



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

2017

Annual Report



State Street Branch • Ithaca



ELMIRA SAVINGS BANK Board of Directors

(Front row l-r) Kristin A. Swain, Retired Executive Director, The Rockwell Museum; John R. Alexander, Vice Chairman and Corporate Secretary of the Board & Managing Partner, Sayles & Evans; Katherine H. Roehlke, President & Chief Executive Officer, F.M. Howell & Company. (Back row l-r) Robert K. Lambert, President & Chief Executive Officer, Arnot Health; A. Scott Welliver, Chairman & Chief Executive Officer, Welliver; Thomas M. Carr, President & Chief Executive Officer; Donald G. Quick, Jr., Retired Partner, Mengel, Metzger, Barr & Co. LLP.; Michael P. Hosey, Chairman of the Board; Arie J. van den Blink, Chairman & Chief Executive Officer, The Hilliard Corporation. Not pictured: Marianne W. Young, President & Chief Executive Officer, Market Street Trust Company

ELMIRA SAVINGS BANK Senior Officers

Pictured in the new Ithaca State Street Branch (left to right): Donna J. Tangorre, Senior Vice President & Retail Banking Manager; Kevin J. Berkley, Executive Vice President & Senior Loan Officer; Jason T. Sanford, Senior Vice President & Chief Financial Officer; Thomas M. Carr, President & Chief Executive Officer.



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.





Thomas M. Carr
President & Chief Executive Officer

TO OUR Shareholders



The year 2017 was defined by continued progress for Elmira Savings Bank in several key areas. The Bank continued to produce strong financial results including improvements to net income, earnings per share, net interest margin and asset quality. We completed a significant investment in our branch network in one of the strongest economies in upstate New York. The capital of the Bank was restructured with the issuance of common stock and the repurchase of preferred stock. We continued to work on our operations and processes by implementing a mortgage pipeline management system. Finally, we continued to invest in technology to provide additional conveniences to our customers.

I am pleased to report that net income totaled \$4.9 million for 2017 compared to \$4.3 million for 2016. This \$514,000 increase is the net result of a decrease in income tax expense of \$1.6 million offset by a decrease in noninterest income of \$463,000, an increase in provision for loan losses of \$408,000 and an increase in operating expenses of \$282,000.

The enactment of the Tax Cuts and Jobs Act on December 22, 2017 reduced our federal tax rate starting in 2018 from 34% to 21%. As a result, the Bank was required, under Generally Accepted Accounting Principles, to adjust our net deferred tax liability. This resulted in a \$1.2 million reduction of income tax expense for 2017.

Noninterest income declined by 7.80% or \$463,000, the result of lower gains on sale of mortgages combined with lower gains on sale of securities. Gains on sale of mortgages declined by \$360,000, the result of

lower origination volume. In 2016, we realized \$180,000 of gains on sale of securities which was absent in 2017.

Basic and diluted earnings per share for the twelve months ended December 31, 2017 were \$1.28 per share for both, compared to \$1.26 and \$1.25 per share respectively for 2016. We declared cash dividends of \$0.92 per share which resulted in a dividend yield, based on our per share price, of over 4%, one of the highest in our industry.

The net interest margin, our largest source of revenue, was 3.32% for 2017 compared to 3.21% for the same period in 2016.

Total assets decreased by \$18.9 million year-to-year to total \$554.6 million at December 31, 2017. This decrease was primarily in cash which declined by \$16.4 million. Loans increased by \$2.7 million to total \$458.6 million at December 31, 2017.

Our nonperforming assets decreased by \$2.4 million or 45% to total \$2.9 million on December 31, 2017. During the fourth quarter of 2017, the Bank settled a complex, multi-year, problem commercial loan. We are pleased to be able to reduce our nonperforming loans and also truncate the ongoing expense with this loan workout.

Deposits totaled \$456.8 million at December 31, 2017, a decrease of \$12.8 million. The decline was due to one large, out of market customer withdrawing \$25.0 million during the first quarter of the year. Absent this transaction, deposits increased by \$12.2 million.

Shareholders' equity increased by \$1.0 million to total \$56.7 million at December 31, 2017. This increase is the net effect of the common equity

raise of \$9.5 million, the repurchase of the preferred stock which totaled \$9.4 million and the difference between net income and dividends. Our common shares outstanding had a book value per share of \$17.07 at December 31, 2017, an increase of \$0.33 per share from December 31, 2016.

