Elmira Savings Bank

2012

Annual Report

Growing, Growing Strong!

OUR MISSION

THE MISSION OF ELMIRA SAVINGS BANK is to provide above average returns to our shareholders while providing a broad range of financial services that meet the needs of the individuals, businesses, and organizations of our community.

We will achieve this through our commitment to:

- Consistent and superior quality service for our customers.
- A culture that incents employees to excel personally and professionally.
- Leadership in and support for our community.
- Independence as a local community bank.

Elmira Savings Bank
The People's Bank

Growing, Growing Strong!

DESIGN PS Graphic Design, Elmira, NY
PORTRAIT PHOTOGRAPHY Tom Mike Photography

SELECTED FINANCIAL DATA

(in thousands, except for per share amounts)

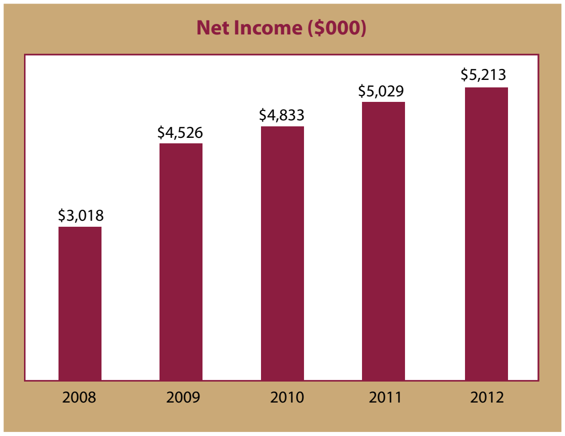
FINANCIAL STATEMENT HIGHLIGHTS	2012	2011
Assets	$ 536,936	523,358
Loans (including loans held for sale)	381,275	348,824
Allowance for loan losses	3,740	3,299
Deposits	409,565	381,729
Shareholders' equity	66,909	64,615
Net interest income	15,089	15,550
Provision for loan losses	463	668
Non-interest income	6,050	4,727
Non-interest expense	12,944	12,202
Net income attributable to Elmira Savings Bank	5,213	5,029

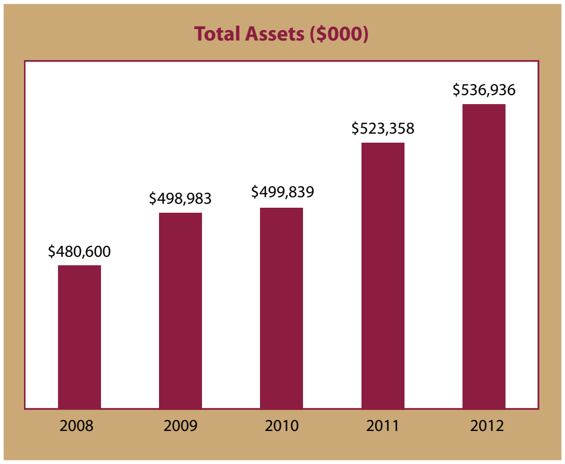
PER SHARE INFORMATION		
Basic earnings per share	$ 1.58	1.45
Diluted earnings per share	1.51	1.41
Book value per share	18.50	17.92
Cash dividend per share	0.84	0.71

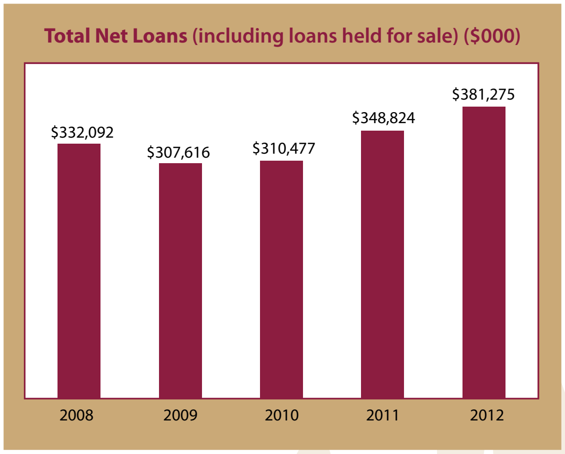
SELECTED RATIOS		
Return on average assets	0.99%	1.00%
Return on average equity	7.92%	8.40%
Shareholders' equity to assets	12.46%	12.35%
Dividend payout ratio	53.16%	49.34%
Efficiency ratio	61.23%	60.18%

