

# The Advisor

May 2016

A Newsletter for Elmira Savings Bank Shareholders, Customers and Community

Vol. 6 No. 3

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## Calendar of Events

### Painted Post Colonial Days Corn Hole Tournament

Hodgeman Park  
May 22, 11:00 a.m.  
June 11, 2:00 p.m.

### Painted Post Colonial Days Parade

North Hamilton St.  
June 11, 10:00 a.m.

### Great Car Thing

Chemung County Historical Society  
June 11, 6:00-8:00 p.m.

### Brand Park Concerts

Sundays, 3:00 – 5:00 p.m.  
June 26 – August 28

### Elmira Savings Bank Customer Appreciation

All Branches July 15

### Corning Harvest Music Festival

Gaffer District  
September 16–17

### Octagon Fair - Elmira College

September 24

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## President's Message

*The following is an excerpt from my statement to Shareholders at the Annual Shareholder's Meeting in April.*

I am pleased to report that the Bank had significant accomplishments in 2015. We achieved solid financial results, we expanded our branch network into Watkins Glen with great success, behind the scenes we reorganized our credit and retail divisions, we conducted a system and process analysis and implemented many improvements, we enhanced customer convenience by implementing a mobile deposit product, and we began a study of our corporate brand.

The Bank had \$561 million of total assets on December 31, 2015; an increase of \$15 million from the previous year. The loan portfolio, our greatest source of interest income, increased by \$34 million to total \$451 million at December 31, 2015; an increase of over 8%. Our deposit base, which we use to fund our loans, increased by \$18 million to total \$441 million at December 31, 2015; an increase of 4%. The growth in these core community banking portfolios allowed us to reduce our investment portfolio and our borrowed funds.

The Bank earned net income of \$4.1 million in 2015; an increase of \$457,000 from the previous year. This increase is primarily due to a 46% increase in gain on sale of mortgages and a \$222,000 increase in net interest income.

Mortgage loan originations, which is our largest business line, increased by 20% over the previous year and we were able to expand our margins on loans sold to the secondary market by adding a new outlet.

Our asset quality remains strong and compares favorably to

our peers. We increased our loan loss reserves primarily due to our loan portfolio growth.

The Bank paid cash dividends of 92 cents per common share during 2015. This represents a 5% dividend yield, which is one of the highest in the nation for publicly traded banks. In aggregate, the Bank paid \$2.5 million in cash dividends, the majority coming back to local shareholders in the communities we serve.

In March 2015 the Bank opened a full-service branch in Watkins Glen. This is the Bank's first full service branch office in Schuyler County. We are happy to report that we have acquired over \$20 million in deposits at this new location since opening.

We have also provided commercial financing for businesses in the Village, two of which are highlighted in our Annual Report; they are the Tops Plaza and the Brewery Apartments project. The Watkins Glen location is important geographically to the Bank because it provides us with greater access to the Finger Lakes region and connects our Corning and Elmira markets to Ithaca.

Behind the scenes, we have also been making improvements. In our lending division we formed a Credit Department which consolidates the underwriting, processing, and administration of all lending. This will enable us to better leverage these resources and also free the lending officers from administrative duties, allowing them to focus on increasing new loan originations.

In the retail division we implemented systems to drive our business development activities and an incentive program to reward staff for deposit growth. We also added three key positions to aid in our branch business development activities. The position of Sales Leader was created to provide a resource to the branch



Thomas M. Carr  
President, Chief Executive Officer

personnel to help them better focus their calling and business development efforts. We created the position of Business Banking Officer to provide a dedicated resource to call on business customers to specifically target their deposit business; and finally, we added a fulltime Training Officer to expand the curriculum and regularity of staff training. We believe this will have a significant impact on the overall skill level of our employees and will help to make us more effective at our jobs.

In early 2015 our technology group introduced our mobile deposit product which allows a customer to deposit an image of a check through the use of their personal device. This added feature to our online banking suite of products provides the utmost convenience to our mobile banking customers.

Also in early 2015 we engaged a marketing firm to evaluate, in all of the markets that we serve, our company brand. This information will be valuable to our strategic planning efforts and our tactical marketing efforts. The study is still underway and we are looking forward to the final results later this year.