We invested in our branch network in 2017 by completing our new full-service branch located at 602 West State Street in Ithaca in May. This historic rehabilitation was a major management focus for the last half of 2016 and the first five months of 2017. The completed facility, showcased in this report, is the centerpiece of our franchise in Tompkins County. The branch consists of a full-service Bank Branch of 2,100 square feet with two drive-through lanes, one of which includes a state of the art ATM.

In addition to the Bank Branch, we have leasable space on the second floor. We also maintain control of several vacant parcels surrounding the State Street Branch that we look forward to developing in the future.

During 2017 we restructured our capital, first in April with the successful private placement of 548,430 shares of common stock. These shares were placed with select investors with no single investor acquiring more than 5% of total outstanding shares. The proceeds from this issuance totaled \$9.5 million.

In December, the Bank repurchased all of its shares of preferred stock that were outstanding. The liquidation value of these shares was \$10.0 million. They also had a dividend rate of 9.00%. The shares were repurchased at a discount of \$600,000 with the total purchase price being \$9.4 million.

We were able to repurchase these shares with the capital raised in the private placement of common stock. After this transaction, the Bank maintained a core capital ratio of 8.5% as of December 31, 2017, significantly above the well-capitalized level established by Bank regulators.

The anticipated effect of retiring preferred shares will be to reduce the overall dividends paid out of earnings, increase the net income available to common shareholders, and improve the Bank's tangible common equity ratio. We were pleased to execute this repurchase and complete the second step of our capital strategy during 2017.

As mentioned, we continue to work on improving operations and processes and are pleased to have implemented a mortgage loan process management system to improve the time it takes us to process a mortgage loan from application to closing. This effort began with an analysis of our 2016 mortgage originations which provided us with key information to standardize our process and establish benchmarks. The implementation of this system has produced early results that are encouraging. In the first half of 2017, our mortgage turn time was approximately 60 days. By the 4th quarter of 2017, the average turn time was 44 days, an improvement of 16 days from application to closing.

Finally, we continued to invest in technology. We recently continued expansion of our Electronic Banking Services through an upgrade to our Bill Pay Services, as well as expansion of the Touch ID and Passcode access within Mobile Banking. Bill Pay allows users to pay all of their bills through Online or Mobile Banking rather than setting

up payments on multiple websites or paying by check. The latest version of Bill Pay features an updated look and streamlined efficiencies within Online Banking, as well as expanded abilities offered through Mobile Banking. Additionally, the Elmira Savings Bank Mobile Banking App was recently updated to allow users to access all functionalities of the App using a fingerprint or six-digit Passcode of their choice.

As we look forward to 2018, we are dedicated to organically growing our business. We are fortunate to have strong and expanding economies in our geographic footprint and will continue to focus on increasing our market share in these regions.

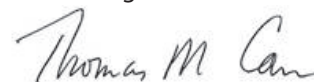
We will continue to invest in our staff and in technology to keep improving the quality and convenience of every customer interaction with our institution.

We have, and going forward will, benefit financially from changes in the federal tax code. These changes have reduced our tax burden and will benefit our shareholders, customers and employees.

We remain optimistic that regulatory relief will occur in a meaningful way and provide us with reductions in compliance-related burden.

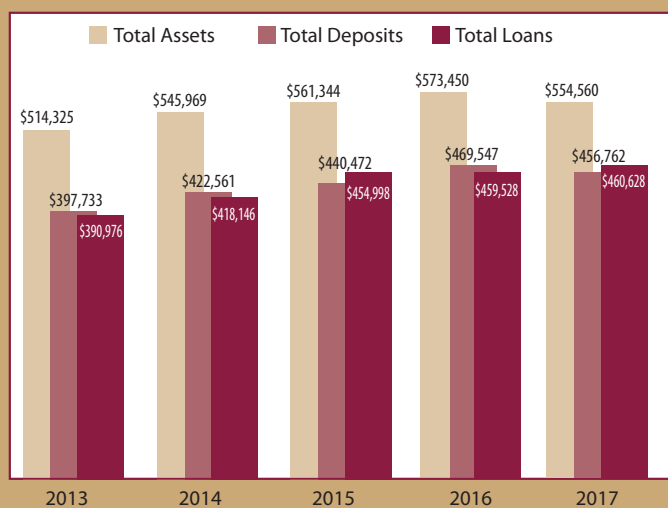
We are determined to provide excellent service for our customers and strong financial results for shareholders.

