DIVISION OF BANKING SUPERVISION AND REGULATION
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

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, 2016

NEW YORK	ELMIRA SAVINGS BANK	16-0422120
(State or other jurisdiction of incorporation or organization)	(Exact name of registrant as specified in its Charter)	(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	2,755,930 shares
(class)	(outstanding March 20, 2017)

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 _ _ Smaller Reporting Company _X_

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, 2016 was $53.8 million. As of June 30, 2016 there were issued and outstanding 2,734,186 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 25, 2017 Annual Meeting of Shareholders	Part III

ANNUAL REPORT FOR 2016 ON FORM 10-K
ELMIRA SAVINGS BANK

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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 ("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. As of January 1, 2012, the Bank converted from a federally chartered savings bank to a New York State chartered savings bank. The Bank conducts its business through thirteen full-service offices located in Chemung, Tompkins, Cayuga, Schuyler, and Steuben Counties, New York, one limited service office located in Tompkins County, New York, and one limited service office located in Broome 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 New York State Department of Financial Services ("NYSDFS") and is thus subject to regulation and examination by both regulatory agencies. The Bank is a member bank of the Federal Reserve System and therefore, the Federal Reserve Board ("FRB") serves as its primary federal regulator. The Bank is also a member of the Federal Home Loan Bank System.

Market Area

The Bank's market areas are in Elmira, New York, Ithaca, New York, and Corning, 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 areas 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 areas 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 Bank is chartered by the NYSDFS. The primary federal regulatory authority for the Bank is the FRB. The FRB and the NYSDFS set 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 other federal financial regulatory agencies.

The Dodd-Frank Act permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor per insured institution. The deposits of the Bank are insured up to regulatory limits by the FDIC. The Federal Deposit Insurance Reform Act of 2005 gave the FDIC increased flexibility in assessing premiums on banks and savings associations, including the Bank, to pay for deposit insurance and in managing its deposit insurance reserves. The FDIC currently maintains a risk-based assessment system under which assessment rates vary based on the level of risk posed by institutions to the Deposit Insurance Fund ("DIF"). On February 8, 2011, the FDIC issued new rules that took effect April 1, 2011 to change the way the FDIC differentiates risk and sets appropriate assessment rates.

On February 9, 2011, the FDIC adopted a final rule as required by the Dodd-Frank Act which redefined the deposit insurance assessment base as average consolidated total assets minus average tangible equity. FDIC assessment expenses for the Bank totaled $313,000 in 2014, $360,000 in 2015, and $351,000 in 2016.

In addition, all institutions with deposits insured by the Federal Deposit Insurance Corporation 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 DIF. 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.

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 Securities and Exchange Commission ("SEC") has adopted or proposed several implementation rules, and the National Association of Securities Dealers ("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.

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The financial reform and consumer protection act imposes new restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions.

The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare various studies and reports for Congress. The federal agencies are given significant discretion in drafting such rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for months or years.

The Dodd-Frank Act broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor.

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments, and allow greater

access by shareholders to the company's proxy material by authorizing the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau ("CFPB") with broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets, such as the Bank, will continue to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

It is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, at a minimum, the implementation of these rules and regulations will increase our operating and compliance costs.

Employees

At March 13, 2017, the Bank had 132 employees, 9 of whom were part-time.

Item 1A – Risk Factors

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.

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.

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, Schuyler, Steuben, Tompkins, Cortland, 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. 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 or Monetary Policy

We are subject to extensive regulation, supervision, and examination by the NYSDFS, our chartering authority, as well as the FRB, our primary federal regulator. 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. Financial institution regulation has been the subject of significant legislation in recent years and may be the subject of further significant legislation in the future, none of which is in the control of the Bank. 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's financial condition, results of operations, or liquidity. Further, federal monetary policy, particularly as implemented through the Federal Reserve System, significantly affects short-term interest rates and credit conditions, and any unfavorable change in these conditions could have a material effect on the Bank's financial condition, results of operations, or liquidity.

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

Our deposits are insured by the FDIC up to legal limits and, accordingly, we are subject to FDIC deposit insurance assessments. In 2008 and 2009, higher levels of bank failures drastically depleted the deposit insurance fund. In order to maintain a strong funding position and restore reserve ratios of the deposit insurance fund depleted during the financial crisis, the FDIC levied a special assessment on insured institutions and subsequently revised the assessment system from a deposit-based assessment to an asset-based assessment. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. Should the FDIC deposit insurance fund position in the future require the FDIC 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 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 $8.2 million as of December 31, 2016.

In recent periods, published reports indicated that certain member banks of the FHLB system may have been subject to asset quality risks that could have resulted 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.

Our Funding Sources may not be Sufficient to Replace Deposits and Support Future Growth

We must maintain sufficient cash flow and liquid assets to satisfy current and future financial obligations, including demand for loans and deposit withdrawals, funding operating costs, and for other corporate purposes. As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. As we continue to grow, we are likely to become more dependent on these sources, which may include various short-term and long-term wholesale borrowings, including Federal funds purchased and securities sold under agreements to repurchase, proceeds from the sale of loans, and borrowings from the FHLB. We also maintain available lines of credit with the FHLB that are secured by loans. Adverse operating results or changes in industry conditions could make it difficult or impossible for us to access these additional funding sources and could make our existing funds more volatile. Our financial flexibility could be materially constrained if we are unable to maintain access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. If we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In that case, our operating margins and profitability would be adversely affected. Any interruption in these sources of liquidity when needed could adversely affect our results of operations, financial condition, cash flow or regulatory capital levels. In addition, reduced liquidity could result from circumstances beyond our control, such as general market disruptions or operational problems that affect us or third parties. Management's efforts to closely monitor our liquidity position for compliance with internal policies may not be successful or sufficient to deal with dramatic or unanticipated reductions in liquidity.

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

Under accounting standards, the Bank 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 9 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

In 2008, New York State revised legislation that phased 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 2014, 2015, and 2016, we are entitled to exclude from taxation 60% of our REIT's taxable income.

In 2014, New York State tax reform legislation was enacted which allowed the Bank to continue to exclude 60% of the REIT's taxable income. However, if future state tax legislation is proposed regarding the disallowance of the exclusion for dividends paid by our REIT, it may have a negative impact on our earnings.

Item 2 – Properties

The Bank has a main office, including administrative offices, thirteen full-service branch offices, two loan centers, and other properties. At December 31, 2016, 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, 2016:

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	--	--	1,643
Horseheads Branch Grand Central Avenue, Horseheads, NY	1969	Owned	--	--	248
West Elmira Branch West Church Street, Elmira, NY	1977	Owned	--	--	116
Southport Branch Pennsylvania Avenue, Elmira, NY	1980	Owned	--	--	204
Big Flats Branch 971 County Route 64, Elmira, NY	2012	Owned	--	--	2,579
Elmira Heights Branch 2075 Lake Road, Elmira Heights, NY	2012	Owned	--	--	131
Watkins Glen Branch 712 N. Franklin Street. Watkins Glen, NY	2015	Owned	--	--	912
Corning Branch 19 E. Market Street - Suite 101, Corning, NY 14830	2006	Owned	--	--	974
Erwin Branch 404 S. Hamilton Street, Painted Post, NY 14870	2013	Leased	2018	Yes	0
Commons Branch 301 East State Street, Ithaca, NY 14850	2007	Leased	2017	No	0
Ithaca Loan Center 301 East State Street, Ithaca, NY 14850	2009	Leased	2017	No	13
Vestal Loan Office 3439 Vestal Parkway, Vestal, NY 13850	2013	Leased	2018	Yes	0
Moravia Branch 142 Main Street, Moravia, NY	2007	Owned	--	--	253
South Meadow Branch 702 South Meadow Street, Ithaca, NY	2007	Leased	2027	No	54
Triphammer Branch 2300 North Triphammer Road, Ithaca, NY	2007	Leased	2017	Yes	0
Arnot Mall ATM Rt. 17 & Chambers Road, Big Flats, NY	2012	Leased	2017	Yes	0
Multiple-Use Building 311, 313, 315 East Water Street, Elmira, NY	--	Owned	--	--	404
Building lots held for possible future use - West Seneca Street / North Meadow Street / West State Street, Ithaca, NY; Division Street / Lackawanna Avenue & Fisherville Rd. Elmira NY; East Fourth Street / Magee Street, Watkins Glen, NY	--	Owned	--	--	3,685
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 – Mine Safety Disclosures

Not applicable.

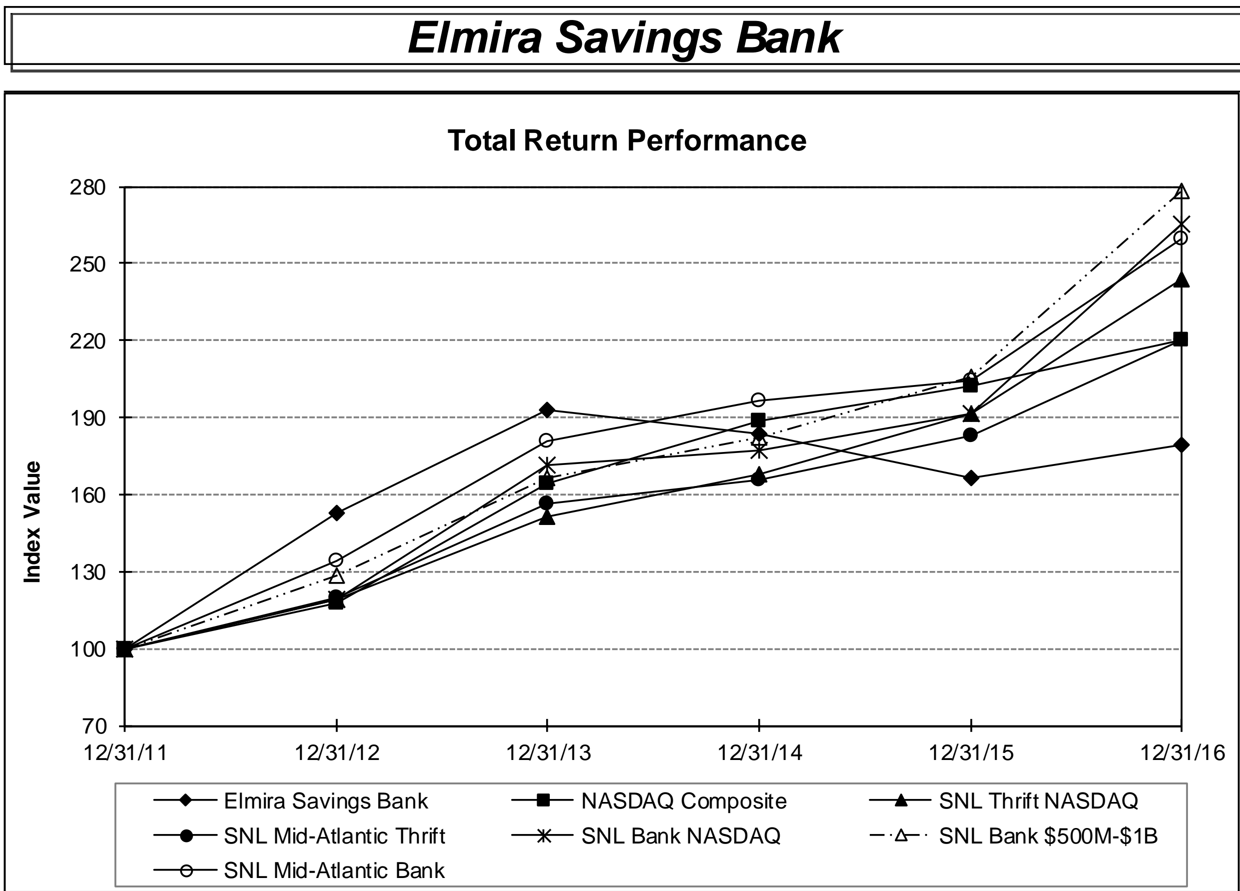
PART II

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 2016 and 2015.

	2016		2015	
	High	Low	High	Low
1st Quarter	20.55	16.83	23.00	19.99
2nd Quarter	20.10	18.06	20.82	19.43
3rd Quarter	21.50	18.85	20.81	19.05
4th Quarter	22.25	18.50	21.13	18.41

The Bank had 388 holders of record of common stock at March 13, 2017, and the brokers currently making a market in the Bank's common stock are: Citadel Securities; UBS Securities; Knight Equity Markets; and Boenning & Scattergood.



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:	**2016**	**2015**	**2014**	**2013**	**2012**
Total assets	$573,450	$561,344	$545,969	$514,325	$536,936
Securities available for sale	32,581	42,709	65,624	63,464	66,875
Securities held to maturity	8,519	9,003	7,389	7,805	5,521
Loans receivable	455,931	451,368	417,359	389,129	378,108
Allowance for loan losses	(4,263)	(4,148)	(3,974)	(3,834)	(3,740)
Goodwill	12,320	12,320	12,320	12,320	12,320
Deposits	469,547	440,472	422,561	397,733	409,565
Borrowings	42,000	59,525	62,000	56,500	54,000
Shareholders' equity	55,723	54,771	55,493	54,025	66,909
Consolidated income statement data:					
Interest income	$20,888	$20,734	$20,267	$20,253	$20,985
Interest expense	4,368	5,100	4,855	5,200	5,896
Net interest income	16,520	15,634	15,412	15,053	15,089
Provision for loan losses	487	630	407	315	463
Noninterest income	5,900	5,391	4,758	5,557	6,050
Noninterest expense	15,602	14,593	14,503	13,862	12,944
Income before income tax	6,331	5,802	5,260	6,433	7,732
Income tax expense	1,989	1,675	1,590	1,374	2,514
Net income	4,342	4,127	3,670	5,059	5,218
Net income attributable to noncontrolling interest	5	5	5	5	5
Net income attributable to Elmira Savings Bank	4,337	4,122	3,665	5,054	5,213
Preferred stock dividend and accretion of discount	900	900	900	1,215	1,609
Income available to common shareholders	$3,437	$3,222	$2,765	$3,839	$3,604
Per share data:					
Basic earnings per share	$1.26	$1.19	$1.03	$1.47	$1.44
Diluted earnings per share	$1.25	$1.17	$0.99	$1.40	$1.37
Cash dividends declared per share	$0.92	$0.92	$0.92	$0.84	$0.77
Other data:					
Return on average assets	0.76%	0.73%	0.70%	0.97%	0.99%
Return on average shareholders' equity	7.77%	7.43%	6.60%	8.51%	7.92%
Shareholders' equity to assets at year-end	9.72%	9.76%	10.16%	10.50%	12.46%
Dividend payout ratio	73.02%	77.31%	89.32%	57.14%	53.16%
Number of offices	15	16	16	15	14

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

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 Elmira Savings Bank during the years ended December 31, 2016 and 2015 and the results of operations for the three years ended December 31, 2016. The consolidated financial statements and related notes as of December 31, 2016 and 2015, and for each of the years in the three-year period ended December 31, 2016, should be read in conjunction with this review.

