



Elmira
Savings Bank

The People's Bank



2015
Annual Report



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.

DESIGN PS Graphic Design

PHOTOGRAPHY Frank Borkowski



ELMIRA SAVINGS BANK BOARD OF DIRECTORS

(Back row l-r) Robert K. Lambert, President/Chief Executive Officer, Arnot Health; Marianne W. Young, President/Chief Executive Officer, Market Street Trust Company; Arie J. van den Blink, Chairman/Chief Executive Officer, The Hilliard Corporation; Katherine H. Roehlke, President/Chief Executive Officer, F.M. Howell & Company; Donald G. Quick, Jr., Retired Partner, Mengel, Metzger, Barr & Co. LLP; Kristin A. Swain, Executive Director, The Rockwell Museum

(Front row l-r) A. Scott Welliver, Chairman/Chief Executive Officer, Welliver McGuire, Inc.; John R. Alexander, Vice Chairman and Corporate Secretary of the Board/Managing Partner, Sayles & Evans; Thomas M. Carr, President/Chief Executive Officer; Michael P. Hosey, Chairman of the Board



Thomas M. Carr
President & Chief Executive Officer

DEAR SHAREHOLDERS,

It is with great optimism for the future of our regional economy that I report to you our accomplishments of 2015. The Upstate Revitalization Initiative has provided \$1.5 billion over the next five years to our region, which includes all markets in which we do business. This generational opportunity which lies before us can systemically alter for the better the long term prospects of our business environment. As a community bank operating across these regions, we are poised to participate in this transformation.

During 2015 the Bank achieved solid financial performance, expanded its branch network into Watkins Glen, reorganized its credit and retail operations, conducted a process improvement analysis, implemented a mobile deposit product and began a study of our corporate brand.

The Bank had total assets of \$561.3 million at December 31, 2015 as compared to \$546.0 million the previous year. Our loan portfolio increased by \$34.0 million to total \$451.4 at year end, an increase of 8.1%. Our deposit base increased by \$17.9 million to total \$440.5 million on December 31, 2015, an increase of 4.2%. This increase in our core business, of attracting deposits and providing credit, was partially offset by a \$21.3 million decrease in our investment portfolio and \$2.5 million decrease in our borrowed funds.

The Bank had net income of \$4.1 million in 2015, an increase of \$457,000 or 12.5% above the previous year. This increase is due primarily to a 45.9% or \$749,000 increase in gain on sale of mortgages and a \$222,000 increase in net interest income.

The increase in the revenue from gain on sale of mortgages is attributable to a 20.3% or \$19.9 million increase in mortgage originations and the expansion of our margin on the sale of mortgages to the secondary market.

The increase in net interest income of \$222,000 is due primarily to an increase in the loan portfolio of \$34.0 million. This loan growth was funded by \$17.9 million of deposit growth and a \$21.3 million decrease in our investment portfolio.

The Bank's noninterest expense increased by \$90,000 or less than one percent. During the year the Bank invested in a process review, reorganized its credit and retail divisions, and conducted a brand evaluation, all resulting in one-time increased expense in 2015. These increases were substantially offset by the absence of the retirement expense recognized in 2014.

The Bank's asset quality remains strong. Our nonperforming loans as a percentage of total loans declined from 1.13% in 2014 to 1.05% in 2015. Our delinquent loans more than 30 days delinquent, excluding nonperforming loans, totaled .38% of total loans. Both aforementioned ratios compare favorably to peers.

The Bank's provision for loan losses was increased by \$223,000 during 2015, which resulted in a \$174,000 increase in the allowance for loan losses which totaled \$4.2 million at December 31, 2015. The increase in the provision was primarily due to the growth in the loan portfolio of 8.1%.

The Bank paid 92 cents per common share in cash dividends in 2015. This represents a dividend yield of approximately 5% based on current market price for stocks. This dividend yield is one of the highest in the nation for publicly traded banks. The Bank paid \$2.5 million of common stock cash dividends in 2015 the majority of which is returned to shareholders in the markets we serve. In addition, the Bank purchased all outstanding stock warrants for \$1.5 million.

In March 2015 the Bank opened its 13th full-service branch office in Watkins Glen, NY. This is the Bank's first full-service office in Schuyler County. We have many customers and business partners in that community and are pleased with our acceptance by the market. We are happy to report that total deposits at this branch exceeded \$20 million at December 31, 2015. In addition we have actively been providing both consumer and commercial credit to the market as highlighted later in this report on pages 12 and 13. Watkins Glen is important geographically to the Bank. It provides us with greater access to the economic development in the Finger Lakes region and helps connect our Corning and Elmira markets to our Ithaca market.