We appreciate your loyal support as shareholders and look forward to continuing to build our business.



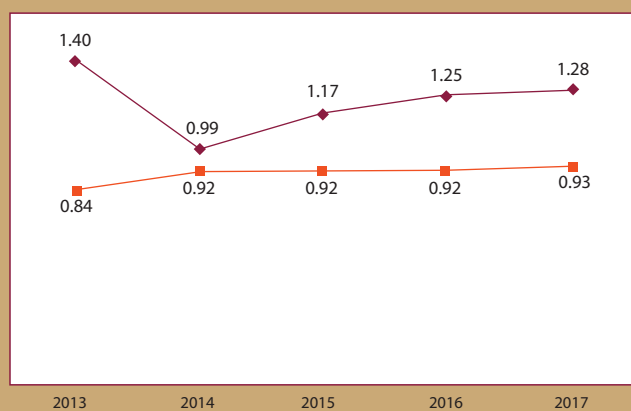
Thomas M. Carr
President and
Chief Executive Officer

Assets, Deposits, and Loans (\$000)

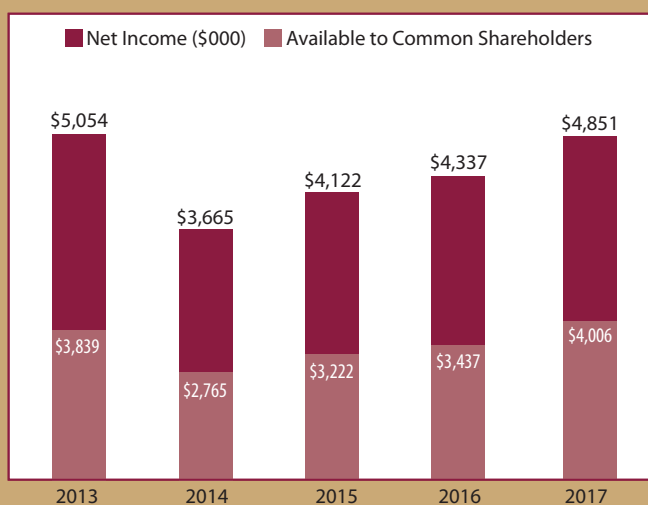


Per Share Data

◆ Diluted Earnings Per Common Share ■ Cash Dividends Per Common Share



Net Income (\$000)



SELECTED FINANCIAL DATA

(in thousands, except share and per share amounts)

FINANCIAL STATEMENT HIGHLIGHTS	2017	2016
Assets	\$ 554,560	573,450
Loans (including loans held for sale)	460,628	459,528
Allowance for loan losses	4,442	4,263
Deposits	456,762	469,547
Shareholders' equity	56,681	55,723
Net interest income	16,548	16,520
Provision for loan losses	895	487
Non-interest income	5,437	5,900
Non-interest expense	15,884	15,602
Net income attributable to Elmira Savings Bank	4,851	4,337

PER SHARE INFORMATION

Basic earnings per share	\$ 1.28	1.26
Diluted earnings per share	1.28	1.25
Book value per share	17.07	16.74
Cash dividend paid per share	0.93	0.92

SELECTED RATIOS

Return on average assets	0.86%	0.76%
Return on average equity	7.78%	7.77%
Shareholders' equity to assets	10.22%	9.72%
Dividend payout ratio	72.66%	73.02%
Efficiency ratio	72.25%	69.59%

OTHER SELECTED DATA

Number of offices	14	15
Number of automated teller machines	14	14
Weighted average shares outstanding	3,125,434	2,722,243
Weighted average diluted shares outstanding	3,140,893	2,739,668

