the leasing reporting unit presented as discontinued operations. Results were similarly presented in Note 7 Segment Information of those same financial statements.

However, after it was publicly announced that the portfolio was for sale, the Company started to field distressed offers that did not reflect the true fair value of the portfolio, indicating a disorderly market. After receiving no offers that provided fair value in management s opinion, management decided that the Company will continue to service the portfolio rather than sell it at a distressed value because the Company will realize better value. According to GAAP, since management has now decided to keep the lease portfolio and has terminated its plans to actively market and sell the portfolio, the portfolio is re-classified as held-for-investment at the lower of cost or fair market value at September 30, 2009. Therefore, leases are presented at their principal value, net of the mark-to-market adjustment. The difference between the principal value and the book value, initially created by the mark-to-market adjustment at June 30, 2009, will reduce over time as individual leases deteriorate and become uncollectible.

At September 30, 2009, the allowance for lease losses is zero because the estimate of inherent losses is already considered in the fair value calculation. With the portfolio classified as held-for-investment at September 30, 2009, the portfolio will be evaluated after the transfer date in accordance with the Company s normal credit review policies in determining how much of an allowance for lease losses is appropriate. During the third quarter of 2009, $1.4 million in leases were deemed uncollectible and the difference between the principal value and carrying value of the leases declined from $7.1 million to $5.7 million.

Upon transfer of the portfolio to held-for-investment at September 30, 2009, the results of the leasing reporting unit have been included in income from continuing operations for the three and nine month periods ended September 30, 2009 and 2008.

ITEM 2 - MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q may contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), that involve substantial risks and uncertainties. When used in

this report, or in the documents incorporated by reference herein, the words anticipate, believe, estimate, expect,

intend, may, plan, seek, and similar expressions identify such forward-looking statements. These forward-looking statements include statements regarding the Company s business plans, prospects, growth and operating strategies, statements regarding the asset quality of the Company s loan and investment portfolios, and estimates of the Company s risks and future costs and benefits.

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

There have been historical disruptions in the financial system in recent months and many lenders and financial institutions have reduced or ceased to provide funding to borrowers, including other lending institutions. The availability of credit, confidence in the entire financial sector, and stability in financial markets has been adversely affected. These disruptions are likely to have some impact on all institutions in the U.S. banking and financial industries.

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.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The Company s Unaudited Consolidated Financial Statements included in this Quarterly Report on Form 10-Q are prepared in accordance with U.S. 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 Unaudited Consolidated Financial Statements and Notes. These estimates, assumptions and judgments are based on information available as of the date of the Unaudited Consolidated Financial Statements. Accordingly, as this information changes, the Unaudited Consolidated Financial Statements could reflect different estimates, assumptions and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments, and as such, have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal cash flow modeling techniques. Refer to Note 3 Fair Value Measurements to the Company s Unaudited Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q for further detail on fair value measurement.

Significant accounting policies followed by the Company are presented in Note 1 Organization and Summary of Significant Accounting Policies to the Audited Consolidated Financial Statements included in Item 8 in its Annual Report on Form 10-K for the fiscal year ended December 31, 2008. These policies, along with the disclosures

presented in the other Notes to the Company s Audited Consolidated Financial Statements contained in its 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 Unaudited Consolidated Financial Statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions and estimates underlying those amounts, management has identified the determination of the allowance for loan and lease losses and valuation of goodwill to be the accounting areas that require the most subjective or complex judgments, and as such, could be most subject to revision as new information becomes available.

Allowance for Loan and Lease Losses

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

Goodwill and Intangible Assets

The amount of goodwill reflected in the Company s Unaudited Consolidated Financial Statements is required to be tested by management for impairment on at least an annual basis. The test for impairment of goodwill on the identified reporting unit is considered a critical accounting estimate because it requires judgment on the part of management and the use of estimates related to the growth assumptions and market multiples used in the valuation model. The goodwill impairment testing is typically performed annually on December 31st. However, an impairment analysis of the leasing reporting unit was performed at the end of the first quarter of fiscal 2009 due to a material change in circumstances, the Company s decision to exit the national direct financing leasing business. GAAP requires interim impairment testing when there is a material change in circumstances. The analysis resulted in a $2.0 million goodwill impairment charge. Since the Company has incurred a net loss in 2009 and the stock price of the Company was below the book value per share at September 30, 2009, another goodwill impairment test was performed. No impairment charges were incurred as a result of the test.

ANALYSIS OF FINANCIAL CONDITION

Loan and Lease Activity

Total loans and leases grew to $473.0 at September 30, 2009, reflecting a $53.8 million or 12.8% increase from June 30, 2009 and a $71.4 million or 17.8% increase from December 31, 2008. $40.3 million of the increase at September 30, 2009 is attributable to the Company s acquisition of Waterford s loan portfolio on July 24, 2009. Gross loans and leases are net of $11.1 million of unearned income on direct financing leases as of December 31, 2008. Commercial loans and leases totaled $357.3 million at September 30, 2009, reflecting a $33.1 million or 10.2% increase from June 30, 2009 and a $48.4 million or 15.7% increase from December 31, 2008. The commercial loans that were acquired from Waterford were $21.0 million at September 30, 2009. Growth in commercial real estate loans of $26.7 million for the third fiscal quarter and $56.5 million for the year to date was largely responsible for the increase in commercial loans and leases from June 30, 2009 and December 31, 2008, respectively, to September 30, 2009. The balance of commercial real estate loans acquired from Waterford at September 30, 2009 was $15.2 million. The Company has no direct exposure to sub-prime lending, and as a result, the faltering sub-prime credit market has not affected the Company s loan portfolio beyond the recessionary consequences suffered by the economy as a whole. In contrast, some of the Bank s larger competitors and the conduit markets are having capital adequacy and liquidity problems due to their exposure to sub-prime loans in their investment portfolio or lending activities in other parts of the United States. These problems have caused some of those competitors to curtail their lending activities somewhat and consequently have created opportunities in the local commercial real estate market for smaller banks

not experiencing the same issues, such as the Bank. The increased opportunities have resulted in the Bank s strong loan growth rates.