In April 2015 the Bank implemented a mobile deposit product providing the highest level of convenience by allowing customers to deposit checks through their mobile devices. This product is a great addition to our mobile and online banking suite of products and has been adopted by thousands of customers during the year.

The Bank engaged a marketing research firm during 2015 to conduct a corporate brand evaluation in the markets we serve. We believe that results provided by this study will enable us to strategically better position the organization and our message in each market. The study will be completed in early 2016.

During the year the Bank, with outside expertise, conducted an evaluation of its retail and lending operations. The results of this review were the implementation of significant improvements to the Bank's processes and systems.

The Bank also implemented significant changes to its organizational structure, with the formation of a credit

department and the addition of key new positions which will help drive our business development efforts.

During the fourth quarter of 2015 the Bank established a credit department which consolidated the underwriting, processing and administration of our three lending divisions, mortgage, consumer and commercial, into one department. This change will allow greater efficiency and utilization of resources for our loan administration. In addition, this change will relieve our loan officers of administrative burden which will allow them to focus more intently on new loan origination. We anticipate increased efficiency and scalability from the credit department and increased production from our loan officers.

On the retail side of the organization we established three new positions to support business development. These new resources will drive our business development activities across our branch network, allow greater focus on acquiring commercial deposit market share, and assist us in elevating our employees' overall skill level.

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. On the corner of North Meadow and State Street stands 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 high level of economic activity in Tompkins County has made that market attractive to the Bank. We believe that the new branch location at 602 West State Street will provide the Bank with

increased visibility and help to create a higher level of awareness of our brand in that market.

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

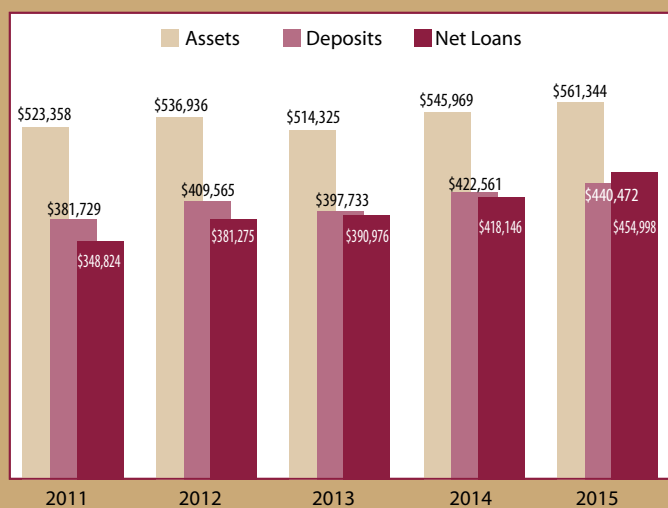
As we look forward to 2016 and beyond, we are committed to obtaining the necessary resources to grow our company. We are looking forward to having a higher profile in the Tompkins County market and capitalizing on the economic development opportunities. We believe the organizational changes we have made will allow us to better execute on future opportunities. We are excited about the prospects which may develop over the next five years in conjunction with the \$1.5 billion awarded to the regions we serve through the Upstate Revitalization Initiative.

The Board of Directors and management of the Bank are dedicated to improving performance primarily through balance sheet growth and enhancement of noninterest income. We believe there is substantial opportunity in the markets we serve and we are determined to capitalize on them. We appreciate the support of our shareholders and customers and look forward to building new relationships.