Consolidated Balance Sheets

Elmira Savings Bank and Subsidiaries

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

	December 31, 2017	December 31, 2016
ASSETS		
Cash and due from banks	\$ 7,800	\$ 24,195
Federal funds sold and other short-term investments	97	99
Total cash and equivalents	7,897	24,294
Securities available for sale, at fair value	24,056	32,581
Securities held to maturity - fair value of \$8,186 at December 31, 2017, and \$8,679 at December 31, 2016	8,039	8,519
Federal Reserve and Federal Home Loan Bank (FHLB) stock, at cost	10,221	9,811
Loans held for sale	1,999	3,597
Loans receivable	458,629	455,931
Less: Allowance for loan losses	4,442	4,263
Net Loans	454,187	451,668
Premises and equipment, net	16,772	12,634
Bank-owned life insurance	13,982	13,592
Accrued interest receivable	1,497	1,552
Intangible assets, net	-	20
Goodwill	12,320	12,320
Other assets	3,590	2,862
Total assets	\$ 554,560	\$ 573,450
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	\$456,762	\$469,547
Borrowings	35,000	42,000
Other liabilities	6,117	6,180
Total liabilities	497,879	517,727
SHAREHOLDERS' EQUITY:		
Preferred stock, \$1 par value; \$1,000 liquidation value per issued share; 5,000,000 shares authorized; 10,000 shares issued at December 31, 2017 and at December 31, 2016	9,700	9,700
Common stock, \$1 par value; authorized 5,000,000 shares; 3,410,622 shares issued at December 31, 2017 and 2,844,670 shares at December 31, 2016	3,411	2,845
Additional paid-in capital	50,258	41,644
Retained earnings	5,493	4,407
Treasury stock, at cost - 93,883 common shares and 10,000 preferred shares at December 31, 2017 and 98,118 common shares at December 31, 2016	(12,202)	(2,907)
Accumulated other comprehensive loss	(31)	(19)
Total Elmira Savings Bank shareholders' equity	56,629	55,670
Noncontrolling interest	52	53
Total shareholders' equity	56,681	55,723
Total liabilities and shareholders' equity	\$ 554,560	\$ 573,450

Consolidated Statements of Income

Elmira Savings Bank and Subsidiaries

(in thousands, except for per share amounts)	Years Ended December 31		
	2017	2016	2015
INTEREST AND DIVIDEND INCOME			
Interest and fees on loans	\$ 18,971	\$ 19,056	\$ 18,418
Interest and dividends on securities			
Taxable	965	1,000	1,367
Non-taxable	610	832	949
Total interest and dividend income	20,546	20,888	20,734
INTEREST EXPENSE			
Interest on deposits	2,951	3,055	3,016
Interest on borrowings	1,047	1,313	2,084
Total interest expense	3,998	4,368	5,100
Net interest income	16,548	16,520	15,634
Provision for loan losses	895	487	630
Net interest income after provision for loan losses	15,653	16,033	15,004
NONINTEREST INCOME			
Service fees	1,485	1,420	1,471
Gain on sale of loans held for sale	2,701	3,061	2,382
Net gain on sale of securities	-	180	284
Other service fees	739	728	716
Earnings on bank-owned life insurance	390	403	398
Other	122	108	140
Total noninterest income	5,437	5,900	5,391
NONINTEREST EXPENSE			
Salaries and benefits	8,183	7,927	7,324
Net occupancy	1,499	1,416	1,383
Equipment	1,278	1,200	1,061
Marketing and public relations	884	794	832
Professional fees	720	517	773
Other	3,320	3,748	3,220
Total noninterest expense	15,884	15,602	14,593
Income before income taxes	5,206	6,331	5,802
Income taxes	350	1,989	1,675
Net income	4,856	4,342	4,127
Less: Net income attributable to noncontrolling interest	5	5	5
Net income attributable to Elmira Savings Bank	\$ 4,851	\$ 4,337	\$ 4,122
Dividend on preferred stock	845	900	900
Income available to common shareholders	\$ 4,006	\$ 3,437	\$ 3,222
Basic earnings per common share	\$ 1.28	\$ 1.26	\$ 1.19
Diluted earnings per common share	\$ 1.28	\$ 1.25	\$ 1.17

Consolidated Statements of Comprehensive Income

Elmira Savings Bank and Subsidiaries

(in thousands)	Years Ended December 31,		
	2017	2016	2015
Net income attributable to Elmira Savings Bank	\$ 4,851	\$ 4,337	\$ 4,122
OTHER COMPREHENSIVE LOSS			
Net unrealized holding losses on securities available for sale	(20)	(459)	(493)
Tax benefit	8	177	191
	12	(282)	(302)
Realized securities gains included in net income	-	(180)	(284)
Tax expense	-	70	110
	-	(110)	(174)
Other comprehensive loss, net of tax	(12)	(392)	(476)
Comprehensive income	\$ 4,839	\$ 3,945	\$ 3,646