Direct finance lease balances decreased $4.7 million or 11.5% from June 30, 2009 and $22.4 million or 38.2% from December 31, 2008 to $36.2 million at September 30, 2009. Starting in the third quarter of 2008, the leasing portfolio s asset quality began to deteriorate. This deterioration accelerated in the first quarter of 2009. Non-performing leases increased to $2.1 million at June 30, 2009 from $0.8 million at December 31, 2008 and $0.4 million at September 30, 2008. This rapid deterioration in the portfolio prompted management to take preventive measures such as credit tightening for new applicants and consolidation of ENL s broker network during the fourth quarter of 2008. However, in the first quarter of 2009 management decided that these measures were not enough and materially slowed new originations. Given the high risk of the portfolio in the current economic recession, in April 2009 management decided that the business model of ENL was no longer a good strategic fit, and decided to exit the national leasing business. As it was the Company s intent to sell the leasing portfolio as of June 30, 2009, the portfolio was marked to its market value and classified as held for sale on the Company s balance sheet. However, after it was publicly announced that the portfolio was for sale, the Company started to field distressed offers that did not reflect the true fair value of the portfolio in management s opinion. After receiving no offers that were adequate, management decided to continue to service the portfolio rather than sell at a distressed value. As such, the lease portfolio was re-classified to held-for-investment at September 30, 2009 as management is no longer actively marketing or soliciting offers for the portfolio and has determined it will service the portfolio to maturity.

Consumer loans totaled $121.2 million at September 30, 2009, reflecting a $21.1 million or 21.1% increase from June 30, 2009 and a 23.6% increase from December 31, 2008. The balance of consumer loans acquired from Waterford was $19.3 million at September 30, 2009. Consumer real estate loans increased $12.4 million or 22.1% from June 30, 2009, and increased $11.9 million or 21.0% from December 31, 2008, to $68.7 million at September 30, 2009. The entire increase from June 30, 2009 was due to the purchase of consumer real estate loans from Waterford. Organic growth of consumer real estate balances during the quarter was flat. Recent efforts by the federal government to stimulate housing demand in the face of the economic recession have lowered residential home mortgage rates and resulted in significantly increased consumer real estate demand. However, given the low fixed rates and long terms of the loans being originated, the Company has sold most of its originated residential mortgage loans. This, along with accelerated prepayments from existing customers re-financing their homes, has resulted in decreased consumer real estate balances (excluding loans acquired from Waterford) at September 30, 2009 when compared with December 31, 2008.

The Bank sells these fixed rate residential mortgages to the FNMA, while maintaining the servicing rights for those mortgages. During the three month period ended September 30, 2009, the Bank sold mortgages to FNMA totaling $4.0 million, as compared with $0.4 million sold during the three month period ended September 30, 2008. During the nine month period ended September 30, 2009, the Bank sold mortgages to FNMA totaling $12.6 million, as compared to $1.8 million sold during the nine month period ended September 30, 2008. At September 30, 2009, the Bank had a loan servicing portfolio principal balance of $35.4 million upon which it earns servicing fees, as compared with $33.2 million at June 30, 2009 and $26.9 million at December 31, 2008.

Loan and Lease Portfolio Composition

The following table presents selected information on the composition of the Company s loan and lease portfolio in dollar amounts and in percentages as of the dates indicated.

(in thousands)	September 30, 2009	Percentage	December 31, 2008	Percentage
Commercial Loans and Leases				
Real Estate	$ 259,927	54.3%	$ 203,449	49.9%
Installment	29,352	6.1%	24,770	6.1%
Direct Financing Leases	36,218	7.6%	58,639	14.4%
Lines of Credit	31,680	6.6%	21,953	5.4%
Cash Reserve	90	0.0%	52	0.0%
Total Commercial Loans and Leases	357,267	74.6%	308,863	75.8%
Consumer Loans				
Real Estate	68,663	14.3%	56,730	13.9%
Home Equity	48,859	10.2%	39,348	9.6%
Installment	2,554	0.5%	1,609	0.4%
Overdrafts	189	0.1%	360	0.1%
Other	898	0.2%	5	0.0%
Total Consumer Loans	121,163	25.3%	98,052	24.0%
Net Deferred Costs & Unearned Discounts	637	0.1%	798	0.0%
Total Loans and Leases	479,067	100.0%	407,713	100.0%
Allowance for Loan and Lease Losses	(6,063)		(6,087)	
Loans and Leases, net	$ 473,004		$ 401,626	

