

The Advisor

August 2014

A Newsletter for Elmira Savings Bank Shareholders, Customers and Community

Vol. 4 No. 4

IN THIS ISSUE

2-3

ESB Posts Earnings

4-5

ESB News

6

Welcome New ESB Employees

Calendar of Events

Brand Park Summer Concerts:

Olde Tyme Summer Festival

August 24, 10 a.m. - 5 p.m.

Sgro Brothers 50-60-70

August 31, 3-5 p.m.

Finger Lakes Beer Festival

Watkins Glen International

October 25

Downtown Elmira

Holiday Parade

November 28

Parade of Lights, Corning

November 29

The Advisor is published quarterly by Elmira Savings Bank

Elmira Savings Bank
333 East Water Street
Elmira, NY 14901
Phone: 607-734-3374
Toll free 888-372-9299
www.elmirasavingsbank.com

Connect with us on Facebook
www.facebook.com/elmirasavingsbank



President's Message

Saving Money is Hard Work

Nearly two hundred and seventy-five years ago, Ben Franklin was credited with the saying "A Penny Saved is a Penny Earned." It comments on how hard it is to save money and that working to save money is as valuable as earning money.

In 1869, The Elmira Savings Bank was chartered by New York State. Savings, or saving money, was such an important component of our economy that banks like ours were dedicated towards customers establishing savings accounts.

In 2014, one hundred forty-five years later, saving money is still an important personal financial management tool, although in the age of debit cards, credit cards, and instant gratification, it sometimes feels as though it has lost its importance.

The secret to saving money is to make it a priority. Saving money is hard work that requires the discipline to forego current consumption, with the trust that future consumption will be more reward-



Thomas M. Carr
President,
Chief Executive Officer

ing. The habit of saving money secures and protects against future financial hardships. Money should be preserved and used for profitable ventures, not be wasted or squandered unnecessarily.

There are many reasons to save money. For most people, the primary reason is to set aside funds for unexpected life events such as car repairs, or health emergencies.

Saving money does not guarantee freedom from emergencies, but it does give a sense of confidence because you have something in store for the rainy days ahead.

A second reason to implement a savings plan is for your retirement years. Many employers sponsor plans to help individuals with this goal, and as healthcare improves and individuals live longer, this is becoming even more critical than it may have been 100 or 200 years ago.

A third reason to save money is to create a down payment for a large asset purchase such as a home or car.

A fourth reason to save money is for vacation or other luxury purchases such as jewelry or a new boat.

Education is a fifth reason to set aside money, whether it is for your own educational expenses, or a loved one's. In recent years, education has become many times more expensive and a solid savings plan can help make it affordable.

Pay yourself first!

Elmira Savings Bank

WILLIAM S. BUSHNELL President 1970 – 1980

William S. Bushnell was born May 15, 1930 in Sherrill, New York, in Oneida County. A graduate of Colgate University, he was employed by the Oneida Savings Bank in Oneida, NY, as Secretary-Treasurer. In 1968 he joined Elmira Savings Bank and was appointed vice president, with responsibilities for mortgages, operations, and life insurance. With the death of Lee D. Blackwell in 1970, he assumed the presidency, being the youngest president, at age 40, in the bank's then 101 year history.

The 1972 flood caused by Hur-

ricane Agnes devastated Elmira. Both Elmira Savings Bank and Mechanics Savings Bank had about 40% of their mortgage loans damaged by the flood. With help from Ira Scott, Executive Director of the Savings Banks Association of New York State, and Stu Mason, President of Mechanics Savings Bank, Mr. Bushnell lobbied Congress to pass legislation to provide relief to the local banks and property owners.

Mr. Bushnell resigned on December 12, 1980 and moved with his wife and three daughters to Epsom, New Hampshire, where he assumed the presidency of Amoskeag Savings Bank in Manchester, NH.



William S. Bushnell

HISTORY

Elmira Savings Bank Reports Second Quarter Earnings

Highlights

- Net income was \$1,099,000 and \$2,159,000 for the three and six months ended June 30, 2014 compared to \$1,374,000 and \$2,566,000 for the same periods in 2013.
- Diluted earnings per share were \$.31 per share and \$.61 per share for the three and six months ended June 30, 2014 compared to \$.40 per share and \$.69 per share for the same periods in 2013.
- Return on average assets was .86% and .85% for the three and six months ended June 30, 2014 compared to 1.07% and .99% for the same periods in 2013.
- Return on average equity was 7.95% and 7.89% for the three and six months ended June 30, 2014 compared to 9.67% and 8.38% for the same periods in 2013.