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 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, and technology expense. 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 is chartered by the NYSDFS. The Bank's primary federal regulator is the FRB, 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 the NYSDFS and the FRB.

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 2016.

2016 Bid	High	Low
	22.00	15.03
2016 Ask	High	Low
	23.95	17.05

2016 Highlights

Total assets were $573.5 million at December 31, 2016, which was $12.1 million or 2.2% above December 31, 2015. Loans receivable increased by $4.6 million while total investments, including FRB and FHLB stock, decreased by $11.9 million. The increase in loans is attributable to a $2.1 million increase in real estate loans, a $1.5 million increase in consumer loans, and by a $911,000 increase in business loans. Cash and cash equivalents increased by $18.8 million to $24.3 million. Deposits increased by $29.1 million or 6.6% during the year. Borrowings decreased by $17.5 million or 29.4% during 2016.

The Bank's shareholders' equity increased by $952,000 or 1.7% to $55.7 million or a core (tier 1 leverage) capital ratio of 8.24% as of December 31, 2016.

Net income for the year ended December 31, 2016 was $4.3 million which was $215,000 or 5.2% higher than the same period in 2015. The increase in net income is due to a $509,000 increase in noninterest income, an $886,000 increase in net interest income, and a $143,000 decrease in the provision for loan losses, offset by a $1.0 million increase in noninterest expense and a $314,000 increase in income tax expense.

Earnings per diluted share were $1.25 for the year ended December 31, 2016, as compared to $1.17 for the year ended December 31, 2015, an increase of 6.8%.

Net interest margin increased by 14 basis points to 3.21% for the year ended December 31, 2016. Return on assets and return on equity were .76% and 7.77%, respectively, for the year ended 2016, compared to .73% and 7.43%, respectively, for the same period in 2015.

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, the valuation of financial assets and liabilities measured at fair value, 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.

Fair Values of Financial Instruments

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820, "Fair Value Measurements and Disclosures," establishes a framework for measuring fair value. In accordance with FASB ASC Topic 820, Elmira Savings Bank groups financial assets and financial liabilities measured at a fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. Level 2 valuations are for instruments that trade in less active dealer or broker markets and incorporate values obtained for identical or comparable instruments. Level 3 valuations are derived from other valuation methodologies, including discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to each instrument.

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, 2016 to December 31, 2015.

At December 31, 2016, the Bank had total consolidated assets of $573.5 million, an increase of $12.1 million or 2.2% from the December 31, 2015 level of $561.3 million. The Bank increased

its loans by $4.6 million or 1.0%. The Bank experienced an increase in deposits of $29.1 million or 6.6%. The Bank experienced a decrease in borrowings of $17.5 million or 29.4% and a decrease in total investments, including FRB and FHLB stock, of $11.9 million or 19.0%.

Total earning assets were 89.0% of total assets at December 31, 2016 compared to 92.3% at December 31, 2015. The Bank's total cash and equivalents increased by $18.3 million to $24.3 million. Securities, including FRB and FHLB stock and loans, net of allowance, represented 8.9% and 78.8%, respectively, of total assets at December 31, 2016, as compared to 11.2% and 79.7%, respectively, at December 31, 2015. Total liabilities increased by $11.2 million to $517.7 million at December 31, 2016 from $506.6 million at December 31, 2015. Total deposits increased by $29.1 million to $469.5 million. For 2016, this increase in deposits is due primarily to an increase in noninterest-bearing accounts of $3.4 million, savings accounts of $3.7 million, money market accounts of $5.5 million, and time deposits of $17.8 million, offset by a decrease in interest-bearing transaction accounts of $1.3 million. Total borrowings decreased by $17.5 million to $42.0 million. Total deposits funded 81.9% of total assets at year-end 2016 in comparison to 78.5% at December 31, 2015. The percentage of total assets supported by borrowings decreased to 7.3% at December 31, 2016 from 10.6% at the prior year-end.

Total shareholders' equity was $55.7 million at December 31, 2016, an increase of $952,000, or 1.7% from December 31, 2015. The change in shareholders' equity is attributable to year-to-date net income of $4.3 million, less cash dividends paid on preferred and common stock of $3.4 million. Additional paid in capital increased by $401,000, primarily as a result of stock options exercised and stock-based compensation expense. Accumulated other comprehensive income, net of taxes, decreased by $392,000 related to an increase in net unrealized losses in the available for sale investment portfolio.

Loan Portfolio

Loans receivable (after net unamortized loan origination costs and before the allowance for loan losses) at December 31, 2016 increased to $455.9 million and were $4.6 million or 1.0% higher than December 31, 2015 levels. The composition of the net increase in the loan portfolio consisted of a $12.2 million increase in commercial real estate loans, a $1.5 million increase in consumer loans, and a $911,000 increase in commercial loans, offset by a $5.9 million decrease in construction loans, and a $4.2 million decrease in residential real estate loans. The decrease in residential real estate loans reflects the Bank's focus on increasing the volume of mortgages originated for sale to the secondary market versus adding those mortgages to the Bank's loan portfolio. Residential real estate loans originated for sale to the secondary market in 2016 increased by $17.2 million from 2015. In 2015, $59.1 million of residential real estate loans, or 50.1% of total residential real estate originations, were originated for sale to the secondary market, versus $76.3 million, or 68.9%, in 2016.

At December 31, 2016, the Bank's loan portfolio before net unamortized loan costs and the allowance for loan losses consisted of the following: $275.1 million of residential real estate loans; $94.9 million of commercial real estate loans; $9.3 million of construction loans; $21.6 million of business loans; and $51.6 million of consumer loans.

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

(dollars in thousands)	2016 $ Outstanding	2016 % of Total Loans	2015 $ Outstanding	2015 % of Total Loans	2014 $ Outstanding	2014 % of Total Loans
Residential real estate loans	275,072	60.8	279,262	62.3	259,949	62.7
Commercial real estate loans	94,859	21.0	82,684	18.5	75,061	18.1
Construction loans	9,288	2.1	15,170	3.4	10,986	2.7
Commercial loans	21,603	4.8	20,692	4.6	24,357	5.9
Consumer loans	51,628	11.4	50,116	11.2	44,169	10.7
	452,450	100.0	447,924	100.0	414,522	100.0

(dollars in thousands)	2013 $ Outstanding	2013 % of Total Loans	2012 $ Outstanding	2012 % of Total Loans
Residential real estate loans	239,032	61.8	224,167	59.5
Commercial real estate loans	79,135	20.4	75,230	20.0
Construction loans	5,467	1.4	9,695	2.6
Commercial loans	24,026	6.2	29,102	7.7
Consumer loans	39,337	10.2	38,265	10.2
	386,997	100.0	376,459	100.0

Gross consumer loan originations totaled $21.8 million in 2016 compared to $25.7 million in 2015. Gross residential real estate loan originations totaled $110.7 million in 2016, a decrease of $7.3 million from originations of $118.0 million in 2015. Gross commercial loan and commercial real estate loan originations totaled $30.9 million in 2016 versus $28.8 million in 2015. Residential real estate originations for 2016 included $76.3 million of loans originated for sale to the secondary market and $59.1 million for 2015.

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 assets at the dates indicated:

	2016	2015	2014	2013	2012
	(dollars in thousands)				
Nonaccrual loans	$ 5,030	$ 4,736	$ 4,699	$ 3,494	$ 3,861
Loans past due 90 days or more and still accruing	-	-	-	-	-
Total nonperforming loans	5,030	4,736	4,699	3,494	3,861
Other real estate owned	199	151	-	98	125
Other repossessed assets	63	60	-	-	-
Total nonperforming assets	$ 5,292	$ 4,947	$ 4,699	$ 3,592	$ 3,986
Nonperforming loans as a percentage of loans receivable, net	1.10%	1.05%	1.13%	0.90%	1.02%
Nonperforming assets as a percentage of total assets	0.92%	0.88%	0.86%	0.70%	0.74%

Impaired loans evaluated for specific allowance totaled $2.9 million at December 31, 2016 and 2015. Impaired loans at December 31, 2016 had a related allowance for loan losses of $488,000. Impaired loans at December 31, 2015 had a related allowance for loan losses of $401,000.

At December 31, 2016, loans more than 30 days delinquent, excluding nonaccrual loans, amounted to .24% of total loans receivable, net, as compared to .38% of total loans receivable, net at December 31, 2015.

At December 31, 2016, in addition to nonperforming loans, the Bank, through its internal loan review function, has identified four commercial relationships totaling $1.4 million, which it has classified as substandard which are still accruing. At December 31, 2015, the Bank had six commercial relationships totaling $1.6 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, 2016, 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, 2016, the allowance for loan losses amounted to $4.3 million and represented .94% of loans receivable, net. At December 31, 2015, the allowance for loan losses was $4.1 million and represented .92% of loans receivable, net.

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

	2016	2015	2014	2013	2012
			(dollars in thousands)		
Balance at beginning of year	$4,148	$3,974	$3,834	$3,740	$3,299
Loan charge-offs					
Real Estate loans	(131)	(148)	(24)	(196)	(4)
Commercial loans	(23)	(62)	(217)	-	-
Consumer loans	(261)	(302)	(101)	(88)	(88)
Total loans charged-off	(415)	(512)	(342)	(284)	(92)
Loan recoveries					
Real Estate loans	-	1	2	1	1
Commercial loans	11	14	13	11	15
Consumer loans	32	41	60	51	54
Total loans recovered	43	56	75	63	70
Net charge-offs	(372)	(456)	(267)	(221)	(22)
Provision charged to expense	487	630	407	315	463
Balance at end of year	$4,263	$4,148	$3,974	$3,834	$3,740
Allowance to total loans at end of period	0.94%	0.92%	0.95%	0.99%	0.99%
Net charge-offs to average loans outstanding	0.08%	0.11%	0.07%	0.06%	0.01%

The Bank's ratio of allowance to total loans increased to .94% for December 2016 from .92% for 2015. This reflects the allocation of the reserve shifting slightly from residential real estate loans towards consumer and commercial loans, consistent with the change in the loan portfolio composition. Residential real estate loans are generally considered to be of higher asset quality than commercial and commercial real estate loans. Therefore, the higher ratio of allowance to total loans for December 2016 is consistent with the loan portfolio composition shifting towards consumer and commercial loans from residential real estate loans.

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

Allocation of the reserve by loan type:

	December 31,				
(in thousands)	2016	2015	2014	2013	2012
Residential real estate loans	$ 1,852	$ 1,915	$ 1,703	$ 1,483	$ 1,131
Commercial real estate loans	1,024	989	1,138	1,251	1,279
Construction real estate loans	57	99	72	36	63
Commercial loans	482	429	630	696	804
Consumer loans	848	716	431	368	463
Balance at end of year	$ 4,263	$ 4,148	$ 3,974	$ 3,834	$ 3,740

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 cashflow and 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 Government National Mortgage Association. 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, 2016 and 2015, the Bank's securities portfolio consisted primarily of U.S. Government-sponsored entities, mortgage-backed securities, and bank-qualified municipal securities that present low credit risk to the overall balance sheet mix. At December 31, 2016, all but $8.5 million of the Bank's total portfolio of $41.1 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)	2016	2015	2014
Securities available for sale:			
Fair Value:			
U.S. Government sponsored entities	$ 6,424	$ 5,994	$ 16,034
Mortgage-backed securities - U.S. Government sponsored entities	15,261	21,419	31,700
Municipal securities	10,896	15,296	17,890
Total of securities available for sale	$ 32,581	$ 42,709	$ 65,624
Securities held to maturity:			
Amortized cost:			
Mortgage-backed securities - U.S. Government sponsored entities	$ 36	$ 76	$ 133
Municipal securities	8,132	8,534	6,823
Other debt securities	351	393	433
Total of securities held to maturity	$ 8,519	$ 9,003	$ 7,389

The average yield on the U.S. Government sponsored entities obligations available for sale at December 31, 2016 was 1.40%. The average yield on mortgage-backed securities available for sale at December 31, 2016 was 2.20%. The average yield on municipal securities available for sale on December 31, 2016 was 3.81%.

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, 2016:

(in thousands)	U.S. Government sponsored entities		Mortgage-backed securities - U.S. Government sponsored entities		Municipal Securities		Total	
	Amount	Yield	Amount	Yield			Amount	Yield
Within one year	$ -	0.00%	$ -	0.00%	$ -	0.00%	$ -	0.00%
After one to five years	6,500	1.40%	1,069	2.01%	-	0.00%	7,569	1.49%
After five to ten years	-	0.00%	1,961	2.59%	4,665	3.76%	6,626	3.41%
After ten years	-	0.00%	12,294	2.16%	6,123	3.85%	18,417	2.72%
Total	$ 6,500	1.40%	$ 15,324	2.20%	$ 10,788	3.81%	$ 32,612	2.58%

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, 2016:

(in thousands)	Mortgage-backed securities - U.S. Government sponsored entities		Municipal Securities		Other Debt Securities		Total	
	Amount	Yield	Amount	Yield			Amount	Yield
Within one year	$ -	0.00%	$ -	0.00%	$ 110	3.50%	$ 110	3.50%
After one to five years	28	4.17%	-	0.00%	-	0.00%	28	4.17%
After five to ten years	8	6.37%	4,444	4.23%	-	0.00%	4,452	4.23%
After ten years	-	0.00%	3,688	3.87%	241	4.68%	3,929	3.92%
Total	$ 36	4.66%	$ 8,132	4.07%	$ 351	4.31%	$ 8,519	4.08%

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, 2016.

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 $29.1 million or 6.6% to $469.5 million at December 31, 2016, from the December 31, 2015 level of $440.5 million. Certificates of deposit ("CD"), a higher cost source of funds, comprised 45.6% of total deposits December 31, 2016 compared to 44.5% at December 31, 2015.

