

The Advisor

February 2016

A Newsletter for Elmira Savings Bank Shareholders, Customers and Community

Vol. 6 No. 2

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Welcome New ESB Employees

Calendar of Events

**Annual
Shareholders Meeting**
April 26

10:00 a.m.

Holiday Inn Riverview
760 E. Water Street
Elmira, NY 14901

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 **Elmira**
Savings Bank

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President's Message

On December 4, 2015, the Bank acquired approximately one acre in the City of Ithaca located between State Street and Seneca Street along North Meadow Street. At the corner of North Meadow and State Street, there is a two story brick commercial building which the Bank intends to renovate into a full-service branch office.

During January 2016, the Bank received regulatory approval to move its existing branch located at 301 East State Street to 602 West State Street when the renovation is completed. The Bank was obligated to obtain a new location for its 301 State Street branch due to planned economic development for that site, which resulted in the Bank being unable to maintain its lease.

The Bank has been conducting business in Ithaca for over 15 years, and 8 years ago purchased three full-service locations in Ithaca which included the office at 301 East State Street. The Bank is the third leading provider of residential mortgages in Tompkins County. Since 2010, the Bank has originated \$169 million in residential mortgages, including \$44 million for low and moderate income housing

needs. The Bank has 23 full-time employees who work or live in Tompkins County and over \$100 million of deposits.

The level of economic development and economic activity in Tompkins County has made that market a strategic priority for the Bank. We believe that the new branch location at 602 West State Street will provide the Bank with a higher level of visibility and help to create a better awareness of our brand in the market.

Along with the aforementioned parcel at 602 West State Street, the Bank also obtained several other parcels extending from State Street along North Meadow to Seneca Street. The



Thomas M. Carr
President,
Chief Executive Officer

Bank has no immediate plans for those parcels and in the future will look to work with the City of Ithaca and local developers to determine their best use.



ESB Named Small Community Lender of the Southern Tier

Elmira Savings Bank, for the second consecutive year, was named Small Community Lender of the Southern Tier for 2015 by the U. S. Small Business Administration (SBA). During the year, our Commercial Lending Department provided \$314,000 in loans to small businesses throughout the Southern Tier. Elmira Savings Bank participates in multiple programs offered by the SBA, which enable our Commercial Lenders to originate loans for small and growing businesses. The Commercial Lending team of Elmira Savings Bank is committed to helping local businesses succeed and grow.



(Pictured from left to right) Howard Garrity (SBA), Robert Hazelton, Tamara Pabis, Bernard J. Paprocki (SBA) and Kevin Berkley.

Elmira Savings Bank Reports 2015 Earnings

Highlights

- Net income was \$1,036,000 and \$4,122,000 for the three and twelve months ended December 31, 2015 compared to \$1,031,000 and \$3,665,000 for the same periods in 2014.
- Diluted earnings per share were \$.30 per share and \$1.17 per share for the three and twelve months ended December 31, 2015 compared to \$.29 per share and \$.99 per share for the same periods in 2014.
- Return on average assets (annualized) was .73% for both the three and twelve months ended December 31, 2015 compared to .76% and .70% for the same periods in 2014.
- Return on average equity (annualized) was 7.46% and 7.43% for the three and twelve months ended December 31, 2015 compared to 7.34% and 6.60% for the same periods in 2014.

Net Income

Net income totaled \$1,036,000 for the three months ended December 31, 2015, an increase of \$5,000 or 0.5% from the \$1,031,000 recorded for the same period in 2014. This increase was the net result of an increase in noninterest income of \$343,000, an increase in net interest income of \$110,000 and a decrease in income tax expense of \$54,000, offset by an increase in the provision for loan losses of \$130,000 and an increase in noninterest expense of \$371,000.

Net income totaled \$4,122,000 for the twelve months ended December 31, 2015, an increase of \$457,000 or 12.5% from the \$3,665,000 of net income recorded for the same period in 2014. This increase was the net result of an increase in noninterest income of \$633,000 and an increase in net interest income of \$222,000, offset by an increase in the provision for loan losses of \$223,000, an increase in noninterest expense of \$90,000, and an increase in income tax expense of \$85,000.

