

The Advisor

August 2015

A Newsletter for Elmira Savings Bank Shareholders, Customers and Community

Vol. 5 No. 4

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Calendar of Events

Finger Lakes Beer Festival

Watkins Glen International
October 24

Downtown Elmira Holiday Parade

November 27

Parade of Lights, Corning

November 29

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Elmira Savings Bank
333 East Water Street
Elmira, NY 14901
Phone: 607-734-3374
Toll free 888-372-9299
www.elmirasavingsbank.com

Connect with us on Facebook
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President's Message

In July 2015 the ICBA, *Independent Banker*® named Elmira Savings Bank as a top producing lender. Elmira Savings Bank was ranked 13th of banks its size in providing loans to individuals and families. The following paragraphs are an excerpt from the article featuring Elmira Savings Bank in the July 2015 Annual Lending Issue.

"Elmira Savings Bank in Elmira, NY, has always underwritten mortgage loans on the ability of borrowers to repay, so the bank hasn't had to adjust its lending model," says Thomas M. Carr, President and Chief Executive Officer. However, the bank did have to adjust to the many new compliance requirements of the CFPB rules defining the qualified mortgages that provide the most legal protection most community banks require.

"During the [ability-to-repay regulatory] changes, we had staff members with more than 25 years each of mortgage experience trying to determine how to comply with the new regulations," Carr says. "If mortgage professionals

have difficulty understanding new requirements, how can we expect the average consumer to benefit? I think simplification would be the greatest change that would aid our production."

Elmira Savings' residential mortgage department has nine originators who cover southern and central New York and northern Pennsylvania. The \$546 million-asset community bank also originates mortgages and consumer installment products, including home equities, in its 13 branches and two loan offices. With a consumer loans-to-assets ratio of 58 percent, it ranked the No. 13 top-producing consumer lender among community banks with \$500 million or more in assets.

As of March 31, Elmira Savings' loan portfolio totaled \$420 million, with \$310 million in consumer lending and the remainder in small-business loans.

The bank sells the majority of its fixed-rate mortgages to secondary market outlets and portfolios the remainder. It was



Thomas M. Carr
President,
Chief Executive Officer

unaffected by other banks' exiting mortgages, and did not experience any declines in competition from other lenders, Carr says.

"In upstate New York, where we operate, most economies are low to no growth, so there has not been an increase in consumers buying houses," he says. Still, Elmira Savings is successful at landing consumer loans because "our operational lending approach is to treat our customers as individuals and to make every effort to create a solution that is in their best interests."

Big Flats Open House

Elmira Savings Bank hosted a successful open house on County Route 64 the evening of May 20. Guests of the open house visited the Big Flats Branch of Elmira Savings Bank, where delicious hors d'oeuvres were provided by local caterer, Bernie Murray's. The staff enjoyed meeting and mingling with all who attended.



Elmira Savings Bank employees Lindsea Jones, Kayla Huckins and Jennifer Stamp participated in hosting the Open House.

Elmira Savings Bank Reports Second Quarter Earnings

Highlights

- Net income was \$1,019,000 and \$2,029,000 for the three and six months ended June 30, 2015 compared to \$1,099,000 and \$2,159,000 for the same periods in 2014.
- Diluted earnings per share were \$.29 per share and \$.57 per share for the three and six months ended June 30, 2015 compared to \$.31 per share and \$.61 per share for the same periods in 2014.
- Return on average assets was .72% and .73% for the three and six months ended June 30, 2015 compared to .86% and .85% for the same periods in 2014.
- Return on average equity was 7.39% and 7.34% for the three and six months ended June 30, 2015 compared to 7.95% and 7.89% for the same periods in 2014.
- “During the first six months of 2015, despite lower earnings, the Bank experienced an increase in loan originations of 34% over the same period one year ago, resulting in 5% growth in the loan portfolio. Additionally, we have experienced deposit growth of 4% since the beginning of the year,” said Thomas M. Carr, President and CEO. Carr continued, “We also have been very pleased with our activity in our Watkins Glen branch, which opened in March.”

Net Income

Net income totaled \$2,029,000 for the six months ended June 30, 2015, a decrease of \$130,000 or 6% from the \$2,159,000 of net income recorded for the same period in 2014. This decrease was the net result of a decrease in noninterest income of \$93,000, an increase in the provision for loan losses of \$61,000, and an increase in noninterest expense of \$184,000, offset by an increase in net interest income of \$62,000 and a decrease in tax expense of \$146,000.