"During the first six months of 2014, the Bank experienced a decline in its mortgage originations, despite maintaining its market share, due to lower levels of refinancing, as well as purchasing activity across our market area. This decline in originations has unfavorably affected our level of noninterest income," said Thomas M. Carr, President and CEO.

Mr. Carr continued, "We have maintained our net interest margin, limited our operating expenses, increased deposit fee income, and continue to have strong asset quality."

Net Income

Net income totaled \$2,159,000 for the six months ended June 30, 2014, a decrease of \$407,000 or 16% from the \$2,566,000 of net income recorded for the same period in 2013. This decrease was the net result of a decrease in noninterest income of \$341,000, an increase in tax expense of \$237,000, and an increase in noninterest expense of \$46,000, offset by an increase in net interest income of \$81,000 and a decrease in the provision for loan losses of \$136,000.

Net income totaled \$1,099,000 for the three months ended June 30, 2014, a decrease of \$275,000 or 20% from the \$1,374,000 recorded for the same period in 2013. This decrease was the net result of a decrease in noninterest income of \$145,000 and an increase in tax expense of \$288,000, offset by a decrease in noninterest expense of \$141,000, an increase in net interest income of \$7,000 and a decrease in the provision for loan losses of \$10,000.

See **Second Quarter Earnings** on Page 5

Elmira Savings Bank CONSOLIDATED BALANCE SHEET (Unaudited)

(in thousands, except for share and per share data)	June 30,	December 31,	% Change
	2014	2013	
ASSETS			
Cash and due from banks	\$ 12,048	\$ 7,077	70.2%
Federal funds sold and other short-term investments	477	564	-15.4%
Total cash and cash equivalents	12,525	7,641	63.9%
Securities available for sale, at fair value	54,813	63,464	-13.6%
Securities held to maturity - fair value \$8,023 at June 30, 2014, and \$8,302 at December 31, 2013	7,588	7,805	-2.8%
Federal Reserve and Federal Home Loan Bank (FHLB) stock, at cost	10,450	10,417	0.3%
Loans held for sale	1,579	1,847	-14.5%
Loans receivable	395,394	389,129	1.6%
Less: Allowance for loan losses	3,783	3,834	-1.3%
Net loans	391,611	385,295	1.6%
Premises and equipment, net	9,128	8,620	5.9%
Bank-owned life insurance	12,609	12,387	1.8%
Accrued interest receivable	1,454	1,454	0.0%
Intangible assets, net	166	210	-21.0%
Goodwill	12,320	12,320	0.0%
Other assets	2,810	2,865	-1.9%
Total assets	\$ 517,053	\$ 514,325	0.5%
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	\$ 399,219	\$ 397,733	0.4%
Borrowings	55,000	56,500	-2.7%
Other liabilities	7,632	6,067	25.8%
Total liabilities	461,851	460,300	0.3%
Shareholders' equity:			
Preferred stock, \$1,000 liquidation value per issued share; 5,000,000 shares authorized; 10,000 shares issued at June 30, 2014 and at December 31, 2013	9,700	9,700	0.0%
Common stock, \$1 par value; authorized 5,000,000 shares; 2,798,757 shares issued at June 30, 2014 and 2,776,240 shares issued at December 31, 2013	2,799	2,776	0.8%
Additional paid-in capital	41,999	41,693	0.7%
Retained earnings	2,958	2,485	19.0%
Treasury stock, at cost - 104,418 shares at June 30, 2014 and 116,268 shares at December 31, 2013	(3,053)	(3,327)	-8.2%
Accumulated other comprehensive income	745	644	15.7%
Total Elmira Savings Bank shareholders' equity	55,148	53,971	2.2%
Noncontrolling interest	54	54	0.0%
Total shareholders' equity	55,202	54,025	2.2%
Total liabilities and shareholders' equity	\$ 517,053	\$ 514,325	0.5%

Shareholder Inquiries

The Bank's transfer agent is:
Registrar and Transfer Company
10 Commerce Dr., Cranford, NJ 07016-3752
(800) 866-1340

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:
Stifel Nicolaus
Spear, Leeds & Kellogg
Moors & Cabot
Baird Patrick