"The year 2015 was a successful one for the company. We expanded into Watkins Glen with our 13th full-service branch. We achieved a 12% increase in earnings, supported by 8% growth in the loan portfolio and 4% growth in the deposit base," said Thomas M. Carr,

See *Increase* on Page 4

Elmira Savings Bank CONSOLIDATED BALANCE SHEET (Unaudited)

(in thousands, except for share and per share data)	December 31,		% Change
	2015	2014	
ASSETS			
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%
LIABILITIES AND SHAREHOLDERS' EQUITY			
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 December 31,			Twelve Months Ended December 31,		
	2015	2014	% Change	2015	2014	% Change
Interest and dividend income:						
Interest and fees on loans	\$ 4,762	\$ 4,598	3.6%	\$ 18,418	\$ 17,709	4.0%
Interest and dividends on securities						
Taxable	304	390	-22.1%	1,367	1,659	-17.6%
Non-taxable	240	270	-11.1%	949	899	5.6%
Total interest and dividend income	<u>5,306</u>	<u>5,258</u>	<u>0.9%</u>	<u>20,734</u>	<u>20,267</u>	<u>2.3%</u>
Interest expense:						
Interest on deposits	762	746	2.1%	3,016	2,986	1.0%
Interest on borrowings	416	494	-15.8%	2,084	1,869	11.5%
Total interest expense	<u>1,178</u>	<u>1,240</u>	<u>-5.0%</u>	<u>5,100</u>	<u>4,855</u>	<u>5.0%</u>
Net interest income	4,128	4,018	2.7%	15,634	15,412	1.4%
Provision for loan losses	270	140	92.9%	630	407	54.8%
Net interest income after provision for loan losses	<u>3,858</u>	<u>3,878</u>	<u>-0.5%</u>	<u>15,004</u>	<u>15,005</u>	<u>-0.0%</u>
Noninterest income:						
Service fees	372	363	2.5%	1,471	1,437	2.4%
Gain on sale of loans held for sale	701	357	96.4%	2,382	1,633	45.9%
Gain on sale of securities	-	-	-	284	422	-32.7%
Other service fees	184	177	4.0%	716	687	4.2%
Earnings on bank-owned life insurance	100	96	4.2%	398	404	-1.5%
Other	25	46	-45.7%	140	175	-20.0%
Total noninterest income	<u>1,382</u>	<u>1,039</u>	<u>33.0%</u>	<u>5,391</u>	<u>4,758</u>	<u>13.3%</u>
Noninterest expense:						
Salaries and benefits	1,917	1,609	19.1%	7,324	7,692	-4.8%
Net occupancy	337	352	-4.3%	1,383	1,416	-2.3%
Equipment	281	249	12.9%	1,061	1,012	4.8%
Marketing and public relations	197	270	-27.0%	832	884	-5.9%
Professional fees	145	167	-13.2%	773	690	12.0%
Other	900	759	18.6%	3,220	2,809	14.6%
Total noninterest expense	<u>3,777</u>	<u>3,406</u>	<u>10.9%</u>	<u>14,593</u>	<u>14,503</u>	<u>0.6%</u>
Income before income taxes	1,463	1,511	-3.2%	5,802	5,260	10.3%
Income taxes	422	476	-11.3%	1,675	1,590	5.3%
Net income	1,041	1,035	0.6%	4,127	3,670	12.5%
Less: Net income attributable to noncontrolling interest	5	5	-	5	5	-
Net income attributable to Elmira Savings Bank	1,036	1,031	0.5%	4,122	3,665	12.5%
Dividend on preferred stock	225	225	-	900	900	0.0%
Income available to common shareholders	<u>\$ 811</u>	<u>\$ 805</u>	<u>0.7%</u>	<u>\$ 3,222</u>	<u>\$ 2,765</u>	<u>16.5%</u>
Basic earnings per share	\$ 0.30	\$ 0.30	0.0%	\$ 1.19	\$ 1.03	15.5%
Diluted earnings per share	\$ 0.30	\$ 0.29	3.4%	\$ 1.17	\$ 0.99	18.2%
Weighted average shares outstanding - basic	<u>2,712,052</u>	<u>2,692,833</u>	<u>0.7%</u>	<u>2,707,491</u>	<u>2,677,252</u>	<u>1.1%</u>
Weighted average shares outstanding - diluted	<u>2,731,078</u>	<u>2,807,591</u>	<u>-2.7%</u>	<u>2,762,332</u>	<u>2,799,670</u>	<u>-1.3%</u>
Dividends per share	\$ 0.23	\$ 0.23	0.0%	\$ 0.92	\$ 0.92	0.0%

Increase

(Continued from Page 2)

President and CEO. Carr continued, "We also had significant accomplishments in improving our internal processes and systems, with an emphasis on becoming more focused on organic growth."

Basic and diluted earnings per share for the twelve months ended December 31, 2015 were \$1.19 per share and \$1.17 per share compared to \$1.03 per share and \$.99 per share for the same periods in 2014. Both basic and diluted earnings per share for the three months ended December 31, 2015 were \$.30 per share compared to \$.30 per share and \$.29 per share for the same periods in 2014.

Net Interest Margin

The net interest margin for the twelve months ended December 31, 2015 was 3.07% compared to 3.23% for the same period in 2014. The yield on average earning assets was 4.06% for the twelve months ended December 31, 2015 compared to 4.24% for the same period in 2014. The average cost of interest-bearing liabilities was 1.16% for the twelve months ended December 31, 2015 compared to 1.21% for the same period in 2014.

