



OFFICE OF THRIFT SUPERVISION
Washington, DC 20552

FORM 10-K
ANNUAL REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

Office of Thrift Supervision Docket Number 7788

UNITED STATES
(State or other jurisdiction of
incorporation or organization)

THE ELMIRA SAVINGS BANK, FSB
(Exact name of registrant as specified in its Charter)

16-0422120
(IRS Employer ID Number)

Address of Principal Executive Office: 333 East Water Street, Elmira, NY 14901
Registrant's telephone number, including area code: (607) 735-8660

Securities registered pursuant to Section 12(b) of the Act: Title of Class: Common Stock (\$1.00 par value)
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of Securities Act:
YES [] NO [X]

Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days: YES [X] NO []

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practical date.

\$1.00 par value Common Stock 1,920,872 shares
(class) (outstanding March 23, 2010)

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act: YES [] NO [X]

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every interactive data file to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period than the Registrant was required to submit and post such files.) YES [] NO []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer ___ Accelerated Filer ___ Non-Accelerated Filer [X] Smaller Reporting Company ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):
YES [] NO [X]

The aggregate market value of Registrant's Common Stock held by non-affiliates as of June 30, 2009 was \$30.0 million. As of June 30, 2009 there were issued and outstanding 1,918,116 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Documents

Part of 10-K into which incorporated

Definitive Proxy Statement for the April 27, 2010
Annual Meeting of Shareholders

Part III

ANNUAL REPORT FOR 2009 ON FORM 10-K
The Elmira Savings Bank, FSB
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PART I

Item 1 – Business

Forward-Looking Statements

This Form 10-K contains forward-looking statements, which can be identified by the use of such words as estimate, project, believe, intend, anticipate, plan, seek, expect, and similar expressions. These forward-looking statements include:

- Statements of our goals, intentions and expectations;
- Statements regarding our business plans, prospects, growth and operating strategies;
- Statements regarding the asset quality of our loan and investment portfolios; and
- Estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks, assumptions, and uncertainties, including among other things, the following important factors that could affect the actual outcome of future events:

- Significantly increased competition among depository and other financial institutions;
- Changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- General economic conditions, either nationally or in our market areas, that are worse than expected;
- Adverse changes in the securities markets;
- Legislative or regulatory changes that adversely affect our business;
- Our ability to enter new markets successfully and capitalize on growth opportunities;
- Changes in consumer spending, borrowing and saving habits;
- Changes in accounting policies and practices, as may be adopted by the Financial Accounting Standards Board; and
- Changes in our organization, compensation and benefit plans.

The Company cautions readers not to place undue reliance on any forward-looking statements, which speak only as of the date made, and advises readers that various factors, including those described above, could affect the Company's financial performance and could cause the Company's actual results or circumstances for future periods to differ materially from those anticipated or projected.

Except as required by law, the Company does not undertake, and specifically disclaims any obligation, to publicly release any revisions to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

General

Elmira Savings Bank, FSB (the Bank) was organized in 1869 as a New York chartered mutual savings bank under the name of Southern Tier Savings Bank. In 1890, the Bank's name was changed to The Elmira Savings Bank. In 1983, the Bank converted from a state charter to a federally chartered mutual savings bank. In March 1985, the Bank became a stock savings

bank with its first stock offering. The Bank conducts its business through ten full service offices located in Chemung, Tompkins, Cayuga, and Steuben Counties, New York, one limited service office located in Tompkins County, New York, and one cashless branch in Schuyler County, New York. The main office is located at 333 East Water Street, Elmira, New York.

The Bank has two subsidiaries: ESB Realty Corp. and ESB Advisory Services, Inc. ESB Realty Corp. operates as a real estate investment trust. The Bank offers financial services products and financial planning advisory services through its wholly-owned subsidiary, ESB Advisory Services, Inc.

The Bank is engaged primarily in the business of attracting deposits from the general public and originating mortgage loans secured by first and second liens on one-to-four family residences; consumer loans on automobiles; general consumer loans; commercial real estate loans; and commercial loans. The Bank offers a wide variety of services to its individual and commercial customers.

The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is chartered by the Office of Thrift Supervision ("OTS") and is thus subject to regulation and examination by both regulatory agencies. The Bank is also a member of the Federal Home Loan Bank System and is subject to the regulations of the Federal Reserve Board as they relate to savings institutions.

Market Area

The Bank's market areas are in Elmira, New York, and Ithaca, New York, and include the surrounding communities in the southern tier and central New York region. The Bank's Elmira market area is characterized by a stable population, moderate household incomes, and a stable and diverse industrial and service corporation base. Education plays a significant role in the economy in the Bank's Ithaca market area with Cornell University and Ithaca College being two of the area's major employers. The Ithaca market area is also marked by moderate population growth and a low rate of unemployment, relative to other areas of New York State.

Competition

The Bank faces intense competition in its market area both in attracting deposits and originating loans. This competition comes primarily from commercial banks, credit unions, brokerage companies, consumer finance companies and mortgage companies. Within the Bank's market area there are many competing banking institutions, including some substantially larger than the Bank.

The Bank competes for loans primarily on the basis of the quality of service provided to borrowers, types of loans originated, loan fees, and loan rates. The Bank competes for deposits based on the convenience of its branch locations and operating hours, quality of service, the scope of services provided, and interest rates paid on deposits.

Regulation

The operations of the Bank and all savings institutions are significantly affected by prevailing economic conditions as well as government economic policies and regulations concerning

monetary and fiscal policy, taxes, housing, financial institutions, regulatory burdens on bank products, and regulatory policy on competitors of the savings industry.

The primary regulatory authority for the Bank is the OTS. The OTS sets regulations on the types of loans and investments the Bank is allowed to make and hold, the types of deposit products the Bank can offer, and the activities the Bank can participate in.

Insurance of Deposit Accounts

Deposits of the Bank are insured by the FDIC up to statutory and regulatory limits, therefore, the Bank is subject to regulation, supervision and reporting requirements of the FDIC. The FDIC has adopted a regulation that defines and sets the minimum requirements for capital adequacy. Under this regulation, the Bank is required to maintain capital ratios similar to those required by the OTS.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") made significant changes to federal laws governing depository institutions and the FDIC and OTS. FDICIA requires federal bank regulatory agencies to take prompt corrective action to address the problems of undercapitalized banks.

With certain exceptions, FDICIA prohibits banks from engaging, as principals, in activities such as certain equity investments and insurance underwriting. In addition, FDICIA amends federal statutes governing extensions of credit to directors, executive officers and principal shareholders of banks, savings associations, and their holding companies; limits the aggregate amount of a financial institution's loans to insiders to the amount of the institution's unimpaired capital and surplus; restricts depository institutions that are not well capitalized from accepting brokered deposits without an express waiver from the FDIC; and amends the Home Owners Loan Act to liberalize the qualified thrift lender test. The FDICIA also required the FDIC to institute a system of risk-based deposit insurance assessments that takes into account different categories and concentrations of bank assets and liabilities.

In conjunction with the enactment of the Emergency Economic Stabilization Act of 2008 ("EESA"), the FDIC increased deposit insurance on most accounts from \$100,000 to \$250,000 through December 31, 2009. This increased level of deposit insurance was later extended until the end of 2013. In addition, pursuant to Section 13(c)(4)(G) of the Federal Deposit Insurance Act, the FDIC has implemented two temporary programs to provide deposit insurance for the full amount of most non-interest bearing transaction deposit accounts through June 30, 2010 and to guarantee certain unsecured debt of financial institutions and their holding companies through June 2012. For non-interest bearing transaction deposit accounts, a 10 basis point annual rate surcharge is applied to deposit amounts in excess of \$250,000. Financial institutions were permitted to opt out of these two programs until December 5, 2008. The Bank did not opt out of the temporary liquidity guarantee program, and the assessment surcharge has not had a material impact on our results of operations.

In February 2009 the FDIC adopted a final regulation that provided for the replenishment of the Deposit Insurance Fund over a period of seven years. The restoration plan changed the FDIC's base assessment rates and the risk-based assessment system. The risk-based premium system provides for quarterly assessments based on an insured institution's ranking in one of four risk categories based upon supervisory and capital evaluations. The assessment rate for an individual institution is determined according to a formula based on a weighted average of the institution's individual CAMELS component ratings plus either six financial ratios or, in the

case of an institution with assets of \$10.0 billion or more, the average ratings of its long-term debt. Well-capitalized institutions (generally those with CAMELS composite ratings of 1 or 2) are grouped in Risk Category I and their initial base assessment rate for deposit insurance is set at an annual rate of between 12 and 16 basis points. The initial base assessment rate for institutions in Risk Categories II, III and IV is set at annual rates of 22, 32 and 50 basis points, respectively. These initial base assessment rates are adjusted to determine an institution's final assessment rate based on its brokered deposits, secured liabilities and unsecured debt. The adjustments include higher premiums for institutions that rely significantly on excessive amounts of brokered deposits, including CDARS, higher premiums for excessive use of secured liabilities, including Federal Home Loan Bank advances and adding financial ratios and debt issuer ratings to the premium calculations for banks with over \$10.0 billion in assets, while providing a reduction for all institutions for their unsecured debt.

In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize the predecessor to the SAIF. The assessment rate for the fourth quarter of 2009 was .0026% of insured deposits and is adjusted quarterly. These assessments will continue until the Financing Corporation bonds mature in 2019.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is not aware of any existing circumstances which could result in termination of the Bank's deposit insurance.

On May 22, 2009, the FDIC announced a five basis point special assessment on each insured depository institution's assets minus its Tier 1 capital as of June 30, 2009. The amount of our special assessment, which was accrued in the quarter ended June 30, 2009, was \$238,000.

On November 12, 2009, the FDIC adopted regulations that require insured depository institutions to prepay on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009 and all of 2010, 2011 and 2012, along with their quarterly risk-based assessment for the third quarter of 2009. The prepaid assessments will be collected instead of imposing additional special assessments at this time.

Other Legislation

Sarbanes–Oxley Act

The Sarbanes-Oxley Act addresses, among other issues, corporate governance, auditor independence and auditing standards, executive compensation, insider loans, whistleblower protection, and enhanced and timely disclosure of corporate information. The SEC has adopted or proposed several implementation rules, and the NASD has proposed corporate governance rules that have been presented to the SEC for review and approval. The proposed changes are

intended to allow stockholders to monitor more effectively the performance of companies and management.

As directed by section 302(a) of the Sarbanes-Oxley Act, the Company's Chief Executive Officer and Chief Financial Officer are each required to certify that the Company's quarterly and annual reports do not contain any untrue statement of a material fact. This requirement has several parts, including certification that these officers are responsible for establishing, maintaining and regularly evaluating the effectiveness of the Company's internal controls; that they have made certain disclosures to the Company's auditors and the Audit Committee of the Board of Directors about the Company's internal controls; and that they have included information in the Company's quarterly and annual reports about their evaluation and whether there have been significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation.

In response to the Sarbanes-Oxley Act of 2002, the Bank has established a Corporate Governance Committee, designated a financial expert on the Board of Directors, adopted a bank-wide Code of Ethical Conduct, Chief Financial Officer Code of Conduct, Director and Executive Officer Code of Conduct, and has adopted a Whistleblower policy and procedures.

Department of the Treasury – Capital Purchase Program (CPP)

On October 14, 2008, the Treasury announced the Capital Purchase Program ("CPP"), part of the EESA enacted on October 3, 2008. As a participant in the CPP, on December 19, 2008 we sold to the Treasury for an aggregate purchase price of \$9.09 million, 9,090 shares of preferred stock and a warrant to purchase 116,538 shares of common stock. Under the original terms of the CPP, prior to December 19, 2011 we could not redeem the preferred stock except with the proceeds from a qualified equity offering. However, upon the February 17, 2009 enactment of the American Recovery and Reinvestment Act of 2009, we may now redeem the preferred stock at any time, and without regard to having proceeds from a qualified equity offering, subject to consultation with our primary federal regulator, the OTS. In addition, the terms of the CPP prohibit us from increasing the dividends on our common stock as well as from making repurchases of our common stock without the Treasury's consent prior to December 19, 2011 unless we have fully redeemed the preferred stock. Furthermore, participation in the CPP limits the compensation and tax deductibility of the compensation we pay to certain of our executives.

Employees

At March 11, 2010, the Bank had 111 employees, 13 of whom were part-time.

Item 1A – Risk Factors

Economic Conditions May Adversely Affect Our Liquidity and Financial Condition

In recent periods, United States and global markets, as well as general economic conditions, have been disrupted and volatile. Concerns regarding the financial strength of financial institutions have led to distress in credit markets and issues relating to liquidity among financial institutions. Some financial institutions around the world have failed; others have been forced to seek acquisition partners. The United States and other governments have taken steps to try to stabilize the financial system, including investing in financial institutions. The Bank's business and financial condition and results of operations could be adversely affected by (1) continued disruption and volatility in financial markets, (2) continued capital and liquidity concerns

regarding financial institutions generally and our counterparties specifically, (3) limitations resulting from governmental action in an effort to stabilize or provide additional regulation of the financial system, or (4) recessionary conditions that are deeper or last longer than currently anticipated. Further, there can be no assurance that action by Congress, governmental agencies and regulators, including the enacted legislation authorizing the U.S. government to invest in financial institutions, or changes in tax policy, will help stabilize the U.S. financial system and any such action, including changes to existing legislation or policy, could have an adverse effect on the financial position or results of operation of the Bank.

Our Commercial Real Estate, Commercial and Consumer Loans Expose us to Increased Lending Risks

Commercial real estate, commercial and industrial and consumer loans expose a lender to a greater risk of loss than one-to-four-family residential loans. Commercial real estate and commercial and industrial loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one-to-four-family residential loans. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to one residential mortgage loan. Similarly, consumer loans generally have a higher credit risk than residential loans due to the loan being unsecured or secured by rapidly depreciable assets. See the *Loan Portfolio* section of this Form 10-K.

If our Allowance for Loan Losses is not Sufficient to Cover Actual Loan Losses, our Earnings could Decrease

Our loan customers may not repay their loans according to their terms, and the collateral securing the payment of these loans may be insufficient to pay any remaining loan balance. We may experience significant loan losses, which could have a material adverse effect on our operating results. We make various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we rely on an allowance valuation model that considers a review of loans, our experience and our evaluation of economic conditions. If our assumptions prove to be incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. Material additions to our allowance would materially decrease our net income.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities could have a material adverse effect on our results of operations and financial condition. See the *Allowance for Loan Losses* section of this Form 10-K.

Our Local Economy has Limited Growth Potential and this may Hurt our Ability to Generate Profits and Grow our Business

The success of our business depends on our ability to generate profits and grow our franchise. Our Ithaca, New York, market area has experienced moderate population growth and low unemployment in recent years. However, our Elmira, New York, market area in the southern tier of New York has experienced a decline in population, reflecting a decrease in the manufacturing sector, and the loss of major employers during the past decade. Moreover,

economic and population growth in the southern tier of New York is expected to be limited for the foreseeable future. The relatively weak economy will make it more difficult for us to grow our earnings and to generate internal asset growth.

Changes in Market Interest Rates could Adversely Affect our Results of Operations and Financial Condition

Our results of operations and financial condition are significantly affected by changes in interest rates. Our results of operations are substantially dependent on our net interest income, which is the difference between the interest income earned on our interest-earning assets and the interest expense paid on our interest-bearing liabilities. Because as a general matter our interest-bearing liabilities reprice or mature more quickly than our interest-earning assets, an increase in interest rates generally would result in a decrease in our average interest rate spread and net interest income.

Changes in interest rates also affect the value of our interest-earning assets, and in particular, our securities portfolio. Generally, the value of debt securities fluctuates inversely with changes in interest rates. Changes in the unrealized gains and losses on our securities available-for-sale could have an adverse effect on stockholders' equity.

We are also subject to reinvestment risk relating to interest rate movements. Changes in interest rates can affect the average life of loans and mortgage-related securities. Decreases in interest rates can result in prepayments of loans and mortgage-related securities, as borrowers refinance to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest such prepayments at rates that are comparable to the rates on existing loans or securities.

If Economic Conditions Deteriorate, our Results of Operations and Financial Condition could be Adversely Impacted as Borrowers' Ability to Repay Loans Declines and the Value of the Collateral Securing our Loans Decreases

Our financial results may be adversely affected by further deterioration of economic conditions, including decreases in real estate values, adverse employment conditions, the monetary and fiscal policies of the federal government and other significant external events. Because we have a significant amount of real estate loans, decreases in real estate values could adversely affect the value of property used as collateral. Deterioration in the economy may also have a negative effect on the ability of our borrowers to make timely repayments of their loans, which would have an adverse impact on our earnings.

In addition, substantially all of our loans are to individuals and businesses in Chemung, Schuylar, Steuben, Tompkins, and Cayuga Counties, New York. Consequently, any decline in the economy of these market areas could have an adverse impact on our earnings.

Strong Competition within our Market Area may Limit our Growth and Profitability

Competition in the banking and financial services industry is intense. The southern tier and central New York regions have a high concentration of financial institutions, including large money center and regional banks, community banks, and credit unions. Some of our competitors offer products and services that we currently do not offer, such as private banking. Some of these competitors have substantially greater resources and lending limits than we do and may offer certain services that we do not or cannot provide. This competition has made it

more difficult for us to make new loans and at times has forced us to offer higher deposit rates. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which reduces net interest income. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to successfully compete in our market areas.

We may have Difficulty Managing our Growth, which may Divert Resources and Limit our Ability to Successfully Expand our Operations

We have incurred substantial expenses to build our management team and personnel, develop our delivery systems, and establish our infrastructure to support future growth. Our future success will depend on the ability of our officers and key employees to continue to implement and improve our operational, financial and management controls, reporting systems, and procedures, and to manage a growing number of client relationships. We may not be able to successfully implement improvements to our management information and control systems in an efficient or timely manner, and we may discover deficiencies in our existing systems and controls. Thus, we cannot assure you that our growth strategy will not place a strain on our administrative and operational infrastructure or require us to incur additional expenditures beyond current projections to support our recent and future growth.

A Breach of Information Security could Negatively Affect our Earnings

Increasingly, we depend upon data processing, communication, and information exchange on a variety of computing platforms and networks, and over the Internet. We cannot be certain all our systems are entirely free from vulnerability to attack, despite safeguards we have instituted. In addition, we rely on the services of a variety of vendors to meet our data processing and communication needs. If information security is breached, information can be lost or misappropriated, resulting in financial loss or costs to the Bank or damages to others. These costs or losses could materially exceed the amount of insurance coverage, if any, which would adversely affect our earnings.

We Operate in a Highly Regulated Environment and we may be Adversely Affected by Changes in Laws and Regulations

We are subject to extensive regulation, supervision, and examination by the OTS, our chartering authority. Such regulation and supervision govern the activities in which an institution may engage and are intended primarily for the protection of the depositors. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operating of an institution, the classification of assets by the institution, and the adequacy of an institution's allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, or legislation, could have a material impact on the Bank. During 2010 the Bank must comply with additional requirements of the Sarbanes-Oxley legislation. This compliance may result in additional costs to the Bank, which would negatively affect Bank earnings.

The Soundness of Other Financial Services Institutions May Adversely Affect Our Credit Risk

We rely on other financial services institutions through trading, clearing, counterparty, and other relationships. We maintain limits and monitor concentration levels of our counterparties as specified in our internal policies. Our reliance on other financial services institutions exposes us to credit risk in the event of default by these institutions or counterparties. These losses could adversely affect our results of operations and financial condition.

Increases in FDIC Insurance Premiums May Cause Our Earnings to Decrease

The EESA temporarily increased the limit on FDIC coverage to \$250,000 for all accounts through 2013. In addition, we have enrolled in the Temporary Liquidity Guarantee Program for noninterest bearing transaction deposit accounts. The FDIC also charged an emergency one time assessment on all domestic deposits in 2009. This caused our premiums assessed by the FDIC to increase. Should the FDIC continue to increase premiums, these actions could significantly increase our noninterest expense in future years as long as the increased premiums are in place.

Changes in Federal Statutes May Adversely Affect the Terms of our Letter Agreement with the Treasury

Pursuant to the terms of the Letter Agreement (“Agreement”) we entered into with the Treasury under the CPP, the Treasury may amend any provision of the Agreement to the extent required to comply with any changes in applicable federal statutes. Any change in such Agreement could have a material impact on us and our operations. There can be no assurance that federal statutes will not be adopted in the future that will adversely affect the terms of the CPP and our financial condition. In addition, future federal statutes may contain retroactive restrictions which may adversely affect our ability to comply with the terms of the Agreement or effectively manage our business, and therefore, we may choose to redeem the preferred shares issued under the CPP.