We entered 2015 with a two-pronged objective: First to achieve financial progress and produce results that reward our

See President's Message on Page 4

## Elmira Savings Bank Reports First Quarter Earnings

### Highlights

- Net income was \$1,036,000 for the three months ended March 31, 2016 compared to \$1,010,000 for the same period in 2015.
- Diluted earnings per share were \$.30 per share for the three months ended March 31, 2016 compared to \$.28 per share for the same period in 2015.
- Return on average assets was .74% for the three months ended March 31, 2016 and for the same period in 2015.
- Return on average equity was 7.52% for the three months ended March 31, 2016 compared to 7.29% for the same period in 2015.

"We are pleased with the year-over-year improvement in first quarter earnings, due in part to an increase in our net interest margin," said Thomas M. Carr, President and CEO. Carr continued, "We also experienced a 29% increase in residential mortgage originations resulting in an increase of \$168,000 in gain on sale of mortgages from last year."

### Net Income

Net income totaled \$1,036,000 for the three months ended March 31, 2016, an increase of \$26,000 or 2.6% from the \$1,010,000 recorded for the same period in 2015. This increase was the net result of an increase in net interest income of \$275,000, an increase in noninterest income of \$116,000, and a reduction in tax expense of \$3,000, offset by an increase in noninterest expense of \$278,000 and an increase in the provision for loan losses of \$90,000.

Basic and diluted earnings per share for the three months ended March 31, 2016 were both \$.30 per share compared to \$.29 per share and \$.28 per share for the same period in 2015.

### Net Interest Margin

The net interest margin for the three months ended March 31, 2016 was 3.19% compared to 3.07% for the first quarter of 2015. The yield on average earning assets was 4.07% for the three months ended March 31, 2016 compared to 4.09% for the same period in 2015. The average cost of interest-bearing liabilities was 1.04% for the three months ended March 31, 2016 compared to 1.19% for the three months ended March 31, 2015.

See **First Quarter** on Page 3

### Elmira Savings Bank CONSOLIDATED BALANCE SHEET (Unaudited)

(in thousands, except for share and per share data)	December 31,		% Change
	2015	2014	
<b>ASSETS</b>			
Cash and due from banks	\$ 5,352	\$ 7,959	-32.8%
Federal funds sold and other short-term investments	102	606	-83.2%
Total cash and cash equivalents	5,454	8,565	-36.3%
Securities available for sale, at fair value	42,709	65,624	-34.9%
Securities held to maturity - fair value \$9,393 at June 30, 2015 and \$7,641 at December 31, 2014	9,003	7,389	21.8%
Federal Reserve and Federal Home Loan Bank (FHLB) stock, at cost	11,108	11,182	-0.7%
Loans held for sale	3,630	787	361.2%
Loans receivable	451,368	417,359	8.1%
Less: Allowance for loan losses	4,148	3,974	4.4%
Net loans	447,220	413,385	8.2%
Premises and equipment, net	12,130	9,475	28.0%
Bank-owned life insurance	13,188	12,790	3.1%
Accrued interest receivable	1,541	1,566	-1.6%
Intangible assets, net	61	125	-51.2%
Goodwill	12,320	12,320	0.0%
Other assets	2,980	2,761	7.9%
Total assets	\$ 561,344	\$ 545,969	2.8%
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits	\$ 440,472	\$ 422,561	4.2%
Borrowings	59,525	62,000	-4.0%
Other liabilities	6,576	5,915	11.2%
Total liabilities	506,573	490,476	3.3%
Shareholders' equity:			
Preferred stock, \$1,000 liquidation value per issued share; 5,000,000 shares authorized; 10,000 shares issued at December 31, 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 December 31, 2015 and 2,809,364 shares issued at December 31, 2014	2,821	2,809	0.4%
Additional paid-in capital	41,243	42,365	-2.6%
Retained earnings	3,488	2,769	26.0%
Treasury stock, at cost - 98,118 shares at September 30, 2015 and 104,418 shares at December 31, 2014	(2,907)	(3,053)	-4.8%
Accumulated other comprehensive income	373	849	-56.1%
Total Elmira Savings Bank shareholders' equity	54,718	55,439	-1.3%
Noncontrolling interest	53	54	-1.9%
Total shareholders' equity	54,771	55,493	-1.3%
Total liabilities and shareholders' equity	\$ 561,344	\$ 545,969	2.8%