Elmira Savings Bank
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

(in thousands, except for per share data)	Three Months Ended			Six Months Ended		
	2014	June 30, 2013	% Change	2014	June 30, 2013	% Change
Interest and dividend income:						
Interest and fees on loans	\$ 4,302	\$ 4,390	-2.0%	\$ 8,699	\$ 8,863	-1.9%
Interest and dividends on securities						
Taxable	412	424	-2.8%	876	871	0.6%
Non-taxable	204	191	6.8%	408	376	8.5%
Total interest and dividend income	<u>4,918</u>	<u>5,005</u>	<u>-1.7%</u>	<u>9,983</u>	<u>10,110</u>	<u>-1.3%</u>
Interest expense:						
Interest on deposits	745	809	-7.9%	1,487	1,638	-9.2%
Interest on borrowings	454	484	-6.2%	904	961	-5.9%
Total interest expense	<u>1,199</u>	<u>1,293</u>	<u>-7.3%</u>	<u>2,391</u>	<u>2,599</u>	<u>-8.0%</u>
Net interest income	3,719	3,712	0.2%	7,592	7,511	1.1%
Provision for loan losses	75	85	-11.8%	129	265	-51.3%
Net interest income after provision for loan losses	<u>3,644</u>	<u>3,627</u>	<u>0.5%</u>	<u>7,463</u>	<u>7,246</u>	<u>3.0%</u>
Noninterest income:						
Service fees	365	329	10.9%	694	645	7.6%
Gain on sale of loans held for sale	345	806	-57.2%	793	1,654	-52.1%
Gain on sale of securities	205	-	-	421	61	590.2%
Other service fees	176	172	2.3%	340	326	4.3%
Earnings on bank-owned life insurance	131	91	44.0%	222	181	22.7%
Other	52	21	147.6%	93	37	151.4%
Total noninterest income	<u>1,274</u>	<u>1,419</u>	<u>-10.2%</u>	<u>2,563</u>	<u>2,904</u>	<u>-11.7%</u>
Noninterest expense:						
Salaries and benefits	1,732	1,786	-3.0%	3,571	3,607	-1.0%
Net occupancy	331	318	4.1%	747	643	16.2%
Equipment	250	253	-1.2%	500	512	-2.3%
Marketing and public relations	204	204	0.0%	404	351	15.1%
Professional fees	195	207	-5.8%	356	376	-5.3%
Other	632	717	-11.9%	1,329	1,372	-3.1%
Total noninterest expense	<u>3,344</u>	<u>3,485</u>	<u>-4.0%</u>	<u>6,907</u>	<u>6,861</u>	<u>0.7%</u>
Income before income taxes	1,574	1,561	0.8%	3,119	3,289	-5.2%
Income taxes	475	187	154.0%	960	723	32.8%
Net income	<u>1,099</u>	<u>1,374</u>	<u>-20.0%</u>	<u>2,159</u>	<u>2,566</u>	<u>-15.9%</u>
Less: Net income attributable to noncontrolling interest	-	-	-	-	-	-
Net income attributable to Elmira Savings Bank	<u>1,099</u>	<u>1,374</u>	<u>-20.0%</u>	<u>2,159</u>	<u>2,566</u>	<u>-15.9%</u>
Dividend on preferred stock	225	269	-16.4%	450	670	-32.8%
Income available to common shareholders	<u>\$874</u>	<u>\$1,105</u>	<u>-20.9%</u>	<u>\$1,709</u>	<u>\$1,896</u>	<u>-9.9%</u>
Basic earnings per share	<u>\$0.33</u>	<u>\$0.42</u>	<u>-21.4%</u>	<u>\$0.64</u>	<u>\$0.73</u>	<u>-12.3%</u>
Diluted earnings per share	<u>\$0.31</u>	<u>\$0.40</u>	<u>-22.5%</u>	<u>\$0.61</u>	<u>\$0.69</u>	<u>-11.6%</u>
Weighted average shares outstanding - basic	<u>2,674,032</u>	<u>2,619,970</u>	<u>2.1%</u>	<u>2,665,640</u>	<u>2,597,348</u>	<u>2.6%</u>
Weighted average shares outstanding - diluted	<u>2,798,114</u>	<u>2,741,351</u>	<u>2.1%</u>	<u>2,794,030</u>	<u>2,733,275</u>	<u>2.2%</u>
Dividends per share	<u>\$0.23</u>	<u>\$0.21</u>	<u>9.5%</u>	<u>\$0.46</u>	<u>\$0.42</u>	<u>9.5%</u>

Per share data has been restated to reflect the 10% stock dividend paid on December 27, 2013.

Second Quarter Earnings

(Continued from Page 2)

Net income of \$1.1 million for the current quarter ended June 30, 2014 represents an increase of \$39,000, or 4%, from net income for the preceding quarter ended March 31, 2014.