	December 31,	
(in thousands)	**2016**	**2015**
Noninterest-bearing demand	**$ 70,330**	**$ 66,964**
Interest-bearing:		
Interest-bearing transaction accounts	**85,822**	**87,083**
Regular savings	**58,713**	**54,696**
IRA savings	**6,945**	**7,500**
Mortgage escrow savings	**4,784**	**4,521**
Money market savings	**28,889**	**23,382**
Club accounts	**179**	**197**
Certificates of deposit	**213,885**	**196,129**
Total interest-bearing	**399,217**	**373,508**
	$ 469,547	**$ 440,472**

The increase in total deposits resulted from an increase in time deposits of $17.8 million, an increase in noninterest-bearing transaction accounts of $3.4 million, an increase of $3.7 million in savings accounts, and an increase of $5.5 million in money market accounts, offset by a decrease of $1.3 million in interest-bearing transaction accounts. 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 $17.5 million to $42.0 million at December 31, 2016. FHLB advances remained the same at $40.0 million at December 31, 2016. Securities sold under agreements to repurchase with the FHLB were $2.0 million at December 31, 2016 and $13.0 million at December 31, 2015. Overnight borrowings totaled $6.5 million at December 31, 2015. There were no overnight borrowings at December 31, 2016.

Capital Resources

The Bank exceeds all minimum regulatory capital requirements. Total shareholders' equity at December 31, 2016 was $55.7 million, an increase of $952,000 from December 31, 2015. The change in shareholders' equity is attributable to year-to-date net income of $4.3 million, less cash dividends paid on preferred and common stock of $3.4 million. Additional paid in capital increased by $401,000, primarily as a result of stock options exercised and stock-based compensation expense. Accumulated other comprehensive income, net of taxes, decreased by $392,000 related to an increase in net unrealized losses in the available for sale investment portfolio.

At December 31, 2016, there were 2,746,552 shares of common stock outstanding. Book value per share was $16.74 at December 31, 2016. The Bank's cash dividends paid per common share during 2016 was $.92. 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 10,000 shares of preferred stock outstanding at December 31, 2016. Preferred shares outstanding are nonvoting, noncumulative perpetual preferred stock. The ten thousand shares relate to a sale of preferred stock in 2007. 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, 2016 and 2015, the Bank exceeded its minimum regulatory capital requirements. At December 31, 2016 and 2015, the Bank's consolidated (Tier 1) leverage capital ratios were 8.24% and 8.05%, respectively. At December 31, 2016 and 2015, the Bank's consolidated risk-based total capital ratios were 13.96% and 13.55%, respectively.

RESULTS OF OPERATIONS

Earnings Summary

The Bank's net income for 2016 was $4.3 million compared with net income for 2015 of $4.1 million, an increase of $215,000 or 5.2%. Net income for 2014 was $3.7 million. Diluted earnings per share were $1.25, $1.17, and $.99 for the years 2016, 2015, and 2014, respectively. The increase in earnings per diluted share from 2015 to 2016, is reflective of the 5.2% 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 $886,000 or 5.7% to $16.5 million in 2016. The Bank's interest rate spread for 2016 was 3.05%, an increase of 15 basis points from 2015. The Bank's net interest margin increased by 14 basis points to 3.21% in 2016 from 3.07% in 2015.

Total average interest-earning assets increased by $4.4 million to $513.9 million in 2016, an increase of 0.9%. The average yield on total interest-earning assets decreased to 4.05% in 2016 from 4.06% in 2015.

Total average loans increased by $25.4 million to $458.8 million. The average yield on loans decreased by 10 basis points from 4.24% in 2015 to 4.14% in 2016. Total average residential real estate loans, which represents the greatest proportion of total loans, increased by $11.1 million to $287.5 million. Average commercial loans, including commercial real estate, increased by $11.2 million to $120.7 million. Average consumer loans increased $3.1 million.

Total average securities, including short-term investments, decreased by $21.0 million to $55.0 million. The average yield on securities, including short-term investments, increased from 3.04% in 2015 to 3.33% in 2016.

Compared to 2014 results, net interest income increased by $222,000 or 1.4% to $15.6 million in 2015. The Bank's net interest rate spread was 2.90% in 2015, a decrease of 13 basis points from 2014. The Bank's net interest margin decreased by 16 basis point from 3.23% in 2014 to 3.07% in 2015.

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.

	2016			2015			2014		
(dollars in thousands)	**Average Balance**	**Interest**	**Yield/Rate**	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Assets:									
Loans	**$ 458,840**	**$ 19,056**	**4.14 %**	$ 433,397	$ 18,418	4.24 %	$ 398,416	$ 17,709	4.44 %
Short-term investments	**586**	**1**	**0.18**	847	-	0.03	1,069	1	0.02
Securities	**54,449**	**1,831**	**3.36**	75,228	2,316	3.08	77,349	2,557	3.31
Total interest-earning assets	**513,875**	**20,888**	**4.05**	509,472	20,734	4.06	476,834	20,267	4.24
Noninterest-earning assets	**53,301**			54,990			44,418		
Total assets	**$ 567,176**			$ 564,462			$ 521,252		
Liabilities and shareholders' equity:									
Interest-bearing deposits	**$ 386,818**	**3,055**	**0.79**	$ 365,142	3,016	0.83	$ 339,720	2,986	0.88
Borrowings	**48,788**	**1,313**	**2.65**	70,773	2,084	2.90	60,263	1,869	3.06
Total interest-bearing liabilities	**435,606**	**4,368**	**1.00**	435,915	5,100	1.16	399,983	4,855	1.21
Noninterest-bearing liabilities	**75,782**			73,103			65,727		
Shareholders' equity	**55,788**			55,444			55,542		
Total liabilities and shareholders' equity	**$ 567,176**			$ 564,462			$ 521,252		
Net interest income		**$ 16,520**			$ 15,634			$ 15,412	
Interest rate spread			**3.05 %**			2.90 %			3.03 %
Net interest margin			**3.21 %**			3.07 %			3.23 %

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:

	2016 Compared to 2015 Increase (Decrease) Due to			2015 Compared to 2014 Increase (Decrease) Due to		
(in thousands)	**Volume**	**Rate**	**Total Increase (Decrease)**	Volume	Rate	Total Increase (Decrease)
Interest income:						
Loans	**$ 1,064**	**$ (426)**	**$ 638**	$ 1,509	$ (800)	$ 709
Securities	**(685)**	**201**	**(484)**	(75)	(167)	(242)
Total interest income	**$ 379**	**$ (225)**	**$ 154**	$ 1,434	$ (967)	$ 467
Interest expense:						
Deposits	**$ 180**	**$ (141)**	**$ 39**	$ 226	$ (196)	$ 30
Borrowings	**(604)**	**(167)**	**(771)**	313	(98)	215
Total interest expense	**(424)**	**(308)**	**(732)**	539	(294)	245
Net interest income	**$ 803**	**$ 83**	**$ 886**	$ 895	$ (673)	$ 222

The weighted average cost of total interest-bearing liabilities, which is comprised of deposits and borrowings, decreased to 1.00% in 2016 as compared with the 2015 average cost of 1.16%. The cost of certificates of deposit decreased by 11 basis points from 1.32% in 2015 to 1.21% in 2016. The Bank experienced a decrease in average borrowed funds of $22.6 million from 2015. The cost of these funds decreased from 2.90% in 2015 to 2.65% in 2016.

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

	2016			2015		
	Average Balance	Average Cost	Interest Expense	Average Balance	Average Cost	Interest Expense
(dollars in thousands)						
Noninterest-bearing	$69,017	-%	$ -	$66,767	-%	$ -
NOW accounts	102,705	0.41%	423	85,792	0.25%	215
Savings accounts	90,366	0.31%	279	82,675	0.26%	211
Time deposits	193,747	1.21%	2,353	196,675	1.32%	2,590
Total deposits	$455,835	0.67%	$ 3,055	$431,909	0.70%	$ 3,016

	2014		
	Average Balance	Average Cost	Interest Expense
Noninterest-bearing	$60,092	-%	$ -
NOW accounts	77,397	0.12%	93
Savings accounts	81,668	0.26%	211
Time deposits	180,655	1.48%	2,682
Total deposits	$399,812	0.75%	$ 2,986

Maturities of time certificates of deposit of $100,000 or more outstanding at December 31, 2016 are summarized as follows:

(in thousands)	
3 months or less	$ 36,559
over 3 through 6 months	14,196
over 6 through 12 months	16,068
over 12 months	46,531
	$ 113,354

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

	2016	2015	2014
	(dollars in thousands)		
Repurchase agreements	$ 298	$ 908	$ 1,025
FHLB term advances	1,015	1,176	844
Total borrowings	$1,313	$2,084	$1,869

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 $487,000 and $630,000 in 2016 and 2015, respectively.

The Bank's ratio of allowance to total loans was .94% in 2016, versus .92% in 2015. Loans more than 30 days delinquent, excluding nonaccrual loans, were .24% of total loans at December 31, 2016 and .38% of total loans at December 31, 2015.

Noninterest Income

Total noninterest income for 2016 was $5.9 million, an increase of $509,000 or 9.4% from noninterest income for 2015. This increase is due primarily to an increase in the gain on sale of loans of $679,000. The increase in the gain on sale of loans was partially offset by a decrease in the gain on sale of securities of $104,000. The increase in the gains from the sale of loans reflects an increase in the level of residential real estate loans sold in 2016, as well as an increase in the average premiums received for loans sold in 2016 compared to 2015. The decrease in the gain on sale of securities is due to a lower volume of sales of investment securities in 2016 versus 2015.

Noninterest Expense

Total noninterest expense was $15.6 million and $14.6 million for 2016 and 2015, respectively. The $15.6 million of noninterest expense for 2016 represents an increase of $1.0 million or 6.9% from the 2015 levels. This increase relates primarily to an increase in other expense of $528,000 and an increase of $603,000 in salaries and benefits expense. These increases reflect higher costs related to increased lending activity and related support functions. Additionally, the higher expense for 2016 includes costs related to the ongoing implementation of strategic growth initiatives.

Income Taxes

The Bank's income tax expense amounted to $2.0 million, $1.7 million, and $1.6 million in 2016, 2015, and 2014, respectively. Effective tax rates for these periods were 31.4%, 28.9%, and 30.2%, respectively. For 2016, 2015, and 2014, tax exempt investment income and earnings on bank-owned life insurance were 19.5%, 23.2% and 24.8%, respectively, of income before taxes.

Comparison of 2015 and 2014 Operating Results

The Bank's net income for 2015 was $4.1 million compared with net income for 2014 of $3.7 million, an increase of $457,000 or 12.5%. Diluted earnings per share were $1.17 for 2015 and $.99 for 2014. The increase in earnings per diluted share from 2014 to 2015 is reflective of the 12.5% increase in net income.

Net Interest Income

Net interest income increased by $222,000 or 1.4% to $15.6 million in 2015. The Bank's interest rate spread for 2015 was 2.90%, a decrease of 13 basis points from 2014. The Bank's net interest margin decreased by 16 basis points to 3.07% in 2015 from 3.23% in 2014.

Provision for Loan Losses

The provision for loan losses amounted to $630,000 in 2015 versus $407,000 in 2014. The Bank's ratio of allowance to total loans was .92% in 2015 versus .95% in 2014. This reflects relative consistency in loans classified substandard and in loans more than 30 days delinquent, with the allocation of the reserve shifting from commercial and commercial real estate to residential real estate, in line with the change in loan portfolio composition.

Noninterest Income

Total noninterest income for 2015 was $5.4 million, an increase of $633,000 or 13.3% from noninterest income for 2014. This increase is due primarily to an increase in the gain on sale of loans of $749,000. The increase in the gain on sale of loans was partially offset by a decrease in the gain on sale of securities of $138,000. The increase in the gains from the sale of loans reflects an increase in the level of residential real estate loans sold in 2015, as well as an increase in the average premiums received for loans sold in 2015 compared to 2014. The decrease in the gain on sale of securities is due to a lower volume of sales of investment securities in 2015 versus 2014.

Noninterest Expense

Total noninterest expense was $14.6 million and $14.5 million for 2015 and 2014, respectively. The $14.6 million of noninterest expense for 2015 represents an increase of $90,000 or .6% from the 2014 levels. This increase relates primarily to an increase in other expense of $411,000, offset by a decrease of $368,000 in salaries and benefits expense. The decrease in salaries and benefits expense includes the impact of $820,000 of one-time expense recognized in the third quarter of 2014 for the estimated value of an executive retirement compensation agreement. The increase in other expense reflects the higher level of loan origination volume in 2015 and related expenses. Additionally, the higher other expense for 2015 includes costs related to the ongoing implementation of the strategic growth initiatives.

Income Taxes

The Bank's income tax expense amounted to $1.7 million and $1.6 million in 2015 and 2014. Effective tax rates for these periods were 28.9% and 30.2%. For 2015 and 2014, tax exempt investment income and earnings on bank-owned life insurance were 23.2% and 24.8% of income before taxes.

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.

One of the standard methods banks use to measure interest rate sensitivity is to model the economic value of equity (EVE) in various interest rate scenarios. This method estimates the economic value of the Bank's assets and liabilities, given different increases and decreases in interest rates. Due to the historically low interest environment we are currently experiencing, the Bank has focused on the change in the economic value of equity for a 200 basis points increase in rates and a 100 basis point decrease in rates as its guideline for determining the Bank's interest rate risk sensitivity. The Bank's EVE given shocks of -100, +200, and 0 basis points as of December 31, 2016, is shown in the table below.

Interest Rate Sensitivity of Economic Value of Equity (EVE)

	-100 bp	0 bp	+200 bp
	(dollars in thousands)		
Assets	$581,897	$568,120	$535,759
Liabilities	518,916	509,561	491,610
Off-balance sheet positions	713	135	(1,299)
Economic Value of Equity	$63,694	$58,694	$42,850
EVE as a percentage of the present value of assets	10.95%	10.33%	8.00%
Change in the EVE ratio	+62 bp	-	-233 bp

Generally, a bank with an increased EVE 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, 2016, management has 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, 2016. 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	$ 14,858	$ 44,084	$ 35,917	$ 94,859
Real estate construction	9,288	-	-	9,288
Commercial loans	9,060	5,648	6,895	21,603
Total	$ 33,206	$ 49,732	$ 42,812	$ 125,750

Of the loan amounts shown above maturing over one year, $82.5 million have adjustable rates and $10.0 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 2016, $5.4 million was provided by operating activities, $5.2 million was provided by investing activities, and $8.3 million was provided by financing activities. Accordingly, cash and cash equivalents decreased by $18.8 million to $24.3 million at December 31, 2016.