Changes in the Value of the Bank’s Investment Securities Portfolio Could Negatively Affect our Earnings

Under accounting principles generally accepted in the United States, the Bank is required to review its investment portfolio periodically for the presence of other-than-temporary-impairment of its securities, taking into consideration current market conditions, the extent and nature of the change in fair value, issuer rating changes and trends, as well as other factors. Adverse developments with respect to one or more of the foregoing factors could require the Bank to deem particular securities to be other-than-temporarily-impaired, with the reduction in the value recognized as a charge against the Bank’s respective earnings as it relates to the credit portion of the impairment.

A Substantial Decline in the Value of our Federal Home Loan Bank (“FHLB”) of New York Common Stock May Adversely Affect Our Financial Condition

We own common stock of FHLB of New York in order to qualify for membership in the FHLB system, which enables us to borrow funds under the FHLB of New York’s advance program. The carrying value and fair market value of our FHLB of New York common stock was \$4.5 million as of December 31, 2009.

In recent periods, published reports indicate that certain member banks of the FHLB system may be subject to asset quality risks that could result in materially lower regulatory capital levels. In an extreme situation, it is possible that the capitalization of a FHLB, including FHLB of New York, could be substantially diminished or reduced to zero. Consequently, given that there is no market for our FHLB of New York common stock, we believe that there is a risk that our investment could be deemed other than temporarily impaired at some time in the future. If this occurs, it may adversely affect our results of operations and financial condition. If the capitalization of FHLB of New York is substantially diminished and if it further reduces or suspends its dividend, our liquidity may be adversely impaired if we are not able to obtain an alternative source of funding.

Changes in the Value of Goodwill and Other Intangible Assets Could Negatively Affect our Earnings

Under accounting standards, the Company is not required to amortize goodwill but rather must evaluate goodwill for impairment at least annually. If deemed impaired at any point in the future, an impairment charge representing all or a portion of goodwill will be recorded to current earnings in the period in which the impairment occurred. The capitalized value of other intangible assets is amortized to earnings over their estimated lives. Other intangible assets are also subject to periodic impairment reviews. If these assets are deemed impaired at any point in the future, an impairment charge will be recorded to current earnings in the period in which the impairment occurred. See also Note 10 of the Notes to Consolidated Financial Statements.

Integration of Acquisitions

The Bank periodically reviews potential acquisition opportunities involving other financial institutions and financial services companies. The Bank seeks merger or acquisition partners that are culturally similar, present long-term growth opportunities, and have the potential for improved profitability through economies of scale or expanded services. Risks associated with acquisitions include potential exposure to asset quality issues of the acquired entity, the difficulty and expense of integrating the operations and personnel of the acquired entity, potential disruption to the business of the acquired entity, potential diversion of management time and attention from other matters, and impairment of relationships with, and the possible loss of, key employees and customers of the acquired entity. Failure to realize expected revenue increases, cost savings, and/or other projected benefits from an acquisition could have a material adverse effect on the Bank's financial condition and results of operations.

New York State Taxation

During 2008, New York State revised legislation that phases out the exclusion of dividends paid by a real estate investment trust ("REIT") to a bank when the taxable assets of the bank's combined reporting group exceed \$8 billion. In 2009, we were entitled to exclude from taxation 60% of our REIT's taxable income and in 2010, we are entitled to exclude from taxation 60% of our REIT's taxable income.

In its current form, we do not expect to be materially impacted by any provisions of the current New York State legislation. However, future state tax legislation could be proposed regarding the disallowance of the exclusion for dividends paid by our REIT which would have a negative impact on our earnings.

Item 2 – Properties

The Bank has a main office, including administrative offices, ten full service branch offices, one loan center, one cashless branch, and other properties. At December 31, 2009, management believes the Bank's existing properties are adequate for the conduct of its business. The following table sets forth certain information relating to the Bank's offices and other properties at December 31, 2009:

Location	Year Opened	Owned or Leased	Lease Expiration	Lease Renewal Option	Net Book Value (000's)
Main Office 333 E. Water Street, Elmira, NY	1975	Owned	--	--	1,827
Horseheads Branch Grand Central Avenue, Horseheads, NY	1969	Owned	--	--	326
West Elmira Branch West Church Street, Elmira, NY	1977	Owned	--	--	178
Southport Branch Pennsylvania Avenue, Elmira, NY	1980	Owned	--	--	282
Arnot Mall Branch Rt. 17 & Chambers Road, Big Flats, NY	1980	Leased	2012	Yes	123
Corning Branch 19 E. Market Street - Suite 101, Corning, NY 14830	2006	Leased	2011	Yes	10
Commons Branch 301 East State Street, Ithaca, NY 14850	2007	Leased	2011	Yes	0
Ithaca Loan Center 301 East State Street, Ithaca, NY 14850	2009	Leased	2011	Yes	0
Moravia Branch 142 Main Street, Moravia, NY	2007	Owned	--	--	225
South Meadow Branch 702 South Meadow Street, Ithaca, NY	2007	Leased	2017	Yes	487
Triphammer Branch 2300 North Triphammer Road, Ithaca, NY	2007	Leased	2012	Yes	64
Montour Falls LPO Office 401 West Main St., Suite 110, Montour Falls, NY, 14865	2009	Leased	2014	Yes	4
Multiple-Use Building 311, 313, 315 East Water Street, Elmira, NY	--	Owned	--	--	505
Building lots held for possible future use Division Street & Lackawanna Avenue, Elmira, NY	--	Owned	--	--	295
Parking Lot 100-106 Lake Street, Elmira, NY	--	Owned	--	--	172

Item 3 – Legal Proceedings

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the Company or its subsidiary is a party or of which any of their property is the subject.

Item 4 – Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of securities holders during the fourth quarter of 2009.

PART II

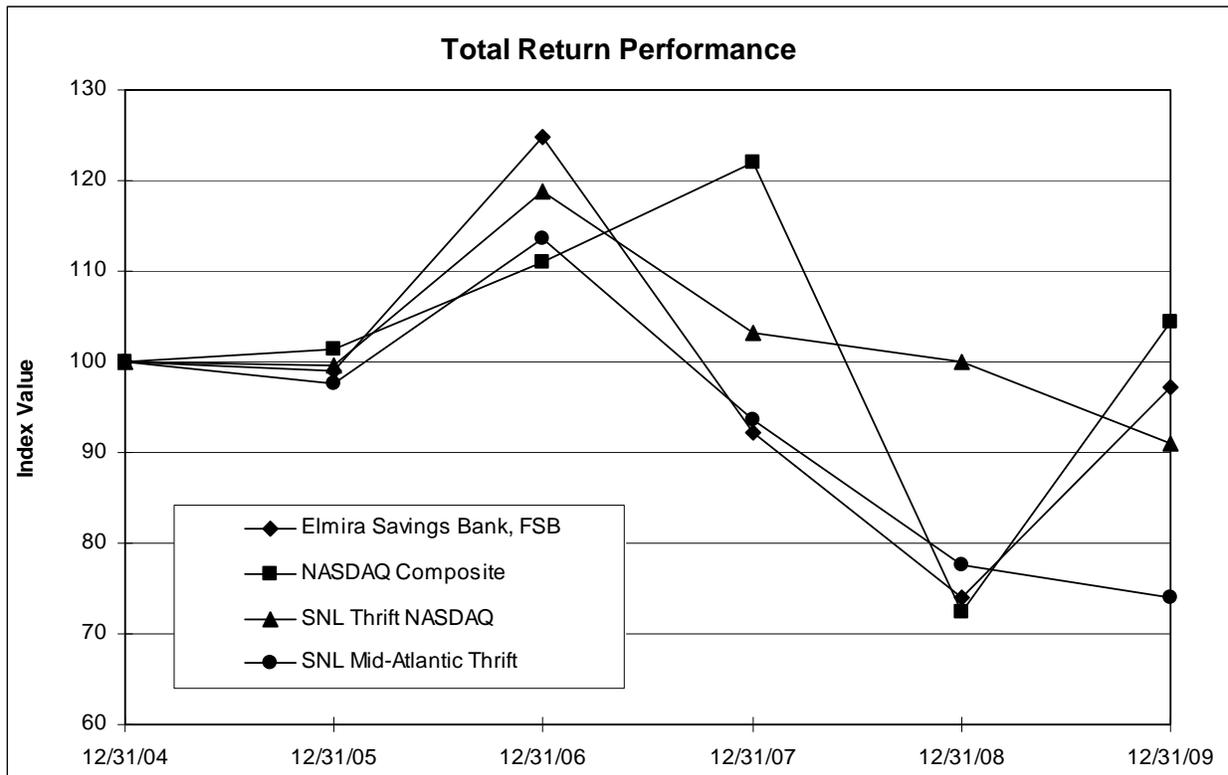
Item 5 – Market for Registrant’s Common Equity and Related Shareholder Matters

The Bank’s common stock was first offered in March 1985 and is now listed on the NASDAQ exchange. The table below summarizes the high and low market price for the Bank’s stock during 2009 and 2008.

	2009		2008	
	High	Low	High	Low
1st Quarter	12.99	7.15	19.27	15.49
2nd Quarter	16.88	10.02	16.92	14.06
3rd Quarter	16.80	13.50	15.59	7.07
4th Quarter	16.75	13.37	15.46	9.24

The Bank had 477 holders of record of common stock at March 11, 2010, and the brokers currently making a market in the Bank’s common stock are: Stifel Nicolaus; Spear, Leeds & Kellogg; Moors & Cabot; Baird Patrick; and Howe Barnes.

ELMIRA SAVINGS BANK, FSB



Information regarding securities authorized for issuance under equity compensation plans is provided in Part III “Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” of this report.

Item 6 – Selected Financial Data

	At or for the years ended December 31,				
	(dollars in thousands, except per share data)				
Consolidated balance sheet data:	2009	2008	2007	2006	2005
Total assets	\$498,983	\$480,600	\$453,687	\$371,420	\$333,322
Securities available for sale	101,931	102,448	88,670	91,846	95,538
Securities held to maturity	4,440	4,963	7,273	7,959	8,482
Loans receivable	307,616	332,092	299,982	226,381	206,471
Allowance for loan losses	3,139	3,035	2,478	1,665	2,095
Goodwill	12,320	12,320	12,295	-	-
Deposits	352,591	319,876	356,424	288,772	241,719
Borrowings	87,162	105,499	52,776	55,846	65,912
Shareholders' equity	54,546	51,614	41,074	24,689	22,840
Consolidated income statement data:					
Interest income	\$25,141	\$25,228	\$22,729	\$19,026	\$16,817
Interest expense	9,438	11,458	12,177	9,168	6,562
Net interest income	15,703	13,770	10,552	9,858	10,255
Provision (credit) for loan losses	592	919	525	(290)	155
Noninterest income	4,638	5,745	2,559	1,013	2,582
Noninterest expense	13,070	14,296	9,794	8,858	8,543
Income before income tax	6,679	4,300	2,792	2,303	4,139
Income tax expense	2,148	1,277	692	604	1,352
Net income	4,531	3,023	2,100	1,699	2,787
Net income attributable to noncontrolling interest	5	5	5	5	5
Net income attributable to Elmira Savings Bank	4,526	3,018	2,095	1,694	2,782
Preferred stock dividend and accretion of discount	1,410	917	110	-	-
Income available to common shareholders	\$3,116	\$2,101	\$1,985	\$1,694	\$2,782
Per share data:					
Basic earnings per share	\$1.62	\$1.10	\$1.22	\$1.06	\$1.73
Diluted earnings per share	\$1.60	\$1.09	\$1.21	\$1.05	\$1.72
Cash dividends declared per share	\$0.80	\$0.80	\$0.75	\$0.65	\$0.56
Other data:					
Return on average assets	0.91%	0.65%	0.54%	0.49%	0.86%
Return on average shareholders' equity	8.51%	7.34%	7.85%	7.30%	12.46%
Shareholders' equity to assets at year-end	10.93%	10.74%	9.05%	6.65%	6.85%
Dividend payout ratio	49.38%	72.73%	61.48%	61.32%	32.37%
Number of offices	12	11	12	8	7

Per share data has been restated to reflect a 10% stock dividend paid on June 27, 2008

Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations should be read in conjunction with the audited consolidated financial statements and notes.

General

The financial review which follows focuses on the factors affecting the financial condition of The Elmira Savings Bank, FSB during the years ended December 31, 2009 and 2008 and the results of operations for the three years ended December 31, 2009. The consolidated financial statements and related notes as of December 31, 2009 and 2008, and for each of the years in the three-year period ended December 31, 2009, should be read in conjunction with this review. All per share data has been restated to reflect a 10% stock dividend paid on June 27, 2008.

Our results of operations are dependent primarily on net interest income, which is the difference between the income earned on our loans and securities and our cost of funds, consisting of the interest paid on deposits and borrowings. Results of operations are also affected by the provision (credit) for loan losses, securities and loan sale activities, loan servicing activities, service charges and fees collected on our deposit accounts.

Our noninterest expense primarily consists of salaries and employee benefits, occupancy and equipment expense, marketing expense, technology expense and other expenses. Results of operations are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies and the actions of regulatory authorities.

The Bank's primary regulator is the OTS, and its customers' deposits are insured by the FDIC up to the maximum amount permitted by FDIC regulation. The Bank is subject to regulations and periodic examinations by both of these regulatory agencies. Additionally, the Bank is also subject to regulations issued by the Board of Governors of the Federal Reserve System.

The Bank's common stock is traded on the NASDAQ exchange under the symbol ESBK. The table below summarizes the quoted market prices for the Bank's stock during 2009.

2009 Bid	High	Low
	16.88	7.04
2009 Ask	High	Low
	25.68	7.15

2009 Highlights

Total assets were \$499.0 million at December 31, 2009, which was \$18.4 million or 3.8% above December 31, 2008. Loans receivable decreased by \$24.5 million and total investments, including FHLB stock, decreased by \$1.8 million. The decrease in loans is attributable to a \$1.9 million decrease in real estate loans, an \$11.4 million decrease in consumer loans, and an \$11.1 million decrease in business loans. Deposits increased by \$32.7 million or 10.2% during the year. Borrowings decreased by \$18.3 million or 17.4% during 2009.

The Bank's shareholder equity increased by \$2.9 million or 5.7% to \$54.5 million or a core capital ratio of 8.39% as of December 31, 2009.

Net income for the year ended December 31, 2009 was \$4.5 million which was \$1.5 million or 50.0% higher than the same period in 2008. This increase in net income is due to a \$1.9 million increase in net interest income, combined with a \$1.2 million decrease in noninterest expense, partially offset by a \$1.1 million decrease in noninterest income and a \$327,000 decrease in the provision for loan losses.

Earnings per diluted share were \$1.60 for the year ended December 31, 2009, as compared to \$1.09 for the year ended December 31, 2008. The 46.8% increase in earnings per diluted share is reflective of the 50.0% increase in net income.

Net interest margin increased by 35 basis points to 3.61 percent for the year ended December 31, 2009. Return on assets and return on equity were .91 percent and 8.51 percent, respectively, for the year ended 2009, compared to .65 percent and 7.34 percent, respectively, for the same period in 2008.

Critical Accounting Policies

The accounting and reporting policies of Elmira Savings Bank conform to accounting principles generally accepted in the United States of America and reporting practices followed by the banking industry. Elmira Savings Bank utilizes the accrual method of accounting for financial reporting purposes.

We evaluate those accounting policies and estimates that we judge to be critical: those most important to the presentation of our financial condition and results of operations, and that require our most subjective and complex judgments. Accordingly, our accounting estimates relating to the adequacy of our allowance for loan losses, the valuation and other than temporary impairment analysis of our investment securities, and the analysis of the carrying value of goodwill for impairment are deemed to be critical, as our judgments could have a material effect on our results of operations.

Allowance for Loan Losses

Elmira Savings Bank provision for loan losses charged or credited to operations is based upon management's evaluation of the loan portfolio. The allowance for loan losses is maintained at a level that management believes, to the best of its knowledge, is at a level at each reporting date, that is adequate based upon the estimated inherent risk of loss in the current loan portfolio. Management's judgment is based upon, but not limited to, periodic evaluation of the portfolio, past loss experience and current economic conditions. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review Elmira Savings Bank's allowance for loan losses. Such agencies may require Elmira Savings Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examinations. Further description of our methodology for evaluating our allowance for loan losses is included within the "Allowance for Loan Losses" section included in Note 1 to the Consolidated Financial Statements.

Securities

Fair value of our investment securities is based upon quoted market prices of identical securities, where available. If such quoted prices are not available, fair value is based upon valuation models that use cash flow, security structure, and other observable information.

Securities are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. Management considers the reasons underlying the decline, the magnitude and duration of the decline, and the Bank's intent to sell the security, and whether it is more likely than not that the Bank will not have to sell the security before recovery of its cost basis. If a decline in the fair value of a security, below its cost basis, is determined to be other than temporary, the cost basis of the security is reduced and a corresponding charge to earnings would be recognized.

Goodwill

Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment, or more often if certain conditions or events occur, and any such impairment will be recognized in the period identified. In 2007 the Bank recorded goodwill in connection with the purchase of four branch offices located in central New York State. Further description of the methodology for assessing goodwill for impairment is included within the "Goodwill" section included in Note 1 to the Consolidated Financial Statements.

Financial Condition

Unless otherwise noted, the following discussion compares the Bank's financial condition at December 31, 2009 to December 31, 2008.

At December 31, 2009, the Bank had total consolidated assets of \$499.0 million, an increase of \$18.4 million or 3.8 percent from the December 31, 2008 level of \$480.6 million. The Bank increased its deposits by \$32.7 million (10.2 percent). The Bank experienced a decrease in loans of \$24.5 million (7.4 percent) and a decrease in borrowings of \$18.3 million (17.4 percent).

Total earning assets decreased to 84.0 percent of total assets at December 31, 2009 from 92.6 percent at December 31, 2008. The Bank's total cash and equivalents increased by \$42.3 million to \$50.8 million. The increase in cash and equivalents parallels the reduction in the ratio of earning assets to total assets and reflects the Bank's limited investment in earning assets during the historically low interest rate environment that occurred throughout 2009. Securities, including FHLB stock and loans, net of allowance, represented 22.2 percent and 61.0 percent, respectively, of total assets at December 31, 2009, as compared to 23.4 percent and 68.5 percent, respectively, at December 31, 2008. Total liabilities increased by \$15.5 million to \$444.4 million at December 31, 2009 from \$429.0 million at December 31, 2008. Total deposits increased by \$32.7 million to \$352.6 million. For 2009, this increase in deposits is due primarily to an increase in NOW accounts of \$23.2 million, an increase in money market and savings accounts of \$7.7 million, while time deposits and noninterest bearing transaction accounts also increased by \$696,000 and \$1.1 million, respectively. Total borrowings decreased by \$18.3 million to \$87.2 million. Total deposits funded 70.7 percent of total assets at year-end 2009 in

comparison to 66.6 percent at December 31, 2008. The percentage of total assets supported by borrowings decreased to 17.5 percent at December 31, 2009 from 22.0 percent at the prior year-end.

Total shareholders' equity was \$54.5 million at December 31, 2009, an increase of \$2.9 million, or 5.7 percent from December 31, 2008. This increase is primarily attributable to an increase in retained earnings of \$1.6 million and a \$1.0 million increase in accumulated other comprehensive income, which relates to the fair value of available for sale securities. During the fourth quarter of 2008 the Bank participated in the Treasury Department's Capital Purchase Program. Pursuant to this participation, the Bank issued 9,090 shares of nonvoting, noncumulative, perpetual, preferred stock and a warrant to purchase 116,538 shares of common stock. The net proceeds of the issuance were \$9.0 million. See discussion of "Preferred Stock" included in Note 18 to the Consolidated Financial Statements.

During 2008 and early 2009, significant turmoil and losses in the values of mortgage-backed securities and derivative securities in the financial sector caused decreased confidence in financial markets among borrowers, lenders, and depositors as well as extreme volatility in the capital and credit markets, which led to the failure of some entities in the financial sector. We were not directly impacted by any subprime credit exposure as we do not extend credit of this type to our borrowers, nor do we invest in securities which contain these products. We also did not have any equity investments in Freddie Mac and Fannie Mae and therefore, were not impacted by the issues troubling these institutions.