Basic and diluted earnings per share for the six months ended June 30, 2014 were \$.64 per share and \$.61 per share compared to \$.73 per share and \$.69 per share for the same period in 2013. Basic and diluted earnings per share for the three months ended June 30, 2014 were \$.33 per share and \$.31 per share compared to \$.42 per share and \$.40 per share for the same period in 2013.

Net Interest Margin

The net interest margin for the six months ended June 30, 2014 was 3.25% compared to 3.28% for the same period in 2013. The yield on average earning assets was 4.28% for the six months ended June 30, 2014 compared to 4.41% for the same period in 2013. The average cost of interest-bearing liabilities was 1.22% for the six months ended June 30, 2014 compared to 1.32% for the same period in 2013.

The net interest margin for the three months ended June 30, 2014 was 3.19% compared to 3.24% for the same period in 2013. The average yield on earning assets was 4.22% for the three months ended June 30, 2014 compared to 4.36% for the same period in 2013. The average cost of interest-bearing liabilities was 1.22% for the three months ended June 30, 2014 compared to 1.32% for the same period in 2013.

Assets

Total assets increased \$2.7 million or 0.5% to \$517.1 million at June 30, 2014 compared to \$514.3 million at December 31, 2013. Loans receivable increased 1.6% to \$395.4 million at June 30, 2014 compared to December 31, 2013. The available-for-sale investment portfolio decreased \$8.7 million from December 31, 2013 to June 30, 2014.

Nonperforming Loans

Our nonperforming loans to total loans ratio has increased to 1.06% at June 30, 2014 from .90% at December 31, 2013. Net loan charge-offs to average loans for the six months

ended June 30, 2014 of 0.09% decreased from 0.10% for the six months ended June 30, 2013. The allowance for loan losses was 0.96% of total loans at June 30, 2014 and 0.99% of total loans at December 31, 2013.

Liabilities

Deposits total \$399.2 million at June 30, 2014, an increase of \$1.5 million or 0.4%. The \$1.5 million increase consists of a \$2.5 million increase in savings accounts, a \$1.6 million increase in money market accounts, a \$1.3 million increase in noninterest-bearing accounts, and a \$0.7 million increase in time deposits, partially offset by a \$4.6 million decrease in NOW accounts. Borrowed funds decreased by \$1.5 million or 3%.

Shareholders' Equity

Shareholders' equity increased \$1.2 million to \$55.2 million at June 30, 2014 compared to December 31, 2013. The current level of shareholders' equity equates to a book value per share of \$16.87 at June 30, 2014, compared to \$16.64 at December 31, 2013. Dividends paid to common shareholders were \$0.23 and \$0.46 for the three and six months ended June 30, 2014 compared to \$0.21 and \$0.42 for the same periods in 2013, representing increases of 9.5% for both the three and six month periods.

Elmira Savings Bank, with \$517.1 million in total assets, is insured by the Federal Deposit Insurance Corporation (FDIC) and is a state-chartered bank with six offices in Chemung County, NY; three offices and a loan center in Tompkins County, NY; two offices in Steuben County, NY; one office in Cayuga County, NY; one office in Schuyler County; a loan center in Cortland County, NY; and a loan center in Broome County, NY.

Except for the historical information contained herein, the matters discussed in this news release are forward looking statements that involve the risks and uncertainties, including the timely availability and acceptance of Bank products, the impact of competitive products and pricing, the management of growth, and other risks detailed from time to time in the Bank's regulatory reports.



Mobile Banking Just Got Even Better...

An upgraded version of Elmira Savings Bank's mobile banking is now available, including the added convenience of banking anywhere with your iPad, Android Tablet, or Kindle Fire HD.

All our Mobile Banking services including balance alerts, bill payments, and account transfers, are available 24 hours a day, 365 days a year.

It's easy to get started! Simply visit the App Store and download the "ESB Mobile – Elmira Savings Bank" app to enjoy instant access to all of your accounts.

So what are you waiting for? Experience the convenience for yourself today!

Feel free to contact our Call Center at (607) 734-3374, or stop by your local branch office with questions or for additional assistance. We appreciate your business; thank you for choosing Elmira Savings Bank!

Carr Promoted to President and Chief Executive Officer Hosey Elected as Chairman of the Board

The Board of Directors of Elmira Savings Bank (NASDAQ:ESBK) is pleased to announce the appointment of Thomas M. Carr as President and Chief Executive Officer. Mr. Carr has been serving as President and Chief Operating Officer since April 2012. He joined the bank in June 2000 as Senior Vice President and Chief Financial Officer.