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, 2016, outstanding loan commitments amounted to $22.4 million. Commitments under commercial unused lines of credit were approximately $15.6 million at December 31, 2016 and commitments for consumer lines of credit were approximately $3.1 million at December 31, 2016. 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. Time certificates of deposit scheduled to mature in one year or less at December 31, 2016 totaled $117.8 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)	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Total Borrowings	$ 42,000	$ 7,000	6,000	$ 11,000	$ 18,000
Operating Leases	647	195	152	100	200
Total Obligations	$ 42,647	$ 7,195	$ 6,152	$ 11,100	$ 18,200

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

Elmira Savings Bank and Subsidiaries

Consolidated Balance Sheets

(in thousands, except for share data)	December 31, 2016	2015
Assets		
Cash and due from banks	**$ 24,195**	$ 5,352
Federal funds sold and other short-term investments	**99**	102
Total cash and equivalents	**24,294**	5,454
Securities available for sale, at fair value	**32,581**	42,709
Securities held to maturity - fair value $8,679 at December 31, 2016, and $9,010 at December 31, 2015	**8,519**	9,003
Federal Reserve and Federal Home Loan Bank (FHLB) stock, at cost	**9,811**	11,108
Loans held for sale	**3,597**	3,630
Loans receivable	**455,931**	451,368
Less: Allowance for loan losses	**4,263**	4,148
Net loans	**451,668**	447,220
Premises and equipment, net	**12,634**	12,130
Bank-owned life insurance	**13,592**	13,188
Accrued interest receivable	**1,552**	1,541
Intangible assets, net	**20**	61
Goodwill	**12,320**	12,320
Other assets	**2,862**	2,980
Total assets	**$ 573,450**	$ 561,344
Liabilities and Shareholders' Equity		
Deposits	**$ 469,547**	$ 440,472
Borrowings	**42,000**	59,525
Other liabilities	**6,180**	6,576
Total liabilities	**517,727**	506,573
Shareholders' equity:		
Preferred stock, $1,000 liquidation value per issued share; 5,000,000 shares authorized; 10,000 shares issued at December 31, 2016 and 2015	**9,700**	9,700
Common stock, $1 par value; authorized 5,000,000 shares; 2,844,670 shares issued at December 31, 2016 and 2,820,745 at December 31, 2015	**2,845**	2,821
Additional paid-in capital	**41,644**	41,243
Retained earnings	**4,407**	3,488
Treasury stock, at cost; 98,118 shares at December 31, 2016 and December 31, 2015	**(2,907)**	(2,907)
Accumulated other comprehensive (loss) income	**(19)**	373
Total Elmira Savings Bank shareholders' equity	**55,670**	54,718
Noncontrolling interest	**53**	53
Total shareholders' equity	**55,723**	54,771
Total liabilities and shareholders' equity	**$ 573,450**	$ 561,344

See accompanying notes to consolidated financial statements.

Elmira Savings Bank and Subsidiaries

Consolidated Statements of Income

(in thousands, except for per share amounts)	Years ended December 31, **2016**	2015	2014
Interest and dividend income:			
Interest and fees on loans	**$ 19,056**	$ 18,418	$ 17,709
Interest and dividends on securities			
Taxable	**1,000**	1,367	1,659
Non-taxable	**832**	949	899
Total interest and dividend income	**20,888**	20,734	20,267
Interest expense:			
Interest on deposits	**3,055**	3,016	2,986
Interest on borrowings	**1,313**	2,084	1,869
Total interest expense	**4,368**	5,100	4,855
Net interest income	**16,520**	15,634	15,412
Provision for loan losses	**487**	630	407
Net interest income after provision for loan losses	**16,033**	15,004	15,005
Noninterest income:			
Service fees	**1,420**	1,471	1,437
Gain on sale of loans held for sale	**3,061**	2,382	1,633
Net gain on sale of securities	**180**	284	422
Other service fees	**728**	716	687
Earnings on bank-owned life insurance	**403**	398	404
Other	**108**	140	175
Total noninterest income	**5,900**	5,391	4,758
Noninterest expense:			
Salaries and benefits	**7,927**	7,324	7,692
Net occupancy	**1,416**	1,383	1,416
Equipment	**1,200**	1,061	1,012
Marketing and public relations	**794**	832	884
Professional fees	**517**	773	690
Other	**3,748**	3,220	2,809
Total noninterest expense	**15,602**	14,593	14,503
Income before income taxes	**6,331**	5,802	5,260
Income taxes	**1,989**	1,675	1,590
Net income	**4,342**	4,127	3,670
Less: Net income attributable to noncontrolling interest	**5**	5	5
Net income attributable to Elmira Savings Bank	**4,337**	4,122	3,665
Dividend on preferred stock	**900**	900	900
Income available to common shareholders	**$ 3,437**	$ 3,222	$ 2,765
Basic earnings per common share	**$ 1.26**	$ 1.19	$ 1.03
Diluted earnings per common share	**$ 1.25**	$ 1.17	$ 0.99

See accompanying notes to consolidated financial statements.

Elmira Savings Bank and Subsidiaries

Consolidated Statements of Comprehensive Income

(in thousands)	Years ended December 31, **2016**	2015	2014
Net income	**$ 4,337**	$ 4,122	$ 3,665
Other comprehensive (loss) income:			
Net unrealized holding (losses) gains on securities available for sale	**(459)**	(493)	757
Tax benefit (expense)	**177**	191	(293)
	(282)	(302)	464
Realized securities gains included in net income	**(180)**	(284)	(422)
Tax expense	**70**	110	163
	(110)	(174)	(259)
Other comprehensive (loss) income, net of tax	**(392)**	(476)	205
Comprehensive income	**$ 3,945**	$ 3,646	$ 3,870

See accompanying notes to consolidated financial statements.

Elmira Savings Bank 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	Treasury stock	Accumulated other comprehensive income (loss)	Noncontrolling Interest	Total
Balance at December 31, 2013	**9,700**	**2,776**	**41,693**	**2,485**	**(3,327)**	**644**	**54**	**54,025**
Net income	-	-	-	3,665	-	-	5	3,670
Other comprehensive income	-	-	-	-	-	205	-	205
Stock based compensation expense	-	-	421	-	-	-	-	421
Restricted stock grants (8,566 shares)	-	9	(9)	-	-	-	-	-
Exercise of stock options, net (24,558 shares)	-	24	235	-	-	-	-	259
Issuance of treasury stock (11,850 shares)	-	-	25	-	274	-	-	299
Cash dividend on preferred stock	-	-	-	(900)	-	-	(5)	(905)
Cash dividend on common stock ($.92 per share)	-	-	-	(2,481)	-	-	-	(2,481)
Balance at December 31, 2014	**9,700**	**2,809**	**42,365**	**2,769**	**(3,053)**	**849**	**54**	**55,493**
Net income	-	-	-	4,122	-	-	5	4,127
Other comprehensive loss	-	-	-	-	-	(476)	-	(476)
Stock based compensation expense	-	-	333	-	-	-	-	333
Restricted stock grants (6,925 shares)	-	7	(7)	-	-	-	-	-
Exercise of stock options, net (4,456 shares)	-	5	39	-	-	-	-	44
Repurchase of stock warrant	-	-	(1,486)	-	-	-	-	(1,486)
Issuance of treasury stock (6,300 shares)	-	-	(1)	-	146	-	-	145
Preferred stock repurchased - noncontrolling interest	-	-	-	-	-	-	(1)	(1)
Cash dividend on preferred stock	-	-	-	(900)	-	-	(5)	(905)
Cash dividend on common stock ($.92 per share)	-	-	-	(2,503)	-	-	-	(2,503)
Balance at December 31, 2015	**$ 9,700**	**$ 2,821**	**$ 41,243**	**$ 3,488**	**$ (2,907)**	**$ 373**	**$ 53**	**$ 54,771**
Net income	-	-	-	4,337	-	-	5	4,342
Other comprehensive loss	-	-	-	-	-	(392)	-	(392)
Stock based compensation expense	-	-	274	-	-	-	-	274
Restricted stock grants (9,922 shares)	-	10	(10)	-	-	-	-	-
Exercise of stock options, net (14,003 shares)	-	14	137	-	-	-	-	151
Cash dividend on preferred stock	-	-	-	(900)	-	-	(5)	(905)
Cash dividend on common stock ($.92 per share)	-	-	-	(2,518)	-	-	-	(2,518)
Balance at December 31, 2016	**$ 9,700**	**$ 2,845**	**$ 41,644**	**$ 4,407**	**$ (2,907)**	**$ (19)**	**$ 53**	**$ 55,723**

See accompanying notes to consolidated financial statements.

Elmira Savings Bank and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)	Years ended December 31, 2016	2015	2014
Cash flows from operating activities:			
Net income	**$ 4,342**	$ 4,127	$ 3,670
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation of premises and equipment	**741**	695	664
Accretion of net deferred loan origination costs	**(38)**	(610)	(705)
Amortization of intangible assets	**41**	64	85
Deferred income taxes	**(48)**	426	164
Provision for loan losses	**487**	630	407
Net amortization of premiums and discounts	**91**	181	281
Net gain on sale of securities	**(180)**	(284)	(422)
Gains on sale of loans held for sale	**(3,061)**	(2,382)	(1,633)
Proceeds from sale of loans held for sale	**77,114**	58,656	42,268
Originations of loans held for sale	**(74,020)**	(59,117)	(39,575)
Earnings on bank-owned life insurance	**(403)**	(398)	(404)
Stock based compensation	**274**	333	421
Change in noncontrolling interest	**-**	(1)	-
Changes in certain assets and liabilities affecting operations:			
Accrued interest receivable	**(11)**	25	(112)
Other assets	**156**	(68)	(35)
Other liabilities	**(101)**	536	(446)
Net cash provided by operating activities	**5,384**	2,813	4,628
Cash flows from investing activities:			
Proceeds from sales of securities available for sale	**2,621**	4,706	5,844
Proceeds from maturities of and principal collected on securities available for sale	**13,457**	25,532	14,367
Proceeds from maturities of and principal collected on securities held to maturity	**484**	560	515
Purchases of securities available for sale	**(6,500)**	(7,996)	(21,894)
Purchases of securities held to maturity	**-**	(2,175)	(100)
Net increase in loans receivable	**(4,975)**	(34,006)	(27,954)
Purchases of premises and equipment, net	**(1,245)**	(3,350)	(1,519)
Purchases of Federal Reserve and FHLB stock	**(2,159)**	(2,359)	(6,177)
Redemptions of Federal Reserve and FHLB stock	**3,456**	2,433	5,412
Proceeds from sales of other real estate owned	**39**	-	302
Net cash provided by (used in) investing activities	**5,178**	(16,655)	(31,204)
Cash flows from financing activities:			
Increase in time deposits	**17,756**	305	17,767
Increase in other deposits	**11,319**	17,606	7,061
Advances from FHLB term advances	**-**	18,525	20,000
Repayment of FHLB term advances	**(6,525)**	(8,000)	(14,500)
Repayment of securities sold under repurchase agreements	**(11,000)**	(13,000)	-
Issuance of treasury stock	**-**	145	299
Repurchase of common stock warrant	**-**	(1,486)	-
Cash dividends on common stock	**(2,518)**	(2,503)	(2,481)
Cash dividends on preferred stock	**(905)**	(905)	(905)
Net proceeds from the exercise of stock options	**151**	44	259
Net cash provided by financing activities	**8,278**	10,731	27,500
Net increase (decrease) in cash and cash equivalents	**18,840**	(3,111)	924
Cash and cash equivalents, beginning of year	**5,454**	8,565	7,641
Cash and cash equivalents, end of year	**$ 24,294**	$ 5,454	$ 8,565
Supplemental disclosure of cash flow information:			
Schedule of noncash investing activities:			
Other real estate acquired in settlement of loans	**$ 78**	$ 151	$ 163
Cash paid during the year for:			
Interest - deposits	**3,055**	3,018	2,986
Interest - borrowings	**1,332**	2,136	1,849
Income taxes	**1,205**	1,517	1,610

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

Elmira Savings Bank and Subsidiaries (the "Bank"), formerly The Elmira Savings Bank, FSB and Subsidiaries, 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 Bank is chartered under the laws of New York State and is supervised by the New York State Department of Financial Services ("NYSDFS"). The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is a member bank of the Federal Reserve System, and therefore, the Federal Reserve Board ("FRB") serves as its primary federal regulator. The Bank is subject to regulation and examination by both the NYSDFS and FRB. The Bank is also a member of the Federal Home Loan Bank system.

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Elmira Savings Bank and its subsidiaries, ESB Advisory Services, Inc. and ESB Realty Corp. Intercompany 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, other than temporary impairments of securities, mortgage servicing rights, intangible assets, and the fair value of financial instruments. 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 16.

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 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.

FEDERAL RESERVE AND FEDERAL HOME LOAN BANK STOCK

Common stock of the Federal Reserve Bank ("FRB") and Federal Home Loan Bank of New York ("FHLB") represent ownership in institutions that are wholly-

owned by other financial institutions. These securities are accounted for at cost and classified separately on the Consolidated Balance Sheet.

Management evaluates regulatory stock for impairment. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB and FRB as compared to the capital stock amounts for the FHLB and FRB and the length of time this situation has persisted, (2) commitments by the FHLB and FRB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB and FRB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB and FRB.

Management believes no impairment charge is necessarily related to the FRB and FHLB stock as of December 31, 2016 and 2015.

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. 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.

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.

Troubled debt restructurings are individually evaluated and provided for in the allowance for loan and lease losses and are therefore excluded from pooled portfolio allocations. Management continually evaluates loans that are considered troubled debt restructurings under the modified loan terms, including payment history and the borrower's ability to continue to repay the loan based on continued evaluations of their results of operation and cash flow from operations.

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 time of initial foreclosure, at fair value 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 begins with a qualitative factor test. A qualitative factor test is performed to determine whether it is necessary to perform the two-step qualitative goodwill impairment test. If this qualitative test determines it is unlikely (less than 50% probability) that the carrying value of the Bank's goodwill is less than its fair value, then the Bank does not have to perform a step one impairment test. If the probability is greater than 50%, a step one goodwill impairment test is required.

If required as a result of the qualitative test, the impairment analysis is a two-step test. The first step (Step 1), used to identify potential impairment, involves comparing the Bank's fair value to its carrying value, including goodwill. If the 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 fair value, as

determined in the first step, over the aggregate 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. Core deposit intangibles are being amortized over periods of time that represent the expected lives using a method of amortization that reflects the pattern of economic benefit. Core deposit intangibles are subject to impairment testing whenever events or changes in circumstances indicate their carrying amounts may not be recoverable.

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 initially 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 warrants. Treasury shares are not deemed outstanding for earnings per share calculations.

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 estimated grant date fair value. 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 Comprehensive Income.

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 Sheets. 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.

RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (a new revenue recognition standard). The Update's core principle is that a company will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this Update specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This Update was originally going to be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. However, in August 2015, the FASB issued ASU 2015-14, *Revenue from Contract with Customers* (*Topic 606*). The amendments in this Update defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. All other entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Bank's revenue is comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09, and non-interest income. With respect to noninterest income, the Bank is in the process of identifying revenue streams within the scope of the guidance, and is performing an evaluation of the underlying revenue contracts. The Bank does not expect these changes to have a significant impact on the Bank's financial statements. The Bank expects to adopt the standard in the first quarter of 2018 with a cumulative effect adjustment to opening retained earnings, if such adjustment is deemed to be significant.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. Among other things, this Update (a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (g) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Bank is currently evaluating the impact the adoption of the standard will have on the Bank's financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease is defined as one in which (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of

an interim or annual reporting period. The Bank occupies certain banking offices under noncancelable operating lease agreements, which currently are not reflected in its consolidated balance sheet. Upon adoption of the guidance, the Bank expects to report increased assets and increased liabilities as a result of recognizing right-of-use assets and lease liabilities on its consolidated balance sheet. The Bank is currently evaluating the extent of the impact that the adoption of this ASU will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, *Investments – Equity Method and Joint Ventures (Topic 323).* The Update affects all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The amendments in this Update eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments in this Update require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. This Update is not expected to have a significant impact on the Bank's financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718)*. The amendments in this Update affect all entities that issue share-based payment awards to their employees. The standards in this Update provide simplification for several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as with equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. In addition to those simplifications, the amendments eliminate the guidance in Topic 718 that was indefinitely deferred shortly after the issuance of FASB Statement No. 123 (revised 2004), *Share-Based Payment*. This should not result in a change in practice because the guidance that is being superseded was never effective. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption

is permitted for any entity in any interim or annual period. This Update is not expected to have a significant impact on the Bank's financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which changes the impairment model for most financial assets. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Bank is currently evaluating the requirements of the new guidance to determine what modifications to our existing allowance methodology may be required. The Bank expects that the new guidance may result in an increase in the allowance; however, the Bank is unable to quantify the impact at this time since we are still reviewing the guidance. The extent of any impact to our allowance will depend, in part, upon the composition of our loan portfolio at the adoption date as well as economic conditions and loss forecasts at that date.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"), which addresses eight specific cash flow issues with the objective of reducing diversity in practice. Among these include recognizing cash payments for debt prepayment or debt extinguishment as cash outflows for financing activities; cash proceeds received from the settlement of insurance claims should be classified on the basis of the related insurance coverage; and cash proceeds received from the settlement of bank-owned life insurance policies should be classified as cash inflows from investing activities while the cash payments for premiums on bank-owned policies may be classified as cash outflows for investing activities, operating activities, or a combination of investing and operating activities. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition

method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Bank is currently evaluating the impact the adoption of the standard will have on the Bank's statement of cash flows.

In October 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230)* ("ASU 2016-18"), which requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in this Update should be applied using a retrospective transition method to each period presented. The Bank is currently evaluating the impact the adoption of the standard will have on the Bank's statement of cash flows.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805), Clarifying the Definition of a Business* "ASU 2017-01", which provides a more robust framework to use in determining when a set of assets and activities (collectively referred to as a "set") is a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. Public business entities should apply the amendments in this Update to annual periods beginning after December 15, 2017, including interim periods within those periods. All other entities should apply the amendments to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The amendments in this Update should be applied prospectively on or after the effective date. This Update is not expected to have a significant impact on the Bank's financial statements.

In January 2017, the FASB issued ASU 2017-03, *Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323), Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings.* This ASU adds an SEC paragraph to the Codification following an SEC Staff Announcement about applying Staff Accounting Bulletin (SAB) Topic 11.M. Specifically this announcement applies to ASU No. 2014- 09, *Revenue from Contracts with Customers (Topic 606)*; ASU No. 2016-02, *Leases (Topic 842)*; and ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. A registrant should

evaluate ASUs that have not yet been adopted to determine the appropriate financial statement disclosures about the potential material effects of those ASUs on the financial statements when adopted. If a registrant does not know or cannot reasonably estimate the impact that adoption of the ASUs referenced in this announcement are expected to have on the financial statements, then in addition to making a statement to that effect, that registrant should consider additional qualitative financial statement disclosures to assist the reader in assessing the significance of the impact that the standard will have on the financial statements of the registrant when adopted. In this regard, the SEC staff expects the additional qualitative disclosures to include a description of the effect of the accounting policies that the registrant expects to apply, if determined, and a comparison to the registrant's current accounting policies. Also, a registrant should describe the status of its process to implement the new standards and the significant implementation matters yet to be addressed. The amendments in this Update are effective immediately.

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 $466,000 and $517,000 at December 31, 2016 and 2015, 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)	**2016**	2015	2014
Net income	**$ 4,342**	$ 4,127	$ 3,670
Dividend on Preferred Stock	**905**	905	905
Income available to common shareholders	**$ 3,437**	**$ 3,222**	**$ 2,765**
Weighted average common shares outstanding	**2,722,243**	2,707,491	2,677,252
Dilutive effect of potential common shares related to stock based compensation plans	**17,425**	54,841	122,418
Weighted average common shares including potential dilution	**2,739,668**	2,762,332	2,799,670
Basic earnings per share	**$ 1.26**	$ 1.19	$ 1.03
Diluted earnings per share	**$ 1.25**	$ 1.17	$ 0.99

There were 96,276, 110,460, and 65,542 antidilutive options and common stock warrants as of December 31, 2016, 2015, and 2014, respectively. For the year ended December 31, 2016, the exercise price for options that represented antidilutive shares ranged from $19.90 to $23.90. For the year ended December 31, 2015, the exercise price for options that represented antidilutive shares ranged from $19.90 to $23.90. For the year ended December 31, 2014, the exercise price for options that represented antidilutive shares ranged from $21.02 to $23.40.

NOTE 4 SECURITIES

Securities available for sale are summarized as follows:

(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2016:				
U.S. Government sponsored entities	$ 6,500	-	(76)	6,424
Mortgage-backed securities - U.S. Government sponsored entities	15,324	53	(116)	15,261
Municipal securities	10,788	112	(4)	10,896
	$ 32,612	**165**	**(196)**	**32,581**
December 31, 2015:				
U.S. Government sponsored entities	$ 6,000	3	(9)	5,994
Mortgage-backed securities - U.S. Government sponsored entities	21,240	203	(24)	21,419
Municipal securities	14,861	437	(2)	15,296
	$ 42,101	**643**	**(35)**	**42,709**

Securities held to maturity are summarized as follows:

(in thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
December 31, 2016:				
Mortgage-backed securities - U.S. Government sponsored entities	$ 36	1	-	37
Municipal securities	8,132	330	(160)	8,302
Other debt securities	351	1	(12)	340
	$ 8,519	**332**	**(172)**	**8,679**
December 31, 2015:				
Mortgage-backed securities - U.S. Government sponsored entities	$ 76	3	-	79
Municipal securities	8,534	242	(221)	8,555
Other debt securities	393	-	(17)	376
	$ 9,003	**245**	**(238)**	**9,010**

U.S. government-sponsored entity 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 the Government National Mortgage Association.

The contractual maturity distribution of debt securities at December 31, 2016 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.

	Securities available for sale		Securities held to maturity	
(in thousands)	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	$ -	$ -	$ 110	$ 110
Due after one year through five years	7,569	7,496	36	38
Due after five years through ten years	6,627	6,692	4,444	4,745
Due after ten years	18,416	18,393	3,929	3,786
	$ 32,612	**$ 32,581**	**$ 8,519**	**$ 8,679**

At December 31, 2016 and 2015, U.S. Government-sponsored entities, mortgage-backed securities, and municipal securities with a fair value of approximately $277,000 and $368,000, respectively, have been pledged as collateral for certain deposit relationships and $2.2 million and $15.7 million, respectively, have been pledged as collateral for repurchase agreements.

The collateral pledged for repurchase agreements that are classified as secured borrowings is summarized as follows:

	As of December 31, 2016				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater than 90 days	Total
Collateral Pledged for Repurchase Agreements:					
Mortgage-backed securities - U.S. Government sponsored entities	$ -	$ -	$ -	$ 2,249	$ 2,249
Total carrying value of collateral pledged	$ -	$ -	$ -	$ 2,249	$ 2,249
Total liability recognized for repurchase agreements					$ 2,000

	As of December 31, 2015				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater than 90 days	Total
Collateral Pledged for Repurchase Agreements:					
Mortgage-backed securities - U.S. Government sponsored entities	$ -	$ -	$ 11,000	$ 4,692	$ 15,692
Total carrying value of collateral pledged	$ -	$ -	$ 11,000	$ 4,692	$ 15,692
Total liability recognized for repurchase agreements					$ 13,000

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.

	Less than 12 months		12 months or longer		Total	
(in thousands)	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
December 31, 2016:						
U.S. Government sponsored entities	$ 6,424	$ (76)	$ -	$ -	$ 6,424	$ (76)
Mortgage-backed securities - U.S. Government sponsored entities	9,863	(106)	674	(10)	10,537	(116)
Municipal securities	1,535	(4)	3,091	# (160)	4,626	(164)
Other debt securities	-	-	161	(12)	161	(12)
	$ 17,822	**$ (186)**	**$ 3,926**	**$ (182)**	**$ 21,748**	**$ (368)**
December 31, 2015:						
U.S. Government sponsored entities	$ 1,991	$ (9)	$ -	$ -	$ 1,991	$ (9)
Mortgage-backed securities - U.S. Government sponsored entities	4,286	(24)	-	-	4,286	(24)
Municipal securities	94	(1)	3,453	(222)	3,547	(223)
Other debt securities	-	-	228	(17)	228	(17)
	$ 6,371	**$ (34)**	**$ 3,681**	**$ (239)**	**$ 10,052**	**$ (273)**

The above table represents 50 investment securities at December 31, 2016, 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, 2016, 2015, and 2014 totaled $2.6 million, $4.7 million, and $5.8 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,		
2016	**$ 180**	**$ -**
2015	284	-
2014	422	-

NOTE 5 FEDERAL RESERVE BANK AND FEDERAL HOME LOAN BANK STOCK

As a member of the Federal Reserve system, the Bank is required to invest in $100 par value stock of the FRB. The Bank is required to own a certain amount of FRB stock based on a percentage of the Bank's capital stock and surplus. When such stock is redeemed, the Bank would receive from the FRB an amount equal to the par value of the stock. At both December 31, 2016 and 2015, FRB stock owned by the Bank totaled $1.6 million.

As a member of the FHLB, the Bank is required to invest in $100 par value stock of the FHLB, based on the level of borrowings and other factors. 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, 2016 and 2015, FHLB stock outstanding was $8.2 million and $9.5 million, respectively.

NOTE 6 LOANS

Loans consisted of the following:

(in thousands)	December 31, 2016	December 31, 2015
Real estate loans:		
Residential	$ 275,072	$ 279,262
Commercial	94,859	82,684
Construction	9,288	15,170
	379,219	377,116
Business Loans:		
Commercial loans	21,603	20,692
	21,603	20,692
Consumer Loans:		
Installment loans	47,077	44,971
Home equity loans	4,161	4,679
Other loans	390	466
	51,628	50,116
Loans receivable	452,450	447,924
Net deferred origination fees and costs	3,481	3,444
Loans receivable, net	455,931	451,368
Allowance for loan losses	(4,263)	(4,148)
Net Loans	$ 451,668	$ 447,220

Mortgage loans serviced by the Bank for others, which are not included in the consolidated financial statements, were $318.7 million and $304.8 million at December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, the Bank had $3.6 million of loans held for sale.

The segments of the Bank's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. The real estate loan segment is further disaggregated into three classes. Residential real estate loans are amortizing term loans, primarily first liens. Commercial real estate loans, which include loans secured by non-owner occupied nonfarm nonresidential properties, generally have a greater risk profile than residential real estate loans. Construction loans are generally made to individuals for the acquisition of and/or construction on a lot or lots on which a residential dwelling is to be built. The commercial loan segment consists of loans made for the purpose of financing the activities of commercial customers. The consumer segment is further disaggregated into three classes. The installment loan segment consists primarily of installment loans (direct and indirect) and overdraft lines of credit connected with customer deposit accounts. Home equity loans consist of amortizing term loans or lines of credit which are generally secured by second liens on residential real estate.

Management evaluates individual loans in the commercial and commercial real estate segments for possible impairment if the loan is in nonaccrual status. Loans are considered to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The Bank does not separately evaluate individual consumer and residential mortgage loans for impairment, unless such loans are part of larger relationship that is impaired, or are classified as a troubled debt restructuring agreement.

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs. The method is selected on a loan-by loan basis, with management primarily utilizing the fair value of collateral method. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis. The Bank's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

The following table summarizes the primary segments of the loan portfolio as of December 31, 2016 and December 31, 2015 (in thousands):

(in thousands)	Residential Real Estate	Commercial Real Estate	Construction Real Estate	Commercial	Consumer Installment	Consumer Home Equity	Consumer Other	Total
December 31, 2016								
Total Loans	**$ 275,072**	**$ 94,859**	**$ 9,288**	**$ 21,603**	**$ 47,077**	**$ 4,161**	**$ 390**	**$ 452,450**
Individually evaluated for impairment	184	1,675	-	1,062	-	-	-	2,921
Collectively evaluated for impairment	274,888	93,184	9,288	20,541	47,077	4,161	390	449,529
December 31, 2015								
Total Loans	**$ 279,262**	**$ 82,684**	**$ 15,170**	**$ 20,692**	**$ 44,971**	**$ 4,679**	**$ 466**	**$ 447,924**
Individually evaluated for impairment	-	1,780	-	1,087	-	-	-	2,867
Collectively evaluated for impairment	279,262	80,904	15,170	19,605	44,971	4,679	466	445,057

The following table summarizes the balance of the allowance for loan losses by portfolio segment, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2016 and December 31, 2015 (in thousands):

(in thousands)	Residential Real Estate	Commercial Real Estate	Construction Real Estate	Commercial	Consumer Installment	Consumer Home Equity	Consumer Other	Total
December 31, 2016								
Balance of Allowance for Loan Losses	**$ 1,852**	**$ 1,024**	**$ 57**	**$ 482**	**$ 671**	**$ 172**	**$ 5**	**$ 4,263**
Individually evaluated for impairment	-	355	-	133	-	-	-	488
Collectively evaluated for impairment	1,852	669	57	349	671	172	5	3,775
December 31, 2015								
Balance of Allowance for Loan Losses	**$ 1,915**	**$ 989**	**$ 99**	**$ 429**	**$ 569**	**$ 141**	**$ 6**	**$ 4,148**
Individually evaluated for impairment	-	372	-	29	-	-	-	401
Collectively evaluated for impairment	1,915	617	99	400	569	141	6	3,747