OTHER SELECTED DATA		
Number of offices	15	13
Number of automated teller machines	13	10
Weighted average shares outstanding	2,277,545	2,253,452
Weighted average diluted shares outstanding	2,389,217	2,315,109

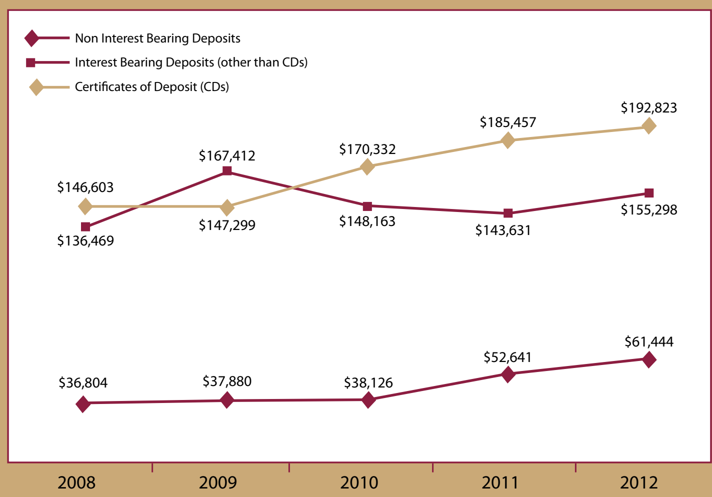
Share and per share data have been adjusted to reflect the 5% stock dividend distributed December 28, 2012 and a 10% stock dividend paid on December 28, 2011.





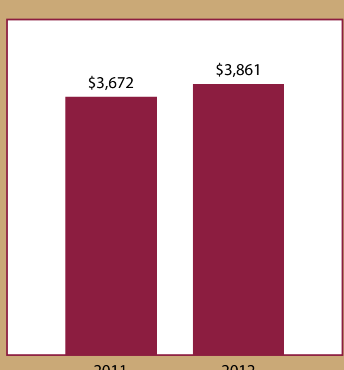


Deposit Growth ($000)

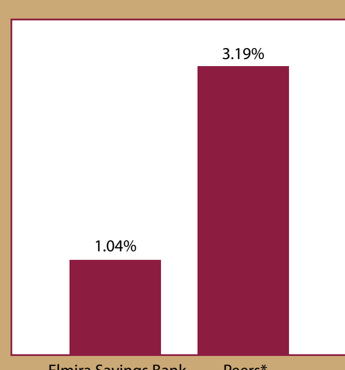


Efficiency Ratio

Nonperforming Loans ($000)



Noncurrent Loans & ORE[1] to Total Loans & ORE Peer Comparison at December 31, 2012



[1] Noncurrent loans & ORE includes loans past due 90 days or more, nonaccrual loans, and other real estate owned

*Peer group is FDIC-insured banks with assets of $300 million to $1 billion

DEAR SHAREHOLDERS,

We are pleased to report another successful year for Elmira Savings Bank. For the year ended December 31, 2012, we reported $5.2 million of net income or $1.51 per diluted share. This represents the fifth consecutive year of record earnings.

Our achievements are a direct reflection of the dedication of our Elmira Savings Bank team of employees and their desire to provide outstanding service to our entire customer base. Many of these individuals devote personal time and resources to many deserving organizations and causes throughout our region. We are proud of them and grateful for their earnest effort.

An improvement in capital levels was accomplished primarily through earnings after cash dividends of $1.6 million. We achieved balance sheet growth by replacing $15 million of investment securities with $32 million of loan growth, and we replaced $16 million of borrowed funds with $28 million of deposits including $9 million of noninterest-bearing deposits. This strategic shift continues to improve the composition and strength of our balance sheet.

Our disciplined approach to managing the overhead of the bank has enabled us to maintain an efficiency ratio in the 60% range from 2010 through 2012. We have accomplished this efficiency while continuing to invest in expanding convenient locations for our customers, training for employees, upgraded technology, and in new staff who will focus solely on risk management and consumer compliance.

The stellar performance of our branch personnel is highlighted on the deposit growth chart. This chart demonstrates their competency to generate deposit growth against the headwinds of a prolonged low rate environment. Branch loan originations increased 77% from 2011 to 2012. Our branches are revenue generators, as well as deposit gatherers.