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 Loss	Noncontrolling Interest	Total
Balance at December 31, 2016	\$ 9,700	2,845	41,644	4,407	(2,907)	(19)	53	55,723
Net income	-	-	-	4,851	-	-	5	4,856
Other comprehensive loss	-	-	-	-	-	(12)	-	(12)
Stock based compensation expense	-	-	228	-	-	-	-	228
Issuance of common stock (548,430 shares)	-	548	8,327	-	-	-	-	8,875
Restricted stock grants (9,643 shares)	-	10	(10)	-	-	-	-	-
Exercise of stock options, net (7,879 shares)	-	8	87	-	-	-	-	95
Repurchase of preferred stock (10,000 shares)	-	-	-	-	(9,400)	-	-	(9,400)
Issuance of treasury stock (4,235 shares)	-	-	(18)	-	105	-	-	87
Preferred stock repurchased - noncontrolling interest	-	-	-	-	-	-	(1)	(1)
Cash dividend on preferred stock	-	-	-	(845)	-	-	(5)	(850)
Cash dividend on common stock (\$.93 per share)	-	-	-	(2,920)	-	-	-	(2,920)
Balance at December 31, 2017	\$ 9,700	3,411	50,258	5,493	(12,202)	(31)	52	56,681

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, 2017 and 2016, and the related consolidated statements of income, comprehensive income, statements of shareholders' equity, and cash flows (not presented herein) for each of the three years in the period ended December 31, 2017, and in our report dated March 19, 2018, 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. Smodgress, P.C.

Cranberry Township, Pennsylvania

March 19, 2018

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 2017 and 2016.

Quarters	2017		2016	
	High	Low	High	Low
First	21.75	20.28	20.55	16.83
Second	21.75	19.65	20.10	18.06
Third	21.10	19.80	21.50	18.85
Fourth	20.90	18.90	22.25	18.50

ANNUAL SHAREHOLDERS' MEETING

The Annual Shareholders' Meeting will be held at 10:00 a.m. on April 24, 2018 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

Ithaca State Street Branch



Elmira Savings Bank's new Ithaca Branch is strategically located at the center of one of Ithaca's busiest intersections. Originally built in the early 1900's, 602 West State Street had many business lives until Elmira Savings Bank renovated the building in 2017.

The exterior restoration of the building, depicted on the front and back covers, includes a renewed entrance canopy, an upgraded building envelope, new windows and sun shades for improved energy efficiency, extensive landscaping, and a brick and glass addition that brings a new, modern element to the historic structure.





The modernized interior features state-of-the-art banking workflow elements including hybrid teller lines, collaboration zones, a light-filled waiting area with customer courtesy bar, decorative lighting to foster wayfinding, and optimized acoustics to ensure privacy for customers. The result is a bright, lively, efficient and engaging commercial banking and office space experience that underscores the people-first brand of Elmira Savings Bank.

Ithaca State Street Branch



PRIDE OF OWNERSHIP AWARDS
ELMIRA SAVINGS BANK'S 602 WEST MLK/STATE STREET
2 0 1 7



Elmira Savings Bank was presented with a Pride of Ownership Award from the Ithaca Rotary Club and the City of Ithaca in late 2017. Elmira Savings Bank was applauded for their substantial investment in the Ithaca community and commitment to keeping Ithaca a great place to live and do business.



ELMIRA SAVINGS BANK Employees



Christina Allen	April Eggleston-Branston	Haley Mullins
Amy Allshouse	Julia Evans	Katie Murphy
Shannon J. Bailey	Kelly Ewanyk	Alexis Naylor
Dwayne Balcom	Shanna Flint	Kimberly O'Dell
Kathleen Bange	Valerie Friedrich	Jessica Ober
Blair Beavers	Patricia Frisbie	Jennifer Orr
Mary A. Becker	Robin Gardner	Sarah Parker
Allison Bellinger	Ilene Girardi	Eileen Payne
Joyelle Briggs	Kristin Haner	James Pollen
Amber Brimmer	Thomas Hill	Hannah Qualey
Marilynne Burchard	Malissa Hootman	Laura Reynolds
Alyssa Burdick	Jennifer Hourihan	Deborah M. Rockwell
Marissa Butts	Rachel Houseknecht	Sharla R. Root
Susan Campbell	Margaret Hurd	Kristin Sad
Alyssa Carlisle	Laura Ingle	Heidi Saks
Janet S. Caswell	William Klinko	Denise Sarro
Jennifer Catron	Keegan Knoll	Youngmi Schickel
Jacqueline Cecce	Debra Sue Knowles	Taryn Schwartz
Peter Chaney	Brian Kunk-Czaplicki	Jena Senefelder
Brenda Cimaskasky	Theresa Laney	Mark Simon II
Daniel Cleary	Shaina Leister	Christine Snyder
Mary A. Cleary	Christina M. Losey	Jennifer Stampf
Jessica Coates	Trisha Luchaco	Tania-lynn Suhm
Ashley Congdon	Colleen Manuel	Desirea Sullivan
Michele Corby	Laurel Mareck	Ashley Tallarida
Tammi L. Cronin	Julie May	Erin Thomas-Allen
Kristie Cummings	Lindsey McCutcheon	Michelle M. Tilden
Karen Dimmick	Cherry Merrill	Suzanne Walsh
Tina Dittler	Rebecca Morehouse	Tracy Wiles
Rachel Dodge		Tamara Williams
Pamela Donovan		Jenna Wilson
Nicholas Dutcher		Stacy Woodworth