### 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 March 31,		
	2016	2015	% Change
Interest and dividend income:			
Interest and fees on loans	\$4,729	\$4,462	6.0%
Interest and dividends on securities			
Taxable	285	402	-29.1%
Non-taxable	219	231	-5.2%
Total interest and dividend income	5,233	5,095	2.7%
Interest expense:			
Interest on deposits	734	727	1.0%
Interest on borrowings	399	543	-26.5%
Total interest expense	1,133	1,270	-10.8%
Net interest income	4,100	3,825	7.2%
Provision for loan losses	140	50	180.0%
Net interest income after provision for loan losses	3,960	3,775	4.9%
Noninterest income:			
Service fees	348	355	-2.0%
Gain on sale of loans held for sale	522	354	47.5%
Gain on sale of securities	180	204	-11.8%
Other service fees	180	169	6.5%
Earnings on bank-owned life insurance	97	94	3.2%
Other	24	59	-59.3%
Total noninterest income	1,351	1,235	9.4%
Noninterest expense:			
Salaries and benefits	1,927	1,794	7.4%
Net occupancy	369	392	-5.9%
Equipment	275	254	8.3%
Marketing and public relations	201	211	-4.7%
Professional fees	180	180	0.0%
Other	895	738	21.3%
Total noninterest expense	3,847	3,569	7.8%
Income before income taxes	1,464	1,441	1.6%
Income taxes	428	431	-0.7%
Net income	1,036	1,010	2.6%
Less: Net income attributable to noncontrolling interest	0	0	0
Net income attributable to Elmira Savings Bank	1,036	1,010	2.6%
Dividend on preferred stock	225	225	0.0%
Income available to common shareholders	\$811	\$785	3.3%
Basic earnings per share	\$0.30	\$0.29	3.4%
Diluted earnings per share	\$0.30	\$0.28	7.1%
Weighted average shares outstanding - basic	2,715,915	2,700,542	0.6%
Weighted average shares outstanding - diluted	2,733,014	2,811,600	-2.8%
Dividends per share	\$0.23	\$0.23	0.0%

**First Quarter***(Continued from Page 2)***Assets**

Total assets decreased \$1.3 million or 0.2% to \$560.0 million at March 31, 2016 compared to \$561.3 million at December 31, 2015. Loans receivable increased 1.2% to \$456.9 million at March 31, 2016 compared to December 31, 2015. The available-for-sale investment portfolio decreased \$5.2 million from December 31, 2015 to March 31, 2016.

**Nonperforming Loans**

Our nonperforming loans to total loans ratio was 1.10% at March 31, 2016 and 1.05% at December 31, 2015. Net loan charge-offs to average loans for the three months ended March 31, 2016 of .07% increased from .02% for the three months ended March 31, 2015. The allowance for loan losses was .92% of total loans at March 31, 2016 and .92% at December 31, 2015.

**Liabilities**

Deposits totaled \$443.6 million at March 31, 2016, an increase of \$3.1 million or .7% from the December 31, 2015 total of \$440.5 million. Borrowed funds decreased by \$3.2 million or 5.4%.

**Shareholders' Equity**

Shareholders' equity increased \$268,000 to \$55.0 million at March 31, 2016 compared to December 31, 2015. The current level of shareholders' equity equates to a book value per share of \$16.59 at March 31, 2016, compared to \$16.53 at December 31, 2015. Dividends paid to common shareholders were \$0.23 for the three months ended both March 31, 2016 and 2015.

## Carrie Spencer Promoted

**C**arrie Spencer has been promoted to Vice President, Credit Officer. Carrie joined Elmira Savings Bank as a Mortgage Underwriter in January 2008. She became an Assistant Secretary in January 2010 and then an Assistant Vice President in April 2013. Carrie brought many years of experience to Elmira Savings Bank, previously working in the mortgage industry for large, national mortgage lending institutions. Carrie has a Bachelors degree in Business Management from Rochester Institute of Technology and is currently pursuing her MBA at The University of Scranton.

The Credit Department is tasked with managing the loan origination process from the initial opportunity review through closing. They screen loans and determine acceptable loan structuring and analysis to ensure a consistent approach to credit management for all loan portfolios. The Credit Department will ensure timely delivery of credit products to customers while providing accurate monitoring and analysis of the financial condition of all borrowers.



Carrie Spencer  
Vice President, Credit Officer

## President's Message

(Continued from Page 1)

shareholders, and second, to implement organizational and business model changes. It is rewarding to be able to say that we accomplished both objectives.

I would like to thank Senior Management and all of the officers of the Bank for their patience, determination, and courage for making all of these things happen. I would also like to thank the Board of Directors for having the confidence and vision to support these changes. We are all confident that the changes made in 2015 will be rewarding to shareholders for many years.