In addition, two new locations were established during 2012. In the first quarter

NEW Elmira Heights office

NEW Erwin office

we opened a new location at 971 County Route 64, Big Flats, NY. This location is on one of the most highly trafficked roads in our market area. During 2012, 180 loans were originated out of this location. We closed our branch located in the nearby Arnot Mall and successfully transferred $24 million of deposits to this new location.

In the third quarter of 2012 we opened a new branch on Lake Road in Elmira Heights, NY. This is the only key location in our home market of Chemung County where we did not have a branch. The existing bank branch building and renovation was acquired for an almost unbelievably low cost of less than $125,000. The added convenience including a drive-up window and ATM will be meaningful to existing customers who live or work in the Heights, and should help us draw new customers as well.

In addition to these two new locations opened in 2012, we have leased an office in Erwin, NY, in Steuben County that will open in the first quarter of 2013. This township is home to Corning Inc.'s Sullivan Park Research and Development Center and is the planned location for future commercial and residential development by Steuben County economic development agencies. Our first Steuben County branch on Market Street in Corning reached critical mass of $35 million of deposits during 2012. The new Erwin branch will be a great extension of our existing presence in this market.

Residential mortgage volume during 2012 totaled $162 million, an increase of 44% over record 2011 originations of $113 million. We continued to improve the infrastructure and product mix of this key line of business during the year. The results of this effort speak for themselves.

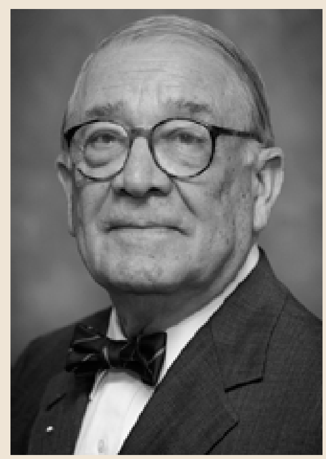
We continue to anticipate that New York State will allow the permitting of natural gas wells located in the Marcellus Shale. This action will create increased business potential across most of our footprint, which is ideally aligned with future drilling sites.

Shareholders received a 5% stock dividend as well as dividends of $0.84 per share. With share price reaching $22.74 per common share at year's end, total return for the year including price appreciation and dividends amounted to 51%.

We are very enthusiastic about the prospects for Elmira Savings Bank in the years ahead and we remain committed to driving shareholder return through our focus on service to our customers, community, and employees.

I would like to take this opportunity to extend my sincerest thanks to you, the shareholders, for your continued support of this wonderful organization. We are pleased to provide you with this report of progress and look forward to a successful 2013.

Michael P. Hosey
Vice Chairman of the Board
President
Chief Executive Officer



George L. Howell
Chairman Emeritus
F.M. Howell & Company

We would like to recognize George L. Howell for his 20 years as a Director, of which he served eleven years as Chairman of the Board before his 2012 retirement. During his tenure the bank experienced significant balance sheet and market growth. Mr. Howell played a key role in the expansion of insider ownership to over 30%. We are pleased that Mr. Howell remains involved in his capacity as Chairman Emeritus.

Consolidated Balance Sheets

Elmira Savings Bank and Subsidiaries

(in thousands, except for share and per share data)	December 31, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$ 39,641	$ 47,456
Federal funds sold and other short-term investments	684	740
Total cash and equivalents	40,325	48,196
Securities available for sale, at fair value	66,875	86,536
Securities held to maturity - fair value of $5,853 at December 31, 2012 and $4,923 at December 31, 2011	5,521	4,621
Federal Reserve and Federal Home Loan Bank (FHLB) stock, at cost	9,178	5,295
Loans held for sale	3,167	2,842
Loans receivable	378,108	345,982
Less: allowance for loan losses	3,740	3,299
Net loans	374,368	342,683
Premises and equipment, net	7,947	5,392
Bank-owned life insurance	11,988	10,100
Accrued interest receivable	1,529	1,615
Intangible assets, net	316	444
Goodwill	12,320	12,320
Other real estate owned	125	202
Other assets	3,277	3,112
Total assets	**$ 536,936**	**$ 523,358**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$ 409,565	$ 381,729
Borrowings	54,000	70,019
Other liabilities	6,462	6,995
Total liabilities	**470,027**	**458,743**
SHAREHOLDERS' EQUITY		
Preferred stock, $1,000 liquidation value per issued share; 5,000,000 shares authorized; 24,063 shares issued at December 31, 2012 and at December 31, 2011	23,763	23,763
Common stock, $1 par value; authorized 5,000,000 shares; 2,454,840 shares issued at December 31, 2012 and 2,292,656 at December 31, 2011	2,455	2,293
Additional paid-in capital	41,448	38,402
Retained earnings	868	1,735
Treasury stock, at cost - 125,865 shares at December 31, 2012 and December 31, 2011	(3,548)	(3,548)
Accumulated other comprehensive income	1,872	1,918
Total Elmira Savings Bank shareholders' equity	66,858	64,563
Noncontrolling interest	51	52
Total shareholders' equity	**66,909**	**64,615**
Total liabilities and shareholders' equity	**$ 536,936**	**$ 523,358**