Net loan and lease charge-offs were $0.2 million in the three month period ended September 30, 2009 as compared with $7.8 million in the second quarter of 2009 and $0.6 million in the three month period ended September 30, 2008. Nearly all of the net charge-offs for all previous periods were in the Company s leasing portfolio, including the mark to market adjustment of $7.1 million in the second quarter of 2009 when the portfolio became classified as held-for-sale. The rapid deterioration of the portfolio and the sensitivity of direct financing leases to the economic environment led management to make the strategic decision in April 2009 to exit the national direct financing leasing business. At September 30, 2009, management determined to keep the lease portfolio and terminated its plans to actively market the portfolio. As a result, the portfolio is re-classified as held-for-investment at the lower of cost or fair market value. As management believes that the offers in the third quarter did not represent an orderly market, the portfolio was placed back into held-for-investment at September 30, 2009 using the same discount used at June 30, 2009. The difference between the principal value and the carrying value, initially created by the mark-to-market adjustment at June 30, 2009, will reduce over time as individual leases deteriorate and become uncollectible. The allowance for lease losses was zero at June 30, 2009 when the portfolio was classified as held-for-sale and reported at their fair

market value. At September 30, 2009, the allowance for lease losses remained zero because the estimate of inherent losses is already considered in the fair value calculation. With the portfolio classified as held-for-investment at September 30, 2009, the portfolio will be evaluated after the transfer date in accordance with the Company s normal credit review policies in determining how much of an allowance for lease

losses is appropriate. During the third quarter of 2009, $1.4 million in leases were deemed uncollectible and the difference between the principal value and carrying value of the leases declined from $7.1 million to $5.7 million.
Non-performing loans and leases, defined as accruing loans and leases greater than 90 days past due and non-accrual loans and leases, totaled $9.9 million, or 2.07% of total loans and leases outstanding at September 30, 2009 as compared with $4.9 million, or 1.14% at June 30, 2009 and $3.6 million, or 0.88% at December 31, 2008. Of the $5.0 million increase in non-performing loans and leases from June 30, 2009, $3.7 million related to an increase in loans 90 days past due and still accruing. Management considers these loans well secured and in the process of collection, and still believes that the Company will collect full principal and interest as contracted. Much of the remaining increase in non-performing loans was due to impaired loans acquired in the Waterford acquisition.
The allowance for loan and lease losses totaled $6.1 million or 1.27% of total loans and leases outstanding at September 30, 2009 as compared with $5.6 million or 1.31% of total loans and leases outstanding as of June 30, 2009 and $6.1 million or 1.49% of total loans and leases outstanding as of December 31, 2008. Given the accelerated charge-offs in the leasing portfolio and the continued troubles in the economy, management increased the allowance for loan and lease losses through the provision for loan and lease losses to cover the increased level of expected future losses inherent in the portfolio at March 31, 2009. However, when the direct financing leases were classified as held-for-sale at June 30, 2009 and marked to their market value, the markdown was recorded as a charge-off that reduced the allowance associated with the leases to zero. This resulted in a lower allowance for loan and lease losses at June 30, 2009. As the leases are now considered held for investment at September 30, 2009, they will be evaluated consistent with the Bank s existing provision and credit policies.
The ratio of allowance for loan and lease losses to total loans and leases was further diluted by the acquisition of the loan portfolio of Waterford. According to GAAP, when assets are purchased in a business combination, they are to be recorded at fair value. Included in the calculation of fair value is consideration given to inherent loan losses. Since the loans are already discounted by the amount of potential future losses, they are not reserved for in the allowance for loan and lease losses as of the acquisition date. Provision will be recorded for the Waterford loan portfolio for any credit events that occur post-acquisition. Excluding the lease portfolio and loans acquired from Waterford, the allowance ratio would be 1.51% at September 30, 2009, compared with 1.45% at June 30, 2009, and 1.04% at September 30, 2008.
The adequacy of the Company s allowance for loan and lease losses is reviewed quarterly by the Company s management with consideration given to loan and lease concentrations, charge-off history, delinquent loan and lease percentages, regulatory considerations, and general economic conditions. Management believes the allowance for loan and lease losses is adequate for losses from existing loans and leases.

The following table sets forth information regarding non-performing loans and leases as of the dates specified.

	September 30, 2009	December 31, 2008
	(in thousands)	
Non-accruing loans and leases:		
Mortgage loans on real estate		
Residential 1-4 family	$ 255	$ 50
Commercial and multi-family	1,610	1,787
Construction		417
Home equity lines of credit	55	
Total mortgage loans on real estate	1,920	2,254
Direct financing leases	2,798	791
Commercial loans	1,080	263
Consumer installment loans	252	
Other		123
Total non-accruing loans and leases	$ 6,050	$ 3,431
Accruing loans and leases 90+ days past due	3,848	148
Total non-performing loans and leases	9,898	3,579
Total non-performing loans and leases as a percentage of total assets	1.61%	0.68%
Total non-performing loans and leases as a percentage of total loans and leases	2.07%	0.88%

For the three and nine month periods ended September 30, 2009, gross interest income that would have been reported on non-accruing loans and leases had they been current was $70 thousand and $287 thousand, respectively. For the three and nine month periods ended September 30, 2008, gross interest income that would have been reported on non-accruing loans and leases had they been current, was $8 thousand and $25 thousand, respectively. The year-over-year increase was due to the increase in total non-accruing loans and leases as depicted in the table above. There was $71 thousand and $200 thousand of interest income on non-accruing loans and leases included in net income for the three and nine month periods ended September 30, 2009. There was $3 thousand and $25 thousand of interest income on non-accruing loans and leases included in net income for the three and nine month periods ended September 30, 2008.