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31, 2016 and December 31, 2015 (in thousands):

(in thousands)	Impaired Loans with Specific Allowance		Impaired Loan with No Specific Allowance	Total Impaired Loans	
	Recorded Investment	**Related Allowance**	**Recorded Investment**	**Recorded Investment**	**Unpaid Principal Balance**
December 31, 2016					
Real estate					
Residential	$ -	$ -	$ 184	$ 184	$ 197
Commercial	1,675	355	-	1,675	2,146
Business					
Commercial loans	454	133	608	1,062	1,436
	$ 2,129	**$ 488**	**$ 792**	**$ 2,921**	**$ 3,779**
December 31, 2015					
Real estate					
Commercial	$ 1,780	$ 372	$ -	$ 1,780	$ 2,195
Business					
Commercial loans	335	29	752	1,087	1,386
	$ 2,115	**$ 401**	**$ 752**	**$ 2,867**	**$ 3,581**

The following table summarizes interest income recognized on impaired loans:

(in thousands)	Impaired Loans					
	For the Twelve Months Ended December 31, 2016		For the Twelve Months Ended December 31, 2015		For the Twelve Months Ended December 31, 2014	
	Ave. Recorded Investment in Impaired Loans	Interest Inc. Recognized on Impaired Loans	Ave. Recorded Investment in Impaired Loans	Interest Inc. Recognized on Impaired Loans	Ave. Recorded Investment in Impaired Loans	Interest Inc. Recognized on Impaired Loans
With no specific allowance recorded:						
Real estate						
Residential	$ 136	$ -	$ -	$ -	$ -	$ -
Commercial	13	-	483	14	1,790	98
Business						
Commercial loans	679	-	823	-	726	-
Total impaired loans without a specific allowance	828	-	1,306	14	2,516	98
With a specific allowance recorded:						
Real estate						
Residential	-	-	-	-	-	-
Commercial	1,729	4	1,498	5	530	8
Business						
Commercial loans	367	2	326	2	543	-
Total impaired loans with a specific allowance	2,096	6	1,824	7	1,073	8
Total impaired loans	**$ 2,924**	**$ 6**	**$ 3,130**	**$ 21**	**$ 3,589**	**$ 106**

Management uses a seven point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first three categories are considered not criticized, and are aggregated as “Pass” rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the timely liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. Loans in the Doubtful category have well-defined weaknesses, but with the additional characteristic that the weaknesses make collection or liquidation in full high questionable and improbable. Loans classified in the Loss category are considered uncollectible.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. The Bank’s Commercial Loan Officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. The Board Loan Committee performs an annual review of all commercial relationships $500,000 or greater. Confirmation of the appropriate risk grade is included in the review on an ongoing basis. The Bank has an experienced Asset Classification Committee that reviews and assesses certain commercial relationships in detail on a quarterly basis. The quarterly review by the Asset Classification Committee includes commercial relationships rated at Special Mention or worse, or that meet certain criteria indicating an increased credit risk profile, such as 30 days or more delinquent in the past quarter. The Bank engages an external consultant to conduct loan reviews on at least an annual basis. Generally, the external consultant reviews commercial relationships greater than $400,000 and/or criticized relationships greater than $150,000.

Generally, consumer and residential mortgage loans are included in the pass category as long as the loans are performing. The credit risk profile of these loans is generally determined based on payment activity. However, some consumer loans and residential mortgage loans are reviewed in the internal risk rating process when management considers the borrower closely related to a

criticized commercial loan. Consumer loans and residential mortgage loans that become delinquent over 90 days or that undergo payment modifications or term extensions raise awareness of increased credit risk. Consumer loans and residential mortgage loans whose risk profile has increased based on the abnormal payment activity noted above are included in the nonperforming category in the table below.

The following table presents the classes of the loan portfolio summarized by credit quality indicators derived from the internal risk rating system or on the basis of performance as of December 31, 2016 and December 31, 2015 (in thousands):

Credit Quality Indicators
As of December 31, 2016

Commercial Credit Exposure
Credit Risk Profile by Internally Assigned Grade

	Commercial Loans	Real Estate - Commercial	Real Estate - Commercial Construction
Grade:			
Pass	$ 19,328	$ 92,646	$ 6,812
Special Mention	46	336	-
Substandard	2,229	1,877	-
Doubtful	-	-	-
	$ 21,603	**$ 94,859**	**$ 6,812**

Consumer Credit Exposure
Credit Risk Profile by Internally Assigned Grade

	Real Estate - Residential	Real Estate - Residential Construction	Consumer - Installment	Consumer - Home Equity	Consumer - Other
Grade:					
Pass	$ -	$ -	$ -	$ -	$ -
Special Mention	855	-	51	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
	855	-	51	-	-
Credit Risk Profile Based on Payment Activity					
Performing	272,254	2,476	46,831	4,026	390
Nonperforming	1,963	-	195	135	-
Subtotal	274,217	2,476	47,026	4,161	390
	$ 275,072	**$ 2,476**	**$ 47,077**	**$ 4,161**	**$ 390**

Credit Quality Indicators
As of December 31, 2015

Commercial Credit Exposure
Credit Risk Profile by Internally Assigned Grade

	Commercial Loans	Real Estate - Commercial	Real Estate - Commercial Construction
Grade:			
Pass	$ 18,329	$ 80,285	$ 12,360
Special Mention	-	254	-
Substandard	2,348	2,145	-
Doubtful	15	-	-
	$ 20,692	**$ 82,684**	**$ 12,360**

Consumer Credit Exposure
Credit Risk Profile by Internally Assigned Grade

	Real Estate - Residential	Real Estate - Residential Construction	Consumer - Installment	Consumer - Home Equity	Consumer - Other
Grade:					
Pass	$ -	$ -	$ -	$ -	$ -
Special Mention	634	-	27	-	-
Substandard	87	-	11	49	-
Doubtful	-	-	-	-	-
	721	-	38	49	-
Credit Risk Profile Based on Payment Activity					
Performing	276,958	2,810	44,736	4,544	463
Nonperforming	1,583	-	197	86	3
Subtotal	278,541	2,810	44,933	4,630	466
	$ 279,262	**$ 2,810**	**$ 44,971**	**$ 4,679**	**$ 466**

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of December 31, 2016 and December 31, 2015 (in thousands):

(in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days+ Past Due and Accruing	Total Past Due	Non-Accrual	Total Loans
December 31, 2016							
Real estate							
Residential	$ 272,235	$ 784	$ 90	$ -	$ 874	$ 1,963	$ 275,072
Commercial	93,184	-	-	-	-	1,675	94,859
Construction	9,288	-	-	-	-	-	9,288
Business							
Commercial loans	20,516	25	-	-	25	1,062	21,603
Consumer							
Installment loans	46,686	162	34	-	196	195	47,077
Home equity loans	4,026	-	-	-	-	135	4,161
Other loans	390	-	-	-	-	-	390
	$ 446,325	**$ 971**	**$ 124**	**$ -**	**$ 1,095**	**$ 5,030**	**$ 452,450**
December 31, 2015							
Real estate							
Residential	$ 276,580	$ 978	$ 121	$ -	$ 1,099	$ 1,583	$ 279,262
Commercial	80,770	134	-	-	134	1,780	82,684
Construction	15,170	-	-	-	-	-	15,170
Business							
Commercial loans	19,487	73	45	-	118	1,087	20,692
Consumer							
Installment loans	44,556	173	45	-	218	197	44,971
Home equity loans	4,546	47	-	-	47	86	4,679
Other loans	382	31	50	-	81	3	466
	$ 441,491	**$ 1,436**	**$ 261**	**$ -**	**$ 1,697**	**$ 4,736**	**$ 447,924**

The aggregate balance of loans not accruing interest amounted to $5.0 million at both December 31, 2016 and December 31, 2015. The average recorded investment in nonaccrual loans was $5.1 million for the year ending December 31, 2016 and $4.6 million for the year ending December 31, 2015. Interest income that would have been recorded had these loans not been placed on nonaccruing status was $375,000 in 2016, $339,000 in 2015, and $242,000 in 2014.

Loan modifications that are considered troubled debt restructurings completed during the twelve months ended December 31, 2016 and December 31, 2015 (in thousands) were are follows:

	Number of Contracts		Pre-Modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment	
(in thousands)	Interest Modification	Term Modification	Interest Modification	Term Modification	Interest Modification	Term Modification
For the twelve months ended December 31, 2016						
Real estate						
Residential	-	2	$ -	215	$ -	199
Total Loan Modifications	**-**	**2**	**$ -**	**215**	**$ -**	**199**
For the twelve months ended December 31, 2015						
Business						
Commercial loans	-	1	$ -	18	$ -	18
Total Loan Modifications	**-**	**1**	**$ -**	**18**	**$ -**	**18**
For the twelve months ended December 31, 2014						
Real estate						
Commercial	-	1	$ -	85	$ -	75
Business						
Commercial loans	-	2	-	1,144	-	1,002
Total Loan Modifications	**-**	**3**	**$ -**	**1,229**	**$ -**	**1,077**

Recidivism, or the borrower defaulting on its obligation pursuant to a modified loan considered a troubled debt restructure, generally indicates a higher risk of loss than does a default on a loan that has not undergone a troubled debt restructuring.

There were no loan modifications considered troubled debt restructurings made during the twelve months previous to December 31, 2016, 2015, or 2014 that defaulted during the twelve month periods ending December 31, 2016, 2015, or 2014, respectively.

An allowance for loan losses is maintained to absorb losses from the loan portfolio. The allowance for loan losses is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative factors.

The classes described above provide the starting point for the allowance for loan losses analysis. A historical charge-off factor for each loan class is calculated utilizing a defined number of consecutive historical quarters, currently a rolling 12 quarters.

Management has identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors that are evaluated

quarterly and updated using information obtained from internal, regulatory, and governmental sources are: national and local economic trends and conditions; interest rate risk inherent in loan portfolio; levels of and trends in delinquency rates and non-accrual loans; trends in volumes and terms of loans; effects of changes in lending policies; experience, ability, and depth of management and lending staff; level of loan customer leverage; and concentrations of credit from a loan type, industry and/or geographic standpoint.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the allowance for loan losses. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the allowance for loan losses.

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

(in thousands)	Residential Real Estate	Commercial Real Estate	Construction Real Estate	Commercial	Installment	Home Equity	Other	Total
Twelve Months Ended December 31, 2016								
Allowance for Loan Losses:								
Balance at beginning of period	$ 1,915	$ 989	$ 99	$ 429	$ 569	$ 141	$ 6	$ 4,148
Charge-offs	(131)	-	-	(23)	(229)	-	(32)	(415)
Recoveries	-	-	-	11	29	-	3	43
Net recoveries (charge-offs)	(131)	-	-	(12)	(200)	-	(29)	(372)
Provision for loan losses	68	35	(42)	65	302	31	28	487
Balance at end of period	$ 1,852	$ 1,024	$ 57	$ 482	$ 671	$ 172	$ 5	$ 4,263
Twelve Months Ended December 31, 2015								
Allowance for Loan Losses:								
Balance at beginning of period	$ 1,703	$ 1,138	$ 72	$ 630	$ 348	$ 80	$ 3	$ 3,974
Charge-offs	(148)	-	-	(62)	(301)	-	(1)	(512)
Recoveries	1	-	-	14	31	7	3	56
Net recoveries (charge-offs)	(147)	-	-	(48)	(270)	7	2	(456)
Provision for loan losses	359	(149)	27	(153)	491	54	1	630
Balance at end of period	$ 1,915	$ 989	$ 99	$ 429	$ 569	$ 141	$ 6	$ 4,148
Twelve Months Ended December 31, 2014								
Allowance for Loan Losses:								
Balance at beginning of period	$ 1,483	$ 1,251	$ 36	$ 696	$ 304	$ 61	$ 3	$ 3,834
Charge-offs	(24)	-	-	(217)	(84)	-	(17)	(342)
Recoveries	2	-	-	13	39	-	21	75
Net recoveries (charge-offs)	(22)	-	-	(204)	(45)	-	4	(267)
Provision for Loan Losses	242	(113)	36	138	89	19	(4)	407
Balance at end of period	$ 1,703	$ 1,138	$ 72	$ 630	$ 348	$ 80	$ 3	$ 3,974

The 2016 credit provision above for construction real estate loans reflects lower loan balances in that category compared to the previous year.

The 2015 credit provision above for commercial loans reflect a lower level of commercial loans classified as special mention and substandard from the previous periods, as well as lower loan balances overall for commercial loans.

The 2015 credit provision above for commercial real estate loans reflects a lower level of loans classified as special mention and substandard from the previous year.

The net credit amount for the provision for loan losses in the commercial real estate category for 2014 reflects a lower loan balance, as well as a lower level of loans classified as substandard.

The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an allowance for loan losses that is representative of the risk found in the components of the portfolio at any given date.

The Bank's market area is generally in Elmira, New York, Ithaca, New York, and Corning, 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 collectibility 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.

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:

	Years ended December 31,		
(in thousands)	**2016**	**2015**	**2014**
Balance at beginning of year	**$ 2,283**	**$ 2,123**	**$ 2,486**
New loans and advances	**2,829**	**969**	**1,312**
Repayments	**(1,286)**	**(809)**	**(1,675)**
Balance at end of year	**$ 3,826**	**$ 2,283**	**$ 2,123**

NOTE 7 PREMISES AND EQUIPMENT

Premises and equipment, net, are summarized as follows:

	December 31,	
(in thousands)	**2016**	**2015**
Land and land improvements	**$ 2,747**	**$ 2,747**
Building and leasehold improvements	**11,507**	**11,489**
Furniture, fixtures and equipment	**8,638**	**8,281**
Capital projects in progress	**2,752**	**1,865**
	25,644	**24,382**
Accumulated depreciation and amortization	**13,010**	**12,252**
	$ 12,634	**$ 12,130**

Depreciation and amortization expense amounted to $741,000, $695,000, and $664,000 for the years ended December 31, 2016, 2015, and 2014, respectively.