The net interest margin for the three months ended December 31, 2015 was 3.19% compared to 3.24% for the same period in 2014. The average yield on earning assets was 4.09% for the three months ended December 31, 2015 compared to 4.23% for the same period in 2014. The average cost of interest-bearing liabilities was 1.07% for the three months ended December 31, 2015 compared to 1.18% for the same period in 2014.

Assets

Total assets increased \$15.4 million or 2.8% to \$561.3 million at December 31, 2015 compared to \$546.0 million at December 31, 2014. Loans receivable increased 8.2% to \$451.4 million at December 31, 2015 compared to December 31, 2014. The available-for-sale investment portfolio decreased \$22.9 million from December 31, 2014 to December 31, 2015.

Nonperforming Loans

Our nonperforming loans to total loans ratio has decreased to 1.05% at December 31, 2015 from 1.13% at December 31, 2014. Net loan charge-offs to average loans for the twelve months ended December 31, 2015 of 0.11% increased from 0.07% for the twelve months ended December 31, 2014. The allowance for loan losses was 0.92% of total loans at December 31, 2015 and 0.95% of total loans at December 31, 2014.

Liabilities

Deposits total \$440.5 million at December 31, 2015, an increase of \$17.9 million or 4.2%. The \$17.9 million increase consists of an \$8.2 million increase in interest-bearing transaction accounts, a \$4.9 million increase in noninterest-bearing accounts, a \$2.9 million increase in money market accounts, a \$1.6 million increase in savings accounts, and a \$.3 million increase in time deposits. Borrowed funds decreased by \$2.5 million or 4.0%.

Shareholders' Equity

Shareholders' equity decreased \$0.7 million to \$54.8 million at December 31, 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 \$16.53 at December 31, 2015, compared to \$16.91 at December 31, 2014. Dividends paid to common shareholders were \$0.23 and \$0.92 for the three and twelve months ended for both December 31, 2015 and 2014.

In Memoriam



George L. Howell

George L. Howell was elected to the Bank's Board of Directors in 1992. Mr. Howell served in a number of key board positions highlighted by his tenure as Chairman from 2002 to 2012. During Mr. Howell's tenure as Chairman of the Board, the Bank expanded into Steuben and Tompkins Counties, NY. He continued to serve as Chairman Emeritus until his death in November 2015.

Mr. Howell gave tirelessly of his time and talents as a leader of the Bank and will be missed by everyone at Elmira Savings Bank and in our community.

Congratulations to Turtle Leaf Café

We are pleased to congratulate Mr. Adam Bunce, owner of Turtle Leaf Café. The Turtle Leaf Café, located at 315 E. Water St., Elmira, was named Chemung County Chamber of Commerce's "New Business of the Year" at the Annual Awards Breakfast held at the Elmira Country Club on December 1, 2015. The restaurant is an asset to the Elmira community, providing healthy choices for their customers.

The Annual Awards Breakfast was sponsored by Elmira Savings Bank for the 19th consecutive year.



Individual Retirement Arrangement (IRA) - Did You Know?

The purpose of an IRA is to help you save for retirement while realizing tax advantages. An IRA is a smart move whether it is used as a primary source of retirement income or as a supplement to other retirement investments or employer-sponsored plans.

Elmira Savings Bank offers Traditional and Roth IRA's. Both can be opened as a PenFlex savings account or Certificate of Deposit, whichever product best fits your needs. Retirement accounts are covered under FDIC insurance separately from other account categories (maximum limits apply).

You can contribute up to \$5,500 to your IRA for the 2015 and 2016 tax years. You can make contributions to the previous year until the current tax year filing deadline. For example, you have until April 18, 2016, to make your 2015 contribution.

If you are over the age of 50 you can make an additional catch-up contribution of \$1,000 (certain income restrictions apply).

If you contribute to a Traditional IRA you may realize a tax benefit upon contribution of funds or if you contribute to a Roth IRA you may realize a tax benefit upon distribution of funds. (Note: You should consult a tax professional on qualifications of the deductibility of any contributions.)

Elmira Savings Bank can accept and help you move IRA funds you may have invested at another financial institution or retirement funds from your employer.

Our retirement products offer no financial risk, interest earnings, income tax benefits, retirement security, along with peace of mind, flexibility, and convenience.

For more information on all available options, contact our knowledgeable and professional staff by visiting your local branch office or call us at (607) 734-3374 or (888) 372-9299.



2015 Parade Season

The past year boasted another successful parade season for Elmira Savings Bank. This year's float theme was Winter Paradise, and sparkled in front of audiences in Elmira, Corning, and Watkins Glen. The winter scene included a sledding hill with some jolly snow-women adorned with smiles, coal buttons, and the necessary top hats. Our friendly staff distributed gold coins (chocolate, of course) to all the children who lined the parade routes.