Consolidated Statements of Income

Elmira Savings Bank and Subsidiaries

(in thousands, except for per share amounts)	Years Ended December 31 2012	2011	2010
INTEREST AND DIVIDEND INCOME			
Interest and fees on loans	$ 18,114	$ 18,140	$ 18,185
Interest and dividends on securities			
Taxable	2,111	3,140	3,681
Non-taxable	760	820	822
Total interest and dividend income	**20,985**	**22,100**	**22,688**
INTEREST EXPENSE			
Interest on deposits	3,712	3,850	4,564
Interest on borrowings	2,184	2,700	3,205
Total interest expense	**5,896**	**6,550**	**7,769**
Net interest income	15,089	15,550	14,919
Provision for loan losses	463	668	515
Net interest income after provision for loan losses	**14,626**	**14,882**	**14,404**
NONINTEREST INCOME			
Service fees	1,242	1,236	1,409
Gain on sale of loans held for sale	3,561	1,836	1,450
Net gain on sale of securities	75	448	474
Other service fees	677	634	620
Earnings on bank-owned life insurance	388	369	353
Other	107	204	287
Total noninterest income	**6,050**	**4,727**	**4,593**
NONINTEREST EXPENSE			
Salaries and benefits	6,770	6,491	6,007
Net occupancy	1,130	1,154	1,102
Equipment	946	854	924
Marketing and public relations	722	636	483
Professional fees	643	513	654
Regulatory assessments	360	462	574
Other	2,373	2,092	2,115
Total noninterest expense	**12,944**	**12,202**	**11,859**
Income before income taxes	7,732	7,407	7,138
Income taxes	2,514	2,373	2,300
Net income	5,218	5,034	4,838
Less: Net income attributable to noncontrolling interest	5	5	5
Net income attributable to Elmira Savings Bank	**$ 5,213**	**$ 5,029**	**$ 4,833**
Dividend on preferred stock	1,609	1,512	1,367
Accretion of preferred stock discount	-	252	84
Income available to common shareholders	**$ 3,604**	**$ 3,265**	**$ 3,382**
Basic earnings per common share	$ 1.58	$ 1.45	$ 1.51
Diluted earnings per common share	$ 1.51	$ 1.41	$ 1.49

Per share data has been restated to reflect a 5% stock dividend paid on December 28, 2012 and a 10% stock dividend paid on December 28, 2011.

Consolidated Statements of Comprehensive Income

Elmira Savings Bank and Subsidiaries

(in thousands)	Years Ended December 31, 2012	2011	2010
Net income	**$ 5,218**	**$ 5,034**	**$ 4,838**
OTHER COMPREHENSIVE INCOME (LOSS)			
Net unrealized holding gains (losses) on securities available for sale	-	2,014	(184)
Tax benefit (expense)	-	(779)	72
	-	1,235	(112)
Realized securities gains included in net income	(75)	(448)	(474)
Tax expense	29	173	183
	(46)	(275)	(291)
Other comprehensive income (loss), net of tax	**(46)**	**960**	**(403)**
Comprehensive income	**$ 5,172**	**$ 5,994**	**$ 4,435**