"Tom has played a major role in the development of a team of management and employees that are deep in talent and highly motivated to offer great service to our customers. Through Tom's leadership, this team has generated consistently strong returns for our shareholders," said Michael P. Hosey, Chairman, Board of Directors.

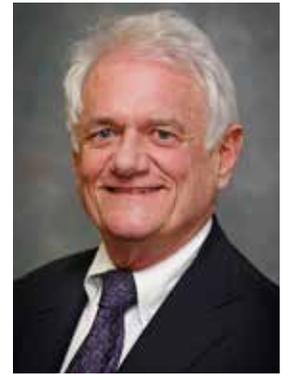
Mr. Carr succeeds Michael P. Hosey, Vice Chairman and Chief Executive Officer who is retiring from the bank after 30 years of service. Mr. Hosey has been elected as Chairman of the Board



of Directors of the bank. During his twelve years as Chief Executive Officer the bank's assets have grown from \$286.4 million to \$517.6 million, profitability has improved significantly, and the number of branch locations have increased from six to sixteen.

"It has been my pleasure to serve the customers, shareholders, and employees of the Elmira Savings Bank," said Michael P. Hosey, Chairman, Board of Directors.

In Memoriam



John ("Skip") Brand, III

John Brand, III ("Skip") passed away unexpectedly on June 6, 2014. Mr. Brand was elected to Elmira Savings Bank's Board of Directors in 1988 and served as Chairman of the Board since April 2012. He had also served in the important role of Chairman of our Audit Committee for a period of ten years. Mr. Brand's thoughtful and inquisitive manner was a guiding force for the Board of Directors, management, and employees of the Bank. Mr. Brand was 68 years old.

Pabis Receives Wharton Leadership Certificate

Tammy Pabis, Vice President/Commercial Lending, graduated from the American Bankers Association (ABA) Stonier Graduate School of Banking in June 2010. This is a three-year program held at the University of Pennsylvania that prepares banking professionals for future leadership roles within their organizations by providing the necessary training in leadership skills.

In January 2014, ABA invited the graduating class of 2010 back as alumni to continue their education in the Wharton Leadership Certificate Program at the University of Pennsylvania. The Wharton School Programs are designed to challenge perceptions about leadership and the values that shape it, encouraging participants to think differently while experiencing numerous learn-



Tammy Pabis

ing situations, intense faculty discussion, and peer interactions. In June of this year, Ms. Pabis received her Leadership Certificate and has begun implementing the principles within the commercial lending department.

Tom will be celebrating her 20th year at Elmira Savings Bank this year.

ESB Customer Appreciation 2014



Customers, Sweet As Honey's ice cream bear and Crossroads the Clown enjoy our Moravia event.



Kelly and Marissa share a laugh with Crossroads the Clown.

Welcome New ESB Employees!

We are pleased to welcome three new employees to Elmira Savings Bank in the second quarter of 2014:

Brenda Cimasky has joined our Southport branch as a part-time Teller. She brings with her over twenty years of customer service experience including three years in real estate sales.

Kayla (Reynolds) Huckins has returned to Elmira Savings Bank and rejoins us as a Teller in the Elmira market. She recently returned to the area after living out west for the past couple years where she continued to work in the financial industry. During Kayla's previous eight years with ESB, she worked in several roles within the branches as well as in operations.

Lindsea Jones has joined our Retail Services group for the summer and is assisting in the Elmira market branches. Lindsea is a full time student at Corning Community College majoring in Business Administration.

Welcome to Elmira Savings Bank!

Congratulations to the Following Employees!

Margaret "Peggy" Hurd has been promoted to a Bank Officer as Assistant Treasurer. Peggy joined Elmira Savings Bank in May 2009 as a Teller at the South Meadow Branch. She transferred to the Triphammer Branch in December 2009 with a promotion to Customer Service Representative. In June 2010, Peggy was promoted to Assistant Branch Manager of the Commons Branch and in 2011 was promoted to Branch Manager.

Cherry Merrill has been promoted to Senior Teller at the South Meadow Branch. Cherry joined Elmira Savings Bank as a part-time Teller in October 2012. She has over twelve years of customer service experience in the hospitality industry.

Get Connected!

How would you like to hear about upcoming events, employment opportunities, community involvement, and so much more, right from your favorite social media channel? Well, now you can! Customers, friends, and community members can "Like" us on Facebook, "Follow" us on LinkedIn, and "Subscribe" to us on YouTube.

Connecting with us is fast and easy. Just visit www.elmirasavingsbank.com and click on the icon of your favorite social media channel at the bottom of our homepage. Or find us by searching for "Elmira Savings Bank" on your favorite channel.

We look forward to connecting with you!