We defended our title of "Best Decorated" for the third consecutive year in Watkins Glen. The Bank's float was also awarded the "Best Use of Lights," as well as second in "Judges Choice" at the Parade of Lights in Corning. Our volunteer float team once again created, staffed and lit up yet another wonderful holiday season for ESB.



Sparkle 2015

Elmira Savings Bank participated in the Corning Gaffer District's 41st Annual Sparkle on December 5. This annual celebration of winter and the holiday season provided entertainment to all ages, featuring food, ice sculptures, reindeer and alpacas, live music and much more! Elmira Savings Bank sponsored spectacular fireworks over the Chemung River, providing a celebratory end to the evening.

Elmira Savings Bank employees organized a heated tent to visitors on the cold winter day. With two exterior heaters nearby and one large heater piping into the tent, comfy chairs and a Christmas tree, many visitors gathered to the tent for warmth, a hot cup of cocoa and activities for the children. Serving more than 550 cups of hot cocoa and providing complimentary face painting kept the volunteers from Elmira Savings Bank busy throughout the day!

Congratulations to the Following Employees!

Theresa Emo – Assistant Vice President/
Retail Sales Leader

Theresa joined Elmira Savings Bank in 2006 as Assistant Branch Manager of the Corning Branch. She managed the Big Flats branch after the transition from the Mall location in 2012 as well as the Erwin branch when it opened in 2013. She holds an A.S. degree in Accounting from Elmira Business Institute.

Stacy Ward – Corporate Trainer

Stacy joined Elmira Savings Bank as the Human Resource Associate in February 2008 and was promoted to Assistant Secretary in April 2013. Prior to joining Elmira Savings Bank Stacy worked in human resources in the healthcare industry and in staff recruiting on the West Coast. She has over 18 years of experience in the human resources industry. Stacy has a Bachelor's degree in Business Management with a concentration in Human Resources.

Christine Iles – Branch Manager,
Elmira Heights

Christine joined the bank as a Teller in 2013. She was promoted to Teller Coordinator at the Elmira Heights Branch later that year and in January 2015 she was promoted to Assistant Branch Manager. Christine has an Associate degree from Paul Smith College.

Tammi Cronin – ACH Specialist

Tammi came to the bank as a Peak Time Teller in 2004 and transferred to the Operations Department as an Operations Representative that same year. She has over 11 years of customer service experience in the retail industry.

Cherry Merrill – Teller Coordinator,
Commons Branch

Cherry joined the bank as a Part Time Teller in 2012 and was promoted to Senior Teller in 2014. She has over 12 years of customer service in the hospitality industry.

Vicky Smith – Teller Coordinator,
Horseheads Branch

Vicky has prior banking experience at other institutions as well as over 20 years of administrative assistant experience. She first joined Elmira Savings Bank as a Part Time Teller in 2012, leaving briefly, and returned to the bank's Erwin Branch in January 2015 and ultimately transferred to our Horseheads Branch.

Welcome New ESB Employees!

We are privileged to welcome eight new employees to Elmira Savings Bank in the fourth quarter of 2015.

Paige Miller – Southport Branch Part-time Teller. Paige has an Associate's degree from Corning Community College and eight years of previous banking experience.

Amy Frisbie – Credit Department - Assistant Vice President & Loan Analyst. Amy has a Bachelor's degree in Finance from Coastal Carolina University and an MBA from Wheeling Jesuit University with seven years of banking experience including Credit Risk Management.

Jennifer Orr – Moravia Branch Teller. Jennifer has an Associate's degree from Tompkins Cortland Community College with seven years of administrative assistant experience, as well as 15 years of customer service experience in the restaurant industry.

Amber Simms – Credit Department – Underwriter. Amber has an Associate's degree from Northern Virginia Community College and is pursuing her Bachelor's degree. She has 10 years of banking experience including underwriting, loan origination & servicing and most recently worked for Freddie Mac in Loss Mitigation.

Jennifer Hourihan – Corning Branch Teller – Jennifer has 14 years customer service and sales experience in retail, hospitality and manufacturing industries.

Sandra VanOrder – Credit Department – Commercial Loan Specialist. Sandra has 15 years of paralegal experience including legal issues involving real estate and recently earned a Bachelor's degree from Keuka College.

Jennifer Lerner – Big Flats Teller – Jennifer earned her Bachelor's degree from Cornell University. She has an extensive customer service background in Human Resource.

Colleen Bean – Accounting Specialist – Colleen has an Associate degree in Accounting. She originally came to ESB in 2010 as a Teller and moved into Accounting in 2011. She recently relocated back to the Southern Tier.

333 East Water Street
Elmira, NY 14901

Elmira
Savings Bank



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