The Company had $3.1 million in loans and leases that were restructured in a troubled debt restructuring at September 30, 2009, compared with $2.4 million at December 31, 2008. These restructurings were allowed in an effort to maximize the Company s ability to collect on loans and leases where borrowers were experiencing financial issues. The general practice of the Company is to work with borrowers so that they are able to pay back their loan or

lease in full. If a borrower continues to be delinquent or can not meet the terms of a troubled debt restructuring, the loan or lease will be placed in nonaccrual or charged off.

Investing Activities

Total securities were $83.8 million at September 30, 2009, reflecting a $4.0 million, or 5.0%, increase from $79.8 million at June 30, 2009 and a 10.6% increase from $75.8 million at December 31, 2008. Securities and interest-bearing deposits at banks made up 15.6% of the Bank s total average interest earning assets in the third quarter of 2009 compared with 16.8% in the second quarter of 2009 and 15.7% in the third quarter of 2008.

The Bank continues to have a large concentration in tax-advantaged municipal bonds, which make up 49.1% of the Company s securities portfolio at September 30, 2009 compared with 50.0% at June 30, 2009 and 49.3% at December 31, 2008; and U.S. government-sponsored agency bonds of various types, which comprise 27.7% of the portfolio at September 30, 2009 versus 26.1% at June 30, 2009 and 23.7% at December 31, 2008. Agency mortgage-backed securities comprise 19.4% at September 30, 2009 compared with 20.2% at June 30, 2009 and 20.9% at December 31, 2008. As a member of both the Federal Reserve System and FHLBNY, the Bank is required to hold stock in those entities. These investments made up 3.7% of the portfolio at September 30, 2009 and June 30, 2009 and 4.7% at December 31, 2008. The credit quality of the securities portfolio as a whole is believed to be strong as the portfolio is in an overall unrealized net gain position, with no individual securities in a significant unrealized loss position.

The Company monitors extension and prepayment risk in the securities portfolio to limit potential exposures. The average expected life of the securities portfolio is 3.4 years as of September 30, 2009 compared with 3.7 years as of June 30, 2009 and 2.1 years as of December 31, 2008. The longer average life in 2009 is because the Company does not have any short-term discount notes as of September 30, 2009 or June 30, 2009 as it did on December 31, 2008, and also due to the Company s purchase of municipal bonds to replace securities rolling off. Discount notes are bonds which typically have maturities of under one month and are used to collateralize short-term, seasonal municipal deposits. Late in 2008 and early in 2009, municipal bonds were selling at a spread to U.S. Treasury bonds much wider than the historical norms due to market concerns over municipal bond insurers during the economic crisis. Management took advantage of these wide spreads and purchased municipal bonds at favorable yields. Spreads have now returned to much closer to historical norms. Available-for-sale securities with a total fair value of $72.0 million at September 30, 2009 were pledged as collateral to secure public deposits and for other purposes required or permitted by law. The Company has no direct exposure to subprime mortgages, nor does the Company hold private mortgage-backed securities, credit default swaps, or FNMA or FHLMC preferred stock investments in its investment portfolio.

Funding Activities

Total deposits at September 30, 2009 were $502.8 million, reflecting a $51.5 million or 11.4% increase from June 30, 2009 and a $98.8 million or 24.5% increase from December 31, 2008. Much of the increase in the quarter is due to deposits acquired from Waterford. Total deposits attributable to the Waterford acquisition were $49.1 million at September 30, 2009. Demand deposits at September 30, 2009 were $83.2 million, reflecting a $4.6 million or 5.3% decrease from June 30, 2009, but a $7.2 million or 9.5% increase from December 31, 2008. Demand deposit balances fluctuate day-to-day based on the high volume of transactions normally associated with the demand product, and therefore average demand deposit growth is a better measure of sustained growth. Average demand deposits during the three month period ended September 30, 2009 were 2.3% higher than the second quarter of 2009, and 10.3% higher than the prior year s third quarter.

Much of the overall deposit growth in 2009 is attributable to an increase in regular savings deposits of $65.0 million, or 42.1%, to $219.3 million. There were $9.4 million in regular savings deposits from Waterford at September 30, 2009. The rest of the growth is attributable to the Company s premium retail money market savings product that was introduced in May 2008 and has continued to experience strong growth in 2009 as customers continue to gravitate toward liquidity in this low-rate environment. Time deposits were $155.2 million at September 30, 2009, reflecting a $26.9 million or 21.0% increase from June 30, 2009 and an $18.7 million or 13.7% increase from December 31, 2008. Given that time deposits at the former Waterford branch at September 30, 2009 totaled $38.2 million, organic time deposit growth for the rest of the Bank was negative when compared with time deposits at June 30, 2009 and December 31, 2008. As was just noted, in a low rate environment, customers prefer to keep their savings liquid rather than lock up their funds for extended periods of time at low rates.

Short-term borrowings from other correspondent banks and the FHLBNY was $9.6 million at September 30, 2009, a slight increase from $6.2 million at June 30, 2009, but a significant decrease from $30.7 million at December 31, 2008. Long-term borrowings were $27.0 million at September 30, 2009, reflecting no change from June 30, 2009 and

an $8.8 million increase from December 31, 2008. The Company s strong savings deposit growth has resulted in a decrease in its need for wholesale short-term borrowings compared with December 31, 2008. However, in an effort to mitigate interest rate risk with the growing variable rate savings balances and declining fixed rate time deposits, the Company increased its long-term fixed rate borrowings in the first two quarters of 2009. There were no further long term advances in the third quarter after the infusion of liquidity from the Waterford acquisition.