Net income totaled \$1,019,000 for the three months ended June 30, 2015, a decrease of \$80,000 or 7% from the \$1,099,000 recorded for the same period in 2014. This decrease was the net result of a decrease in noninterest income of \$39,000, an increase in the provision for loan losses of \$65,000, and an increase in

See Second Quarter Earnings on Page 4

Elmira Savings Bank CONSOLIDATED BALANCE SHEET (Unaudited)

(in thousands, except for share and per share data)	June 30, 2015	December 31, 2014	% Change
ASSETS			
Cash and due from banks	\$ 17,407	\$ 7,959	118.7%
Federal funds sold and other short-term investments	153	606	-74.8%
Total cash and cash equivalents	17,560	8,565	105.0%
Securities available for sale, at fair value	58,422	65,624	-11.0%
Securities held to maturity - fair value \$9,393 at June 30, 2015 and \$7,641 at December 31, 2014	9,213	7,389	24.7%
Federal Reserve and Federal Home Loan Bank (FHLB) stock, at cost	11,647	11,182	4.2%
Loans held for sale	4,064	787	416.4%
Loans receivable	436,021	417,359	4.5%
Less: Allowance for loan losses	4,028	3,974	1.4%
Net loans	431,993	413,385	4.5%
Premises and equipment, net	10,383	9,475	9.6%
Bank-owned life insurance	12,990	12,790	1.6%
Accrued interest receivable	1,505	1,566	-3.9%
Intangible assets, net	92	125	-26.4%
Goodwill	12,320	12,320	0.0%
Other assets	2,701	2,761	-2.2%
Total assets	\$ 572,890	\$ 545,969	4.9%
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	\$ 437,663	\$ 422,561	3.6%
Borrowings	74,000	62,000	19.4%
Other liabilities	6,94	5,915	18.2%
Total liabilities	518,657	490,476	5.7%
Shareholders' equity:			
Preferred stock, \$1,000 liquidation value per issued share; 5,000,000 shares authorized; 10,000 shares issued at June 30, 2015 and at December 31, 2014	9,700	9,700	0.0%
Common stock, \$1 par value; authorized 5,000,000 shares; 2,820,745 shares issued at June 30, 2015 and 2,809,364 shares issued at December 31, 2014	2,821	2,809	0.4%
Additional paid-in capital	41,128	42,365	-2.9%
Retained earnings	3,097	2,769	11.8%
Treasury stock, at cost - 98,118 shares at June 30, 2015 and 104,418 shares at December 31, 2014	(2,907)	(3,053)	-4.8%
Accumulated other comprehensive income	340	849	-60.0%
Total Elmira Savings Bank shareholders' equity	54,179	55,439	-2.3%
Noncontrolling interest	54	54	0.0%
Total shareholders' equity	54,233	55,493	-2.3%
Total liabilities and shareholders' equity	\$ 572,890	\$ 545,969	4.9%

Shareholder Inquiries

The Bank's transfer agent is:

Computershare, Inc. • Computershare Investor Services
P.O. Box 30170, College Station, TX 77842 • 800-368-5948

The Bank's annual and quarterly reports, 10-K, and 10-Q will be furnished
without charge upon written request to:

Thomas M. Carr, President/CEO
Elmira Savings Bank • 333 E. Water Street, Elmira, NY 14901

The brokers currently making a market in the Bank's common stock are:

Citadel Securities • UBS Securities • Knight Equity Markets • Boenning & Scattergood