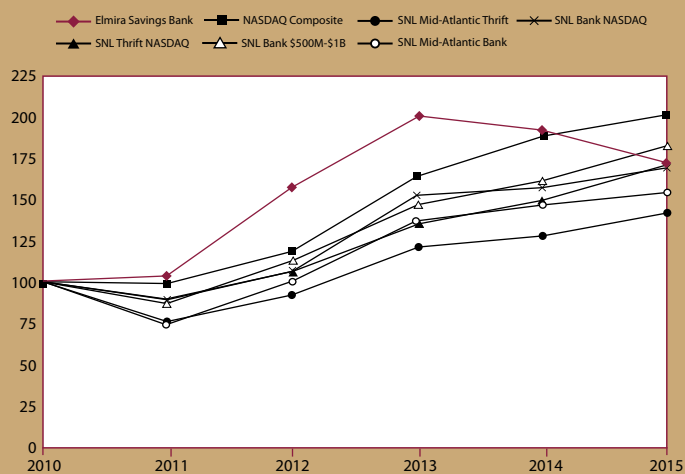


Thomas M. Carr
President and
Chief Executive Officer

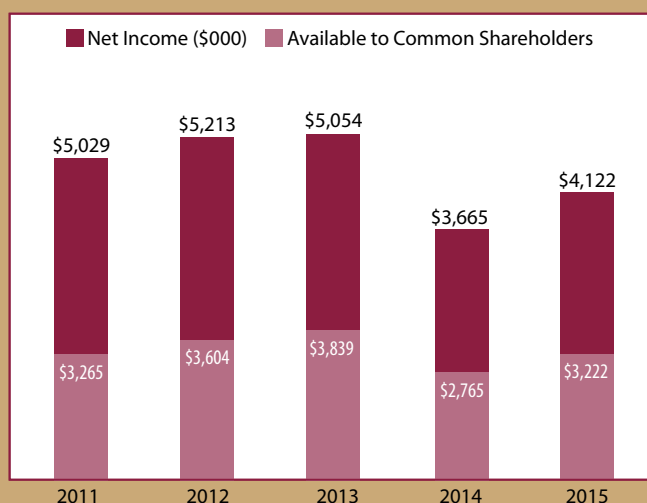
Assets, Deposits, and Net Loans



Total Return Performance



Net Income (\$000)



SELECTED FINANCIAL DATA

(in thousands, except share and per share amounts)

FINANCIAL STATEMENT HIGHLIGHTS	2015	2014
Assets	\$ 561,344	545,969
Loans (including loans held for sale)	454,998	418,146
Allowance for loan losses	4,148	3,974
Deposits	440,472	422,561
Shareholders' equity	54,771	55,493
Net interest income	15,634	15,412
Provision for loan losses	630	407
Non-interest income	5,391	4,758
Non-interest expense	14,593	14,503
Net income attributable to Elmira Savings Bank	4,122	3,665

PER SHARE INFORMATION

Basic earnings per share	\$ 1.19	1.03
Diluted earnings per share	1.17	0.99
Book value per share	16.53	16.91
Cash dividend per share	0.92	0.92

SELECTED RATIOS

Return on average assets	0.73%	0.70%
Return on average equity	7.43%	6.60%
Shareholders' equity to assets	9.76%	10.16%
Dividend payout ratio	77.31%	89.32%
Efficiency ratio	69.41%	71.90%

OTHER SELECTED DATA

Number of offices	16	16
Number of automated teller machines	14	13
Weighted average shares outstanding	2,707,491	2,677,252
Weighted average diluted shares outstanding	2,762,332	2,799,670

Consolidated Balance Sheets

Elmira Savings Bank and Subsidiaries

(in thousands, except for share and per share data)

December 31,
2015

December 31,
2014

ASSETS

Cash and due from banks	\$	5,352		\$	7,959
Federal funds sold and other short-term investments		102			606
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Total cash and equivalents		5,454			8,565
Securities available for sale, at fair value		42,709			65,624
Securities held to maturity - fair value of \$9,010 at December 31, 2015, and \$7,641 at December 31, 2014		9,003			7,389
Federal Reserve and Federal Home Loan Bank (FHLB) stock, at cost		11,108			11,182
Loans held for sale		3,630			787
Loans receivable		451,368			417,359
Less: Allowance for loan losses		4,148			3,974
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Net Loans		447,220			413,385
Premises and equipment, net		12,130			9,475
Bank-owned life insurance		13,188			12,790
Accrued interest receivable		1,541			1,566
Intangible assets, net		61			125
Goodwill		12,320			12,320
Other assets		2,980			2,761

Total assets	\$	561,344		\$	545,969
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LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits	\$	440,472		\$	422,561
Borrowings		59,525			62,000
Other liabilities		6,576			5,915

Total liabilities	506,573			490,476
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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
Common stock, \$1 par value; authorized 5,000,000 shares; 2,820,745 shares issued at December 31, 2015 and 2,809,364 at December 31, 2014		2,821		2,809
Additional paid-in capital		41,243		42,365
Retained earnings		3,488		2,769
Treasury stock, at cost - 98,118 shares at December 31, 2015 and 104,418 shares at December 31, 2014		(2,907)		(3,053)
Accumulated other comprehensive income		373		849