Consolidated Statements of Shareholders' Equity

Elmira Savings Bank and Subsidiaries

(in thousands, except for share and per share amounts)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained earnings	Treasury Stock	Accumulated other comprehensive income (loss)	Noncontrolling Interest	Total
Balance at December 31, 2011	**$ 23,763**	**2,293**	**38,402**	**1,735**	**(3,548)**	**1,918**	**52**	**64,615**
Net income	-	-	-	5,213	-	-	5	5,218
Other comprehensive loss	-	-	-	-	-	(46)	-	(46)
5% stock dividend (110,417 shares)	-	110	2,387	(2,497)	-	-	-	-
Cash in lieu of fractional shares resulting from a 5% stock dividend	-	-	-	(7)	-	-	-	(7)
Stock based compensation expense	-	-	340	-	-	-	-	340
Issuance of common shares (12,321 shares)	-	12	(12)	-	-	-	-	-
Exercise of stock options, net (39,446 shares)	-	40	331	-	-	-	-	371
Preferred stock repurchased - noncontrolling interest	-	-	-	-	-	-	(1)	(1)
Cash dividend on preferred stock	-	-	-	(1,609)	-	-	(5)	(1,614)
Cash dividend on common stock ($.84 per share)	-	-	-	(1,967)	-	-	-	(1,967)
Balance at December 31, 2012	**$ 23,763**	**2,455**	**41,448**	**868**	**(3,548)**	**1,872**	**51**	**66,909**

Per share data has been restated to reflect the 5% stock dividend paid on December 28, 2012 and a 10% stock dividend paid on December 28, 2011.

To the Board of Directors and Shareholders of Elmira Savings Bank and subsidiaries

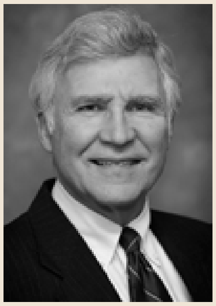
We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Elmira Savings Bank and subsidiaries (the "Bank") as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows (not presented herein), for each of the three years in the period ended December 31, 2012, and in our report dated March 13, 2013, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

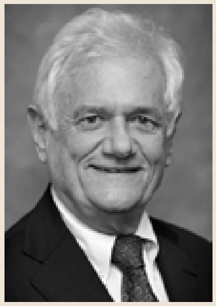
S.R. Snodgrass A.C.

Wexford, Pennsylvania
March 13, 2013

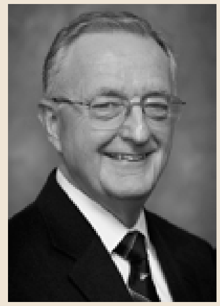
ELMIRA SAVINGS BANK BOARD OF DIRECTORS



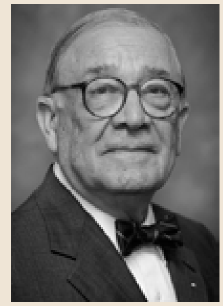
John R. Alexander
Corporate Secretary of the Board
Sayles & Evans



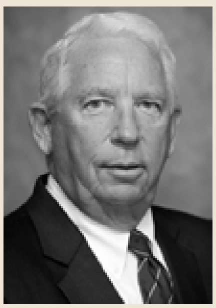
John Brand, III
Chairman of the Board
Arnot Realty Corporation



Anthony J. Cooper
President
Arnot Health

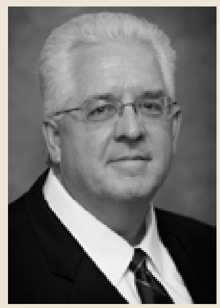


George L. Howell
Chairman Emeritus
F.M. Howell & Company

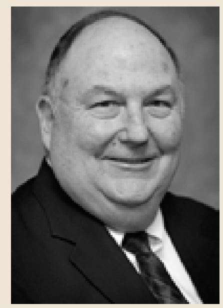


A. Scott Welliver
Chairman
Chief Executive Officer
Welliver McGuire, Inc.

Kristin A. Swain
Executive Director
Rockwell Museum of Western Art



Michael P. Hosey
Vice Chairman of the Board
President
Chief Executive Officer
Elmira Savings Bank

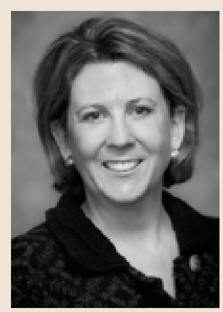


Donald G. Quick, Jr.
Retired Partner
Mengel, Metzger, Barr & Co. LLP

Thomas M. Carr
Executive Vice President
Chief Operating Officer
Elmira Savings Bank