During the first quarter of 2016 we increased our net income by 3% over the previous year to total \$1,036,000 for the period ending March 31, 2016. This was accomplished by an expansion of our net interest margin to 3.19% in 2016; an increase of 12 basis points from the same period one year ago.

In addition, we have increased our mortgage originations year-to-year by 29% resulting in a \$168,000 or 47% increase in gain on sale of mortgage revenue. We have experienced strong loan originations in all portfolios and have continued to grow our deposit base.

We have worked during the first quarter with two of our business partners in Tomp-

kins and Broome Counties to secure improved opportunity to increase our mortgage originations further in these markets.

In December of last year we purchased one-half of a city block in downtown Ithaca on North Meadow Street between State Street and Seneca Street. This is one of the most highly traveled areas of the City. During the first quarter we have worked diligently on our plans to rehabilitate a commercial building at the corner of North Meadow and State Street to create a full-service branch office. During the third quarter of 2016 we intend to relocate our Commons branch office to this new location.

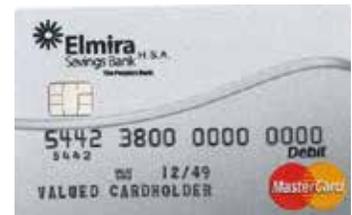
We have been actively marketing the remaining parcels of this property to real estate development firms with the intention of further developing this city block in downtown Ithaca with businesses that are complimentary to ours.

In closing, I would like to thank all of you as loyal shareholders of the Bank for your support. On behalf of Management and the Board of Directors, I want you to know that we are determined to grow the franchise and produce rewarding financial results for you, our shareholders.

## New Debit MasterCard

**E**lmira Savings Bank is excited to rollout our new chip-enabled Debit MasterCard. The new debit cards provide our customers with the highest level of security available, along with the benefits of the MasterCard network.

If you are a current active cardholder, you will receive your new card in the mail soon. Upon receipt, please plan to activate it as quickly as possible.



Once activated keep in mind the steps below:

- Sign the back of your new debit card;
- Provide your new card number to any companies that automatically debit your account on a recurring basis; and
- Securely discard your old Visa debit card after successfully using your new MasterCard.

If you have any questions regarding the new cards, please visit our website at [www.elmirasavingsbank.com](http://www.elmirasavingsbank.com), call our Call Center at (607) 734-3374, or visit any of our convenient branch locations.

Purchases made at Chip-Enabled Terminals are easy and secure. Follow the steps below at retailers around the world:



1. Insert your card "Chip First" into the terminal and leave it in during the entire transaction.



2. Follow the prompts and wait for the transaction to be processed. You may be required to enter your PIN or sign.



3. Remove your card after the transaction is completed and you are prompted to do so by the payment terminal.

## In Memoriam

### William Schweizer

William Schweizer was elected to Elmira Savings Bank's Board of Directors in 1966 and served as Chairman of the Board from 1985 to 1987. He continued to serve as Director Emeritus through 1996. Mr. Schweizer passed away on January 8, 2016 at the age of 98.

## Wedding Expo

Elmira Savings Bank participated in the 2016 Wedding Expo held at The Shops at Ithaca Mall on Saturday, February 27. Lorenda Gneo, Triphammer Branch Manager, was joined by staff members Kelly Bishop and Robin Gardner, as well as Courtney Reinhart, of the South Meadow Branch. They had the opportunity to talk to many of the soon-to-be brides and grooms and provided handouts to them which described Elmira Savings Bank's products. The staff anticipates establishing new life-long relationships as a result of participation in this annual event.

## ESB Partners with Sciencenter

Elmira Savings Bank has pledged a three-year sponsorship commitment to the Sciencenter for the reimagination of its exhibits and programs. The Sciencenter is a non-profit hands-on, nationally recognized science museum which was founded in 1983. Their mission is "to inspire excitement for science through interactive exhibits and programs that engage, educate and empower" through its three-linked educational activities based on the developmental stages of children: Early Childhood, Elementary, and Middle School.



We are proud to partner with this institution in making high-quality cultural, educational and leisure experiences available to our communities, which contributes to making our region vibrant and healthy. The expansion of the Sciencenter is a step in maintaining Ithaca's commitment to scientific innovation, education and entrepreneurship.

We encourage you to visit the Sciencenter located at 601 First Street, Ithaca, NY. For more information visit their website at [www.sciencenter.org](http://www.sciencenter.org).

## Leadership Schuyler Graduate

Michelle Tilden, Teller Coordinator, Watkins Glen Branch, graduated from Leadership Schuyler in March 2016. This program has helped prepare more than 200 participants for community leadership roles.