Loan Portfolio

Loans receivable (after net unamortized loan origination costs and before the allowance for loan losses) at December 31, 2009 decreased to \$307.6 million and were \$24.5 million (7.4 percent) lower than December 31, 2008 levels. The composition of the net decrease in the loan portfolio consisted of a \$493,000 decrease in residential real estate loans, a \$1.6 million decrease in commercial real estate loans, an \$11.4 million decrease in consumer loans, and an \$11.1 million decrease in commercial loans, partially offset by a \$278,000 increase in construction loans. The decrease in commercial and consumer loans resulted from principal paydowns on existing loans outpacing the rate at which the Bank added new loans to its portfolio. Additionally, during the recent unprecedented national economic downturn, the Bank's focus has been on maintaining the credit quality of the existing loan portfolio.

At December 31, 2009, the Bank's loan portfolio before net unamortized loan costs and the allowance for loan losses consisted of the following: \$147.9 million of residential real estate loans; \$70.0 million of commercial real estate loans; \$3.0 million of construction loans; \$38.4 million of business loans; and \$48.0 million of consumer loans.

The following table sets forth the classification of the Bank's loan portfolio at December 31:

	2009		2008		2007	
	\$ Outstanding	% of Total Loans	\$ Outstanding	% of Total Loans	\$ Outstanding	% of Total Loans
(dollars in thousands)						
Residential real estate loans	147,859	48.1	148,352	44.8	130,504	43.6
Commercial real estate loans	69,957	22.8	71,601	21.6	59,197	19.8
Construction loans	3,013	1.0	2,735	0.8	3,019	1.0
Commercial loans	38,422	12.5	49,482	14.9	49,842	16.6
Automobile Floorplan loans	-	0.0	-	0.0	-	0.0
Consumer loans	47,964	15.6	59,347	17.9	56,907	19.0
	<u>307,215</u>	<u>100.0</u>	<u>331,517</u>	<u>100.0</u>	<u>299,469</u>	<u>100.0</u>

	2006		2005	
	\$ Outstanding	% of Total Loans	\$ Outstanding	% of Total Loans
(dollars in thousands)				
Residential real estate loans	106,162	47.0	96,234	46.7
Commercial real estate loans	38,656	17.1	40,248	19.5
Construction loans	1,529	0.7	2,756	1.3
Commercial loans	35,556	15.7	28,385	13.8
Automobile Floorplan loans	-	0.0	483	0.2
Consumer loans	44,198	19.5	38,159	18.5
	<u>226,101</u>	<u>100.0</u>	<u>206,265</u>	<u>100.0</u>

Consumer loan originations totaled \$13.9 million in 2009 compared to \$27.3 million in 2008. Residential real estate loan originations totaled \$104.5 million in 2009, an increase of \$46.9 million or 81.4 percent from originations of \$57.6 million in 2008. Commercial loan and commercial real estate loan originations totaled \$10.2 million in 2009 versus \$27.5 million in 2008.

Nonperforming Assets

As a matter of policy, the Bank discontinues accrual of interest when loan payments are 90 days or more past due (unless well secured and in the process of collection), or when by judgment of management, collectibility is uncertain. The following table sets forth certain information concerning the Bank's nonperforming loans, other real estate owned, and repossessed automobiles at the dates indicated:

	2009	2008	2007	2006	2005
	(dollars in thousands)				
Nonaccrual loans	\$ 3,557	\$ 3,256	\$ 2,238	\$ 110	\$ 659
Loans past due 90 days or more and still accruing	-	-	-	-	-
Total nonperforming loans	<u>3,557</u>	<u>3,256</u>	<u>2,238</u>	<u>110</u>	<u>659</u>
Other real estate owned	536	146	7	178	-
Other repossessed assets	-	-	8	32	25
Total nonperforming assets	<u>\$ 4,093</u>	<u>\$ 3,402</u>	<u>\$ 2,253</u>	<u>\$ 320</u>	<u>\$ 684</u>

Nonperforming loans as a percentage of loans receivable, net 1.16% 0.98% 0.75% 0.05% 0.32%

Nonperforming assets as a percentage of total assets 0.82% 0.71% 0.50% 0.09% 0.21%

The balance of nonaccruing loans at December 31, 2009 primarily relates to seven impaired commercial and commercial real estate loan relationships totaling \$3.1 million. Impaired loans at December 31, 2009 totaled \$3.4 million, with \$2.6 million of impaired loans at December 31, 2008. Impaired loans at December 31, 2009 had a related allowance for loan losses of \$647,000.

At December 31, 2009, loans more than 30 days delinquent, excluding nonaccrual loans, amounted to .60 percent of total loans receivable, net, as compared to .29 percent of total loans receivable, net at December 31, 2008.

At December 31, 2009, in addition to nonperforming loans, the Bank, through its internal loan review function, has identified four commercial relationships totaling \$831,000, which it has classified as substandard which are still accruing. At December 31, 2008, the Bank had fourteen commercial relationships totaling \$5.4 million, which it had classified as substandard which were still accruing. These loans remain in a performing status due to a variety of factors, including payment history, the value of collateral supporting the credits, and personal guarantees. While in a performing status as of December 31, 2009, these loans exhibit certain risk factors, which have the potential to cause them to become nonperforming. Accordingly, management's attention is focused on these potential problem loans which are reviewed on at least a quarterly basis.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level that management considers adequate to provide for the inherent risk of loss in the current loan portfolio. Management's evaluation is based on a continuing review of the loan portfolio that includes many factors, such as identification of adverse situations that affect a borrower's ability to repay, a review of overall portfolio quality, and an assessment of current economic conditions.

At December 31, 2009, the allowance for loan losses amounted to \$3.1 million and represented 1.02 percent of loans receivable, net. At December 31, 2008, the allowance for loan losses was \$3.0 million and represented .91 percent of loans receivable, net.

The following table presents the activity in the allowance for loan losses for the years ended December 31:

	2009	2008	2007	2006	2005
	(dollars in thousands)				
Balance at beginning of year	\$3,035	\$2,478	\$1,665	\$2,095	\$1,965
Loan charge-offs					
Real Estate loans	(48)	(118)	(55)	(59)	(23)
Commercial loans	(213)	(227)	(97)	(78)	(154)
Consumer loans	(358)	(165)	(137)	(147)	(125)
Total loans charged-off	<u>(619)</u>	<u>(510)</u>	<u>(289)</u>	<u>(284)</u>	<u>(302)</u>
Loan recoveries					
Real Estate loans	0	72	0	18	24
Commercial loans	1	0	0	3	72
Consumer loans	130	76	56	123	181
Total loans recovered	<u>131</u>	<u>148</u>	<u>56</u>	<u>144</u>	<u>277</u>
Net charge-offs	(488)	(362)	(233)	(140)	(25)
Allowance acquired in business combination			521	-	-
Provision charged (credited) to expense	592	919	525	(290)	155
Balance at end of year	<u>\$3,139</u>	<u>\$3,035</u>	<u>\$2,478</u>	<u>\$1,665</u>	<u>\$2,095</u>
Allowance to total loans at end of period	<u>1.02%</u>	<u>0.91%</u>	<u>0.83%</u>	<u>0.74%</u>	<u>1.01%</u>
Net charge-offs to average loans outstanding	<u>0.15%</u>	<u>0.11%</u>	<u>0.09%</u>	<u>0.07%</u>	<u>0.01%</u>

The increase in nonaccrual loans from \$3.3 million in 2008 to \$3.6 million in 2009, combined with an increase in net loan charge offs, as well as the overall weakening of general economic conditions, resulted in the Bank's ratio of allowance to total loans increasing by 11 basis points to 1.02 percent for 2009. Due to the decrease in the loan portfolio of \$24.5 million from 2008 to 2009, the Bank was able to increase the ratio of allowance to total loans to 1.02 percent, with a provision for loan losses of \$592,000 for 2009, as compared to the provision in 2008 of \$919,000.

The following table is an allocation of the loan loss allowance by loan type:

(in thousands)	December 31,				
	2009	2008	2007	2006	2005
Commercial real estate loans	\$ 1,223	\$ 900	\$ 964	\$ 369	\$ 858
Residential real estate loans	559	610	406	179	209
Commercial loans	804	1,106	777	574	582
Consumer loans	553	419	331	230	87
Unallocated	-	-	-	313	359
Balance at end of year	\$ 3,139	\$ 3,035	\$ 2,478	\$ 1,665	\$ 2,095

The above allocation is not indicative of the specific amounts on the loan categories in which future charge-offs may occur, nor is it an indication of future loss trends. The allocation of the allowance to each category does not restrict the use of the allowance to absorb losses in any category.

Securities

The Bank's investment strategy is to maintain a securities portfolio that: provides a source of liquidity through maturities, provides collateralization for borrowings and selling opportunities; contributes to the Bank's overall profitability; and provides a balance to interest rate and credit risk in other categories of the balance sheet. The Bank does not maintain a trading account and does not engage in derivative activities in carrying out its investment strategy.

Our portfolio does not contain any "private label" mortgage-backed securities. The mortgage-backed securities in our portfolio are all direct pass-through securities guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae. We do not invest in securities backed by subprime credits, nor do we invest in any equity investments in Freddie Mac and Fannie Mae. Therefore, we have not been impacted by the issues troubling those institutions that invested in these securities.

At December 31, 2009 and 2008, the Bank's securities portfolio consisted primarily of U.S. Government sponsored enterprises and mortgage-backed securities that provide high quality and low credit risk to the overall balance sheet mix. At December 31, 2009, all but \$4.4 million of the Bank's total portfolio of \$106.4 million is classified as available for sale in order to: (i) provide management with the flexibility to make adjustments to the portfolio given changes in the economic and/or interest rate environment; (ii) to fulfill unanticipated liquidity needs; or (iii) to take advantage of alternative opportunities.

The following table sets forth certain information concerning the Bank's securities portfolio for the years ended:

(in thousands)	<u>2009</u>	<u>2008</u>	<u>2007</u>
Securities available for sale:			
Fair Value:			
U.S. Government Sponsored Enterprises	\$ 18,036	\$ 16,266	\$ 19,958
Mortgage-backed securities	69,318	73,404	53,132
Municipal securities	14,577	12,778	15,580
Total of securities available for sale	<u>\$ 101,931</u>	<u>\$ 102,448</u>	<u>\$ 88,670</u>
Securities held to maturity:			
Amortized cost:			
U.S. Government Sponsored Enterprises	\$ -	\$ -	\$ 2,000
Mortgage-backed securities	1,029	1,479	1,739
Municipal securities	2,915	3,043	3,166
Other debt securities	496	441	368
Total of securities held to maturity	<u>\$ 4,440</u>	<u>\$ 4,963</u>	<u>\$ 7,273</u>

The average yield on the U.S. Government sponsored enterprises obligations available for sale at December 31, 2009 was 4.75%. The average yield on mortgage-backed securities available for sale at December 31, 2009 was 4.59%. The average yield on municipal securities available for sale on December 31, 2009 was 4.24%.

The following table presents a maturity distribution at amortized cost for securities available for sale and the weighted average yield for each type and range of maturity as of December 31, 2009:

(in thousands)	U.S. Government Sponsored Enterprises		Mortgage-backed Securities		Municipal Securities		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Within one year	\$ -	0.00%	\$ 231	0.78%	\$ -	0.00%	\$ 231	0.78%
After one to five years	-	0.00%	710	3.53%	-	0.00%	710	3.53%
After five to ten years	15,000	4.55%	10,625	4.47%	-	0.00%	25,625	4.52%
After ten years	2,809	5.79%	55,660	4.64%	14,675	4.24%	73,144	4.60%
Total	<u>\$ 17,809</u>	<u>4.75%</u>	<u>\$ 67,226</u>	<u>4.59%</u>	<u>\$ 14,675</u>	<u>4.24%</u>	<u>\$ 99,710</u>	<u>4.57%</u>

The following table presents a maturity distribution at amortized cost for securities held to maturity and the weighted average yield for each type and range of maturity as of December 31, 2009:

(in thousands)	Mortgage-backed Securities		Municipal Securities		Other Debt Securities		Total	
	Amount	Yield	Amount	Yield			Amount	Yield
Within one year	\$ -	0.00%	\$ -	0.00%	\$ 11	3.25%	\$ 11	3.25%
After one to five years	67	3.97%	-	0.00%	-	0.00%	67	3.97%
After five to ten years	900	4.26%	-	0.00%	-	0.00%	900	4.26%
After ten years	62	6.40%	2,915	4.88%	485	5.31%	3,462	4.97%
Total	\$ 1,029	4.37%	\$ 2,915	4.88%	\$ 496	5.26%	\$ 4,440	4.80%

Any unrealized losses on individual securities are attributed to changes in the interest rates and not credit quality. The Bank does not have the intent to sell any securities with unrealized losses and it is more likely than not that it will not have to sell these securities before recovery of their cost basis. Therefore, the Bank does not consider any of its securities to be other than temporarily impaired at December 31, 2009.

Deposits

Customer deposits, consisting of savings and money market accounts, time deposits, and retail and commercial checking accounts, represent the primary source of asset funding for the Bank. The Bank's customer deposits increased by \$32.7 million or 10.2 percent to \$352.6 million at December 31, 2009 from the December 31, 2008 level of \$319.9 million. Certificates of deposit ("CD"), a higher cost source of funds, comprised 41.8 percent of total deposits December 31, 2009 compared to 45.8 percent at December 31, 2008.

(in thousands)	December 31,	
	2009	2008
Noninterest-bearing demand	\$ 37,880	\$ 36,804
Interest-bearing:		
NOW accounts	88,944	65,729
Regular savings	35,536	34,776
IRA savings	11,715	7,559
Mortgage escrow savings	1,766	1,793
Money market savings	29,233	26,332
Club accounts	218	280
Certificates of deposit	147,299	146,603
Total interest-bearing	314,711	283,072
	\$ 352,591	\$ 319,876

The increase in total deposits resulted from an increase in NOW accounts of \$23.2 million, an increase of \$2.9 million in money market accounts, an increase of \$1.1 million in demand accounts, and a \$696,000 increase in time deposits. The increase in NOW accounts was due in large part to marketing efforts focused on growing these deposits in our Ithaca market area. Substantially all of the Bank's deposits are considered by management to be core deposits, and as a matter of policy, the Bank does not utilize brokers to solicit deposits.

Borrowings

Total borrowings, comprised primarily of term advances and securities sold under repurchase agreements from the FHLB of New York, decreased by \$18.3 million to \$87.2 million at December 31, 2009. The decrease in total borrowings is due to maturities which were not replaced by other borrowings. FHLB advances and FHLB overnight borrowings decreased by \$18.3 million to \$48.0 million at December 31, 2009. Securities sold under agreements to repurchase with the FHLB were \$39.0 million at both December 31, 2009 and December 31, 2008.

Capital Resources

The Bank exceeds all minimum regulatory capital requirements. Total shareholders' equity at December 31, 2009 was \$54.5 million, an increase of \$2.9 million from December 31, 2008. The increase resulted from net income of \$4.5 million and an increase of \$1.0 million in accumulated other comprehensive income, partially offset by cash dividends on common stock and preferred stock of \$2.9 million.

At December 31, 2009, there were 1,918,116 shares of common stock outstanding. Book value per share was \$18.82 at December 31, 2009. The Bank's cash dividends paid per common share during 2009 was \$.80. The Bank has paid regular cash dividends on its common stock since the first quarter of 1988 and intends to continue the practice of regular cash dividend payments on its common stock as long as it remains profitable and is in compliance with regulatory capital requirements.

The Bank had 19,090 shares of preferred stock outstanding at December 31, 2009. Preferred shares outstanding are nonvoting, noncumulative perpetual preferred stock. Of the 19,090 preferred shares outstanding, 10,000 shares relate to a sale of preferred stock in 2007 and 9,090 shares relate to the Bank's participation in 2008 in the Treasury Department's Capital Purchase Program. See Note 18 to the Consolidated Financial Statements for further description of the Bank's outstanding preferred stock.

Capital adequacy in the banking industry is evaluated primarily by the use of ratios that measure capital and capital components against total assets, as well as against assets that are weighted based on risk characteristics. At December 31, 2009 and 2008, the Bank exceeded its minimum regulatory capital requirements. At December 31, 2009 and 2008, the Bank's consolidated core (Tier 1) capital ratios were 8.39 percent and 8.19 percent, respectively. At December 31, 2009 and 2008, the Bank's consolidated risk-based capital ratios were 15.69 percent and 13.54 percent, respectively.

RESULTS OF OPERATIONS

Earnings Summary

The Bank's net income for 2009 was \$4.5 million compared with net income for 2008 of \$3.0 million, an increase of \$1.5 million or 50.0 percent. Net income for 2007 was \$2.1 million. Diluted earnings per share were \$1.60, \$1.09, and \$1.21 for the years 2009, 2008, and 2007, respectively. The increase in earnings per diluted share from 2008 to 2009 is reflective of the 50.0 percent increase in net income.

Net Interest Income

Net interest income is the principal component of net income for the Bank and represents the difference between the interest earned on assets, primarily loans and securities, and the interest paid on deposits and borrowed funds. There are two ratios the Bank uses to evaluate net interest income. They are interest rate spread and net interest margin. Interest rate spread is the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities. Net interest margin is the measure of net interest income as a percentage of average interest-earning assets. Unlike net interest spread, the net interest margin takes into account the level of average earning assets that are funded by interest-free sources, such as noninterest-bearing demand deposits.

Net interest income increased by \$1.9 million (14.0 percent) to \$15.7 million in 2009. The Bank's interest rate spread for 2009 was 3.43 percent, an increase of 48 basis points from 2008. The Bank's net interest margin increased by 35 basis points to 3.61 percent in 2009 from 3.26 percent in 2008.

Total average interest-earning assets increased by \$12.5 million to \$435.3 million in 2009, an increase of 3.0 percent. The average yield on total interest-earning assets decreased to 5.78 percent in 2009 from 5.97 percent in 2008.

Total average loans increased by \$7.4 million to \$318.2 million. The average yield on loans decreased by 22 basis points from 6.46 percent in 2008 to 6.24 percent in 2009. Total average residential real estate loans, which represents the greatest proportion of total loans, increased by \$10.9 million to \$148.6 million. The average rate earned on these loans decreased to 5.62 percent in 2009 from 6.13 percent in 2008, a decrease of 51 basis points.

Total average securities, including short-term investments, increased by \$5.1 million to \$117.1 million. The average yield on securities, including short-term investments, decreased from 4.60 percent in 2008 to 4.53 percent in 2009.

Compared to 2007 results, net interest income increased by \$3.2 million (30.5 percent) to \$13.8 million in 2008. The Bank's net interest spread was 2.95 percent in 2008, an increase of 51 basis points from 2007. The Bank's net interest margin increased by 42 basis points from 2.84 percent in 2007 to 3.26 percent in 2008.

The following table sets forth, for the periods indicated, summary information regarding: (i) the dollar amount of interest income from interest-earning assets and the resultant average yields; (ii) the dollar amount of interest expense on interest-bearing liabilities and the resultant average costs; (iii) net interest income; (iv) interest rate spread; and (v) net interest margin. Average balances are daily averages. No tax equivalent adjustments were made. Nonaccrual loans are included in average loans.