ANALYSIS OF RESULTS OF OPERATIONS

Average Balance Sheet

The following tables present the significant categories of the assets and liabilities of the Company, interest income and interest expense, and the corresponding yields earned and rates paid for the periods indicated. The assets and liabilities are presented as daily averages. The average loan and lease balances include both performing and non-performing loans and leases. Investments are included at amortized cost. Yields are presented on a non-tax-equivalent basis.

	Three Months Ended September 30, 2009			Three Months Ended September 30, 2008		
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate
	(dollars in thousands)			(dollars in thousands)		
ASSETS						
Interest-earning assets:						
Loans and leases, net	$ 455,509	$ 7,046	6.19%	$ 370,349	$ 6,908	7.46%
Taxable securities	43,471	479	4.41%	33,140	360	4.35%
Tax-exempt securities	38,842	399	4.11%	32,877	353	4.29%
Interest bearing deposits at banks	1,623		0.00%	3,086	13	1.69%
Total interest-earning assets	539,445	7,924	5.88%	439,452	7,634	6.95%
Non interest-earning assets:						
Cash and due from banks	13,125			13,650		
Premises and equipment, net	9,456			8,793		
Other assets	32,756			30,926		
Total Assets	594,782			$ 492,821		
LIABILITIES & STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
NOW	$ 9,588	$ 5	0.21%	$ 13,669	$ 28	0.82%
Regular savings	209,406	520	0.99%	126,324	551	1.74%
Muni-Vest savings	31,908	35	0.44%	20,742	96	1.85%
Time deposits	149,354	1,064	2.85%	150,496	1,440	3.83%
Other borrowed funds	36,004	236	2.62%	29,106	225	3.09%
Junior subordinated debentures	11,330	90	3.18%	11,330	151	5.33%
Securities sold U/A to repurchase	5,201	5	0.38%	4,710	9	0.76%

Total interest-bearing liabilities	452,791	$ 1,955	1.73%	356,377	$ 2,500	2.81%
Noninterest-bearing liabilities:						
Demand deposits	87,275			79,107		
Other	11,318			11,075		
Total liabilities	$ 551,384			$ 446,559		
Stockholders equity	43,398			46,262		
Total Liabilities and Equity	$ 594,782			$ 492,821		
Net interest earnings		$ 5,969			$ 5,134	
Net interest margin			4.43%			4.67%
Interest rate spread			4.15%			4.14%

	Nine Months Ended September 30, 2009			Nine Months Ended September 30, 2008		
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate
	(dollars in thousands)			(dollars in thousands)		
ASSETS						
Interest earning assets:						
Loans and leases, net	$ 427,263	$ 20,340	6.35%	$ 345,971	$ 19,515	7.52%
Taxable securities	40,135	1,202	3.99%	31,817	1,001	4.19%
Tax-exempt securities	40,484	1,274	4.20%	35,217	1,144	4.33%
Interest bearing deposits at banks	1,118	1	0.12%	1,475	20	1.81%
Total interest-earning assets	509,000	22,817	5.98%	414,480	21,680	6.97%
Non interest earning assets:						
Cash and due from banks	12,182			12,611		
Premises and equipment, net	9,621			8,486		
Other assets	32,532			30,016		
Total Assets	563,335			465,593		
LIABILITIES & STOCKHOLDERS EQUITY						
Interest-bearing liabilities:						
NOW	$ 10,923	$ 24	0.30%	$ 12,264	$ 66	0.72%
Regular savings	188,004	1,767	1.25%	102,211	1,092	1.42%
Muni-Vest savings	33,671	169	0.67%	23,202	391	2.25%
Time deposits	140,831	3,385	3.20%	144,128	4,388	4.06%
Other borrowed funds	32,707	613	2.50%	37,399	892	3.18%
Junior subordinated debentures	11,330	315	3.71%	11,330	498	5.86%
Securities sold U/A to repurchase	4,997	15	0.41%	5,195	32	0.82%
Total interest-bearing liabilities	422,463	$ 6,290	1.99%	335,729	$ 7,359	2.92%

Noninterest-bearing liabilities:				
Demand deposits	83,975		74,028	
Other	12,173		10,787	
Total liabilities	$ 518,611		420,544	
Stockholders equity	44,724		45,049	
Total Liabilities and Equity	$ 563,335		465,593	
Net interest margin		$ 16,527		$ 14,321
Net yield on interest earning assets		4.33%		4.61%
Interest rate spread		3.99%		4.05%

Net Income

Net income for the third quarter of 2009 was $2.4 million, or $0.87 per diluted share, compared with net income of $1.4 million, or $0.52 per diluted share, in the third quarter of 2008. The increase in net income can be attributed to a $0.8 million increase in net interest income and the $0.7 million pre-tax bargain purchase gain related to the Waterford acquisition. For the year to date, the net loss was ($0.7) million, or ($0.24) per share, compared with $4.4 million in net income, or $1.60 per share, in the prior year period. The year to date loss can be attributed to the $7.8 million increase in the provision for loan and lease losses, which was mostly due to the deterioration of the Company s leasing portfolio and the resultant writedown of the portfolio in the second quarter of 2009. Return on average equity was 22.45% for the quarter and (1.98%) for the year to date, compared with 12.32% and 13.03% in last year s respective periods.