Total Elmira Savings Bank shareholders' equity		54,718		55,439
Noncontrolling interest		53		54

Total shareholders' equity	54,771			55,493
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Total liabilities and shareholders' equity	\$	561,344		\$	545,969
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Consolidated Statements of Income

Elmira Savings Bank and Subsidiaries

(in thousands, except for per share amounts)	Years Ended December 31		
	2015	2014	2013
INTEREST AND DIVIDEND INCOME			
Interest and fees on loans	\$ 18,418	\$ 17,709	\$ 17,733
Interest and dividends on securities			
Taxable	1,367	1,659	1,744
Non-taxable	949	899	776
Total interest and dividend income	20,734	20,267	20,253
INTEREST EXPENSE			
Interest on deposits	3,016	2,986	3,224
Interest on borrowings	2,084	1,869	1,976
Total interest expense	5,100	4,855	5,200
Net interest income	15,634	15,412	15,053
Provision for loan losses	630	407	315
Net interest income after provision for loan losses	15,004	15,005	14,738
NONINTEREST INCOME			
Service fees	1,471	1,437	1,357
Gain on sale of loans held for sale	2,382	1,633	3,007
Net gain on sale of securities	284	422	61
Other service fees	716	687	660
Earnings on bank-owned life insurance	398	404	399
Other	140	175	73
Total noninterest income	5,391	4,758	5,557
NONINTEREST EXPENSE			
Salaries and benefits	7,324	7,692	7,382
Net occupancy	1,383	1,416	1,259
Equipment	1,061	1,012	1,022
Marketing and public relations	832	884	676
Professional fees	773	690	674
Other	3,220	2,809	2,849
Total noninterest expense	14,593	14,503	13,862
Income before income taxes	5,802	5,260	6,433
Income taxes	1,675	1,590	1,374
Net income	4,127	3,670	5,059
Less: Net income attributable to noncontrolling interest	5	5	5
Net income attributable to Elmira Savings Bank	\$ 4,122	\$ 3,665	\$ 5,054
Dividend on preferred stock	900	900	1,215
Income available to common shareholders	\$ 3,222	\$ 2,765	\$ 3,839
Basic earnings per common share	\$ 1.19	\$ 1.03	\$ 1.47
Diluted earnings per common share	\$ 1.17	\$ 0.99	\$ 1.40

Consolidated Statements of Comprehensive Income

Elmira Savings Bank and Subsidiaries

(in thousands)	Years Ended December 31,		
	2015	2014	2013
Net income	\$ 4,122	\$ 3,665	\$ 5,054
OTHER COMPREHENSIVE INCOME (LOSS):			
Net unrealized holding (losses) gains on securities available for sale	(493)	757	(1,943)
Tax benefit (expense)	191	(293)	753
	(302)	464	(1,190)
Realized securities gains included in net income	(284)	(422)	(61)
Tax expense	110	163	23
	(174)	(259)	(38)
Other comprehensive (loss) income, net of tax	(476)	205	(1,228)
Comprehensive income	\$ 3,646	\$ 3,870	\$ 3,826

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	Noncontrolling Interest	Total
Balance at December 31, 2014	\$ 9,700	2,809	42,365	2,769	(3,053)	849	54	55,493
Net income	-	-	-	4,122	-	-	5	4,127
Other comprehensive loss	-	-	-	-	-	(476)	-	(476)
Stock based compensation expense	-	-	333	-	-	-	-	333
Issuance of common shares (6,925 shares)	-	7	(7)	-	-	-	-	-
Exercise of stock options, net (4,456 shares)	-	5	39	-	-	-	-	44
Repurchase of stock warrant	-	-	(1,486)	-	-	-	-	(1,486)
Issuance of treasury stock (6,300 shares)	-	-	(1)	-	146	-	-	145
Preferred stock repurchased - noncontrolling interest	-	-	-	-	-	-	(1)	(1)
Cash dividend on preferred stock	-	-	-	(900)	-	-	(5)	(905)
Cash dividend on common stock (\$.92 per share)	-	-	-	(2,503)	-	-	-	(2,503)
Balance at December 31, 2015	\$ 9,700	2,821	41,243	3,488	(2,907)	373	53	54,771

To the Board of Directors and Shareholders of Elmira Savings Bank

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 as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows (not presented herein) for each of the three years in the year ended December 31, 2015, and in our report dated March 21, 2016, we expressed an unqualified opinion on those financial statements.