Elmira Savings Bank
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

(in thousands, except for per share data)	Three Months Ended June 30,			Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
Interest and dividend income:						
Interest and fees on loans	\$ 4,570	\$ 4,302	6.2%	\$ 9,032	\$ 8,699	3.8%
Interest and dividends on securities						
Taxable	330	412	-19.9%	732	876	-16.4%
Non-taxable	233	204	14.2%	464	408	13.7%
Total interest and dividend income	<u>5,133</u>	<u>4,918</u>	4.4%	<u>10,228</u>	<u>9,983</u>	2.5%
Interest expense:						
Interest on deposits	741	745	-0.5%	1,468	1,487	-1.3%
Interest on borrowings	563	454	24.0%	1,106	904	22.3%
Total interest expense	<u>1,304</u>	<u>1,199</u>	8.8%	<u>2,574</u>	<u>2,391</u>	7.7%
Net interest income	<u>3,829</u>	<u>3,719</u>	3.0%	<u>7,654</u>	<u>7,592</u>	0.8%
Provision for loan losses	140	75	86.7%	190	129	47.3%
Net interest income after provision for loan losses	<u>3,689</u>	<u>3,644</u>	1.2%	<u>7,464</u>	<u>7,463</u>	0.0%
Noninterest income:						
Service fees	368	365	0.8%	723	694	4.2%
Gain on sale of loans held for sale	457	345	32.5%	811	793	2.3%
Gain on sale of securities	80	205	-61.0%	284	421	-32.5%
Other service fees	189	176	7.4%	358	340	5.3%
Earnings on bank-owned life insurance	106	131	-19.1%	200	222	-9.9%
Other	35	52	-32.7%	94	93	1.1%
Total noninterest income	<u>1,235</u>	<u>1,274</u>	-3.1%	<u>2,470</u>	<u>2,563</u>	-3.6%
Noninterest expense:						
Salaries and benefits	1,751	1,732	1.1%	3,545	3,571	-0.7%
Net occupancy	335	331	1.2%	727	747	-2.7%
Equipment	254	250	1.6%	508	500	1.6%
Marketing and public relations	215	204	5.4%	426	404	5.4%
Professional fees	223	195	14.4%	403	356	13.2%
Other	744	632	17.7%	1,482	1,329	11.5%
Total noninterest expense	<u>3,522</u>	<u>3,344</u>	5.3%	<u>7,091</u>	<u>6,907</u>	2.7%
Income before income taxes	<u>1,402</u>	<u>1,574</u>	-10.9%	<u>2,843</u>	<u>3,119</u>	-8.8%
Income taxes	383	475	-19.4%	814	960	-15.2%
Net income	<u>1,019</u>	<u>1,099</u>	-7.3%	<u>2,029</u>	<u>2,159</u>	-6.0%
Less: Net income attributable to noncontrolling interest	-	-	-	-	-	-
Net income attributable to Elmira Savings Bank	<u>1,019</u>	<u>1,099</u>	-7.3%	<u>2,029</u>	<u>2,159</u>	-6.0%
Dividend on preferred stock	225	225	0.0%	450	450	0.0%
Income available to common shareholders	<u>\$ 794</u>	<u>\$ 874</u>	-9.2%	<u>\$ 1,579</u>	<u>\$ 1,709</u>	-7.6%
Basic earnings per share	<u>\$ 0.29</u>	<u>\$ 0.33</u>	-12.1%	<u>\$ 0.58</u>	<u>\$ 0.64</u>	-9.4%
Diluted earnings per share	<u>\$ 0.29</u>	<u>\$ 0.31</u>	-6.5%	<u>\$ 0.57</u>	<u>\$ 0.61</u>	-6.6%
Weighted average shares outstanding - basic	<u>2,706,983</u>	<u>2,674,098</u>	1.2%	<u>2,703,787</u>	<u>2,665,640</u>	1.4%
Weighted average shares outstanding - diluted	<u>2,776,116</u>	<u>2,798,180</u>	-0.8%	<u>2,793,883</u>	<u>2,794,030</u>	-0.0%
Dividends per share	<u>\$ 0.23</u>	<u>\$ 0.23</u>	0.0%	<u>\$ 0.46</u>	<u>\$ 0.46</u>	0.0%

Second Quarter Earnings

(Continued from Page 2)

noninterest expense of \$178,000, offset by an increase in net interest income of \$110,000 and a decrease in tax expense of \$92,000.

Net income of \$1,019,000 for the current quarter ended June 30, 2015 increased \$9,000 from net income for the preceding quarter ended March 31, 2015.

Basic and diluted earnings per share for the six months ended June 30, 2015 were \$.58 per share and \$.57 per share compared to \$.64 per share and \$.61 per share for the same period in 2014. Basic and diluted earnings per share for the three months ended June 30, 2015 were both \$.29 per share compared to \$.33 per share and \$.31 per share for the same period in 2014.

Net Interest Margin

The net interest margin for the six months ended June 30, 2015 was 3.05% compared to 3.25% for the same period in 2014. The yield on average earning assets was 4.08% for the six months ended June 30, 2015 compared to 4.28% for the same period in 2014. The average cost of interest-bearing liabilities was 1.19% for the six months ended June 30, 2015 compared to 1.22% for the same period in 2014.