	2009			2008			2007		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
(dollars in thousands)									
Assets:									
Loans	\$ 318,228	\$ 19,842	6.24 %	\$ 310,877	\$ 20,079	6.46 %	\$ 247,757	\$ 16,466	6.65 %
Short-term investments	610	-	-	10,238	286	2.79	3,759	173	4.60
Securities	116,492	5,299	4.55	101,727	4,863	4.78	120,200	6,090	5.07
Total interest-earning assets	435,330	25,141	5.78	422,842	25,228	5.97	371,715	22,729	6.11
Noninterest-earning assets	59,791			39,478			19,597		
Total assets	\$ 495,121			\$ 462,320			\$ 391,312		
Liabilities and shareholders' equity:									
Interest-bearing									
deposits	\$ 310,609	6,075	1.96	\$ 315,516	8,912	2.82	\$ 261,574	9,087	3.47
Borrowings	90,278	3,363	3.73	64,326	2,546	3.96	70,037	3,090	4.41
Total interest-bearing liabilities	400,887	9,438	2.35	379,842	11,458	3.02	331,611	12,177	3.67
Noninterest-bearing liabilities									
	41,061			41,357			33,009		
Shareholders' equity	53,173			41,121			26,692		
Total liabilities and shareholders' equity	\$ 495,121			\$ 462,320			\$ 391,312		
Net interest income		\$ 15,703			\$ 13,770			\$ 10,552	
Interest rate spread			3.43 %			2.95 %			2.44 %
Net interest margin			3.61 %			3.26 %			2.84 %

The following table presents certain information regarding changes in interest income and interest expense of the Bank for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to: (i) changes in volume (i.e., changes in volume multiplied by prior year rate); (ii) changes in rate (i.e., changes in rate multiplied by prior year volume); and (iii) changes in rate/volume (i.e., change in rate multiplied by change in volume), which cannot be segregated and have been allocated proportionately to the changes due to volume and to the changes due to rate:

	2009 Compared to 2008			2008 Compared to 2007		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
(in thousands)	Volume	Rate	Total Increase (Decrease)	Volume	Rate	Total Increase (Decrease)
Interest income:						
Loans	\$ 393	\$ (631)	(238)	\$ 3,763	(150)	3,613
Short-term investments	(139)	(147)	(286)	146	(33)	113
Securities	582	(146)	436	(793)	(434)	(1,227)
Total interest income	\$ 836	(924)	(88)	\$ 3,116	(617)	2,499
Interest expense:						
Deposits	(139)	(2,698)	(2,837)	1,643	(1,818)	(175)
Borrowings	975	(159)	816	(147)	(397)	(544)
Total interest expense	836	(2,857)	(2,021)	1,496	(2,215)	(719)
Net interest income	\$ -	1,933	1,933	\$ 1,620	1,598	3,218

The weighted average cost of total interest-bearing liabilities, which is comprised of deposits and borrowings, decreased to 2.35 percent in 2009 as compared with the 2008 average cost of 3.02 percent. The cost of certificates of deposit decreased by 97 basis points from 3.88 percent in 2008 to 2.91 percent in 2009. The Bank experienced an increase in average borrowed funds of \$26.0 million from 2008. The cost of these funds decreased from 3.96 percent in 2008 to 3.73 percent in 2009.

The daily average balance, average cost, and interest expense for the Bank's deposit categories is summarized below:

	2009			2008		
	Average Balance	Average Cost	Interest Expense	Average Balance	Average Cost	Interest Expense
(dollars in thousands)						
Noninterest-bearing	\$36,369	-%	\$ -	\$38,236	-%	\$ -
NOW accounts	85,943	1.23%	1,061	65,689	1.56%	1,021
Savings accounts	77,777	0.94%	733	68,107	1.24%	846
Time deposits	146,889	2.91%	4,281	181,721	3.88%	7,046
Total deposits	<u>\$346,978</u>	<u>1.75%</u>	<u>\$ 6,075</u>	<u>\$353,753</u>	<u>2.52%</u>	<u>\$ 8,912</u>

	2007		
	Average Balance	Average Cost	Interest Expense
Noninterest-bearing	\$30,838	-%	\$ -
NOW accounts	40,239	1.58%	635
Savings accounts	52,418	1.17%	614
Time deposits	168,916	4.64%	7,838
Total deposits	<u>\$292,411</u>	<u>3.11%</u>	<u>\$9,087</u>

Maturities of time certificates of deposit of \$100,000 or more outstanding at December 31, 2009 are summarized as follows:

(in thousands)	
3 months or less	\$ 4,143
over 3 through 6 months	5,611
over 6 through 12 months	12,075
over 12 months	18,775
	<u>\$ 40,604</u>

The following table presents the interest expense on the Bank's borrowings for the years ended December 31:

	2009	2008	2007
	(dollars in thousands)		
Repurchase agreements	\$ 1,693	\$ 1,489	\$ 1,568
FHLB term advances	1,654	1,037	1,497
Notes payable	16	20	25
Total borrowings	<u>\$3,363</u>	<u>\$2,546</u>	<u>\$3,090</u>

Managing and maintaining net interest income and net interest margin is a primary focus for the Bank and is a key determinant in the maintenance and improvement of overall earnings. Management will focus on generating growth in core retail and commercial deposits through its existing market and branch network. To the extent possible, within acceptable levels of risk, the Bank intends to manage its asset and liability mix to optimize the level of its net interest margin.

Provision for Loan Losses

Management maintains an allowance for loan losses at a level considered adequate to provide for the estimated inherent risk of loss in the current loan portfolio based upon its quarterly analysis. Management uses the results of the analysis in determining the amount of the

quarterly provision for loan losses that it considers necessary to maintain the allowance for loan losses at an adequate level. Based on this analysis, the provision for loan losses amounted to \$592,000, \$919,000, and \$525,000 in 2009, 2008, and 2007, respectively.

The increase in nonaccrual loans from \$3.3 million at December 31, 2008 to \$3.6 million at December 31, 2009, combined with an increase in net loan charge offs, resulted in the Bank's decision to increase the ratio of allowance to total loans from .91% in 2008 to 1.02% in 2009.

The provision for loan losses was increased in 2007 due to the increase in nonaccrual loans from \$2.2 million at December 31, 2007 to \$3.3 million at December 31, 2008, combined with an increase in net loan chargeoffs, as well as the overall weakening of general economic conditions.

Noninterest Income

Total noninterest income for 2009 was \$4.6 million, a decrease of \$1.1 million or 19.3 percent from noninterest income for 2008. During 2008 the Bank sold its Mansfield branch and recorded a gain of \$1.7 million. Absent the effects of the 2008 branch sale, total noninterest income would have been \$544,000 higher in 2009 than in 2008, due primarily to an increase in the gain on sale of loans of \$743,000, and an increase in BOLI income of \$99,000, offset by a decrease in the gain on sales of securities of \$317,000. The decrease in the gain on sale of securities is due primarily to significantly fewer sales of investment securities in 2009 versus 2008. The increase in the gains from the sale of loans reflects an increase in residential real estate loans originated and sold in 2009, primarily the result of a high level of mortgage refinancing due to the low mortgage interest rate environment.

Noninterest Expense

Total noninterest expense was \$13.1 million, \$14.3 million, and \$9.8 million for 2009, 2008, and 2007, respectively. The \$13.1 million of noninterest expense for 2009 represents a decrease of \$1.2 million or 8.6 percent from the 2008 levels. Salaries and benefits decreased by \$763,000 or 10.4 percent from the 2008 expense of \$7.3 million. The decrease in salaries and benefits reflects focused efforts to increase efficiencies, as well as a reduction in health care expenses. Also decreasing were marketing expense, professional fees, and occupancy expense by \$247,000, \$200,000, and \$128,000, respectively. Amortization of intangible assets decreased by \$100,000, as a core deposit intangible, related to a 1999 branch acquisition, became fully amortized by the third quarter of 2009. These decreases were partially offset by a \$445,000 increase in regulatory expenses, reflecting increases in FDIC premiums, including \$238,000 for the one-time special assessment charged by the FDIC in 2009 to all financial institutions with FDIC-insured deposits.

Income Taxes

The Bank's income tax expense increased from 2008 to 2009 due to higher levels of earnings and an increase in the effective rate to 32.2 percent for 2009, as compared to 29.7 percent for 2008. The Bank's income tax expense amounted to \$2.1 million, \$1.3 million, and \$692,000 in 2009, 2008, and 2007, respectively. Effective tax rates for these periods were 32.2 percent, 29.7 percent, and 24.8 percent, respectively. The increase in the effective rate is primarily attributable to a lower level of tax exempt income, as a percentage of the Bank's earnings

before taxes. For 2009, tax exempt investment income was 11.5 percent of income before taxes versus 17.0 percent for 2008.

Comparison of 2008 and 2007 Operating Results

The Bank's net income for 2008 was \$3.0 million compared with net income for 2007 of \$2.1 million, an increase of \$923,000 or 44.1 percent. Diluted earnings per share were \$1.09 for 2008 and \$1.21 for 2007.

The decrease in earnings per diluted share for the year ended December 31, 2008, while net income for the year ended December 31, 2008 was \$923,000 higher than the same period in 2007, is primarily attributable to two factors. First was the effect of a full year of preferred dividends related to preferred stock issued in the fourth quarter of 2007, which resulted in the net income available to common shareholders being reduced by \$917,000 to \$2.1 million for the year ended December 31, 2008. The second primary factor was the increase in the weighted average diluted shares for the year ended December 31, 2008, as a result of the issuance of approximately 287,376 shares of common stock in the fourth quarter of 2007.

Net Interest Income

Net interest income increased by \$3.2 million (30.5 percent) to \$13.8 million in 2008. The Bank's interest rate spread for 2008 was 2.95 percent, an increase of 51 basis points from 2007. The Bank's net interest margin increased by 42 basis points to 3.26 percent in 2008 from 2.84 percent in 2007.

Provision for Loan Losses

The provision for loan losses amounted to \$919,000 in 2008 versus \$525,000 in 2007. The increase in nonaccrual loans from \$2.2 million at December 31, 2007 to \$3.3 million at December 31, 2008, combined with an increase in net loan chargeoffs, as well as the overall weakening in general economic conditions, resulted in the Bank's increased provision for loan losses in 2008.

Noninterest Income

Total noninterest income for 2008 was \$5.7 million, an increase of \$3.2 million or 124.5 percent over noninterest income for 2007. During 2008, the Bank sold its Mansfield branch and recorded a gain on \$1.7 million, experienced an increase of \$657,000 in service fees, experienced an increase in the gain on sale of loans of \$492,000, and recorded \$380,000 of gain on sale of securities. During 2007, the Bank recorded \$210,000 of gain on sale of securities and a \$185,000 gain on sale of FDIC net assessment credits.

Noninterest Expense

Total noninterest expense for 2008 amounted to \$14.3 million, an increase of \$4.5 million from 2007 levels. Salaries and benefits increased \$2.2 million or 42.2 percent from the 2007 expense of \$5.1 million. The increase in salaries and benefits is attributable to an increase in salaries due to a full year of operation of the four branches acquired in December 2007. Additionally, the Bank experienced an increase in its health care costs of its employees. Marketing and public relations expense increased by \$178,000, professional fees increased by

\$321,000, regulatory assessments increased by \$327,000, and occupancy expense increased by \$501,000. The increases in occupancy expense and marketing and public relations expense were also attributable in part to a full year of operating in the CNY market area in 2008.

Income Taxes

The Bank's income tax expense amounted to \$1.3 million in 2008 and \$692,000 in 2007. The increase from 2007 to 2008 was due to higher levels of earnings and an increase in the effective rate to 29.7 percent for 2008, as compared to 24.8 percent for 2007. The increase in the effective rate is primarily attributable to a lower level of tax exempt income, as a percentage of the Bank's earnings before taxes. For 2008, tax exempt investment income was 17.0 percent of income before taxes versus 29.6 percent for 2007.

Recently Issued Accounting Standards

For discussion of recent accounting pronouncements, see Note 1 of the Consolidated Financial Statements set forth in Item 8.

Item 7A – Quantitative and Qualitative Disclosures about Market Risk

Asset/Liability Management

The Bank, like other financial institutions, is subject to interest rate risk to the extent that its interest-bearing liabilities reprice on a different basis or at different time periods from its interest-earning assets. The scheduled maturities of the Bank's fixed rate interest-earning assets are generally longer than the maturities of the Bank's fixed rate interest-bearing liabilities. Therefore, interest rate risk is the most significant market risk affecting the Bank. Other types of market risk, such as foreign currency exchange rate risk and commodity price risk, do not arise in the normal course of the Bank's business activities.

During 1993, the Bank's primary regulator, the OTS adopted new methods of measuring the interest rate sensitivity of thrifts it supervises. This method estimates the Net Portfolio Value (NPV) of the Bank's assets and liabilities, given different increases and decreases in interest rates. However, due to the historically low interest environment we are currently experiencing, the OTS has supplied data for the 200 basis point increase in rates and a 100 basis point decrease in rates. The Bank's NPV, given shocks of -100, +200 and 0 basis points as of December 31, 2009, is shown in the table below.

Interest Rate Sensitivity of Net Portfolio Value (NPV)

	-100bp	0bp	+200bp
	(dollars in thousands)		
Assets	\$516,130	\$510,430	\$490,510
Liabilities	456,041	452,398	445,697
Off-balance sheet positions	158	(4)	(478)
Net portfolio value	\$60,247	\$58,028	\$44,335
NPV as a percentage of the present value of assets	11.67%	11.37%	9.04%
Change in the NPV ratio	0.30%	-	(2.33%)

Generally, a bank with an increased NPV under decreased interest rates would have higher net interest income in times of decreasing market interest rates and lower net interest income in times of increasing market interest rates. Therefore, a primary objective of the Bank's policies is to manage interest rate risk over time in order to optimize net interest income in changing interest rate environments without incurring imprudent interest rate sensitivity risks. The Bank's strategies are intended to be responsive to changes in interest rates and to prudently accommodate customer demands for particular types of deposit and loan products. As of December 31, 2009, the OTS classified the Bank's interest rate sensitivity risk as moderate.

The following table sets forth scheduled contractual maturities of the Bank's commercial real estate and commercial loans as of December 31, 2009. Based on experience with such loans, partial or full repayment of a portion of the Bank's commercial real estate loans and commercial loans prior to contractual maturity can be expected.

(in thousands)	Within one year	One to four years	Over four years	Total
Commercial real estate	\$ 12,797	\$ 45,368	\$ 11,792	\$ 69,957
Real estate construction	2,237	776	-	3,013
Commercial loans	21,837	12,402	4,183	38,422
Total	<u>\$ 36,871</u>	<u>\$ 58,546</u>	<u>\$ 15,975</u>	<u>\$ 111,392</u>

Of the loan amounts shown above maturing over one year, \$59.3 million have adjustable rates and \$15.2 million have fixed rates.

Liquidity

Liquidity refers to the availability of funds to meet deposit withdrawals, fund loan commitments, and pay expenses. Proper liquidity management provides the necessary access to funds to satisfy these requirements. Failure to manage liquidity properly can result in the necessity to fund these obligations on less than desirable terms. The Bank monitors the level of short-term assets and liabilities, maintaining an appropriate balance between liquidity, risk, and return.

The Bank's primary sources of cash and cash equivalents are interest and other revenue, loan payments, and securities portfolio maturities, or sales. Cash and cash equivalents are also provided by new deposits and borrowings. If the Bank requires funds beyond its ability to generate them internally, borrowing arrangements with the Federal Home Loan Bank provide an additional source of funds.

The Bank's Consolidated Statements of Cash Flows presented in the Consolidated Financial Statements included with this Annual Report identify cash flows from operating, investing, and financial activities. During 2009, \$4.7 million was provided by operating activities, \$26.1 million was provided by investing activities, and \$11.5 million was provided by financing activities. Accordingly, cash and cash equivalents increased by \$42.3 million to \$50.8 million at December 31, 2009.

Management monitors the Bank's liquidity position on a regular basis as part of the asset/liability and funds management process and anticipates that sufficient funds were available to meet current loan commitments and any unanticipated outflow of deposits. At December 31, 2009, outstanding loan commitments amounted to \$8.9 million. Time certificates of deposit scheduled to mature in one year or less at December 31, 2009 totaled \$87.2 million. Based on historic

retention rates, management believes that a significant portion of these deposits will remain with the Bank.

We are contractually obligated to make payments as follows (dollars in thousands):

(dollars in thousands)	<u>Total</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>More than 5 Years</u>
Total Borrowings	\$ 87,162	\$ 6,069	27,093	\$ 20,000	\$ 34,000
Operating Leases	970	295	405	131	139
Total Obligations	<u>\$ 88,132</u>	<u>\$ 6,364</u>	<u>\$ 27,498</u>	<u>\$ 20,131</u>	<u>\$ 34,139</u>

Impact of Inflation

The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles with regard to measurement of financial position and operating results in terms of historic dollars without consideration of the change in purchasing power of money over time due to inflation. Essentially, all of the Bank's assets and liabilities are monetary in nature. Consequently, interest rates have a more significant impact on a financial institution's performance than does inflation. The primary impact of inflation on operations of the Bank is increased operating expenses.

Item 8 – Financial Statements and Supplementary Data

The Elmira Savings Bank, FSB and Subsidiaries

Consolidated Balance Sheets

(in thousands, except for share and per share data)	December 31,	
	2009	2008
Assets		
Cash and due from banks	\$ 50,016	\$ 8,371
Federal funds sold and other short-term investments	822	199
Total cash and equivalents	50,838	8,570
Securities available for sale, at fair value	101,931	102,448
Securities held to maturity - fair value \$4,602 at December 31, 2009, and \$4,990 at December 31, 2008	4,440	4,963
Federal Home Loan Bank stock, at cost	4,528	5,245
Loans receivable	307,616	332,092
Less: Allowance for loan losses	3,139	3,035
Net Loans	304,477	329,057
Premises and equipment, net	5,666	5,998
Bank-owned life insurance	7,808	7,430
Accrued interest receivable	1,951	2,062
Intangible assets, net	766	986
Goodwill	12,320	12,320
Other real estate owned	536	146
Other assets	3,722	1,375
Total assets	\$ 498,983	\$ 480,600
Liabilities and Shareholders' Equity		
Deposits	\$ 352,591	\$ 319,876
Borrowings	87,162	105,499
Other liabilities	4,684	3,611
Total liabilities	444,437	428,986
Shareholders' equity:		
Preferred stock, \$1,000 liquidation value per issued share; 5,000,000 shares authorized; 19,090 shares issued at December 31, 2009 net of discount of \$336,000; 19,090 shares issued at December 31, 2008 net of discount of \$421,000	18,397	18,312
Common stock, \$1 par value; authorized 5,000,000 shares; 2,043,981 shares issued at December 31, 2009 and December 31, 2008	2,044	2,044
Additional paid-in capital	34,699	34,465
Retained earnings (deficit)	1,539	(37)
Treasury stock, at cost - 125,865 shares at December 31, 2009 and December 31, 2008	(3,548)	(3,548)
Accumulated other comprehensive income	1,361	323
Total Elmira Savings Bank shareholders' equity	54,492	51,559
Noncontrolling interest	54	55
Total shareholders' equity	54,546	51,614
Total liabilities and shareholders' equity	\$ 498,983	\$ 480,600

See accompanying notes to consolidated financial statements.

The Elmira Savings Bank, FSB and Subsidiaries

Consolidated Statements of Income

(in thousands, except for per share amounts)	Years ended December 31,		
	2009	2008	2007
Interest and dividend income:			
Interest and fees on loans	\$ 19,842	\$ 20,079	\$ 16,466
Interest and dividends on securities			
Taxable	4,534	4,421	5,439
Non-taxable	765	728	824
Total interest and dividend income	25,141	25,228	22,729
Interest expense:			
Interest on deposits	6,075	8,912	9,087
Interest on borrowings	3,363	2,546	3,090
Total interest expense	9,438	11,458	12,177
Net interest income	15,703	13,770	10,552
Provision for loan losses	592	919	525
Net interest income after provision for loan losses	15,111	12,851	10,027
Noninterest income:			
Service fees	2,011	1,986	1,329
Gain on sale of loans held for sale	1,288	545	53
Gain on sale of branch	-	1,651	-
Net gain on sale of securities	63	380	210
Other service fees	635	676	471
Earnings on bank-owned life insurance	378	279	167
Gain on sale of FDIC net assessment credits	-	-	185
Other	263	228	144
Total noninterest income	4,638	5,745	2,559
Noninterest expense:			
Salaries and benefits	6,544	7,307	5,137
Net occupancy	1,243	1,371	870
Equipment	988	962	822
Regulatory assessments	899	454	127
Professional fees	670	870	549
Marketing and public relations	502	749	571
Data processing	390	458	438
Amortization of intangible assets	220	320	127
Directors fees	218	211	205
Telephone	204	210	161
Printing and supplies	166	224	203
Postage	153	192	125
Other	873	968	459
Total noninterest expense	13,070	14,296	9,794
Income before income taxes	6,679	4,300	2,792
Income taxes	2,148	1,277	692
Net income	4,531	3,023	2,100
Less: Net income attributable to noncontrolling interest	5	5	5
Net income attributable to Elmira Savings Bank	\$ 4,526	\$ 3,018	\$ 2,095
Dividend on preferred stock	1,325	914	110
Accretion of preferred stock discount	85	3	-
Income available to common shareholders	\$ 3,116	\$ 2,101	\$ 1,985
Basic earnings per common share	\$ 1.62	\$ 1.10	\$ 1.22
Diluted earnings per common share	\$ 1.60	\$ 1.09	\$ 1.21

Per share data has been restated to reflect a 10% stock dividend paid on June 27, 2008.

See accompanying notes to consolidated financial statements.