NOTE 8 ACCRUED INTEREST RECEIVABLE

Accrued interest receivable consisted of the following:

	December 31,	
(in thousands)	**2016**	**2015**
Accrued interest receivable on securities	**$ 297**	**$ 353**
Accrued interest receivable on loans	**1,255**	**1,188**
	$ 1,552	**$ 1,541**

NOTE 9 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, 2016 (in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets - Core Deposit Intangible	$ 1,192	$ 1,172	$ 20
Goodwill	12,320	-	12,320
Total goodwill and amortized intangible assets	$ 13,512	$ 1,172	$ 12,340

December 31, 2015 (in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets - Core Deposit Intangible	$ 1,192	$ 1,131	$ 61
Goodwill	12,320	-	12,320
Total goodwill and amortized intangible assets	$ 13,512	$ 1,131	$ 12,381

Amortization expense related to core deposit intangibles totaled $41,000 in 2016, $64,000 in 2015, and $85,000 in 2014. The estimated aggregate future amortization expense for intangible assets remaining as of December 31, 2016 is as follows:

Estimated amortization expense: (in thousands)	
For the year ended December 31, 2017	20

The Bank annually tests its goodwill for impairment as of September 30. In performing the qualitative factor step of the goodwill impairment testing and measurement process to assess potential impairment, the probability was less than 50% that the fair value of the Bank's goodwill was less than its carrying value.

As a result, a Step 1 or Step 2 test to quantify the amount of goodwill impaired, was deemed not necessary.

NOTE 10 DEPOSITS

A summary of deposits follows:

	December 31,	
(in thousands)	**2016**	**2015**
Noninterest-bearing demand	**$ 70,330**	**$ 66,964**
Interest-bearing:		
Interest-bearing transaction accounts	**85,822**	**87,083**
Regular savings	**58,713**	**54,696**
IRA savings	**6,945**	**7,500**
Mortgage escrow savings	**4,784**	**4,521**
Money market savings	**28,889**	**23,382**
Club accounts	**179**	**197**
Certificates of deposit	**213,885**	**196,129**
Total interest-bearing	**399,217**	**373,508**
	$ 469,547	**$ 440,472**

Individual time deposit accounts with balances of $250,000 or more, which are included in the above table, totaled approximately $55.5 million and $47.7 million at December 31, 2016 and 2015, respectively.

Contractual maturities of time certificates of deposit at December 31, 2016 are as follows:

(in thousands)	2016
Maturity distribution	Amount
Due in one year	$ 117,761
Due in one to two years	50,765
Due in two to three years	31,358
Due in three to four years	13,012
Due in four to five years	989
	$ 213,885

Interest expense on deposit accounts for 2016, 2015, and 2014 is as follows:

(in thousands)	2016	2015	2014
Savings	$ 200	$ 187	$ 178
Interest-bearing transaction accounts	423	215	93
Money market	79	24	33
Certificates of deposit	2,353	2,590	2,682
Total interest on deposits	$ 3,055	$ 3,016	$ 2,986

NOTE 11 BORROWINGS

Borrowings consisted of the following:

	December 31,	
(in thousands)	**2016**	**2015**
Securities sold under repurchase agreements	**$ 2,000**	**$ 13,000**
Federal Home Loan Bank term advances	**40,000**	**46,525**
	$ 42,000	**$ 59,525**

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

	Years ended December 31,		
(dollars in thousands)	**2016**	**2015**	**2014**
Outstanding balance at end of year	**$ 2,000**	**$ 13,000**	**$ 26,000**
Weighted average interest rate at end of year	**3.33%**	**4.28%**	**3.89%**
Maximum outstanding at any month end	**$ 13,000**	**$ 26,000**	**$ 26,000**
Average amount outstanding during year	**$ 7,107**	**$ 22,663**	**$ 26,000**
Average interest rate during year	**4.14%**	**4.28%**	**3.89%**

The repurchase agreements, which are callable by the FHLB, had a stated final maturity of 1.8 years at December 31, 2016, and stated final maturities that ranged from 0.4 years to 2.8 years at December 31, 2015.

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

(in thousands)	2016
Year	
2018	**2,000**
	$ 2,000

At both December 31, 2016 and December 31, 2015, $40.0 million of FHLB term advances were outstanding. At both December 31, 2016 and December 31, 2015, rates for outstanding term advances ranged between 1.14% and 3.62%. There are no term advances at December 31, 2016 that are currently callable by the FHLB. There were FHLB overnight borrowings of $6.5 million at December 31, 2015 and none at December 31, 2016. Overnight borrowings outstanding at December 31, 2015 had a rate of .52%. All term advances and overnight borrowings 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 $92.0 million.

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)	2016
Year	
2017	**7,000**
2018	**2,000**
2019	**2,000**
2020	**4,000**
2021	**7,000**
Thereafter	**18,000**
	$ 40,000

NOTE 12 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 nine lease contracts for facilities, which expire between the years 2017 and 2027. The leases contain renewal provisions at the Bank's option and contain no restrictive provisions of consequence.

Expense for leased premises was $314,000, $309,000, and $306,000 for 2016, 2015, and 2014, respectively. Minimum annual lease payments for the non-cancelable operating leases amount to approximately $195,000 for 2017, $102,000 for 2018, $50,000 for 2019, $50,000 for 2020, $50,000 for 2021, and $200,000 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 $22.4 million and $23.5 million at December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, approximately $8.8 million and $6.1 million of these mortgage commitments were contracted to be sold to secondary market investors upon closing. Approximately $15.4 million and $16.1 million of the commitments at December 31, 2016 and 2015, respectively, had fixed rates of interest. Commitments under commercial unused lines of credit were approximately $15.6 million and $11.3 million at December 31, 2016 and 2015, respectively. Commitments under unused overdraft honors lines of credit were approximately $7.5 million and $7.3 million at December 31, 2016 and 2015, respectively. Commitments under standby letters of credit were $670,000 for both December 31, 2016 and 2015. The fair value of the Bank's standby letters of credit is not considered material for 2016 and 2015. Commitments for consumer lines of credit were approximately $3.1 million and $3.6 million at December 31, 2016 and 2015, 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, 2016 or 2015.

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 13 INCOME TAXES

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

	Years ended December 31,		
(in thousands)	**2016**	2015	2014
Current:			
Federal	**$ 1,778**	$ 992	$ 1,187
State	**259**	257	239
	2,037	1,249	1,426
Deferred:			
Federal	**134**	491	275
State	**(182)**	(65)	(111)
	(48)	426	164
	$ 1,989	$ 1,675	$ 1,590

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

	Years ended December 31,		
(in thousands)	**2016**	2015	2014
Tax computed at statutory rate	**$ 2,153**	$ 1,971	$ 1,788
State tax (credits) provisions, net of Federal (expense) benefit	**51**	134	84
Tax exempt interest	**(420)**	(458)	(443)
Other items, net	**205**	28	161
	$ 1,989	$ 1,675	1,590

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2016 and 2015 follow:

(in thousands)	**2016**	2015
Assets:		
Compensation and benefits	**$ 861**	$ 797
Allowance for loan losses	**1,176**	1,132
Mortgage recording tax	**1,160**	1,035
Intangible assets	**172**	187
Net unrealized loss on securities	**12**	-
Premises and equipment	**34**	-
Other	**238**	254
Deferred tax assets	**3,653**	3,405
Liabilities:		
Mortgage servicing rights	**644**	664
Deferred loan originations costs	**1,329**	1,314
Net unrealized gain on securities	**-**	235
Goodwill	**2,851**	2,537
Premises and equipment	**-**	140
Other	**404**	385
Deferred tax liabilities	**5,228**	5,275
Net deferred tax liabilities	**$ (1,575)**	$ (1,870)

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.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Bank recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Statement of Income. The Bank's federal and state income tax returns for taxable years through 2012 have been closed for purposes of examination by the Internal Revenue Service ("IRS") and the New York Department of Revenue.

NOTE 14 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 $130,000, $116,000, and $118,000 for the years ended December 31, 2016, 2015, and 2014, respectively.

Employee Stock Ownership Provisions

Contributions to the Plan are made in cash or common shares of the Bank and are 100% vested for employees with six years or more of service. Contributions for employees with less than six years of service are subject to a vesting schedule. 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 2016, 2015, and 2014 was $300,000, $263,000, and $354,000, respectively.

NOTE 15 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 317,625 shares. The Board of Directors of Elmira Savings Bank may grant stock options or restricted shares to officers, employees, and certain other qualified individuals. At December 31, 2016 there were 69,382 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 190,575 shares. At December 31, 2016 there were 25,193 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 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 from treasury shares. With regard to restricted shares, the Bank's practice is to issue original restricted shares of its common stock at the grant date. 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 $127,000 for 2016, $45,000 for 2015, and $298,000 for 2014. There was $151,000 received in 2016, $44,000 for 2015, and $259,000 for 2014 from the exercise of stock options.

The Bank recognized total non-cash stock-based compensation cost of $274,000, $333,000, and $421,000 for 2016, 2015, and 2014, respectively. As of December 31, 2016, the total remaining unrecognized compensation cost related to unvested stock options and restricted shares was $212,000. The unrecognized expense is expected to be recognized over the next three years. Forfeitures are not expected to be significant. The fair value of options vested was $104,000, $259,000, and $148,000 for 2016, 2015, and 2014, 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 representative period. 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 2016, 2015, and 2014.

	2016	2015	2014
Dividend Yield	4.52%	4.50%	3.76%
Volatility	31.52%	34.19%	33.35%
Risk-free interest rate	1.33%	1.50%	1.50%
Expectant life (years)	5	5	5
Fair Value	$ 3.26	$ 3.93	$ 4.93

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, 2014	198,791	$ 18.58
Granted	14,184	$ 19.90
Exercised	(10,179)	$ 16.07
Forfeited	(3,152)	$ 21.82
Outstanding at December 31, 2015	199,644	$ 18.75
Granted	14,184	$ 18.49
Exercised	(26,931)	$ 15.08
Forfeited	(1,434)	$ 15.98
Outstanding at December 31, 2016	185,463	$ 19.28
Total Exercisable at December 31, 2015	173,153	$ 18.08
Total Exercisable at December 31, 2016	172,612	$ 18.94

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
Restricted Shares:		
Balance at December 31, 2014	16,931	$ 20.43
Granted	6,925	$ 20.29
Vested	(8,975)	$ 19.13
Forfeited	-	$ -
Balance at December 31, 2015	14,881	$ 21.43
Granted	9,922	$ 18.29
Vested	(5,402)	$ 21.10
Forfeited	-	$ -
Balance at December 31, 2016	19,401	$ 19.91

The following tables summarize the outstanding and exercisable options at December 31, 2016:

Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Contractual Life	Number Exercisable	Weighted Average Contractual Life
$19.13	4,299	0.33	4,299	0.33
$19.13	1,981	0.33	1,981	0.33
$11.71	4,299	1.33	4,299	1.33
$9.44	4,731	2.38	4,731	2.38
$12.28	3,971	3.16	3,971	3.16
$13.37	4,731	3.33	4,731	3.33
$13.18	4,731	4.34	4,731	4.34
$13.20	12,866	4.35	12,866	4.35
$15.60	9,456	5.31	9,456	5.31
$15.60	9,754	5.31	9,754	5.31
$21.02	27,893	6.10	27,893	6.10
$20.91	11,032	6.33	11,032	6.33
$23.90	44,743	7.09	31,892	7.09
$22.72	12,608	7.33	12,608	7.33
$19.90	14,184	8.33	14,184	8.33
$18.49	14,184	9.33	14,184	9.33
	185,463	6.07	172,612	6.00

The aggregate intrinsic value of total options outstanding at December 31, 2016 was $420,000. The aggregate intrinsic value of options exercisable at December 31, 2016 was also $420,000.

NOTE 16 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, 2016 and December 31, 2015, 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, 2016				
Securities available for sale				
U.S. Government-sponsored Entities	$--	$6,424	$--	$6,424
Mortgage-backed Securities -				
U.S. Government-sponsored Entities	$--	$15,261	$--	$15,261
Municipal Securities	$--	$10,896	$--	$10,896
At December 31, 2015				
Securities available for sale				
U.S. Government-sponsored Entities	$--	$5,994	$--	$5,994
Mortgage-backed Securities -				
U.S. Government-sponsored Entities	$--	$21,419	$--	$21,419
Municipal Securities	$--	$15,296	$--	$15,296

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, 2016, the Bank had identified loans for nonrecurring fair value measurement with a carrying value of approximately $2.9 million, $2.1 million of which had specific reserves included in the allowance for loan losses of $488,000. At December 31, 2015, the Bank identified loans for nonrecurring fair value measurement with a carrying value of approximately $2.9 million, $2.1 million of which had specific reserves included in the allowance for loan losses of $401,000.

A description of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis, is set forth below:

- ***Impaired Loans:*** Impaired loans are carried at the lower of cost or fair value. The Bank determines the fair value based on either the value of collateral, adjusted for estimated selling costs or by determining the present value of the expected future cash flows, discounted at each loan's effective interest rate. The use of independent appraisals, discounted cash flow models, and management's best judgment are significant inputs in arriving at the fair value of impaired loans, and therefore these inputs are classified within level 3 of the fair value hierarchy.

- ***Other Real Estate Owned:*** Other real estate owned is carried at the lower of the investment cost of the assets or the fair value of the assets less estimated selling costs. The use of independent appraisals and management's best judgment are significant inputs in arriving at the fair value measure of the underlying collateral, and therefore other real estate owned is classified within level 3 of the fair value hierarchy.

The following table summarizes financial assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2016 and December 31, 2015:

(In Thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
At December 31, 2016				
Impaired Loans	$--	$--	$1,641	$1,641
Other Real Estate Owned	$--	$--	78	78
At December 31, 2015				
Impaired Loans	$--	$--	$2,466	$2,466
Other Real Estate Owned	$--	$--	$151	$151

The following table provides information describing the valuation processes used to determine nonrecurring fair value measurements categorized within level 3 of the fair value hierarchy (in thousands):

	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
At December 31, 2016					
Impaired Loans	$ 61	Property appraisals	Management discount for selling costs, property type, and market volatility	70% - 90% discount	75.00%
Other Real Estate Owned	$ 78	Property appraisals	Management discount for selling costs, property type, and market volatility	26% discount	26.00%
At December 31, 2015					
Impaired Loans	$ 62	Property appraisals	Management discount for selling costs, property type, and market volatility	70% - 90% discount	77.52%
Other Real Estate Owned	$ 151	Property appraisals	Management discount for selling costs, property type, and market volatility	26% - 46% discount	37%

The carrying amounts and fair values of financial instruments, at December 31, 2016 and December 2015, are as follows:

December 31, 2016					
		Fair Value			
(in thousands)	Carrying value	Level I	Level II	Level III	Total Fair value
Financial assets:					
Cash and cash equivalents	$ 24,294	$ 24,294	$ -	$ -	$ 24,294
Securities available for sale	32,581	-	32,581	-	32,581
Securities held to maturity	8,519	-	37	8,642	8,679
Federal Reserve and FHLB Stock	9,811	9,811	-	-	9,811
Net loans, including loans held for sale	455,265	3,597	-	456,883	460,480
Bank-owned life insurance	13,592	13,592	-	-	13,592
Mortgage servicing rights	1,748	-	-	2,473	2,473
Accrued interest receivable	1,552	1,552	-	-	1,552
Financial liabilities:					
Time deposits	213,885	-	-	213,578	213,578
Other deposits	255,662	255,662	-	-	255,662
Borrowings	42,000	-	-	42,529	42,529
Accrued interest payable	94	94	-	-	94

December 31, 2015					
		Fair Value			
(in thousands)	Carrying value	Level I	Level II	Level III	Total Fair value
Financial assets:					
Cash and cash equivalents	$ 5,454	$ 5,454	$ -	$ -	$ 5,454
Securities available for sale	42,709	-	42,709	-	42,709
Securities held to maturity	9,003	-	79	8,931	9,010
Federal Reserve and FHLB Stock	11,108	11,108	-	-	11,108
Net loans, including loans held for sale	450,850	3,630	-	456,290	459,920
Bank-owned life insurance	13,188	13,188	-	-	13,188
Mortgage servicing rights	1,800	-	-	2,569	2,569
Accrued interest receivable	1,541	1,541	-	-	1,541
Financial liabilities:					
Time deposits	196,129	-	-	195,881	195,881
Other deposits	244,343	244,343	-	-	244,343
Borrowings	59,525	-	-	60,278	60,278
Accrued interest payable	113	113	-	-	113

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 fair value of such assets.