The purpose of Leadership Schuyler is to teach highly valuable leadership skills to current and future leaders working in or around Schuyler County. The program helps residents and employees of local businesses to strengthen their knowledge of community issues, facilitate positive problem-solving techniques, and encourage them to take active leadership roles. The program also encourages community volunteering and Michelle currently volunteers to assist in fundraising for Schuyler County Ambulance. Michelle is applying the skills she learned, both in the office and in the community.

## Elmira Savings Bank Supports Young Entrepreneur Academy

Elmira Savings Bank is proud to continue a sponsorship of The Young Entrepreneur Academy (YEA!), an educational program that takes students in grades 6-12 through the process of starting and running a real business over the course of an academic year. The Corning Area Chamber of Commerce presents the program in partnership with the Corning-Painted Post School District.

The first 10 weeks of the program the students discover their ideas and the next ten weeks they develop a business plan. The final ten weeks is to finalize their business. Each student then presents their business idea to an Investor Panel in search of receiving funding for start-up costs for their business.

Phylis Jensen, Corning Branch Manager, has been a mentor to five students over the past four years. Theresa Emo, the Bank's Retail Sales Leader, has participated on the Investor Panel for three years.

"There are great kids out there and very innovative ones at that," said Ms. Jensen. "Personally, I am humbled when I attend the Investors Panel, to watch these young adults take the stage and present all the hard work they have poured into their 'Big Idea.' It has been amazingly rewarding to me as an individual."

Ms. Emo added, "YEA! is a great program and has great exposure for the businesses that are involved in it."

## New York STAR Exemption Change

Recently New York State approved the 2016-2017 fiscal year budget. As part of that budget, home buyers will soon experience a change in the state's two-decade-old system of school-tax relief: Instead of getting a reduction in their tax bills, they'll receive a check from Albany for an equivalent savings at around the same time they get their tax bills each September.

A provision in the recently enacted state budget converts the STAR tax exemption into a refundable income-tax credit, distributed as an annual rebate check. The change applies only to new home buyers; current homeowners now receiving the STAR exemption will continue to get a reduction on their annual school-tax bills unless they buy another home in New York.

"There is no change to the amount of the STAR credit for taxpayers."

Under the new program, school districts charge qualifying homeowners lower taxes based on a reduction in their taxable home value, and the state then pays school districts the difference in taxes that they didn't charge those homeowners. Senior citizens get a much greater reduced rate than Basic STAR beneficiaries.

With the recent conversion of the program, new home buyers will now pay their full school-tax bills, but can anticipate a rebate check to come in the fall, assuming you claim this fee on your New York State Income Tax for the following year.

Qualifications remain the same: households earning \$500,000 or less qualify for basic STAR relief; those who are 64 or older and earn \$84,550 or less can get the Enhanced STAR benefit. Only primary residences are eligible.

For more information, please visit: <https://www.tax.ny.gov/pit/property/star/index.htm>.

## Welcome New ESB Employees

We are privileged to welcome nine new employees to Elmira Savings Bank in the 1st quarter of 2016.

- Caitlin Allard** – Human Resource Associate, Human Resources
- Nicholas Dutcher** – Consumer Loan Associate, Consumer Lending
- Laura Reynolds** – Full-time Teller, South Meadow Branch
- Denise Sarro** – Mortgage Processor, Credit Department
- Jennifer Canali** – Consumer Loan Associate, Credit Department
- Eileen McNeil** – Administrative Assistant, Credit Department
- Isaac Quattlebaum** – Full-time Teller, Main Branch
- Rose Sullivan** – Bankruptcy Specialist, Collections
- Ilene Girardi** – Full-time Teller, West Elmira Branch

## Congratulations to the Following Employees for Their Promotions

- Amber Brimmer** – Business Line Strategist
- Jenny Murphy** – Senior Consumer Loan Officer
- Desirea Sullivan** – Teller Coordinator, Southport Branch
- Jena Senefelder** – Teller Coordinator, Elmira Heights Branch
- Shanna Flint** – Teller Coordinator, West Elmira Branch
- Terri Andrus** – Underwriter
- Dwayne Balcom** – Closing Coordinator
- Chrissie Allen** – Assistant Manager, Moravia Branch

## Happy One Year Anniversary!

*Our Watkins Glen Branch opened one year ago on March 16, 2015!*



*We're proud to serve Watkins Glen and its surrounding communities!*

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Elmira Savings Bank