The Elmira Savings Bank, FSB and Subsidiaries

Consolidated Statements of Shareholders' Equity

(in thousands, except for share and per share amounts)	Preferred stock	Common stock	Additional paid-in capital	Retained earnings (deficit)	Treasury stock	Accumulated other comprehensive income (loss)	Noncontrolling Interest	Total
Balance at December 31, 2006	\$ -	1,443	25,000	2,049	(3,145)	(713)	55	24,689
Comprehensive Income:								
Change in net unrealized gain on securities available for sale, net of reclassification adjustment, net of taxes of \$202	-	-	-	-	-	384	-	384
Net Income	-	-	-	2,095	-	-	5	2,100
Total Comprehensive Income	-	-	-	2,095	-	-	5	2,484
10% Stock dividend (131,770 shares)	-	132	3,163	(3,295)	-	-	-	-
Stock based compensation expense	-	-	161	-	-	-	-	161
Exercise of stock options, net (7,182 shares)	-	7	119	-	-	-	-	126
Common Stock Issued (287,376 shares)	-	287	5,632	-	-	-	-	5,919
Preferred Stock issued, net of issuance costs (10,000 shares)	9,700	-	-	-	-	-	-	9,700
Cash in lieu of fractional shares resulting from a 10% stock dividend	-	-	-	(4)	-	-	-	(4)
Purchase of Treasury Stock (20,353 shares)	-	-	-	-	(606)	-	-	(606)
Cash dividend on preferred stock	-	-	-	(110)	-	-	(5)	(115)
Cash dividend on common stock (\$.75 per share)	-	-	-	(1,280)	-	-	-	(1,280)
Balance at December 31, 2007	\$ 9,700	1,869	34,075	(545)	(3,751)	(329)	55	41,074
Comprehensive Income:								
Change in net unrealized gain on securities available for sale, net of reclassification adjustment, net of taxes of \$411	-	-	-	-	-	652	-	652
Net Income	-	-	-	3,018	-	-	5	3,023
Total Comprehensive Income	-	-	-	3,018	-	-	5	3,675
10% Stock dividend (174,220 shares)	-	174	(174)	-	-	-	-	-
Cash in lieu of fractional shares resulting from a 10% stock dividend	-	-	-	(2)	-	-	-	(2)
Stock based compensation expense	-	-	141	-	-	-	-	141
Exercise of stock options, net (411 shares)	-	1	(1)	-	-	-	-	-
Preferred stock and common stock warrant issued, net of issuance costs (9,090 shares)	8,609	-	424	-	-	-	-	9,033
Accretion of discount on preferred stock	3	-	-	(3)	-	-	-	-
Issuance of Treasury Stock (7,135 shares)	-	-	-	(55)	203	-	-	148
Cash dividend on preferred stock	-	-	-	(914)	-	-	(5)	(919)
Cash dividend on common stock (\$.80 per share)	-	-	-	(1,536)	-	-	-	(1,536)
Balance at December 31, 2008	\$ 18,312	2,044	34,465	(37)	(3,548)	323	55	51,614
Comprehensive Income:								
Change in net unrealized gain on securities available for sale, net of reclassification adjustment, net of taxes of \$656	-	-	-	-	-	1,038	-	1,038
Net Income	-	-	-	4,526	-	-	5	4,531
Total Comprehensive Income	-	-	-	4,526	-	-	5	5,569
Stock based compensation expense	-	-	234	-	-	-	-	234
Accretion of discount on preferred stock	85	-	-	(85)	-	-	-	-
Preferred stock repurchased - noncontrolling interest	-	-	-	-	-	-	(1)	(1)
Cash dividend on preferred stock	-	-	-	(1,325)	-	-	(5)	(1,330)
Cash dividend on common stock (\$.80 per share)	-	-	-	(1,540)	-	-	-	(1,540)
Balance at December 31, 2009	\$ 18,397	2,044	34,699	1,539	(3,548)	1,361	54	54,546

Per share data has been restated to reflect a 10% stock dividend paid on June 27, 2008. See accompanying notes to consolidated financial statements.

The Elmira Savings Bank, FSB and Subsidiaries

The Elmira Savings Bank, FSB and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)	Years ended December 31,		
	2009	2008	2007
Cash flows from operating activities:			
Net income	\$ 4,526	\$ 3,018	\$ 2,095
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization of premises and equipment	713	717	555
Amortization of net deferred loan origination costs	174	(64)	(233)
Amortization of intangible assets	220	320	127
Deferred income taxes	503	(38)	(104)
Provision for loan losses	592	919	525
Net amortization of premiums and discounts	342	123	130
Net gain on sale of securities	(63)	(380)	(210)
Net loss (gain) on sales of other real estate owned	9	(27)	(62)
Gains on sale of loans held for sale	(1,288)	(545)	(54)
Gain on sale of branch office	-	(1,651)	-
Proceeds from sale of loans held for sale	55,573	22,476	1,242
Originations of loans held for sale	(54,285)	(21,837)	(1,283)
Earnings on bank-owned life insurance	(378)	(279)	(167)
Stock based compensation	234	141	161
Change in noncontrolling interest	1	-	-
Changes in certain assets and liabilities affecting operations:			
Accrued interest receivable	111	40	(167)
Other assets	(2,239)	(146)	177
Other liabilities	(88)	143	1,300
Net cash provided by operating activities	4,657	2,930	4,032
Cash flows from investing activities:			
Proceeds from sales of securities available for sale	4,660	39,713	44,851
Proceeds from maturities of and principal collected on securities available for sale	57,712	30,771	34,172
Proceeds from maturities of and principal collected on securities held to maturity	591	2,408	642
Purchases of FHLB stock	(737)	(6,046)	-
Redemptions of FHLB stock	1,454	3,549	155
Purchases of securities available for sale	(45,684)	(82,936)	(64,052)
Purchases of securities held to maturity	(74)	(104)	(84)
Purchases of Bank-owned life insurance	-	(3,000)	-
Purchases of premises and equipment, net	(489)	(738)	(216)
Proceeds from sales of other real estate owned	174	407	240
Proceeds from acquisition of branches	-	(25)	28,041
Net cash distributed for branch sale	-	(14,672)	-
Net decrease (increase) in loans receivable	8,491	(33,289)	(37,714)
Net cash (used in) provided by investing activities	26,098	(63,962)	6,035
Cash flows from financing activities:			
Increase (decrease) in time deposits	696	(43,238)	(14,050)
Increase in other deposits	32,019	23,578	3,634
Advances from FHLB term advances	15,000	49,800	11,000
Repayment of FHLB term advances	(33,274)	(6,019)	(9,017)
Proceeds from securities sold under repurchase agreements	-	9,000	2,000
Repayment of securities sold under repurchase agreements	-	-	(7,000)
Repayment of notes payable	(63)	(58)	(53)
Proceeds from the issuance of common stock	-	-	5,919
Proceeds from the issuance of preferred stock and common stock warrant, net	-	9,033	9,700
Purchase of treasury stock	-	-	(606)
Cash dividends on common stock	(1,540)	(1,536)	(1,280)
Cash dividends on preferred stock	(1,325)	(914)	(110)
Payment of cash in lieu of fractional shares resulting from stock dividend	-	(2)	(4)
Tax benefit of stock options exercised	-	-	17
Stock options exercised	-	-	109
Net cash provided by financing activities	11,513	39,644	259
Net increase (decrease) in cash and cash equivalents	42,268	(21,388)	10,326
Cash and cash equivalents, beginning of year	8,570	29,958	19,632
Cash and cash equivalents, end of year	\$ 50,838	\$ 8,570	\$ 29,958
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	\$ 9,470	\$ 11,336	\$ 12,166
Income taxes	1,174	840	493
Noncash activity:			
Other real estate acquired in settlement of loans	573	519	7
Sale of securities not settled	-	-	(11,000)
Acquisitions and dispositions of noncash assets and liabilities:			
Assets acquired in purchase acquisition	-	-	50,027
Liabilities assumed in purchase of acquisition	-	-	78,068
Assets sold in branch sale	-	565	-
Liabilities sold in branch sale	-	16,888	-

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

The Elmira Savings Bank, FSB and Subsidiaries (the "Bank") provide financial services to consumers and businesses within the Bank's geographic market area. That area includes Chemung, Steuben, Schuyler and Tompkins Counties and surrounding areas in New York State. The Bank provides traditional banking services to its customers.

The Bank is subject to regulation and periodic examination by certain regulatory agencies. The primary regulatory authority for the Bank is the Office of Thrift Supervision ("OTS"). The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"), and thus the Bank is subject to regulation and examination by both the OTS and FDIC. The Bank is also a member of the Federal Home Loan Bank system and is subject to the regulations of the Federal Reserve Board as they relate to savings institutions.

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of The Elmira Savings Bank, FSB and its subsidiaries, ESB Advisory Services, Inc. and ESB Realty Corp. Inter-company transactions and balances have been eliminated in consolidation.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and reporting practices followed by the banking industry. Whenever necessary, prior year amounts are reclassified to conform to current year presentation. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and revenues and expenses for the reporting period. Significant items subject to such estimates and assumptions include the allowance for loans losses, valuation of deferred income tax assets, mortgage servicing rights, and intangible assets. Actual results could differ from those estimates.

FAIR VALUE MEASUREMENTS

The Bank defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers

in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

The Bank applies the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the Bank establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- *Level 2 Inputs* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- *Level 3 Inputs* - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, among other things, as well as other unobservable parameters. Any such valuation adjustments are applied consistently over time. The Bank's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Bank's valuation

methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

A description of the valuation methodologies used for instruments measured at fair value is set forth in Note 17.

CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows in the consolidated statements of cash flows, cash and cash equivalents include cash on hand and amount due from banks, as well as federal funds sold and other short-term investments with maturities of three months or less at time of purchase.

SECURITIES

The Bank classifies its debt securities as either available for sale or held to maturity at the time of purchase, as the Bank does not hold any securities considered to be trading. Held to maturity securities are those debt securities that the Bank has the ability and intent to hold until maturity. All other debt securities are classified as available for sale.

Available for sale securities are recorded at fair value. Held to maturity securities are recorded at amortized cost. Unrealized holding gains and losses, net of the related tax effect on available for sale securities, are excluded from earnings and are reported as accumulated other comprehensive income (loss) in shareholders' equity until realized.

Premiums and discounts are amortized or accreted over the life of the related debt security as an adjustment of yield using the interest method. Dividend and interest income are recognized when earned. Purchases and sales are recorded on a trade date basis with settlement occurring shortly thereafter. Realized gains and losses on securities sold are determined using the specific identification method.

Securities are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. Management considers the reasons underlying the decline, the magnitude and duration of the decline, and the Bank's intent to sell the security, and whether it is more likely than not that the Bank will not have to sell the security before recovery of its cost basis. If a decline in the fair value of a security, below its cost basis, is determined to be other than temporary, the cost basis of the security is reduced and a corresponding charge to earnings would be recognized.

LOANS

Loans receivable are carried at unpaid principal balances, net of deferred fees and costs. Interest on loans receivable is accrued as earned. Loan origination fees and certain direct loan origination costs are deferred and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the related loans.

Loans, including impaired loans, are generally classified as nonaccrual if they are past due as to maturity or payment of principal or interest for a period of more than 90 days, unless such loans are well-collateralized and in the process of collection. Loans that are on a current payment status or past due less than 90 days may also be classified as nonaccrual if repayment in full of principal and/or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance (generally a minimum of six months) by the borrower, in accordance with the contractual terms of the loan.

While a loan is classified as nonaccrual and the future collectibility of the recorded loan balance is uncertain, any payments received are generally used to reduce the principal balance. When the future collectibility of the recorded loan balance is expected, interest income may be recognized on a cash basis. In the case where a nonaccrual loan had been partially charged-off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Interest collections in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

The Bank sells certain residential real estate loans in the secondary market. The Bank may retain the right to service the loan, or may sell the loan servicing released. The Bank determines whether a loan will be held for sale at the time the application is received from the customer. Loans held for sale are carried at the lower of aggregate cost or estimated fair value. Gains and losses on the disposition of loans held for sale are determined on the specific identification method.

The Bank typically retains the servicing rights to mortgage loans sold and recognizes as separate assets, included in other assets, the rights to service loans for others. Mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing income. Additionally, mortgage servicing rights are assessed for impairment based on the fair value of those rights, and any impairment is recognized through a valuation allowance by a charge to income.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at a level which management believes, to the best of its knowledge, is at a level at each reporting date to cover known and inherent losses in the loan portfolio that are both probable and reasonably estimable. Management's evaluation is based upon a continuing

review of the loan portfolio, which includes many factors such as identification of adverse situations affecting the borrower's ability to repay, a review of overall portfolio quality, including the level of nonperforming and delinquent loans, historical loss experience, and an assessment of prevailing economic conditions.

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in general economic conditions and the overall financial health of the Bank's market area. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgment of information available to them at the time of their examination.

Commercial related loans are considered impaired when it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Residential mortgage loans, consumer loans, home equity lines of credit and education loans are evaluated collectively since they are homogeneous and generally carry smaller individual balances. In addition, loans restructured in a troubled debt restructuring are also considered impaired loans.

The Bank estimates impairment based on the present value of expected future cash flows (discounted at the loan's effective interest rate) or the fair value of the underlying collateral, less estimated costs to sell, if the loan is collateral dependent. An impairment loss exists if the recorded investment in a loan exceeds the value of the loan as measured by the aforementioned methods. Impairment losses are recognized as a component of the allowance for loan losses.

PREMISES AND EQUIPMENT

Land is carried at cost while buildings, leasehold improvements and furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, with buildings being thirty-nine years and furniture, fixtures and equipment generally being five years. Leasehold improvements are amortized over the lesser of the estimated useful life or the term of the leases. Maintenance and repairs are charged to expense and improvements are capitalized.

BANK-OWNED LIFE INSURANCE

Bank-owned life insurance is carried at the cash surrender value of the underlying policies. Income on the investments in the policies, net of insurance costs, is recorded as noninterest income.

OTHER REAL ESTATE OWNED

Real estate acquired in settlement of loans is recorded at the lower of cost, defined as the fair value at the time of initial foreclosure, or the fair value of the real estate less estimated costs to sell. Write-downs from the recorded investment in the loan to fair value, less estimated costs to sell, at the time of foreclosure are charged to the allowance for loan losses. Subsequent write-

downs to fair value, less estimated costs to sell, are charged to other expenses. Operating costs associated with the properties are charged to expense as incurred.

GOODWILL

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations. Goodwill is not being amortized, but is required to be tested for impairment annually or more often if certain conditions or events indicate there may be impairment.

The goodwill impairment analysis is a two-step test. The first step (Step1), used to identify potential impairment, involves comparing the Bank's estimated fair value to its carrying value, including goodwill. If the estimated fair value of the Bank exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment.

The second step (Step 2) involves calculating an implied fair value of goodwill for which the first step indicated impairment. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, by measuring the excess of the Bank's estimated fair value, as determined in the first step, over the aggregate estimated fair values of the individual assets, liabilities and identifiable intangibles as if the Bank was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill, there is no impairment. If the carrying value of goodwill exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss cannot exceed the carrying value of goodwill, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

INTANGIBLE ASSETS

Intangible assets, net of accumulated amortization, consist of core deposit intangibles. The core deposit intangible from the 1999 branch acquisition is being amortized over ten years on a straight-line basis. The core deposit intangible from the 2007 business combination is being amortized over ten years on an accelerated basis.

IMPAIRMENT OF LONG-LIVED ASSETS OTHER THAN GOODWILL

The Bank reviews long-lived assets, including premises and equipment, for impairment whenever events or changes in business circumstances indicate that the remaining useful life may warrant revision or that the carrying amount of the long-lived asset may not be fully recoverable. The Bank performs undiscounted cash flow analyses to determine if impairment exists. If impairment is determined to exist, any related impairment loss is calculated based on fair value. Impairment losses on assets to be disposed of, if any, are based on the estimated proceeds to be received, less costs of disposal.

MORTGAGE SERVICING RIGHTS

Capitalized mortgage servicing rights are recognized based on their fair value, included in other assets, and are amortized as an offset to loan servicing income over the period of estimated net servicing income. Mortgage servicing rights are assessed for impairment based on the fair value of those rights. Prepayment experience on mortgage servicing rights is reviewed periodically and, when actual payments exceed estimated prepayments, the balance of the mortgage servicing assets is reduced by a charge to earnings.

INCOME TAXES

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to “temporary differences” between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using currently enacted tax rates applicable to the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change in rates is enacted. The Bank recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense.

EARNINGS PER SHARE

Basic earnings per share excludes dilution and is calculated by dividing net income available to common shareholders (net income less preferred stock dividends and accretion of preferred stock discount) by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options and unvested restricted shares, were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity, such as the Bank’s common stock warrant.

All earnings per share data and other per share amounts in the consolidated financial statements have been restated to give retroactive effect to stock dividends.

STOCK-BASED COMPENSATION PLANS

Compensation costs recognized include the compensation cost for all share-based payments that are based on the grant date fair value estimated. Compensation cost is recorded on a straight-line basis over the vesting period of the awards.

COMPREHENSIVE INCOME

Comprehensive income at the Bank represents net income plus or minus other comprehensive income or loss, which consists of the net change in unrealized gains and losses on securities available for sale, net of taxes, and is presented in the Consolidated Statements of Shareholders’ Equity.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Bank enters into sales of U.S. Government sponsored enterprises and mortgage-backed securities under agreements to repurchase (“repurchase

agreements"). These repurchase agreements are treated as financings, and the obligations to repurchase securities sold are reflected as liabilities in the Consolidated Balance Sheets. The amount of the securities underlying the repurchase agreements remains an asset on the Bank's Consolidated Balance Sheet. The securities underlying the repurchase agreements remain under the Bank's control.

TRANSFERS OF FINANCIAL ASSETS

Transfers of financial assets, typically residential real estate loans for the Bank, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

SEGMENT INFORMATION

Substantially all of the Bank's operations involve the delivery of loan and deposit products to customers in its primary geographical market. Management makes operating decisions and assesses performance on an entity-wide basis. Therefore, the Bank has only one operating segment for financial reporting.

FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK AND CONCENTRATION OF CREDIT RISK

The Bank is a party to certain financial instruments with off-balance sheet risk such as loan commitments, commercial lines of credit, home equity lines of credit, and standby letters of credit. The Bank's policy is to record such instruments when funded. Those instruments involve, to varying degrees, elements of credit and market risk in excess of the amount recognized in the consolidated balance sheet. Credit risk represents the accounting loss that would be recognized at the reporting date if counter-parties failed completely to perform as contracted. Unless noted otherwise, the Bank does not require collateral or other security to support off-balance sheet financial instruments with credit risk. Market risk represents the risk that future changes in market prices may make a financial instrument less valuable.

The Bank considers its primary market area for lending and savings activities to be Chemung, Tompkins, Steuben, Cayuga, and Schuyler Counties in New York. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is reliant upon the economic stability of the area. Other than general economic risks, there is no material concentration of credit risk to any industry or individual borrower.

RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the FASB issued an accounting standard related to fair value measurements, which was effective for the Bank on January 1, 2008. This standard defined fair value, established a framework for measuring fair value, and expanded disclosure requirements about fair value measurements. On January 1, 2008, the provisions of this accounting standard became effective for

the Bank's financial assets and financial liabilities and on January 1, 2009 for nonfinancial assets and nonfinancial liabilities. This accounting standard was subsequently codified into ASC Topic 820, *Fair Value Measurements and Disclosures*. See Note 17 for the necessary disclosures.

In December 2007, the FASB issued an accounting standard related to noncontrolling interests in consolidated financial statements, which is effective for fiscal years beginning on or after December 15, 2008. This standard establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. This accounting standard was subsequently codified into ASC 810-10, *Consolidation*. The necessary disclosures have been presented on the Bank's financial statements.

In June 2008, the FASB issued accounting guidance related to determining whether instruments granted in share-based payment transactions are participating securities, which is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. This guidance clarified that instruments granted in share-based payment transactions can be participating securities prior to the requisite service having been rendered. A basic principle of this guidance is that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of EPS pursuant to the two-class method. All prior-period EPS data presented (including interim financial statements, summaries of earnings, and selected financial data) are required to be adjusted retrospectively to conform with this guidance. This accounting guidance was subsequently codified into ASC topic 260, *Earnings Per Share*. The Bank has presented the necessary disclosures in Note 3 herein.

In April 2009, the FASB issued new guidance impacting ASC 825-10-50, *Financial Instruments*, which relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. This guidance amended existing GAAP to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The Bank has presented the necessary disclosures in Note 17 herein.

In April 2009, the FASB issued new guidance impacting ASC 320-10, *Investments – Debt and Equity Securities*, which provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. This guidance is effective for interim and annual periods ending after June 15, 2009. The adoption of this new

guidance did not have a material impact on the Bank's financial position or results of operations.