Net operating income (as defined in the following Supplemental Non-GAAP Disclosure) is net income adjusted

for what management considers to be non-operating items. Net operating income for the third quarter of 2009 was $2.2 million, or $0.77 per diluted share, an increase of $0.6 million, or 41.4%, from net operating income of $1.5 million, or $0.55 per diluted share, in the third quarter of 2008. The increase was due to the aforementioned increase in net interest income. For the year to date, net operating income was $0.5 million, or $0.19 per diluted share, an 88.6% decrease from net operating income of $4.7 million in the first nine months of 2008. The decrease was due to the significant provision for loan and lease losses taken during the first nine months of 2009 of $9.6 million, compared with $1.8 million in the same period in 2008, somewhat offset by the increase in net interest from $14.3 million in 2008 to $16.5 million in 2009.

Supplemental Reporting of Non-GAAP Results of Operations

To provide investors with greater visibility of the Company s operating results, in addition to the results measured in accordance with GAAP, the Company provides supplemental reporting on net operating income, which excludes items that management believes to be non-operating in nature. Specifically, net operating income excludes the non-cash impairment and amortization of acquisition-related goodwill and intangible assets, any gains recognized as a result of an acquisition, and any gains and losses on the sale or call of investment securities. This non-GAAP information is being disclosed because management believes that providing this non-GAAP financial measure provides investors with information useful in understanding the Company s financial performance, its performance trends, and financial position. While the Company s management uses this non-GAAP measure in its analysis of the Company s performance, this information should not be viewed as a substitute for financial results determined in accordance with GAAP or considered to be more important than financial results determined in accordance with GAAP, nor is it necessarily comparable with non-GAAP measures which may be presented by other companies. See the reconciliation of net operating income and diluted net operating earnings per share to GAAP net income and GAAP diluted earnings per share in the following table:

Reconciliation of GAAP Net Income (Loss) to Net Operating Income (non-GAAP)

	Three months ended September 30,		**Nine months ended September 30,**	
(in thousands, except per share)	**2009**	**2008**	**2009**	**2008**
GAAP Net Income (Loss)	**$ 2,436**	**$ 1,425**	**($664)**	**$ 4,403**
Gain on sale and call of securities[1]	(6)		(10)	(4)
Goodwill impairment charge[1]			1,210	
Amortization of intangibles[1]	135	104	408	306
Gain on bargain purchase[1]	(409)		(409)	
Net operating income[2]	**$ 2,156**	**$ 1,529**	**$ 535**	**$ 4,705**
GAAP diluted earnings (loss) per share	**$ 0.87**	**$ 0.52**	**($0.24)**	**$ 1.60**
Gain on sale and call of securities[1]				
Goodwill impairment charge[1]			0.43	
Amortization of intangibles[1]	0.05	0.03	0.15	0.11
Gain on bargain purchase[1]	(0.15)		(0.15)	
Diluted net operating earnings per share[2]	**$ 0.77**	**$ 0.55**	**$ 0.19**	**$ 1.71**

1

After any tax-related effect

[2] Non-GAAP measure

Other Results of Operations

Net interest income increased to $6.0 million during the third quarter of 2009, an increase of 16.2% from $5.1 million in the third quarter of 2008. Net interest income for the nine month period ended September 30, 2009 was $16.5 million, an increase of 15.4% from $14.3 million in the prior year. Growth of the loan portfolio and the reduced cost of interest-bearing liabilities continue to be the main factors driving this increase. Net interest income attributable to the Waterford acquisition during the third quarter was approximately $0.25 million.

The Company s net interest margin was 4.43% and 4.33% for the three and nine month periods ended September 30, 2009, respectively, down from 4.67% and 4.61% in the prior year s respective periods. The decreased margin in the year-over-year comparison was mostly due to the compression of the contribution of interest-free funds. The interest-free funds contribution for the three and nine month periods ended September 30, 2009 was 0.28% and 0.34%, compared with 0.53% and 0.56% in the comparable periods in 2008. The reason for the compression in the contribution is that while interest-earnings assets have grown 22.8% in the three and nine month periods ended September 30, 2009 compared with the same periods in 2008, there have not been comparable growth rates in interest-free funds. The two largest components of interest-free funds are demand deposits and stockholders equity. While average demand deposit growth has been strong by industry standards at 10.3% and 13.4% for the three and nine month periods ended September 30, 2009 compared with the prior year, those growth rates do not match the even higher growth rates of the Company s interest-earning assets. Also, average stockholders equity is actually lower in 2009 when compared with 2008 due to the Company s losses in the first two quarters of 2009.

Despite the year over year decline, the quarterly net interest margin of 4.43% was 0.18% higher than the second quarter 2009 net interest margin of 4.25%. The Company was able to expand its margin by improving deposit pricing while maintaining asset yields fairly consistently. This resulted in an increase in the net interest spread quarter over quarter from 3.88% to 4.15%. While the contribution of interest-free funds has declined, the Company has basically maintained the interest rate spread between asset yields and rates paid on liabilities with a spread of 4.15% and 3.99% in the three and nine month periods ended September 30, 2009, compared with 4.14% and 4.05% for the comparable periods in 2008.

Net charge-offs to average total loans and leases decreased to 0.13% compared with 7.48% in the second quarter of 2009 and 0.59% for the 2008 third quarter. The net charge off ratio for the first nine months of 2009 was 3.00%, compared with 0.49% for the same period in 2008. The provision for loan and lease losses was $0.6 million in the third quarter of 2009, compared with $5.6 million in the second quarter of 2009, $3.3 million in the first quarter of 2009, and $0.6 million in the third quarter of 2008.