The net interest margin for the three months ended June 30, 2015 was 3.04% compared to 3.19% for the same period in 2014. The average yield on earning assets was 4.07% for the three months ended June 30, 2015 compared to 4.22% for the same period in 2014. The average cost of interest-bearing liabilities was 1.19% for the three months ended June 30, 2015 compared to 1.22% for the same period in 2014.

Assets

Total assets increased \$26.9 million or 4.9% to \$572.9 million at June 30, 2015 compared to \$546.0 million at December 31, 2014. Loans, including loans held for sale, increased 5.2% to \$440.1 million at June 30, 2015 compared to December 31, 2014. The available-for-sale investment portfolio decreased \$7.2 million from December 31, 2014 to June 30, 2015.

Nonperforming Loans

Our nonperforming loans to total loans ratio has decreased to 1.01% at June 30, 2015 from 1.13% at December 31, 2014. Net loan charge-offs to average loans for the six months ended June 30, 2015 of 0.06% decreased from 0.09% for the six months ended June 30, 2014. The allowance for loan losses was 0.92% of total loans at June 30, 2015 and 0.95% of total loans at December 31, 2014.

Liabilities

Deposits total \$437.7 million at June 30, 2015, an increase of \$15.1 million or 3.6%. The \$15.1 million increase consists of a \$7.9 million increase in NOW accounts, a \$6.7 million increase in noninterest-bearing accounts, a \$0.2 million increase in money market accounts, and a \$0.8 million increase in time deposits, partially offset by a \$0.5 million decrease in savings accounts. Borrowed funds increased by \$12.0 million or 19.4%.

Shareholders' Equity

Shareholders' equity decreased \$1.3 million to \$54.2 million at June 30, 2015 compared to December 31, 2014. The decrease is primarily the result of the repurchase of a warrant in May 2015 that had been issued to the United States Treasury Department at a purchase price of \$1.5 million. The current level of shareholders' equity equates to a book value per share of \$16.34 at June 30, 2015, compared to \$16.91 at December 31, 2014. Dividends paid to common shareholders were \$0.23 and \$0.46 for the three and six months ended for both June 30, 2015 and 2014.

Cyber Security Tips

Every summer, vacationers put their house lights on timers and their mail on hold when they travel away from home. It's just as important when taking a vacation to take similar precautions with good cyber habits. Many cyber criminals specifically target travelers...

Criminals often set online lures to sell fake vacations or tickets. These may be just simple advertisements or sophisticated scams using realistic websites, complete with phone operators that will "assist" you.

Home Alone

Social media posts with pictures of tourist attractions may update your friends and family, but they also tell criminals that you're on vacation and your house is empty. Other older posts may contain personal details or pictures of your home, telling thieves what items of value are in the house or how to circumvent security systems.

Stolen "Keys"

Sensitive data, such as login names and passwords, are especially valuable to criminals. One way criminals obtain such data is by installing a "keylogger" on hotel public computers. The keylogger records every keystroke typed on the computer and then transmits that information to the criminal.

Missed Connection

Some cyber criminals specialize in "sniffing" the Wi-Fi and public networks in airports and coffee shops, allowing the criminal to collect and read all information sent over a wireless network.

Other criminals use a practice called "juice jacking", where the criminal rigs a public charging kiosk to siphon information directly from your device when you plug into it.

Who's the Boss?

The cyber security threat doesn't end with you; Social engineers often use information about a boss' vacation to gain physical access or commit financial fraud. The social engineer knows that they can reference the boss and the boss will not be reachable to verify whether he/she really did order the "repairman" or gave instructions for a fraudulent wire transfer.

When in Rome...

Different countries have different laws, which may allow government employees or law enforcement full access to your device

without your knowledge or permission. Some countries are known to collect all data residing in that country, while others collect data from devices left in hotel rooms. This may be very important in countries that do not have the same freedom of speech as the United States. Some of these countries are known to have jailed tourists who posted negative comments online about the government or who posted criminal activities online, such as the use of alcohol or drugs.

Luckily, with a little care it's possible to avoid these problems. Follow these simple tips to ensure that the only memories from your vacation are good ones:

Easy Tips to Protect Yourself

- Use discretion when posting personal information on social media. This information is a treasure-trove to social engineers. Do not post information about travel plans or details; save the pictures and updates until after you return home.
- Set email away messages to only respond to known contacts in your address book.
- Disable geo-locational features, such as automatic status updates and friend finder functionalities.
- Remind friends and family members to exercise the same caution.