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

S.R. Smodgrass, P.C.

Wexford, Pennsylvania

March 21, 2016

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. This table summarizes the high and low market price for the Bank's stock during 2015 and 2014.

Quarters	2015		2014	
	High	Low	High	Low
First	23.00	19.99	26.97	22.25
Second	20.82	19.43	24.78	21.92
Third	20.81	19.05	24.54	20.16
Fourth	21.13	18.41	23.00	20.50

ANNUAL SHAREHOLDERS' MEETING

The Annual Shareholders' Meeting will be held at 10:00 a.m. on April 26, 2016 at the Clemens Center, 207 Clemens Center Parkway, Elmira, NY 14901

SHAREHOLDER INQUIRIES

The Bank's transfer agent is:
Computershare, Inc.
Computershare Investor Services
PO Box 30170, College Station, TX 77842
(800) 368-5948

The Bank's Annual Report on Form 10-K will be furnished without charge upon written request to:

Thomas M. Carr
President/Chief Executive Officer
Elmira Savings Bank
333 E. Water Street, Elmira, NY 14901



Elmira Savings Bank Watkins Glen Office

On March 16, 2015 we officially opened our Watkins Glen branch office at 712 North Franklin Street. We have been warmly received by the community and are very pleased with our first year of operations.



 **Elmira**
Savings Bank
The People's Bank

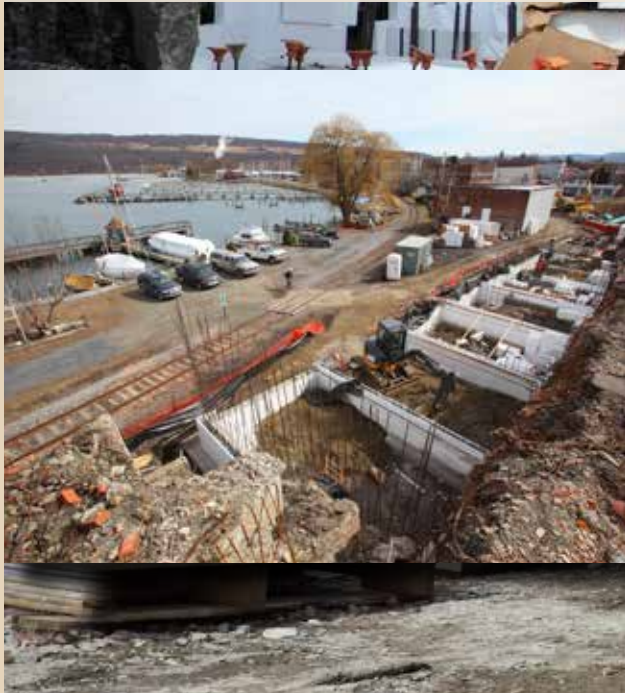


Tops Plaza

The Bank provided permanent financing to the investor group, Ten Patels Realty, LLC, who purchased the Tops Plaza located at 504 South Franklin Street, Watkins Glen. We were delighted to provide this funding in support of the local economy.

Watkins Brewery Apartments

We were pleased to provide financing to Watkins Brewery Holdings, LLC for their project located at 106-118 Lake Shore Drive, Watkins Glen. This project was started in 2015 and is expected to be completed in 2017 providing seasonal townhouse rental property to the market.