This decrease in net charge-offs during the third quarter of 2009 was primarily related to the direct finance national lease portfolio. In the first quarter, as the leasing portfolio quickly deteriorated, the Company incurred a $2.9 million provision related to leasing. Then, as noted earlier, the leasing portfolio was classified as held-for-sale on the balance sheet as of June 30, 2009, and as such was marked down to its market value. This mark to market adjustment and actual charge-offs amounted to $7.7 million in the second quarter. $3.8 million had previously been reserved for, resulting in the $3.9 million provision in the second quarter related to leasing. As was noted earlier, there were no net charge-offs or provision for losses related to leasing recorded in the third quarter of 2009 because the previously recorded mark-to-market adjustment sufficiently covers the inherent losses of the leasing portfolio as of the transfer date. This is the primary reason that the Company was able to have a positive net income in the third quarter of 2009 compared with the net losses incurred in the first two quarters of 2009.

Non-interest income increased 31.4%, or $0.9 million, from last year s third quarter to $3.8 million in the third quarter of 2009. For the nine month period ended September 30, 2009, non-interest income increased 19.9%, or $1.8 million, over the prior year period to $11.1 million. Non-interest income represented 39.1% and 40.2% of total revenue in the three and nine month periods ended September 30, 2009, compared with 36.2% and 39.3% in the same respective periods in 2008. The primary reasons for the increase in non-interest income are the $0.7 million gain on bargain purchase related to the Waterford acquisition in the third quarter of 2009, as well as an increase in bank-owned life insurance income and revenue generated by Suchak Data Systems (SDS).

Bank-owned life insurance (BOLI) income was $0.11 million and $0.47 million for the three and nine month periods ended September 30, 2009, compared with $0.03 million and $0.24 million in the same periods in 2008. BOLI income was lower in 2008 as a result of a decline in value stemming from market fluctuations of a small number of individual policies which the Company have since sold and replaced with more conservative policies.

SDS is a data processing company acquired by the Company in December 2008. SDS generated $0.13 million and $0.58 million in revenue in the three and nine month periods ended September 30, 2009. Revenue related to SDS is

reported in other income on the Company s Unaudited Consolidated Statements of Operations.
Insurance service and fee income, the largest component of non-interest income, was flat in the third quarter of 2009 when compared with last year s third quarter at $1.8 million as the soft insurance market continued. For the year-to-

date, insurance services and fee income increased $0.2 million, or 3.5%, over the prior year period to $5.7 million.
Total non-interest expenses were $5.8 million and $19.6 million for the three and nine month periods ended September 30, 2009, respectively, compared with $5.3 million and $15.4 million for the same periods in 2008. The largest component of the increase in total non-interest expenses over last year s third quarter was salaries and employee benefits expense of $3.2 million, which increased $0.3 million or 9.4% over the third quarter of 2008. Most of the increase is attributable to the additional employees from the SDS and Waterford acquisitions. Other factors contributing to the increase in the non-interest expenses for the third quarter of 2009 included increased professional services expenses of $0.1 million from additional legal work related to the Waterford acquisition and potential lease portfolio sale and increased FDIC insurance premiums of $0.1 million. These expense increases were partially offset by savings in technology and communications expenses of $0.1 million related to synergies achieved in the SDS acquisition.

For the year-to-date period, the largest factor contributing to the increase in non-interest expenses was the goodwill impairment charge of $2.0 million taken in the first quarter of 2009. The year-to-date increase in non-interest expense was also attributable to increase in salaries and benefits ($1.0 million), professional services ($0.3 million) and FDIC insurance premiums ($0.5 million), partially offset by a reduction in technology and communications expenses ($0.3 million). The changes were primarily attributed to the same factors cited above with respect to the quarterly increase.

The Company s efficiency ratio for the three and nine month periods ended September 30, 2009, was 56.95% and 61.26%, compared with 63.15% in both of last year s comparable periods. Amortization and goodwill impairment and securities gains and losses are excluded from the efficiency ratio calculation. The efficiency ratio was significantly lower in the quarterly comparison due to the gain on bargain purchase related to the Waterford acquisition. In the year-to-date comparison, the decrease in the ratio is primarily due to the fact that the increase in revenue has exceeded the increase in non-interest expenses such as salaries and benefits and FDIC insurance.

Income tax provision (benefit) totaled $0.9 million and ($0.9) million for the three and nine month periods ended September 30, 2009, respectively, reflecting an effective tax rate of 27.7% and (56.3%). The effective tax rate for the three and nine month periods ended September 30, 2008 was 35.6% and 31.0%, respectively. Excluding the tax benefit from discrete items such as the impairment charge and the mark to market leasing adjustment, the Company records an effective tax rate based on the expected rate for the entire year. The decrease in the effective tax rate for the third quarter of 2009 compared with the third quarter of 2008 is primarily due to increased tax-exempt income such as interest earned on municipal bonds and BOLI income.

CAPITAL

The Company consistently maintains regulatory capital ratios measurably above the federal well capitalized standard of 5.00% with a Tier 1 leverage ratio of 7.81%. Average equity as a percentage of average assets was 7.30% in the three months ended September 30, 2009, compared with 8.02% in the three months ended June 30, 2009, and 9.39% in the three months ended September 30, 2008. The decrease was a result of the strong growth in core earning assets during the past 12 months as well as the net loss incurred in the first nine months of 2009. Book value per outstanding common share was $16.09 at September 30, 2009, compared with $15.08 at June 30, 2009, and $16.57 at December 31, 2008.