In April 2009, the FASB issued new guidance impacting ASC Topic 820, *Fair Value Measurements and Disclosures*. This ASC provides additional guidance in determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The adoption of this new guidance did not have a material effect on the Bank's results of operations or financial position.

On April 1, 2009, the FASB issued new authoritative accounting guidance under ASC Topic 805, *Business Combinations*, which became effective for periods beginning after December 15, 2008. ASC Topic 805 applies to all transactions and other events in which one entity obtains controls over one or more other businesses. ASC Topic 805 requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities, and any noncontrolling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determined beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under previous accounting guidance whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. ASC Topic 805 requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under prior accounting guidance. Assets acquired and liabilities assumed in a business combination that arise from contingencies are to be recognized at fair value if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with ASC topic 450, *Contingencies*. Under ASC Topic 805, the requirements of ASC Topic 420, *Exit or Disposal Cost Obligations*, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a noncontractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase account and, instead, that contingency would be subject to the probable and estimable recognition criteria of ASC Topic 450, *Contingencies*. The adoption of this new guidance did not have a material impact on the Bank's financial position or results of operations.

In June 2009, the FASB issued an accounting standard related to the accounting for transfers of financial assets, which is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. This standard enhances reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. This standard eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. This standard also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains

and losses resulting from transfers during the period. This accounting standard was subsequently codified into ASC topic 860, *Transfers and Servicing*. The adoption of this standard is not expected to have a material effect on the Bank's results of operations or financial position.

In June 2009, the FASB issued new authoritative accounting guidance under ASC Topic 810, *Consolidation*, which amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a Bank is required to consolidate an entity is based on, among other things, an entity's purpose and design and a Bank's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The new authoritative accounting guidance requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its effect on the entity's financial statements. The new authoritative accounting guidance under ASC Topic 810 will be effective January 1, 2010 and is not expected to have a significant impact on the Bank's financial statements.

In June 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2009-01, *Topic 105 – Generally Accepted Accounting Principles – FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. The Codification is the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP.) The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC Registrants. The Bank adopted this standard for the interim reporting period ending September 30, 2009.

In August 2009, the FASB issued ASU No. 2009-05, *Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value*. This ASU provides amendments for fair value measurements of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. ASC 2009-05 also clarifies that when estimating a fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance or fourth quarter 2009. The adoption of this new guidance did not have a material impact on the Bank's financial position or results of operations.

NOTE 2 RESERVE REQUIREMENTS

The Bank is required to maintain certain reserves of cash and/or deposits with the Federal Reserve Bank. The amount of this reserve requirement, which was covered by the Bank's vault cash included in cash and due from banks, was approximately \$358,000 and \$841,000 at December 31, 2009 and 2008, respectively.

NOTE 3 EARNINGS PER SHARE

The following sets forth certain information regarding the calculation of basic and diluted earnings per share ("EPS") for the years ended December 31:

(in thousands, except share and per share amounts)	2009	2008	2007
Net income	\$ 4,526	\$ 3,018	\$ 2,095
Dividend on Preferred Stock	1,325	914	110
Accretion of Preferred Stock Discount	85	3	-
Income available to common shareholders	<u>\$ 3,116</u>	<u>\$ 2,101</u>	<u>\$ 1,985</u>
Weighted average common shares outstanding	1,918,116	1,916,697	1,626,453
Dilutive effect of potential common shares related to stock based compensation plans	31,846	3,186	10,225
Weighted average common shares including potential dilution	1,949,962	1,919,883	1,636,678
Basic earnings per share	\$ 1.62	\$ 1.10	\$ 1.22
Diluted earnings per share	\$ 1.60	\$ 1.09	\$ 1.21

There were 153,090, 145,184, and 68,045 antidilutive options and common stock warrants for 2009, 2008, and 2007, respectively. For the year ended December 31, 2009, the exercise price for options and common stock warrants that represented antidilutive shares ranged from \$11.70 to \$24.30.

NOTE 4 OTHER COMPREHENSIVE INCOME

The following summarizes the components of other comprehensive income, which relate to available for sale securities, for the years ended December 31, 2009, 2008, and 2007:

(in thousands)	2009	2008	2007
Other comprehensive income, before tax:			
Net unrealized holding gain on securities arising during the year	\$ 1,757	\$ 1,443	\$ 796
Reclassification adjustment for realized net gains included in net income	(63)	(380)	(210)
Other comprehensive income, before tax	1,694	1,063	586
Income tax expense related to items of other comprehensive income	(656)	(411)	(202)
Other comprehensive income, net of tax	\$ 1,038	\$ 652	\$ 384

NOTE 5 SECURITIES

Securities available for sale are summarized as follows:

(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2009:				
U.S. Government sponsored enterprises	\$ 17,809	245	(18)	18,036
Mortgage-backed securities	67,226	2,102	(10)	69,318
Municipal securities	14,675	133	(231)	14,577
	<u>\$ 99,710</u>	<u>2,480</u>	<u>(259)</u>	<u>101,931</u>
December 31, 2008:				
U.S. Government sponsored enterprises	\$ 16,118	148	-	16,266
Mortgage-backed securities	72,150	1,357	(103)	73,404
Municipal securities	13,654	17	(893)	12,778
	<u>\$ 101,922</u>	<u>1,522</u>	<u>(996)</u>	<u>102,448</u>

Securities held to maturity are summarized as follows:

(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2009:				
Mortgage-backed securities	\$ 1,029	39	-	1,068
Municipal securities	2,915	125	-	3,040
Other debt securities	496	8	(10)	494
	\$ 4,440	172	(10)	4,602
December 31, 2008:				
Mortgage-backed securities	\$ 1,479	27	-	1,506
Municipal securities	3,043	-	-	3,043
Other debt securities	441	-	-	441
	\$ 4,963	27	-	4,990

U.S. government sponsored enterprises securities represent debt securities issued by Fannie Mae, Freddie Mac, or FHLB. Mortgage-backed securities are all direct pass through securities guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae.

The contractual maturity distribution of debt securities at December 31, 2009 is shown in the following table. Maturities of mortgage-backed securities are classified in accordance with the final contractual maturities. Expected maturities will differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties.

(in thousands)	Securities available for sale		Securities held to maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	\$ 231	\$ 231	\$ 11	\$ 11
Due after one year through five years	710	722	67	68
Due after five years through ten years	25,625	26,090	900	933
Due after ten years	73,144	74,888	3,462	3,590
	\$ 99,710	\$ 101,931	\$ 4,440	\$ 4,602

At December 31, 2009 and 2008, U. S. Government sponsored enterprises and mortgage-backed securities with a fair value of approximately \$7.7 million and \$5.3 million, respectively, have been pledged as collateral for certain deposit relationships and \$41.2 million and \$46.8 million, respectively, have been pledged as collateral for repurchase agreements.

The following table summarizes the Bank's investment securities both available for sale and held to maturity where the current fair value is less than the related amortized cost.

(in thousands)	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
December 31, 2009:						
U.S. Government sponsored enterprises	\$ 4,982	(18)	\$ -	\$ -	\$ 4,982	(18)
Mortgage-backed securities	5,710	(8)	551	(2)	6,261	(10)
Municipal securities	4,313	(42)	2,238	(189)	6,551	(231)
Other debt securities	291	(10)	-	-	291	(10)
	\$ 15,296	(78)	\$ 2,789	\$ (191)	\$ 18,085	\$ (269)
December 31, 2008:						
Mortgage-backed securities	\$ 6,599	(37)	\$ 1,849	(66)	\$ 8,448	(103)
Municipal securities	10,178	(712)	1,130	(181)	11,308	(893)
	\$ 16,777	(749)	\$ 2,979	\$ (247)	\$ 19,756	\$ (996)

The above table represents 42 and 56 investment securities at December 31, 2009 and 2008, respectively, available for sale and held to maturity, where the current fair value is less than the related amortized cost. These unrealized losses do not reflect any deterioration of the credit worthiness of the issuing entities. No security has a current rating that is below investment grade. The unrealized losses on these temporarily impaired securities are a result of changes in interest rates where the interest rate received is less than the current rate available for new offerings of similar securities, changes in market spreads as a result of shifts in supply and demand, and changes in the level of prepayments for mortgage-related securities. The Bank does not have the intent to sell these securities and it is more likely than not that it will not have to sell the securities before recovery of their cost basis. Therefore, the Bank does not consider these securities to be other than temporarily impaired. However, the Bank will continue to review its investment portfolio to determine whether any particular impairment is other than temporary.

Proceeds from the sales of available-for-sale securities for the years ended December 31, 2009, 2008, and 2007 totaled \$4.7 million, \$39.7 million, and \$44.9 million, respectively.

Gross realized gains and losses from sales of securities available for sale are:

(in thousands)	Gross realized gains	Gross realized losses
Year ended December 31,		
2009	\$ 63	\$ -
2008	380	-
2007	210	-

NOTE 6 FEDERAL HOME LOAN BANK STOCK

As a member of the Federal Home Loan Bank of New York (FHLB), the Bank is required to invest in \$100 par value stock of the FHLB. When such stock is redeemed, the Bank would receive from the FHLB an amount equal to the par value of the stock. At December 31, 2009 and 2008, FHLB stock outstanding was \$4.5 million and \$5.2 million, respectively.

NOTE 7 LOANS

Loans consisted of the following:

December 31,		
(in thousands)	2009	2008
Real estate loans:		
Residential	\$ 147,859	\$ 148,352
Commercial	69,957	71,601
Construction	3,013	2,735
	220,829	222,688
Business loans:		
Commercial loans	38,422	49,482
	38,422	49,482
Consumer loans:		
Installment loans	38,835	48,077
Home equity loans	8,477	9,712
Other loans	652	1,558
	47,964	59,347
Loans receivable	307,215	331,517
Net deferred origination fees and costs	401	575
Loans receivable, net	307,616	332,092
Allowance for loan losses	3,139	3,035
Net Loans	\$ 304,477	\$ 329,057

Mortgage loans serviced by the Bank for others, which are not included in the consolidated financial statements, were \$128.3 million and \$77.9 million at December 31, 2009 and 2008, respectively. At December 31, 2009 and 2008, the Bank had \$123,000 and \$901,000 of loans held for sale, respectively. Loans held for sale are included in total residential real estate loans.

The following summarizes the activity in the allowance for loan losses:

Years ended December 31,			
(in thousands)	2009	2008	2007
Balance at beginning of year	\$ 3,035	\$ 2,478	\$ 1,665
Provision for loan losses	592	919	525
Allowance acquired in business combination	-	-	521
Charge-offs	(619)	(510)	(289)
Recoveries	131	148	56
Balance at end of year	\$ 3,139	\$ 3,035	\$ 2,478

At December 31, 2009, the recorded investment in loans that are considered to be impaired totaled \$3.4 million. Included in impaired loans at December 31, 2009 are \$2.1 million of loans that had a related allowance for loan losses totaling \$647,000 and \$1.3 million that did not have related allowance for loan losses. At December 31, 2008, \$2.6 million of loans were considered impaired. Included in impaired loans at December 31, 2008 were \$2.6 million of loans that had a related allowance for loan losses totaling \$537,000.

The average recorded investment in impaired loans during the years ended December 31, 2009, 2008, and 2007 was \$2.6 million, \$2.1 million and \$238,000, respectively. There was \$52,000 of interest income recognized in 2009 for loans classified as impaired at December 31, 2009. There was no interest income recognized in 2008 and 2007 on loans that were classified as impaired at December 31, 2008 and 2007.

The principal balances of loans not accruing interest, including the impaired loans described above, amounted to approximately \$3.6 million, \$3.3 million and \$2.2 million at December 31, 2009, 2008 and 2007, respectively. Interest income that would have been recorded had these loans not been placed on nonaccruing status was \$299,000 in 2009, \$267,000 in 2008, and \$83,000 in 2007.

The Bank's market area is generally in Elmira, New York and Ithaca, New York, and includes the surrounding communities in the Southern Tier and Central New York region. Substantially all loans are made in its market area. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio is susceptible to changes in the economic conditions in this area. Other than general economic risks, management is not aware of any material concentrations of credit risk to any industry or individual borrower.

Should the current economic recession continue or worsen, or should its impact have an increased adverse impact on the Bank's market areas, the credit quality of the Bank's loan portfolio will be adversely impacted and provisions for loan losses will increase.

Loan transactions with directors and executive officers were made on the same terms as those prevailing at the same time for comparable loans to other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. An analysis of related party loan activity follows:

(in thousands)	Years ended December 31,	
	2009	2008
Balance at beginning of year	\$ 8,416	\$ 7,542
Advances	921	2,069
Repayments	(3,003)	(1,195)
Balance at end of year	\$ 6,334	\$ 8,416

NOTE 8 PREMISES AND EQUIPMENT

Premises and equipment, net, are summarized as follows:

(in thousands)	December 31,	
	2009	2008
Land and land improvements	\$ 1,009	\$ 1,009
Building and leasehold improvements	6,913	6,899
Furniture, fixtures and equipment	6,151	5,808
Capital projects in progress	127	108
	14,200	13,824
Accumulated depreciation and amortization	8,534	7,826
	\$ 5,666	\$ 5,998

Depreciation and amortization expense amounted to \$713,000, \$717,000, and \$555,000 for the years ended December 31, 2009, 2008, and 2007, respectively.

NOTE 9 ACCRUED INTEREST RECEIVABLE

Accrued interest receivable consisted of the following:

(in thousands)	December 31,	
	2009	2008
Accrued interest receivable on securities	\$ 804	\$ 795
Accrued interest receivable on loans	1,147	1,267
	\$ 1,951	\$ 2,062

NOTE 10 GOODWILL AND OTHER INTANGIBLE ASSETS

Information regarding the carrying amount and the amortization expense of the Bank's goodwill and intangible assets is disclosed in the tables below:

December 31, 2009 (in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets - Core Deposit Intangible	\$ 2,264	\$ 1,498	\$ 766
Goodwill	12,320	-	12,320
Total goodwill and amortized intangible assets	\$ 14,584	\$ 1,498	\$ 13,086

December 31, 2008 (in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets - Core Deposit Intangible	\$ 2,264	\$ 1,278	\$ 986
Goodwill	12,320	-	12,320
Total goodwill and amortized intangible assets	\$ 14,584	\$ 1,278	\$ 13,306

Amortization expense related to core deposit intangibles totaled \$220,000 in 2009, \$320,000 in 2008 and \$127,000 in 2007. The estimated aggregate future amortization expense for intangible assets remaining as of December 31, 2009 is as follows:

Estimated amortization expense: (in thousands)		
For the year ended December 31, 2010	\$	172
For the year ended December 31, 2011		150
For the year ended December 31, 2012		128
For the year ended December 31, 2013		107
For the year ended December 31, 2014		85
Thereafter		125

The Bank annually tests its goodwill for impairment as of September 30. In performing the first step (Step 1) of the goodwill impairment testing and measurement process to assess potential impairment, in accordance with U.S. generally accepted accounting principles, the fair value of the Bank was estimated using discounted cash flow analyses, selected transaction valuation and selected transaction premiums to observable market price valuation. The results of this Step 1 process indicated no potential impairment.

As a result, a second step (Step 2), to quantify the amount of good will impaired, was deemed not necessary.

NOTE 11 DEPOSITS

A summary of deposits follows:

(in thousands)	December 31,	
	2009	2008
Noninterest-bearing demand	\$ 37,880	\$ 36,804
Interest-bearing:		
NOW accounts	88,944	65,729
Regular savings	35,536	34,776
IRA savings	11,715	7,559
Mortgage escrow savings	1,766	1,793
Money market savings	29,233	26,332
Club accounts	218	280
Certificates of deposit	147,299	146,603
Total interest-bearing	314,711	283,072
	\$ 352,591	\$ 319,876

Individual time deposit accounts with balances of \$100,000 or more, which are included in the above table, totaled approximately \$40.6 million and \$42.4 million at December 31, 2009 and 2008, respectively.

Contractual maturities of time certificates of deposit at December 31, 2009 are as follows:

(in thousands)	2009
Maturity distribution	Amount
Due in one year	\$ 87,223
Due in one to two years	46,211
Due in two to three years	8,315
Due in three to four years	3,761
Due in four to five years	1,764
Due in five or more years	25
	\$ 147,299

Interest expense on deposit accounts for 2009, 2008, and 2007 is as follows:

(in thousands)	2009	2008	2007
Savings	\$ 324	\$ 314	\$ 270
NOW	\$ 1,061	1,021	635
Money market	\$ 409	531	344
Certificates of deposit	\$ 4,281	7,046	7,838
Total interest on deposits	\$ 6,075	\$ 8,912	\$ 9,087

NOTE 12 BORROWINGS

Borrowings consisted of the following:

(in thousands)	December 31,	
	2009	2008
Securities sold under repurchase agreements	\$ 39,000	\$ 39,000
Federal Home Loan Bank term advances	48,000	43,474
Federal Home Loan Bank overnight borrowings	-	22,800
Note payable	162	225
	\$ 87,162	\$ 105,499

Information related to securities sold under repurchase agreements was as follows:

(dollars in thousands)	Years ended December 31,		
	2009	2008	2007
Outstanding balance at end of year	\$ 39,000	\$ 39,000	\$ 30,000
Weighted average interest rate at end of year	4.28%	4.28%	4.62%
Maximum outstanding at any month end	\$ 39,000	\$ 39,000	\$ 37,000
Average amount outstanding during year	\$ 39,000	\$ 32,372	\$ 34,397
Average interest rate during year	4.28%	4.52%	4.50%

The repurchase agreements, which are callable by the Federal Home Loan Bank (“FHLB”), had stated final maturities that ranged from .7 years to 8.8 years at December 31, 2009, and 1.7 years to 9.8 years at December 31, 2008. U.S. Government sponsored enterprises and mortgage-backed securities with a fair value of \$41.2 million and \$46.8 million were pledged to secure the repurchase agreements at December 31, 2009 and 2008, respectively.

Scheduled contractual repayments for securities sold under repurchase agreements are as follows:

(in thousands)	2009
Year	
2010	\$ 5,000
2011	6,000
2012	2,000
2013	-
2014	-
Thereafter	26,000
	\$ 39,000

The \$48.0 million of FHLB term advances outstanding at December 31, 2009 had rates that ranged between 2.04 percent and 4.66 percent. At December 31, 2008, the \$43.5 million of FHLB term advances outstanding had rates that ranged from 2.66 percent to 6.28 percent. All term advances are collateralized by the Bank’s investment in FHLB stock and all qualifying mortgage loans pursuant to provisions of a collateral pledge and securities agreement up to a maximum of \$107.6 million. Included in the term advances at December 31, 2009 are \$22.0 million of advances that are currently callable by the FHLB.

Scheduled principal reductions for each of the next five years and thereafter for the term advances from the FHLB are as follows (based on contractual maturity dates):

(in thousands)	2009
Year	
2010	\$ 1,000
2011	5,000
2012	14,000
2013	13,000
2014	7,000
Thereafter	8,000
	\$ 48,000

There were no FHLB overnight borrowings at December 31, 2009. The Bank's additional lines of credit for overnight or short-term borrowings available from the FHLB at December 31, 2009 amounted to \$94.8 million.

The note payable, which is collateralized by the Bank's main office building, requires payments of approximately \$6,600 per month and bears an interest rate of 8.0 percent. The interest rate and monthly payment changed on April 1, 2007 and is not subject to change prior to maturity on April 1, 2012.

NOTE 13 COMMITMENTS AND CONTINGENCIES

Loan Commitments

Loan commitments are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Loan commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include real estate, accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Lease Agreements

The Bank is committed under seven lease contracts for facilities, which expire between the years 2011 and 2017. The leases contain renewal provisions at the Bank's option and contain no restrictive provisions of consequence.

Expense for leased premises was \$280,000, \$268,000 and \$148,000 for 2009, 2008, and 2007, respectively. Minimum annual lease payments for the non-cancelable operating leases amount to approximately \$295,000 for 2010, \$226,000 for 2011, \$180,000 for 2012, \$70,000 for 2013, \$61,000 for 2014, and \$134,000 thereafter.

Other Commitments

In the normal course of business, various commitments and contingent liabilities are outstanding that are not reflected in the consolidated financial statements. Financial instruments with off-balance sheet risk involve elements of credit risk, interest rate risk, liquidity risk, and market risk. The Bank uses the same credit policy to make such commitments as is used for on-balance sheet items. Management does not anticipate any significant losses as a result of these transactions.