Elmira
Savings Bank
The People's Bank

ELMIRA SAVINGS BANK Officers

EXECUTIVE

Thomas M. Carr
President
Chief Executive Officer

Anne M. Lavancher
Assistant Secretary

ADVISORY SERVICES

Andrea C. Devon
Assistant Treasurer

AUDIT AND CONTROL

Edith B. Harkness
Vice President

Jill M. McConnell
Assistant Secretary

COLLECTIONS

Amber Simms
Assistant Secretary

CREDIT

Carrie L. Spencer
Vice President

Susan M. Cook
Assistant Vice President

Amy Frisbie
Assistant Vice President

Frank P. Spena, Jr.
Assistant Vice President

FINANCE

Jason T. Sanford
Senior Vice President
Chief Financial Officer

John J. Stempin
Vice President
Controller

Judy A. Woodruff
Assistant Vice President

HUMAN RESOURCES

Bradley V. Serva
Senior Vice President

Stacy Ward
Assistant Secretary

LENDING

Kevin J. Berkley
Executive Vice President
Senior Loan Officer

Christopher J. Giammichele
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
Retail Banking Manager

Renee A. Wheeler
Vice President

Linda S. Confer
Assistant Vice President

Kimberly A. Elliott
Assistant Vice President

Deborah French
Assistant Vice President

John Strong
Assistant Vice President

Cory Eddy
Assistant Treasurer

Lorenda D. Gneo
Assistant Treasurer

Christine Iles
Assistant Treasurer

Phylis A. Jensen
Assistant Treasurer

Ellaminda Leader
Assistant Secretary



Elmira
Savings Bank
The People's Bank

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

STATE STREET

602 West 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

VESTAL LOAN CENTER*

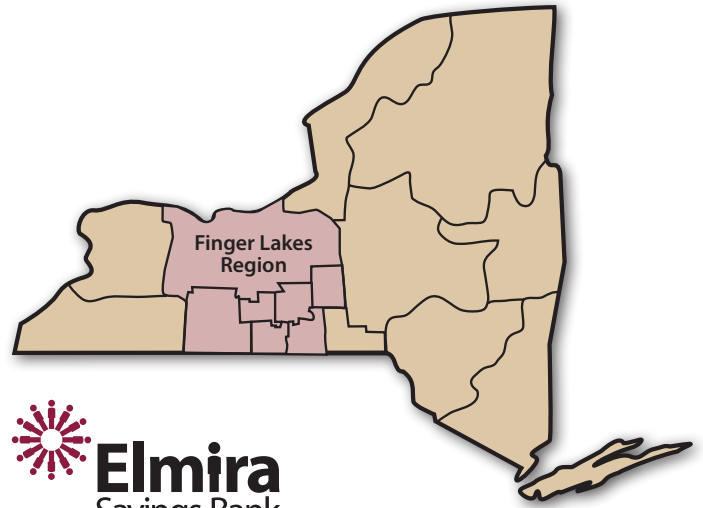
3439 Vestal Parkway E.
Vestal, NY 13850
607-729-0386

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 Vestal Loan Center.



Elmira
Savings Bank
The People's Bank

www.elmirasavingsbank.com

Member FDIC | Equal Housing Lender

Design: PS Graphic Design
Cover Photography: Revette Photography
Interior Photography: Foto Forum