Katherine H. Roehlke
President
Chief Executive Officer
F.M. Howell & Company

Arie J. van den Blink
Chairman
Chief Executive Officer
The Hilliard Corporation



Marianne W. Young
President
Market Street Trust Company

Elmira Savings Bank
The People's Bank

ELMIRA SAVINGS BANK OFFICERS

EXECUTIVE
Michael P. Hosey
President
Chief Executive Officer

Thomas M. Carr
Executive Vice President
Chief Operating Officer

Shirley A. Weigand
Assistant Secretary

AUDIT AND CONTROL
Edith B. Keebler
Assistant Treasurer

Joseph P. Klaiber
Compliance Officer

Jill M. McConnell
Assistant Secretary

COLLECTIONS
Tricia Rennells
Assistant Vice President

FINANCE
Jason T. Sanford
Senior Vice President
Chief Financial Officer

John J. Stempin
Assistant Secretary

Judy A. Woodruff
Assistant Secretary

HUMAN RESOURCES
Bradley V. Serva
Vice President

LENDING
Kevin J. Berkley
Senior Vice President

Gary O. Short
Senior Vice President

Tamara S. Pabis
Vice President

Susan M. Cook
Assistant Vice President

Christopher Mekos
Vice President

Jennifer M. Murphy
Assistant Secretary

Carrie L. Spencer
Assistant Secretary

Amy Ward
Assistant Vice President

MANAGEMENT INFORMATION SYSTEMS
Joseph L. Walker
Vice President

Phillip J. Collins
Assistant Vice President

OPERATIONS
Margaret A. Phillips
Vice President

Frank P. Spena, Jr.
Assistant Secretary

RETAIL SERVICES
Donna J. Tangorre
Vice President

Deborah L. Adams
Assistant Vice President

Kimberly A. Elliott
Assistant Vice President

Janette Allen
Assistant Treasurer

Ashley A. Case
Assistant Treasurer

Patricia L. Cobb
Assistant Treasurer

Theresa A. Emo
Assistant Treasurer

Lorenda D. Gneo
Assistant Treasurer

Phylis A. Jensen
Assistant Treasurer

Debra S. Knowles
Assistant Treasurer

Sara J. Meisner
Assistant Treasurer

ADVISORY SERVICES, INC.
Vincent Mazzarella
Vice President

MARKET PRICE INFORMATION

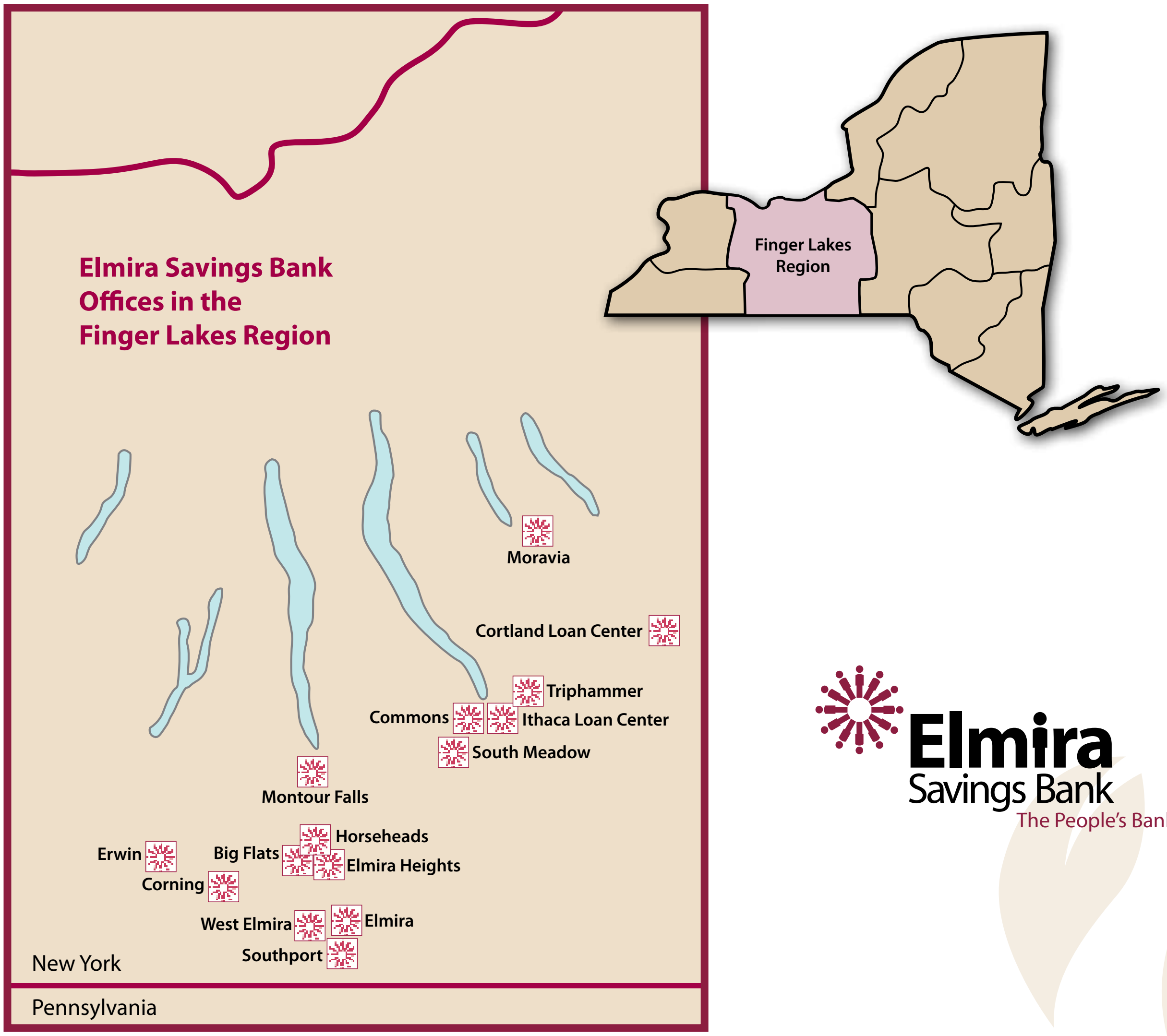
The bank's common stock was first offered in March 1985, and is now listed on the NASDAQ exchange under the symbol ESBK. The table below summarizes the high and low market price for the bank's stock during 2012 and 2011.