Commitments to originate mortgages and other loans were approximately \$8.9 million and \$10.3 million at December 31, 2009 and 2008, respectively. At December 31, 2009 and 2008, approximately \$2.9 million and \$3.5 million of these mortgage commitments were contracted to be sold to Freddie Mac upon closing. Approximately \$7.2 million and \$6.5 million of the commitments at December 31, 2009 and 2008, respectively, had fixed rates of interest. Commitments under commercial unused lines of credit were approximately \$16.6 million and \$16.6 million at December 31, 2009 and 2008, respectively. Commitments under unused overdraft honors lines of credit were approximately

\$4.8 million and \$5.0 million at December 31, 2009 and 2008, respectively. Commitments under standby letters of credit were \$564,000 and \$713,000 at December 31, 2009 and 2008, respectively. The fair value of the Bank's standby letters of credit is not considered material for 2009 and 2008. Commitments for consumer lines of credit were approximately \$11.9 million and \$14.4 million at December 31, 2009 and 2008, respectively. Since some commitments to originate loans expire without being used and some unused lines of credit are never fully drawn upon, the amounts do not necessarily represent expected future cash outlays.

In order to reduce the interest rate risk associated with the portfolio of conventional mortgage loans held for sale, as well as outstanding loan commitments and uncommitted loan applications with rate lock agreements which are intended to be held for sale, the Bank enters into mandatory forward sales commitments to sell loans in the secondary market to unrelated investors. The impact of the estimated fair value of the rate lock agreements, as well as the offsetting estimated fair values of forward sales commitments, are not significant to the consolidated financial statements at December 31, 2009 or 2008.

Contingencies

In the normal course of business, there are various outstanding legal proceedings. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial condition of the Bank.

NOTE 14 **INCOME TAXES**

Federal and state income tax expense attributable to income before income taxes is as follows:

(in thousands)	Years ended December 31,		
	2009	2008	2007
Current:			
Federal	\$ 1,417	\$ 1,109	\$ 634
State	228	206	162
	1,645	1,315	796
Deferred:			
Federal	467	26	(29)
State	36	(64)	(75)
	503	(38)	(104)
	\$ 2,148	\$ 1,277	\$ 692

The differences between income taxes computed by applying the U.S. Federal statutory tax rate to income before income taxes are as follows:

(in thousands)	Years ended December 31,		
	2009	2008	2007
Tax computed at statutory rate	\$ 2,269	\$ 1,461	947
State tax provisions, net of Federal benefit	174	93	58
Tax exempt interest	(389)	(343)	(337)
Other items, net	94	66	24
	\$ 2,148	1,277	692

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2009 and 2008 follow:

(in thousands)	2009	2008
Assets:		
Deferred compensation	\$ 279	\$ 266
Allowance for loan losses	754	714
Deferred expense	-	15
Mortgage recording tax	234	204
Amortization of intangible assets	218	191
Other	186	102
Deferred tax assets	1,671	1,492
Liabilities:		
Mortgage servicing rights	307	81
Deferred loan originations costs	155	222
Net unrealized gain on securities	859	203
Amortization of core deposit intangible	661	344
Accelerated tax depreciation	148	-
Other	82	24
Deferred tax liabilities	2,212	874
Net deferred tax assets (liabilities)	\$ (541)	\$ 618

Realization of deferred tax assets is dependent upon the generation of future taxable income or the existence of sufficient taxable income within the carryback period. A valuation allowance is recognized when it is considered more likely than not that some portion of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, management considers the scheduled reversal of the deferred tax liabilities, the level of historical taxable income, and projected future taxable income over the periods in which the temporary differences comprising the deferred tax assets will be deductible. Based on its assessment, management determined that no valuation allowance is necessary.

NOTE 15 EMPLOYEE STOCK OWNERSHIP AND SAVINGS PLAN

The Bank has an Employee Stock Ownership and Savings Plan (“the Plan”), which covers substantially all employees.

401(k) Savings Provisions

The Plan allows employees to make 401(k) contributions. The Plan requires the Bank to contribute (match) an amount equal to the participants’ 401(k) contributions, up to one-half of the first 6% of compensation deferred by each participant. Contributions made may be invested in fixed income securities, diversified mutual funds, or shares of the Bank’s common stock. The Bank made 401(k) matching contributions of \$108,000, \$105,000, and \$80,200 for the years ended December 31, 2009, 2008, and 2007, respectively.

Employee Stock Ownership Provisions

Contributions to the Plan are made in cash or common shares of the Bank and are one hundred percent vested. The Bank reports compensation expense equal to cash contributed and the current market price of any shares contributed.

Compensation expense related to this plan in 2009, 2008, and 2007 was \$183,000, \$118,000, and \$150,000, respectively.

NOTE 16 STOCK-BASED COMPENSATION PLANS

The Bank's Long-Term Incentive Plan authorizes the grant of restricted shares or options to purchase shares of the Bank's common stock up to a combined total equivalent to 250,000 shares. The Board of Directors of Elmira Savings Bank, FSB may grant stock options or restricted shares to officers, employees, and certain other qualified individuals. At December 31, 2009 there were 189,824 restricted shares or options available for grant.

The Bank's Non-Employee Directors Equity Compensation Plan authorizes the grant of restricted shares or options to purchase the Bank's common stock up to a combined total equivalent to 150,000 shares. At December 31, 2009 there were 120,072 restricted shares or options available for grant.

Stock options are granted at an exercise price equal to the stock's trading price at the date of grant, may not have a term in excess of ten years, and have vesting periods that range between zero and four years from the grant date. Restricted shares generally vest over a three to five year service period on the anniversary of the grant date. Once vested, these awards are irrevocable. The product of the number of shares granted and the grant date market price of the Bank's common stock determine the fair value of restricted shares under the Bank's restricted share plan. Management recognizes compensation expense for the fair value of restricted shares on a straight line basis over the requisite service period. Prior to the adoption of the Long-Term Incentive Plan, the Bank had similar stock option plans which remain in effect solely with respect to unexercised options issued under those plans.

The Bank's practice is to issue original shares of its common stock upon exercise of stock options rather than treasury shares. With regard to restricted shares, the Bank's practice is to issue shares upon full vesting from treasury shares. The total intrinsic value (which is the amount by which the trading price of the underlying stock exceeds the exercise price of an option) of options exercised was \$6,200 for 2008 and \$42,000 for 2007. No options were exercised in 2009. There was no cash received from the exercise of stock options for 2009 or 2008, and \$109,000 for 2007.

The Bank recognized total non-cash stock-based compensation cost of \$234,000, \$141,000, and \$161,000 for 2009, 2008, and 2007, respectively. As of December 31, 2009, the total remaining unrecognized compensation cost related to unvested stock options and restricted shares was \$572,000. The unrecognized expense is expected to be recognized over the next 4.6 years. Forfeitures are not expected to be significant. The fair value of options vested was \$92,000, \$98,000, and \$146,000 for 2009, 2008, and 2007, respectively.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. Expected volatility is largely based on historical volatility of the Bank's stock over a period that corresponds to the expected life of the options. Historical option exercise and employee termination activity is used to estimate the expected term of options granted and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The following table presents the weighted-average assumptions and resulting estimated weighted-average fair value for grants made during 2009, 2008, and 2007.

	2009	2008	2007
Dividend Yield	4.03%	3.26%	2.71%
Volatility	57.60%	31.46%	26.67%
Risk-free interest rate	2.09%	3.25%	4.55%
Expectant life (years)	5	5	5
Fair Value	\$ 4.47	\$ 3.47	\$ 5.27

A summary of the status of the Bank's stock option plans is presented below:

	Number of Shares	Weighted-Average Exercise Price
Options:		
Outstanding at December 31, 2008	174,523	\$ 17.53
Granted	63,702	\$ 11.99
Expired	(2,258)	\$ 10.34
Forfeited	(12,401)	\$ 17.86
Outstanding at December 31, 2009	223,566	\$ 16.16
Total Exercisable at December 31, 2009	132,987	\$ 18.07

A summary of the status of the Bank's non-vested restricted shares is presented below:

	Number of Share Awards	Weighted-Average Grant Date Fair Value
Options:		
Balance at December 31, 2008	-	-
Granted	26,402	\$ 16.30
Vested	-	-
Forfeited	-	-
Balance at December 31, 2009	26,402	\$ 16.30

The following tables summarize the outstanding and exercisable options at December 31, 2009:

Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Contractual Life	Number Exercisable	Weighted Average Contractual Life
\$8.89	3,387	0.17	3,387	0.17
\$9.92	3,387	1.33	3,387	1.33
\$13.76	4,516	2.33	4,516	2.33
\$16.38	7,903	3.33	7,903	3.33
\$17.14	7,903	4.33	7,903	4.33
\$19.68	6,429	4.33	6,429	4.33
\$19.65	7,903	5.33	7,903	5.33
\$21.47	20,183	5.33	20,183	5.33
\$20.31	9,032	6.33	9,032	6.33
\$20.12	20,250	6.33	20,250	6.33
\$24.30	14,586	7.33	11,804	7.33
\$14.87	21,385	8.33	12,112	8.33
\$14.55	33,000	8.33	8,250	8.33
\$11.99	63,702	9.33	9,928	9.33
	223,566	7.13	132,987	5.92

The aggregate intrinsic value of total options outstanding at December 31, 2009 was \$482,000. The aggregate intrinsic value of options exercisable at December 31, 2009 was \$152,000.

NOTE 17 DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Bank's assets and liabilities carried at fair value.

- **Securities Available for Sale:** Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Bank obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, callable features, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the securities' terms and conditions, among other things.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2009 and December 31,

2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

(In Thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
At December 31, 2009				
Securities available for sale				
U.S. Government-sponsored Enterprises	\$---	\$18,036	\$---	\$18,036
Mortgage-backed Securities	\$---	\$69,318	\$---	\$69,318
Municipal Securities	\$---	\$14,577	\$---	\$14,577
At December 31, 2008				
Securities available for sale				
U.S. Government-sponsored Enterprises	\$---	\$16,266	\$---	\$16,266
Mortgage-backed Securities	\$---	\$73,404	\$---	\$73,404
Municipal Securities	\$---	\$12,778	\$---	\$12,778

The Bank also measures assets and liabilities recorded at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). At December 31, 2009, the Bank had collateral-dependent impaired loans with a carrying value of approximately \$3.4 million, \$2.1 million of which had specific reserves included in the allowance for loan losses of \$647,000. The remaining \$1.3 million did not have related allowance for loan losses due to the adequacy of the collateral. At December 31, 2008, the Bank had collateral-dependent impaired loans with a carrying value of approximately \$2.6 million, which had specific reserves included in the allowance for loan losses of \$537,000. The Bank determined the impairment charge based on the fair value of the collateral for each loan, which is considered a level 2 input for valuation purposes. The Bank also carries other real estate owned at fair value, recorded on a nonrecurring basis. At December 31, 2009, other real estate owned totaled \$536,000 and the fair value was based on a level 2 input for valuation purposes.

The following table summarizes financial assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2009 and December 31, 2008:

(In Thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
At December 31, 2009				
Impaired Loans	\$---	\$2,722	\$--	\$2,722
Other Real Estate Owned	\$---	\$ 536	\$--	\$ 536
At December 31, 2008				
Impaired Loans	\$---	\$2,063	\$--	\$2,063
Other Real Estate Owned	\$---	\$ 146	\$--	\$ 146

The carrying amounts and estimated fair values of financial instruments, at December 31, 2009 and December 31, 2008 are as follows:

December 31,					
		2009		2008	
(in thousands)	Carrying value	Fair value	Carrying value	Fair value	
Financial assets:					
Cash and Cash equivalents	\$ 50,838	\$ 50,838	\$ 8,570	\$ 8,570	
Securities available for sale	101,931	101,931	102,448	102,448	
Securities held to maturity	4,440	4,602	4,963	4,990	
Federal Home Loan Bank stock	4,528	4,528	5,245	5,245	
Net loans	304,477	311,301	329,057	335,603	
Bank-owned life insurance	7,808	7,808	7,430	7,430	
Mortgage servicing rights	1,018	1,040	445	445	
Accrued interest receivable	1,951	1,951	2,062	2,062	
Financial liabilities:					
Deposits	352,591	356,727	319,876	322,505	
Borrowings	87,162	91,594	105,499	112,357	
Accrued Interest Payable	341	341	373	373	

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents

The carrying amounts for cash and cash equivalents approximate the estimated fair value of such assets.

Securities

The fair values of securities available for sale prior to the adoption of ASC Topic 820 and all securities held to maturity are based on quoted market prices, if available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Fair value estimates for certain securities may be determined based upon pricing modeling techniques. Inputs to the pricing models may include recent trades, benchmark interest rates, spreads, and actual and projected cash flows. The carrying value of FHLB stock, which is redeemable at par, approximates fair value.

Loans Receivable

For variable rate loans that reprice frequently and which entail no significant change in credit risk, fair values are based on the carrying values. The estimated fair values of certain mortgage loans may be based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics.

The estimated fair value of other loans is determined based on discounted cash flow analyses using interest rates currently offered for loans with similar terms to borrowers of similar credit quality. Fair value for impaired loans is estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Bank-owned Life Insurance

The carrying amount for bank-owned life insurance approximates the estimated fair value and represents the cash surrender value of bank-owned policies.

Mortgage Servicing Rights

Mortgage servicing rights consist of residential mortgage servicing rights and fair value is estimated by projecting and discounting future cash flows. Various assumptions including future cash flows, market discount rates, expected prepayment rates, servicing costs and other factors are used in the valuation of mortgage servicing rights. The Bank has not made any election to account for mortgage servicing rights under the fair value method. Mortgage servicing rights are accounted for under the amortization method and are adjusted to the lower of aggregate cost or estimated fair value as appropriate.

Accrued Interest Receivable

The carrying amounts for accrued interest receivable approximate the estimated fair value of such assets.

Deposits

The fair values estimated for noninterest-bearing demand deposits, NOW accounts, savings accounts, and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values of fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered to a schedule of aggregated expected monthly time deposit maturities.

Borrowed Funds

The carrying amount for securities sold under repurchase agreements approximates the estimated fair value of this liability.

The fair values of the FHLB advances and the note payable are estimated using discounted cash flow analyses based on the Bank's current incremental borrowing rate for similar borrowing arrangements.

Accrued Interest Payable

The carrying amounts for accrued interest payable approximate the estimated fair value of such liabilities.

Off-Balance-sheet Instruments

Fair values for the company's off-balance-sheet instruments (lines of credit and commitments to fund loans) are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

NOTE 18 *PREFERRED STOCK AND WARRANT*

On December 19, 2008, we entered into a Letter Agreement ("Agreement") with the United States Department of the Treasury ("Treasury") under the Troubled Assets Relief Program ("TARP") Capital Purchase Program ("CPP"), whereby we issued and sold to the Treasury 9,090 shares of fixed rate noncumulative preferred stock with a liquidation amount of \$1,000 per share, for a total price of \$9.09 million. Net cash received, after related issuance costs of \$60,000, was \$9.03 million. In addition, the Treasury received a warrant to purchase 116,538 shares of our common stock at an exercise price of \$11.70 per share. The warrant has a term of 10 years. Subject to certain restrictions, the preferred

stock and the warrant are transferable by the Treasury. The allocated carrying values of the preferred stock and the warrant, at issuance, based on their relative fair values, were \$8.61 million and \$424,000, respectively.

The preferred stock pays dividends quarterly, beginning February 2009, at a rate of 5% per year for the first five years, then increases to 9% thereafter. We may redeem the preferred stock at any time, subject to consultation with the Office of Thrift Supervision, at the liquidation amount of \$1,000 per share plus any accrued and unpaid dividends. Approval from the Treasury is required to increase our common stock dividend or to repurchase shares of our common stock prior to December 19, 2011 unless we have fully redeemed the preferred stock.

During 2007, the Bank authorized and issued 10,000 shares of preferred stock. Proceeds from the sale of preferred stock were \$10.0 million, reduced by \$300,000 of issuance costs for net proceeds of \$9.7 million. The preferred stock has a liquidation preference of \$1,000 per share. Dividends are paid quarterly in cash at a rate of 8.998% of the liquidation preference through December 2017; thereafter, dividends will be paid at LIBOR plus 4.0%. The preferred stock is redeemable at the Bank's option beginning on November 16, 2012.

NOTE 19 **MINIMUM CAPITAL AND OTHER REGULATORY REQUIREMENTS**

Office of Thrift Supervision ("OTS") capital regulations requires savings institutions to maintain minimum levels of regulatory capital. Under the regulations in effect at December 31, 2009, the Bank is required to maintain a minimum ratio of tangible capital to tangible assets of 1.5 percent; a minimum leverage ratio of core (Tier 1) capital to total adjusted tangible assets of 4.0 percent; and a minimum ratio of total capital (core capital and supplementary capital) to risk-weighted assets of 8.0 percent, of which 4.0 percent must be core capital.

Under its prompt corrective action regulations, the OTS is required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized institution. Such actions could have a direct effect on an institution's financial statements. The regulations establish a framework for the classification of savings institutions into five categories: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Generally, an institution is considered well-capitalized if it has a core capital ratio of at least 5.0 percent; a core (Tier 1) risk-based capital ratio of at least 6.0 percent; and a risk-based capital ratio of at least 10.0 percent.

The following table is a reconciliation of the Bank's generally accepted accounting principles ("GAAP") capital and Regulatory capital at December 31, 2009 and 2008:

OTS Capital Requirements							
(dollars in thousands)	GAAP Capital	Tangible Capital	%	Core Capital	%	Total Risk-Based Capital	%
December 31, 2009	\$54,546	\$54,546		\$54,546		\$54,546	
Regulatory capital adjustments							
Noncontrolling interest		(54)		(54)		(54)	
Allowance for loan losses		-		-		3,139	
Core deposit intangible		(766)		(766)		(766)	
Goodwill (net of deferred tax)		(11,659)		(11,659)		(11,659)	
Net unrealized gain on securities available for sale		(1,361)		(1,361)		(1,361)	
Total regulatory capital		\$40,706	8.39	\$40,706	8.39	\$43,845	15.69
Regulatory capital requirement		7,278	1.50	19,408	4.00	22,359	8.00
Regulatory capital excess		\$33,428	6.89	\$21,298	4.39	\$21,486	7.69
(dollars in thousands)	GAAP Capital	Tangible Capital	%	Core Capital	%	Total Risk-Based Capital	%
December 31, 2008	\$51,614	\$51,614		\$51,614		\$51,614	
Regulatory capital adjustments							
Noncontrolling interest		(55)		(55)		(55)	
Allowance for loan losses		-		-		3,035	
Core deposit intangible		(986)		(986)		(986)	
Goodwill (net of deferred tax)		(11,976)		(11,976)		(11,976)	
Net unrealized gain on securities available for sale		(323)		(323)		(323)	
Total regulatory capital		\$38,274	8.19	\$38,274	8.19	\$41,309	13.54
Regulatory capital requirement		7,010	1.50	18,693	4.00	24,400	8.00
Regulatory capital excess		\$31,264	6.69	\$19,581	4.19	\$16,909	5.54

As of November 2009, the most recent examination report from the OTS categorized the Bank as well-capitalized under the regulatory framework for prompt corrective actions. There have been no conditions or events since the notification that management believes have changed the Bank's category. Management believes that as of December 31, 2009, the Bank meets all capital adequacy requirements to which it is subject.

The following is a summary of the Bank's actual capital amounts and ratios as of December 31, 2009 and 2008, compared with the OTS requirements for minimum capital adequacy for classification of a well-capitalized institution:

OTS Capital Requirements							
December 31, 2009	Actual		Minimum Capital Adequacy		For Classification as Well-Capitalized		
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	
Tangible capital	\$40,706	8.39 %	\$7,278	1.50 %	NA	NA	
Core (Tier 1) capital	\$40,706	8.39	19,408	4.00	\$24,260	5.00 %	
Risk-based capital:							
Core (Tier 1)	\$40,706	14.56	11,180	4.00	16,769	6.00	
Total risk-based capital	\$43,845	15.69	22,359	8.00	27,949	10.00	
OTS Capital Requirements							
December 31, 2008	Actual		Minimum Capital Adequacy		For Classification as Well-Capitalized		
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	
Tangible capital	\$38,274	8.19 %	\$7,010	1.50 %	NA	NA	
Core (Tier 1) capital	\$38,274	8.19	18,693	4.00	\$23,366	5.00 %	
Risk-based capital:							
Core (Tier 1)	\$38,274	12.55	12,200	4.00	18,300	6.00	
Total risk-based capital	\$41,309	13.54	24,400	8.00	30,500	10.00	

The Bank is also subject to certain regulatory limitations on the amount that can be invested in consumer loans and non-mortgage commercial loans. The OTS limits the Bank's authority to invest in non-mortgage consumer loans and non-mortgage commercial loans to 35% and 10%, respectively, of total assets. At

December 31, 2009 and 2008, the Bank was in compliance with these regulations.