LIQUIDITY

The Company utilizes cash flows from the investment portfolio and federal funds sold balances to manage the liquidity requirements related to loan demand and deposit fluctuations. The Bank also has many borrowing options. As a member of the FHLB the Bank is able to borrow funds at competitive rates. Advances of up to $57.9 million can be drawn on the FHLB via an Overnight Line of Credit Agreement between the Bank and the FHLB. The Bank recently was approved for additional credit at FHLB after placing additional commercial real estate loans as collateral at FHLB. An amount equal to 25% of the Bank s total assets could be borrowed through the advance programs under certain qualifying circumstances. The Bank also has the ability to purchase up to $14.0 million in federal funds from its correspondent banks. By placing sufficient collateral in safekeeping at the Federal Reserve Bank, the Bank could

borrow at the discount window. The Company s liquidity needs also can be met by more aggressively pursuing time deposits, or accessing the brokered time deposit market, including the Certificate of

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Deposit Account Registry Service (CDARS) network, of which the Bank became a member in 2009. Additionally, the Company has access to capital markets as a funding source.

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. At September 30, 2009, approximately 7.4% of the Bank s securities had contractual maturity dates of one year or less and approximately 31.8% had maturity dates of five years or less.

Management, on an ongoing basis, closely monitors the Company s liquidity position for compliance with internal policies, and believes that available sources of liquidity are adequate to meet funding needs in the normal course of business. 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. Management 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 September 30, 2009, in the Company s internal stress test, the Company had net short-term liquidity of $58.0 million as compared with $22.4 million at December 31, 2008. The increase in the Company s liquidity is a result of FHLB giving the Company more room on its line of credit after the Company placed additional commercial real estate loans at FHLB as collateral. Available assets of $88.2 million, divided by public and purchased funds of $139.2 million, resulted in a long-term liquidity ratio of 63% at September 30, 2009, compared with 51% at December 31, 2008.

Management does not anticipate engaging in any activities, either currently or the long term, for which adequate funding would not be available and which would therefore result in significant pressure on liquidity. However, continued 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. Several members of FHLB have warned that they have either breached risk-based capital requirements or that they are close to breaching those requirements. To conserve capital, some FHLB branches are suspending dividends, cutting dividend payments, and not buying 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. The most severe problems in FHLB have been at some of the other FHLB branches. Nonetheless, the 12 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 First Tennessee and M&T Bank.

The Company believes that the Bank maintains a sufficient level of U.S. government and government agency securities and New York State municipal bonds that can be pledged as collateral for municipal deposits.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Additional information responsive to this Item is contained in the Liquidity section of Management s Discussion and Analysis of Financial Condition and Results of Operations, which information is incorporated herein by reference. Market risk is the risk of loss from adverse changes in market prices and/or interest rates of the Bank s financial instruments. The primary market risk the Company is exposed to is interest rate risk. The core banking activities of lending and deposit-taking expose the Bank to interest rate risk, which occurs when assets and liabilities reprice 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 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 to changes in net interest rates. The balances of financial instruments used in the projections are based on expected growth from forecasted business opportunities, anticipated prepayments of loans, and expected maturities of investment securities, loans and deposits. Management supplements the modeling technique described above with analysis of market values of the Bank s financial instruments and changes to such market values given changes in the interest rates.

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

The following table demonstrates the possible impact of changes in interest rates on the Bank s net interest income over a 12-month period of time:

SENSITIVITY OF NET INTEREST INCOME
TO CHANGES IN INTEREST
RATES

	Calculated (decrease) increase in projected annual net interest income (in thousands)	
	September 30, 2009	December 31, 2008
Changes in interest rates		
+200 basis points	33	(293)
+100 basis points	20	(140)
-100 basis points	(26)	(33)
-200 basis points	N/A	20

Many assumptions were utilized by management to calculate the impact that changes in interest rates may have on the Bank s net interest income. The more significant assumptions related to the rate of prepayments of mortgage-related assets, loan and deposit volumes and pricing, and deposit maturities. The Bank assumed immediate changes in rates including 200 basis point rate changes. In the event that the 200 basis point rate changes 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/repricing categories, as well as any actions such as those previously described, which management may

take to counter such changes. In light of the uncertainties and assumptions associated with the process, the amounts presented in the table and changes in such amounts are not considered significant to the Bank s projected net interest income.

ITEM 4T CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

The Company s management, with the participation of the Company s principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, the Company s principal executive and principal financial officers concluded that the Company s disclosure controls and procedures as of September 30, 2009 (the end of the period covered by this Report) have been designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the Company s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes in the Company s internal control over financial reporting were identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during the fiscal quarter ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION
ITEM 6 EXHIBITS

Exhibit No.	Name	Page No.
10.1	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 1, 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).	
10.2	Employment Agreement by and among Evans Bank, N.A., Evans Bancorp, Inc. and William R. Glass, executed and delivered by the Company and the Bank on September 30, 2009 and effective as of September 30, 2009 (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K, as filed on October 6, 2009).	
10.3	Employment Agreement by and among Evans Bank, N.A., Evans Bancorp, Inc. and Gary A. Kajtoch, executed and delivered by the Company and the Bank on October 6, 2009 and effective as of September 29, 2009 (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K, as filed on October 13, 2009).	
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	37
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	38
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.	39
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.	40

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Evans Bancorp, Inc.
DATE November 9, 2009	/s/ David J. Nasca
	David J. Nasca President and CEO (Principal Executive Officer)
DATE November 9, 2009	/s/ Gary A. Kajtoch
	Gary A. Kajtoch Treasurer (Principal Financial Officer)

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