ELMIRA SAVINGS BANK OFFICERS

EXECUTIVE

Thomas M. Carr
President
Chief Executive Officer

Shirley A. Weigand
Assistant Secretary

AUDIT AND CONTROL

Joseph P. Klaiber
Vice President

Edith B. Harkness
Assistant Vice President

Jill M. McConnell
Assistant Secretary

COLLECTIONS
Tricia Rennells
Assistant Vice President

CREDIT

Carrie L. Spencer
Vice President

Susan M. Cook
Assistant Vice President

Amy Frisbie
Assistant Vice President

Frank P. Spena, Jr.
Assistant Vice President

Jennifer M. Murphy
Assistant Secretary

FINANCE

Jason T. Sanford
Senior Vice President
Chief Financial Officer

John J. Stempin
Vice President
Controller

Judy A. Woodruff
Assistant Secretary

HUMAN RESOURCES

Bradley V. Serva
Vice President

Stacy Ward
Assistant Secretary

LENDING

Kevin J. Berkley
Executive Vice President
Senior Loan Officer

Tamara S. Pabis
Senior Vice President

Gary O. Short
Senior Vice President

Robert W. Hazelton
Vice President

Jason Sorochinsky
Vice President

MANAGEMENT INFORMATION SYSTEMS

Joseph L. Walker
Vice President

Phillip J. Collins
Assistant Vice President

OPERATIONS

Margaret A. Phillips
Vice President

RETAIL SERVICES
Donna J. Tangorre
Senior Vice President

Renee A. Wheeler
Vice President

Deborah L. Adams
Assistant Vice President

Kimberly A. Elliott
Assistant Vice President

Theresa A. Emo
Assistant Vice President

John Strong
Assistant Vice President

Janette Allen
Assistant Treasurer

Linda Confer
Assistant Treasurer

Joan Ferreira
Assistant Treasurer

Lorenda D. Gneo
Assistant Treasurer

Margaret Hurd
Assistant Treasurer

Phylis A. Jensen
Assistant Treasurer

Debra S. Knowles
Assistant Treasurer

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.

ELMIRA SAVINGS BANK LOCATIONS

MAIN OFFICE

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

HORSEHEADS

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

SOUTHPORT

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

WEST ELMIRA

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

BIG FLATS

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

ELMIRA HEIGHTS

2075 Lake Road
Elmira Heights, NY 14903
607-734-3374

CORNING

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

ERWIN

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

ITHACA LOAN CENTER

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

COMMONS

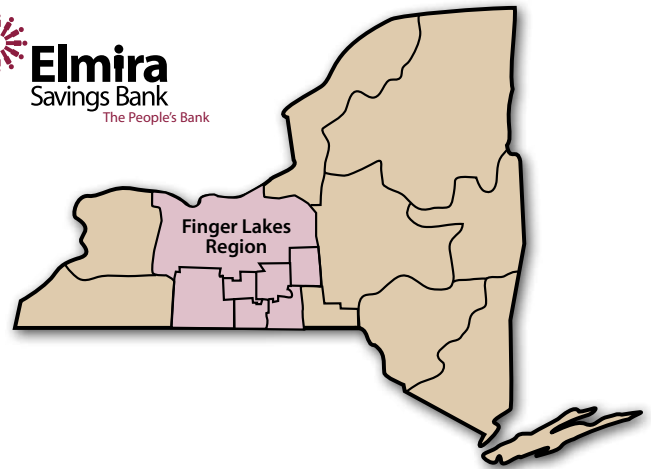
301 East State Street
Ithaca, NY 14850
607-272-1111

SOUTH MEADOW

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

TRIPHAMMER

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



MORAVIA

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

CORTLAND LOAN CENTER*

77 South West Street
Homer, NY 13077
607-749-7251

VESTAL LOAN CENTER*

3439 Vestal Parkway E.
Vestal, NY 13850
607-729-0386

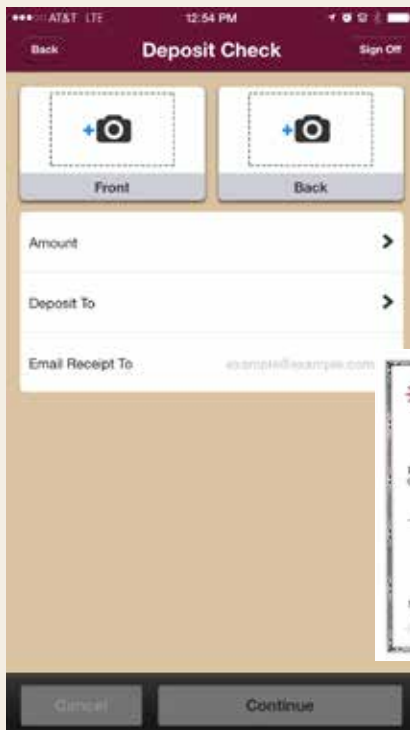
WATKINS GLEN

712 N. Franklin Street
Watkins Glen, NY 14891
607-535-4026

ARNOT MALL ATM

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

*ATM available at all locations except for the Cortland Loan Center and Vestal Loan Center.



Mobile Deposit

In April 2015 Elmira Savings Bank implemented mobile deposit complementing its online banking suite of products enabling the customer to make a check deposit from their personal device.





www.elmirasavingsbank.com