The Bank may not declare or pay a cash dividend on, or repurchase any of its capital stock if the effect thereof would cause the capital of the Bank to be reduced below the amount required for the capital requirements imposed by the OTS. (See also Note 18.)

Summary of Quarterly Financial Results (Unaudited)

Summarized quarterly unaudited financial results for the years ended December 31, 2009 and 2008 are as follows:

2009				
(in thousands, except for per share amounts)	Quarter IV	Quarter III	Quarter II	Quarter I
Interest and dividend income	\$ 6,027	\$ 6,344	\$ 6,097	\$ 6,673
Interest expense	2,133	2,373	2,483	2,449
Net interest income	3,894	3,971	3,614	4,224
Provision for loan losses	-	-	136	456
Net interest income after provision for loan losses	3,894	3,971	3,478	3,768
Noninterest income	983	980	1,463	1,212
Noninterest expense	2,956	3,268	3,320	3,526
Income before income taxes	1,921	1,683	1,621	1,454
Income taxes	663	527	523	435
Net income	1,258	1,156	1,098	1,019
Less: Net income attributable to noncontrolling interest	5	-	-	-
Net income attributable to Elmira Savings Bank	\$ 1,253	\$ 1,156	\$ 1,098	\$ 1,019
Dividend on preferred stock and accretion of discount	366	365	365	314
Income available to common shareholders	\$ 887	\$ 791	\$ 733	\$ 705
Basic earnings per share	\$ 0.46	\$ 0.41	\$ 0.38	\$ 0.37
Diluted earnings per share	\$ 0.45	\$ 0.40	\$ 0.38	\$ 0.37
2008				
(in thousands, except for per share amounts)	Quarter IV	Quarter III	Quarter II	Quarter I
Interest and dividend income	\$ 6,323	\$ 6,304	\$ 6,389	\$ 6,212
Interest expense	2,564	2,688	3,026	3,180
Net interest income	3,759	3,616	3,363	3,032
Provision for loan losses	500	245	104	70
Net interest income after provision for loan losses	3,259	3,371	3,259	2,962
Noninterest income	2,745	1,061	1,015	924
Noninterest expense	4,296	3,384	3,436	3,180
Income before income taxes	1,708	1,048	838	706
Income taxes	548	321	211	197
Net income	1,160	727	627	509
Less: Net income attributable to noncontrolling interest	5	-	-	-
Net income attributable to Elmira Savings Bank	\$ 1,155	\$ 727	\$ 627	\$ 509
Dividend on preferred stock	232	230	228	227
Income available to common shareholders	\$ 923	\$ 497	\$ 399	\$ 282
Basic earnings per share	\$ 0.48	\$ 0.26	\$ 0.21	\$ 0.15
Diluted earnings per share	\$ 0.48	\$ 0.26	\$ 0.21	\$ 0.15

Summation of the quarterly net income per share does not necessarily equal the annual amount due the averaging effect of shares throughout the year.



**REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders
The Elmira Savings Bank, FSB

We have audited the accompanying consolidated balance sheets of The Elmira Savings Bank, FSB and subsidiaries (the "Bank") as of December 31, 2009, and the related consolidated statements of income, shareholders' equity, and cash flows for the period ended December 31, 2009. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of The Elmira Savings Bank, FSB and subsidiaries for the years ended December 31, 2008 and 2007, were audited by other auditors whose report, dated March 25, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Elmira Savings Bank, FSB and subsidiaries as of December 31, 2009, and the results of their operations and their cash flows for period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We were not engaged to examine management's assessment of the effectiveness of The Elmira Savings Bank, FSB and subsidiaries' internal control over financial reporting as of December 31, 2009, included in Item 9A(T) of Form 10-K and, accordingly, we do not express an opinion thereon.



Wexford, Pennsylvania
March 23, 2010



KPMG LLP
300 South State Street
Syracuse, NY 13202

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
The Elmira Savings Bank, FSB

We have audited the accompanying consolidated balance sheet of The Elmira Savings Bank, FSB and subsidiaries (the "Bank") as of December 31, 2008, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Oversight Accounting Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Elmira Savings Bank, FSB and subsidiaries as of December 31, 2008, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 25, 2009
Syracuse, New York

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

Management is responsible for preparation of the consolidated financial statements and related financial information contained in all sections of this annual report, including the determination of amounts that must necessarily be based on judgments and estimates. It is the belief of management that the consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances, and that the financial information appearing throughout this annual report is consistent with the consolidated financial statements.

Management establishes and monitors the Company's system of internal accounting controls to meet its responsibility for reliable financial statements. The system is designed to provide reasonable assurance that assets are safeguarded, and that transactions are executed in accordance with management's authorization and are properly recorded.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically and privately with management, internal auditors, and independent auditors, S. R. Snodgrass, A.C., to review matters relating to the quality of financial reporting, internal accounting control, and the nature, extent and results of audit efforts. The independent and internal auditors have unlimited access to the Audit Committee to discuss all such matters. The consolidated financial statements have been audited by the Company's independent auditors for the purpose of expressing an opinion on the consolidated financial statements.

Date: March 23, 2010

/s/ Michael P. Hosey
Michael P. Hosey
President
Chief Executive Officer

/s/ Jason T. Sanford
Jason T. Sanford
Senior Vice President
Chief Financial Officer

Item 9 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A(T) – Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Management carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and the Chief financial Officer, of the effectiveness of the design and the operation of the Bank's disclosure controls and procedures (as such term as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2009, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer along with the Chief Financial Officer concluded that the Bank's disclosure controls and procedures as of December 31, 2009, are effective in timely alerting them to material information relating to the Bank required to be in the Bank's periodic filings under the Exchange Act.

(b) Changes in Internal Controls

There have been no changes in the Bank's internal controls over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.

(c) Report on Management's Assessment of Internal Control over Financial Reporting

The Bank is responsible for the preparation, integrity, and fair presentation of the financial statements included in this annual report. The financial statements and notes included in this annual report have been prepared in conformity with United States generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgments.

Management of the Bank is responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with United States generally accepted accounting principles. The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management assessed the Bank's system of internal control over financial reporting as of December 31, 2009, in relation to criteria for effective internal control over financial reporting as described in "Internal Control – Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concludes that, as of December 31, 2009, its system of

internal control over financial reporting is effective and meets the criteria of the “Internal Control – Integrated Framework.”

This annual report does not include an attestation report of the Bank’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Bank’s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Bank to provide only management’s report in this annual report.

Item 9B – Other Information

None

PART III

Item 10 – Directors and Executive Officers of the Bank

The information required herein with respect to directors and executive officers is incorporated herein by reference from the Proxy Statement filed with the OTS pursuant to Regulation 14A on March 22, 2010.

Item 11 – Executive Compensation

Incorporated herein by reference from the Proxy Statement filed with the OTS pursuant to Regulation 14A on March 22, 2010.

Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated herein by reference from the Proxy Statement filed with the OTS pursuant to Regulation 14A on March 22, 2010.

Item 13 – Certain Relationships and Related Transactions

Incorporated herein by reference from the Proxy Statement filed with the OTS pursuant to Regulation 14A on March 22, 2010.

Item 14 – Principal Accountant Fees and Services

Incorporated herein by reference from the Proxy Statement filed with the OTS pursuant to Regulation 14A on March 22, 2010.

PART IV

Item 15 – Exhibits and Financial Statement Schedules

(a) (1) All financial statement schedules have been omitted as they are not applicable, not required, or the information is included in the Consolidated Financial Statements or notes thereto.

(a) (2) Exhibits:

- Exhibit 21 List of Registrant's Subsidiaries
- Exhibit 22 Proxy Statement dated March 22, 2010
- Exhibit 31.1 Certification of the Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 31.2 Certification of the Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 32.1 Written statement of Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 32.2 Written statement of Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 99.1 Certification of Chief Executive Officer under EESA §111(b)(4)
- Exhibit 99.2 Certification of Chief Financial Officer under EESA §111(b)(4)

- (b) During the three-month period ended December 31, 2009, the Registrant filed two reports on Form 8-K.

On October 21, 2009, The Elmira Savings Bank, FSB issued a press release announcing the financial results for the quarter ended September 30, 2009.

On December 15, 2009, The Elmira Savings Bank, FSB issued a press release announcing William M. Hodel, a Senior Vice President and Commercial Loan Officer, resigned from his position at the Bank.

- (c) See (a) (2) above for all exhibits filed herewith.
- (d) Not applicable.

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE ELMIRA SAVINGS BANK, FSB
(Registrant)

BY: /s/ Michael P. Hosey
Michael P. Hosey
President & Chief Executive Officer

DATE: March 23, 2010

BY: /s/ Jason T. Sanford
Jason T. Sanford
Senior Vice President
Chief Financial Officer

DATE: March 23, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

BY: /s/ George L. Howell
George L. Howell
Chairman of the Board

DATE: March 23, 2010

BY: /s/ John R. Alexander
John R. Alexander, Director

DATE: March 23, 2010

BY: /s/ John Brand III
John Brand III, Director

DATE: March 23, 2010

BY: /s/ Anthony J. Cooper
Anthony J. Cooper, Director

DATE: March 23, 2010

BY: /s/ Jerry B. Gapp
Jerry B. Gapp, Director

DATE: March 23, 2010

BY: /s/ Thomas D. Morse
Thomas D. Morse, Director

DATE: March 23, 2010

BY: /s/ Kristin A. Swain
Kristin A. Swain, Director

DATE: March 23, 2010

BY: /s/ A. Scott Welliver
A. Scott Welliver, Director

DATE: March 23, 2010

EXHIBIT 21

LIST OF REGISTRANT'S SUBSIDIARIES

<u>Subsidiary</u>	<u>State of Incorporation</u>
ESB Advisory Services, Inc.	New York
ESB Realty, Corp.	New York

EXHIBIT 31.1 CERTIFICATION

I, Michael P. Hosey, President and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of The Elmira Savings Bank, FSB;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely

affect the registrant's ability to record, process, summarize and report financial information; and

- b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls, over financial reporting.

Date: March 23, 2010

/s/ Michael P. Hosey
Michael P. Hosey
President
Chief Executive Officer

EXHIBIT 31.2 CERTIFICATION

I, Jason T. Sanford, Senior Vice President, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of The Elmira Savings Bank, FSB;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely

affect the registrant's ability to record, process, summarize and report financial information; and

- b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls, over financial reporting.

Date: March 23, 2010

/s/ Jason T. Sanford
Jason T. Sanford
Senior Vice President
Chief Financial Officer

EXHIBIT 32.1

In connection with the filing of the annual report on Form 10-K for the fiscal year ended December 31, 2009 (the "Report") by The Elmira Savings Bank, FSB (the "Company"), the undersigned, as Chief Executive Officer of the Company, hereby certifies pursuant to 18 U.S.C., section 1350 as adopted pursuant to section 906 of The Sarbanes-Oxley Act of 2002, that, to my knowledge:

The report fully complies with the requirements of section 13(a) or section 15(d), as applicable, of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 23, 2010

/s/ Michael P. Hosey
Michael P. Hosey
President
Chief Executive Officer

EXHIBIT 32.2

In connection with the filing of the annual report on Form 10-K for the fiscal year ended December 31, 2009 (the "Report") by The Elmira Savings Bank, FSB (the "Company"), the undersigned, as Executive Vice President, Chief Operating Officer and Chief Financial Officer of the Company, hereby certifies pursuant to 18 U.S.C., section 1350 as adopted pursuant to section 906 of The Sarbanes-Oxley Act of 2002, that, to my knowledge:

The report fully complies with the requirements of section 13(a) or section 15(d), as applicable, of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 23, 2010

/s/ Jason T. Sanford
Jason T. Sanford
Senior Vice President
Chief Financial Officer

EXHIBIT 99.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER UNDER EESA §111(b)(4)

I, Michael P. Hosey, certify, based on my knowledge, that:

(i) The compensation committee of The Elmira Savings Bank, FSB (“Bank”) has discussed, reviewed, and evaluated with senior risk officers at least every six months during any part of the most recently completed fiscal year that was a TARP period, senior executive officer (SEO) compensation plans and employee compensation plans and the risks these plans pose to the Bank;

(ii) The compensation committee of the Bank has identified and limited during any part of the most recently completed fiscal year that was a TARP period the features in the SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that could threaten the value of the Bank and identified any features in the employee compensation plans that pose risks to the Bank and limited those features to ensure that the Bank is not unnecessarily exposed to risks;

(iii) The compensation committee has reviewed at least every six months during any part of the most recently completed fiscal year that was a TARP period the terms of each employee compensation plan and identified the features in the plan that could encourage the manipulation of reported earnings of the Bank to enhance the compensation of an employee and has limited these features that would encourage the manipulation of reported earnings of the Bank;

(iv) The compensation committee of the Bank will certify to the reviews of the SEO compensation plans and employee compensation plans required under (i) and (iii) above;

(v) The compensation committee of the Bank will provide a narrative description of how it limited during any part of the most recently completed fiscal year that was a TARP period the features in

- (A) SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that could threaten the value of the Bank;
- (B) Employee compensation plans that unnecessarily expose the Bank to risks; and
- (C) Employee compensation plans that could encourage the manipulation of reported earnings of the Bank to enhance the compensation of an employee;

(vi) The Bank has required that bonus payments to SEOs or any of the next twenty most highly compensated employees, as defined in the regulations and guidance established under section 111 of EESA (bonus payments), be subject to a recovery or “clawback” provision during any part of the most recently completed fiscal year that was a TARP period if the bonus payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria;

(vii) The Bank has prohibited any golden parachute payment, as defined in the regulations and guidance established under section 111 of EESA, to a CEO or any of the next five most highly compensated employees during any part of the most recently completed fiscal year that was a TARP period;

(viii) The Bank has limited bonus payments to its applicable employees in accordance with section 111 of EESA and the regulations and guidance established thereunder during any part of the most recently completed fiscal year that was a TARP period;

(ix) The Bank and its employees have complied with the excessive or luxury expenditures policy, as defined in the regulations and guidance established under section 111 of EESA, during any part of the most recently completed fiscal year that was a TARP period, and that any expenses requiring approval of the board of directors, a committee of the board of directors, an CEO, or an executive officer with a similar level of responsibility, were properly approved;

(x) The Bank will permit a non-binding shareholder resolution in compliance with any applicable Federal securities rules and regulations on the disclosures provided under the Federal securities laws related to CEO compensation paid or accrued during any part of the most recently completed fiscal year that was a TARP period;

(xi) The Bank will disclose the amount, nature, and justification for the offering during any part of the most recently completed fiscal year that was a TARP period of any perquisites, as defined in the regulations and guidance established under section 111 of EESA, whose total value exceeds \$25,000 for each employee subject to the bonus payment limitations identified in paragraph (viii);

(xii) The Bank will disclose whether the Bank, the board of directors of the Bank, or the compensation committee of the Bank has engaged during any part of the most recently completed fiscal year that was a TARP period a compensation consultant; and the services the compensation consultant or any affiliate of the compensation consultant provided during this period;

(xiii) The Bank has prohibited the payment of any gross-ups, as defined in the regulations and guidance established under section 111 of EESA, to the CEOs and the next twenty most highly compensated employees during any part of the most recently completed fiscal year that was a TARP period;

(xiv) The Bank has substantially complied with all other requirements related to employee compensation that are provided in the agreement between the Bank and Treasury, including any amendments;

(xv) The Bank has submitted to Treasury a complete and accurate list of the CEOs and the twenty next most highly compensated employees for the current fiscal year and the most recently completed fiscal year, with the non-CEOs ranked in descending order of level of annual compensation, and with the name and title of each CEO and most highly compensated employee identified; and

(xvi) I understand that a knowing and willful false or fraudulent statement made in connection with this certification may be punished by fine, imprisonment, or both. (See, for example 18 U.S.C. 1001.)

Dated: March 23, 2010

THE ELMIRA SAVINGS BANK, FSB

/s/ Michael P. Hosey
By: Michael P. Hosey
President and Chief Executive Officer

EXHIBIT 99.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER UNDER EESA §111(b)(4)

I, Jason T. Sanford, certify, based on my knowledge, that:

(i) The compensation committee of The Elmira Savings Bank, FSB (“Bank”) has discussed, reviewed, and evaluated with senior risk officers at least every six months during any part of the most recently completed fiscal year that was a TARP period, senior executive officer (SEO) compensation plans and employee compensation plans and the risks these plans pose to the Bank;

(ii) The compensation committee of the Bank has identified and limited during any part of the most recently completed fiscal year that was a TARP period the features in the SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that could threaten the value of the Bank and identified any features in the employee compensation plans that pose risks to the Bank and limited those features to ensure that the Bank is not unnecessarily exposed to risks;

(iii) The compensation committee has reviewed at least every six months during any part of the most recently completed fiscal year that was a TARP period the terms of each employee compensation plan and identified the features in the plan that could encourage the manipulation of reported earnings of the Bank to enhance the compensation of an employee and has limited these features that would encourage the manipulation of reported earnings of the Bank;

(iv) The compensation committee of the Bank will certify to the reviews of the SEO compensation plans and employee compensation plans required under (i) and (iii) above;

(v) The compensation committee of the Bank will provide a narrative description of how it limited during any part of the most recently completed fiscal year that was a TARP period the features in

- (A) SEO compensation plans that could lead SEOs to take unnecessary and excessive risks that could threaten the value of the Bank;
- (B) Employee compensation plans that unnecessarily expose the Bank to risks; and
- (C) Employee compensation plans that could encourage the manipulation of reported earnings of the Bank to enhance the compensation of an employee;

(vi) The Bank has required that bonus payments to SEOs or any of the next twenty most highly compensated employees, as defined in the regulations and guidance established under section 111 of EESA (bonus payments), be subject to a recovery or “clawback” provision during any part of the most recently completed fiscal year that was a TARP period if the bonus payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria;

(vii) The Bank has prohibited any golden parachute payment, as defined in the regulations and guidance established under section 111 of EESA, to a CEO or any of the next five most highly compensated employees during any part of the most recently completed fiscal year that was a TARP period;

(viii) The Bank has limited bonus payments to its applicable employees in accordance with section 111 of EESA and the regulations and guidance established thereunder during any part of the most recently completed fiscal year that was a TARP period;

(ix) The Bank and its employees have complied with the excessive or luxury expenditures policy, as defined in the regulations and guidance established under section 111 of EESA, during any part of the most recently completed fiscal year that was a TARP period, and that any expenses requiring approval of the board of directors, a committee of the board of directors, an CEO, or an executive officer with a similar level of responsibility, were properly approved;

(x) The Bank will permit a non-binding shareholder resolution in compliance with any applicable Federal securities rules and regulations on the disclosures provided under the Federal securities laws related to CEO compensation paid or accrued during any part of the most recently completed fiscal year that was a TARP period;

(xi) The Bank will disclose the amount, nature, and justification for the offering during any part of the most recently completed fiscal year that was a TARP period of any perquisites, as defined in the regulations and guidance established under section 111 of EESA, whose total value exceeds \$25,000 for each employee subject to the bonus payment limitations identified in paragraph (viii);

(xii) The Bank will disclose whether the Bank, the board of directors of the Bank, or the compensation committee of the Bank has engaged during any part of the most recently completed fiscal year that was a TARP period a compensation consultant; and the services the compensation consultant or any affiliate of the compensation consultant provided during this period;

(xiii) The Bank has prohibited the payment of any gross-ups, as defined in the regulations and guidance established under section 111 of EESA, to the CEOs and the next twenty most highly compensated employees during any part of the most recently completed fiscal year that was a TARP period;

(xiv) The Bank has substantially complied with all other requirements related to employee compensation that are provided in the agreement between the Bank and Treasury, including any amendments;

(xv) The Bank has submitted to Treasury a complete and accurate list of the CEOs and the twenty next most highly compensated employees for the current fiscal year and the most recently completed fiscal year, with the non-CEOs ranked in descending order of level of annual compensation, and with the name and title of each CEO and most highly compensated employee identified; and

(xvi) I understand that a knowing and willful false or fraudulent statement made in connection with this certification may be punished by fine, imprisonment, or both. (See, for example 18 U.S.C. 1001.)

Dated: March 23, 2010

THE ELMIRA SAVINGS BANK, FSB

By: /s/ Jason T. Sanford
Jason T. Sanford
Senior Vice President and
Chief Financial Officer