Securities

The fair values of securities available for sale and 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.

Certain securities held to maturity without quoted market prices or comparable instrument market prices readily available are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

Federal Reserve and FHLB Stock

The carrying value of Federal Reserve and FHLB Stock, which is redeemable at par, approximates fair value.

Net Loans, Including Loans Held for Sale

The estimated fair value of 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.

The estimated fair values of certain mortgage loans may be based on market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics.

Bank-owned Life Insurance

The carrying amount for bank-owned life insurance approximates the 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 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.

Borrowings

The fair values of the FHLB term advances and securities sold under repurchase agreements are estimated using discounted cash flow analyses based on the Bank's current incremental borrowing rate for similar borrowing arrangements. The carrying values of short term FHLB advances approximate their fair values.

Accrued Interest Payable

The carrying amounts for accrued interest payable approximate the 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. The fair value of off-balance sheet instruments is not considered material for 2016 and 2015.

NOTE 17 ACCUMULATED OTHER COMPREHENSIVE INCOME

A summary of reclassification out of accumulated other comprehensive income by component is as follows:

	2016	2015	2014	Where Net Income is Presented
(in thousands)				
Realized gain on sale of securities	$ 180	$ 284	$ 422	Noninterest Income - Gain on sale of securities
	180	284	422	Total before income tax
	(70)	(110)	(163)	Income tax expense
Total reclassifications	**110**	**174**	**259**	Net of tax

Our changes in accumulated other comprehensive income are as follows:

(in thousands)		Unrealized gains (losses) on available for sale securities
Balance at December 31, 2013	**$**	**644**
Other comprehensive income before reclassification		464
Amounts reclassified from accumulated other comprehensive income		(259)
Net current period other comprehensive income		205
Balance at December 31, 2014	**$**	**849**
Other comprehensive loss before reclassification		(302)
Amounts reclassified from accumulated other comprehensive income		(174)
Net current period other comprehensive loss		(476)
Balance at December 31, 2015	**$**	**373**
Other comprehensive loss before reclassification		(282)
Amounts reclassified from accumulated other comprehensive income		(110)
Net current period other comprehensive loss		(392)
Balance at December 31, 2016	**$**	**(19)**

NOTE 18 PREFERRED STOCK AND WARRANT

During 2007, the Bank authorized and issued 10,000 shares of preferred stock. 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 as of November 16, 2012.

As a participant in the Capital Purchase Program, the Bank had also issued a warrant to the U.S. Department of Treasury ("Treasury") to purchase 151,029 shares of common stock. The Bank reached an agreement with the Treasury to repurchase the warrant for a purchase price of $1.5 million. On May 6, 2015, the Bank completed the repurchase of the warrant at the agreed upon price.

NOTE 19 MINIMUM CAPITAL AND OTHER REGULATORY REQUIREMENTS

FRB capital regulations require banks to maintain minimum levels of regulatory capital. Under the regulations in effect at December 31, 2016, the Bank is required to maintain a minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5%, a minimum ratio of tier 1 capital to risk-weighted assets of 6%, a minimum ratio of total capital to risk-weighted assets of 8%, and a minimum leverage ratio of 4%.

Under its prompt corrective action regulations, the FRB 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 minimum ratio of common equity tier 1 capital to risk-weighted assets of 6.5%, a minimum ratio of tier 1 capital to risk-weighted assets of 8%, a minimum ratio of total capital to risk-weighted assets of 10%, and a minimum leverage ratio of 5%.

The following table is a reconciliation of the Bank's generally accepted accounting principles ("GAAP") capital and Regulatory capital at December 31, 2016 and 2015:

		Regulatory Capital Requirements							
(dollars in thousands)	GAAP Capital	Common Equity Tier 1 Capital	%	Tier 1 Capital	%	Total Capital	%	Tier 1 Leverage	%
December 31, 2016	$55,723	$55,723		$55,723		$55,723		$55,723	
Regulatory capital adjustments									
Noncontrolling interest		(53)		(53)		(53)		(53)	
Allowance for loan losses		-		-		4,263		-	
Core deposit intangible		(12)		(12)		(12)		(12)	
Goodwill (net of deferred tax)		(9,469)		(9,469)		(9,469)		(9,469)	
Net unrealized gain on securities available for sale		19		19		19		19	
Preferred Stock		(9,700)		-				-	
Total regulatory capital		$36,508	10.10	$46,208	12.78	$50,471	13.96	$46,208	8.24
Regulatory capital requirement		16,268	4.50	21,691	6.00	28,922	8.00	22,424	4.00
Regulatory capital excess		**$20,240**	**5.60**	**$24,517**	**6.78**	**$21,549**	**5.96**	**$23,784**	**4.24**

		Regulatory Capital Requirements							
(dollars in thousands)	GAAP Capital	Common Equity Tier 1 Capital	%	Tier 1 Capital	%	Total Capital	%	Tier 1 Leverage	%
December 31, 2015	$54,771	$54,771		$54,771		$54,771		$54,771	
Regulatory capital adjustments									
Noncontrolling interest		(53)		(53)		(53)		(53)	
Allowance for loan losses		-		-		4,148		-	
Core deposit intangible		(25)		(25)		(25)		(25)	
Goodwill (net of deferred tax)		(9,783)		(9,783)		(9,783)		(9,783)	
Net unrealized gain on securities available for sale		(373)		(373)		(373)		(373)	
Preferred Stock		(9,700)		-				-	
Total regulatory capital		$34,837	9.69	$44,537	12.39	$48,685	13.55	$44,537	8.05
Regulatory capital requirement		16,173	4.50	21,564	6.00	28,752	8.00	22,129	4.00
Regulatory capital excess		**$18,664**	**5.19**	**$22,973**	**6.39**	**$19,933**	**5.55**	**$22,408**	**4.05**

As of June 30, 2015 the most recent examination report from our state regulatory agency, the New York State Department of Financial Services, the Bank was categorized 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, 2016, 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, 2016 and 2015, compared with the regulatory requirements for minimum capital adequacy for classification of a well-capitalized institution:

	Regulatory Capital Requirements					
December 31, 2016	Actual		Minimum Capital Adequacy		For Classification as Well-Capitalized	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 Leverage Capital	$46,208	8.24 %	22,424	4.00 %	28,031	5.00 %
Risk-Based Capital:						
Common Equity Tier 1 Capital	$36,508	10.10	16,268	4.50	23,499	6.50
Tier 1 Capital	$46,208	12.78	21,691	6.00	28,922	8.00
Total Capital	$50,471	13.96	28,922	8.00	36,152	10.00

	Regulatory Capital Requirements					
December 31, 2015	Actual		Minimum Capital Adequacy		For Classification as Well-Capitalized	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 Leverage Capital	$44,537	8.05 %	22,129	4.00 %	27,661	5.00 %
Risk-Based Capital:						
Common Equity Tier 1 Capital	$34,837	9.69	16,173	4.50	23,361	6.50
Tier 1 Capital	$44,537	12.39	21,564	6.00	28,752	8.00
Total Capital	$48,685	13.55	28,752	8.00	35,941	10.00

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 FRB. (See also Note 18.)

NOTE 20 SUMMARY OF QUARTERLY FINANCIAL RESULTS (UNAUDITED)

Summarized quarterly unaudited financial results for the years ended December 31, 2016 and 2015 are as follows:

	2016			
(in thousands, except for per share amounts)	Quarter IV	Quarter III	Quarter II	Quarter I
Interest and dividend income	$ 5,198	$ 5,266	$ 5,191	$ 5,233
Interest expense	1,043	1,055	1,137	1,133
Net interest income	4,155	4,211	4,054	4,100
Provision for loan losses	175	87	85	140
Net interest income after provision for loan losses	3,980	4,124	3,969	3,960
Noninterest income	1,395	1,716	1,438	1,351
Noninterest expense	3,888	3,976	3,891	3,847
Income before income taxes	1,487	1,864	1,516	1,464
Income taxes	440	662	459	428
Net income	1,047	1,202	1,057	1,036
Less: Net income attributable to noncontrolling interest	5	-	-	-
Net income attributable to Elmira Savings Bank	$ 1,042	$ 1,202	$ 1,057	$ 1,036
Dividend on preferred stock and accretion of discount	225	225	225	225
Income available to common shareholders	$ 817	$ 977	$ 832	$ 811
Basic earnings per share	$ 0.30	$ 0.36	$ 0.31	$ 0.30
Diluted earnings per share	$ 0.30	$ 0.36	$ 0.30	$ 0.30

	2015			
(in thousands, except for per share amounts)	Quarter IV	Quarter III	Quarter II	Quarter I
Interest and dividend income	$ 5,306	$ 5,200	$ 5,133	$ 5,095
Interest expense	1,178	1,348	1,304	1,270
Net interest income	4,128	3,852	3,829	3,825
Provision for loan losses	270	170	140	50
Net interest income after provision for loan losses	3,858	3,682	3,689	3,775
Noninterest income	1,382	1,539	1,235	1,235
Noninterest expense	3,777	3,725	3,522	3,569
Income before income taxes	1,463	1,496	1,402	1,441
Income taxes	422	439	383	431
Net income	1,041	1,057	1,019	1,010
Less: Net income attributable to noncontrolling interest	5	-	-	-
Net income attributable to Elmira Savings Bank	$ 1,036	$ 1,057	$ 1,019	$ 1,010
Dividend on preferred stock	225	225	225	225
Income available to common shareholders	$ 811	$ 832	$ 794	$ 785
Basic earnings per share	$ 0.30	$ 0.31	$ 0.29	$ 0.29
Diluted earnings per share	$ 0.30	$ 0.30	$ 0.29	$ 0.28

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

Board of Directors and Stockholders
Elmira Savings Bank

We have audited the accompanying consolidated balance sheets of Elmira Savings Bank and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. These consolidated financial statements are the responsibility of Elmira Savings 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 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. Elmira Savings Bank is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Elmira Savings Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Elmira Savings Bank and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 20, 2017

S.R. Snodgrass, P.C. * 2100 Corporate Drive, Suite 400 * Wexford, Pennsylvania 15090-8399 * Phone: (724) 934-0344 * Facsimile: (724) 934-0345

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 property 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, P.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 20, 2017

/s/ Thomas M. Carr	/s/ Jason T. Sanford
Thomas M. Carr	Jason T. Sanford
President & CEO	Senior Vice President
	Chief Financial Officer

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

None

Item 9A – 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, 2016, 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, 2016, 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, 2016, 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, 2016, 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 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 FRB pursuant to Regulation 14A on March 21, 2017.

Item 11 – Executive Compensation

Incorporated herein by reference from the Proxy Statement filed with the FRB pursuant to Regulation 14A on March 21, 2017.

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 FRB pursuant to Regulation 14A on March 21, 2017.

Item 13 – Certain Relationships and Related Transactions

Incorporated herein by reference from the Proxy Statement filed with the FRB pursuant to Regulation 14A on March 21, 2017.

Item 14 – Principal Accountant Fees and Services

Incorporated herein by reference from the Proxy Statement filed with the FRB pursuant to Regulation 14A on March 21, 2017.

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 21, 2017.
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

(b) During the three-month period ended December 31, 2016, the Registrant filed two reports on Form 8-K.

On October 19, 2016, Elmira Savings Bank reported third quarter earnings.

On November 16, 2016, Elmira Savings Bank reported a $0.23 per share cash dividend.

(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.

ELMIRA SAVINGS BANK
(Registrant)

BY: /s/ Thomas M. Carr
Thomas M. Carr
President & Chief Executive Officer

DATE: March 20, 2017

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

DATE: March 20, 2017

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/ Michael P. Hosey Michael P. Hosey Chairman of the Board	DATE: March 21, 2017
BY:	/s/ John R. Alexander John R. Alexander, Director	DATE: March 21, 2017
BY:	/s/ Thomas M. Carr Thomas M. Carr, Director	DATE: March 21, 2017
BY:	/s/ Robert K. Lambert Robert K. Lambert, Director	DATE: March 21, 2017
BY:	/s/ Donald G. Quick, Jr. Donald G. Quick, Jr., Director	DATE: March 21, 2017
BY:	/s/ Katherine H. Roehlke Katherine H. Roehlke, Director	DATE: March 21, 2017
BY:	/s/ Kristin A. Swain Kristin A. Swain, Director	DATE: March 21, 2017
BY:	/s/ Arie J. van den Blink Arie J. van den Blink, Director	DATE: March 21, 2017
BY:	______________________ A. Scott Welliver, Director	DATE: March 21, 2017
BY:	______________________ Marianne W. Young, Director	DATE: March 21, 2017

EXHIBIT 21

LIST OF REGISTRANT'S SUBSIDIARIES

Subsidiary	State of Incorporation
ESB Advisory Services, Inc.	New York
ESB Realty, Corp.	New York

EXHIBIT 31.1
CERTIFICATION

I, Thomas M. Carr, President & Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Elmira Savings Bank;

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 20, 2017

/s/ Thomas M. Carr
Thomas M. Carr
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 Elmira Savings Bank;

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 20, 2017

/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, 2016 (the “Report”) by Elmira Savings Bank (the “Company”), the undersigned, as President & 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 20, 2017

/s/ Thomas M. Carr
Thomas M. Carr
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, 2016 (the “Report”) by Elmira Savings Bank (the “Company”), the undersigned, as Senior Vice President 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 20, 2017

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