Easy Tips to Protect Your Devices

- Keep your electronic devices with you at all times.
- Before traveling abroad, change all passwords that you will use while traveling, and upon return change the passwords of any accounts that were accessed while abroad. This includes passwords used by social media websites and email providers, for which you have automatic logins.
- Do not access sensitive accounts (e.g. banks, credit cards, etc.) or conduct sensitive transactions over public networks, including hotel and airport wi-fi and business centers, or Internet cafés.
- Use up-to-date anti-virus, anti-spyware, and anti-adware protection software; apply recommended patches to your operating system and software.
- Use wired connections instead of Bluetooth or Wi-Fi connections, whenever possible.
- Do not plug USB cables into public charging stations; only connect USB powered devices using the intended AC power adapter.
- Know the local laws regarding online behavior, as some online behaviors are illegal in certain countries.



The Moravia staff: Joan Ferreira, Marissa Butts, Chrissie Allen, Patricia Farkas.

Let Us Introduce...Our Moravia Branch

Serving as our northern most branch, Elmira Savings Bank's Moravia Branch is situated at 142 Main Street, Moravia, NY. Located in Cayuga County, Moravia is centrally positioned, approximately 30 minutes from Ithaca, Auburn and Skaneateles. This quaint village of approximately 3600 is home of Fillmore Glen State Park at the southern end of Owasco Lake, and was the birthplace of Millard Fillmore, 13th President of the United States. The Moravia Branch was purchased by Elmira Savings Bank from First Niagara Financial

Group in 2007, along with three branches throughout Ithaca in Tompkins County. Joan Ferreira, Assistant Treasurer and Manager of the branch, leads her dedicated and friendly staff in providing outstanding service to every customer who visits. Joan and her staff recently treated customers to Elmira Savings Bank's annual Customer Appreciation Week, where lucky winners received a variety of gift certificates, including a grand prize of a two hundred dollar gift certificate to Kwik Fill.

Customer Appreciation 2015



Customers enjoy complimentary Classic Café Hot Dogs at the Erwin Branch.

Welcome New ESB Employees

The following were welcomed during the second quarter of 2015:

Elizabeth Jaramillo has joined our Commons branch as a Teller. She has seven years of customer service experience in the food industry including kitchen staff, catering and supervision. Elizabeth has a Bachelor's degree from Messiah College.

Jessica Coates has joined ESB's Deposit Operations Department as a Call Center Specialist. She has five years of previous call center experience from college, Sitel and ADT, as well as three years of retail customer service experience. Jessica has a Bachelor's degree in Business Administration and an Associate's degree in Communications – both from Houghton College.

Rachel Dodge has joined our Erwin branch as a Teller. She has six years of sales and customer service experience, most recently with Sitel.

Rachel Houseknecht has joined our Watkins Glen branch as a Part-time Teller. She has four years of customer service experience, most recently with Watkins Glen Harbor Hotel. Rachel has an Associate's degree from TC3.

Amy Rourke has joined ESB's South Meadow branch as an Assistant Branch Manager. She has previous bank customer service experience as well as several years of retail management experience. Amy is pursuing an Associate's degree in Business Administration from Corning Community College.

Terri Sherman has joined ESB's West Elmira branch as a Customer Service Representative. She has several years of previous bank experience as a Head Teller as well as many years of experience in retail customer service and management.

Promotions

Cory Eddy has been promoted to Branch Manager at the Erwin Branch. Cory joined Elmira Savings Bank in 2012 as the Big Flats Branch Assistant Manager. He transferred to Erwin when ESB opened that branch in 2014. Before joining us Cory worked at Fairport Savings Bank. He has 10 years of banking experience including many years in managerial roles. Cory has a Bachelor's degree from St. John Fisher College.

John Stempin has been promoted to Controller and Assistant Vice President. John joined Elmira Savings Bank in September of 2006 as a Financial Analyst. He was promoted to an officer of the bank as Assistant Secretary in 2010 and to Sr. Financial Analyst in September of 2011. John came to ESB right from SUNY Cortland where he earned a Bachelor's degree in Business Economics. John also has an Associate degree from Corning Community College and is currently finishing the MBA requirements from the University of Scranton.

Elmira, NY 14901
333 East Water Street

Elmira
Savings Bank



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