Quarters	2012		2011	
	High	Low	High	Low
First	20.82	15.45	16.02	14.36
Second	20.46	16.83	14.93	12.25
Third	19.04	17.50	15.29	11.38
Fourth	23.65	18.48	16.19	13.05

ANNUAL SHAREHOLDERS' MEETING
The Annual Shareholders' Meeting will be held
at 10 a.m. on April 23, 2013
at the
Clemens Center
207 Clemens Center Parkway
Elmira, NY

SHAREHOLDER INQUIRIES
The bank's transfer agent is:
Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016
(800) 525-7686

The bank's Annual Report on
Form 10-K will be furnished without charge
upon written request to:
Thomas M. Carr
Executive Vice President
Chief Operating Officer
Elmira Savings Bank
333 E. Water Street
Elmira, NY 14901



Elmira Savings Bank
The People's Bank

MAIN OFFICE
333 East Water Street
Elmira, NY 14902-9967
607-734-3374

BIG FLATS
971 County Route 64
Big Flats, NY 14841
607-734-3374

ITHACA LOAN CENTER
301 East State Street
Ithaca, NY 14850
607-257-3584

MORAVIA
142 Main Street
Moravia, NY 13118
315-497-1300

HORSEHEADS
2149 Grand Central Avenue
Horseheads, NY 14845
607-734-3374

ELMIRA HEIGHTS
2075 Lake Road
Elmira, NY 14903
607-734-3374

COMMONS
301 East State Street
Ithaca, NY 14850
607-272-1111

MONTOUR FALLS*
401 West Main Street, Suite 110
Montour Falls, NY 14865
607-535-4026

SOUTHPORT
1136 Pennsylvania Avenue
Elmira, NY 14904
607-734-3374

CORNING
19 East Market Street, Suite 101
Corning, NY 14830
607-962-0812

SOUTH MEADOW
702 South Meadow Street
Ithaca, NY 14850
607-272-2211

CORTLAND LOAN CENTER*
77 South West Street
Homer, NY 13077
607-749-7251

WEST ELMIRA
930 West Church Street
Elmira, NY 14905
607-734-3374

ERWIN
404 S. Hamilton Street
Painted Post, NY 14870
607-936-1806

TRIPHAMMER
2300 North Triphammer Road
Ithaca, NY 14850
607-257-8808

ARNOT MALL ATM
Entrance 4 - Center Court
Horseheads, NY 14845
607-734-3374

*ATM available at all locations except for the Montour Falls Office and Cortland Loan Center.

Elmira Savings Bank
The People's Bank

www.elmirasavingsbank.com