

March 9, 2009

Neil M. Barofsky  
Special Inspector General – TARP  
1500 Pennsylvania Avenue, NW  
Suite 1064  
Washington, DC 20220

Dear Mr. Barofsky:

The following paragraphs contain The Elmira Savings Bank, FSB response to the correspondence received from the Office of the Special Inspector General for Troubled Asset Relief Program (SIGTARP) concerning our use of the TARP funds received.

On December 18, 2008 the Bank received \$9.09 million of TARP funds through the issuance of 9,090 shares of preferred stock and 116,538 stock warrants. We have separated both components of the proceeds in our financial reporting and have assigned a fair value of warrants of \$424,000.

The Elmira Savings Bank, FSB has had the leading market share for 1 - 4 family mortgage originations in our home county of Chemung, New York, for the last several years. In 2008 our market share was 17% in Chemung County, nearly twice the market share of our nearest competitor. We closed a total of \$20.6 million in Chemung County during 2008.

In 2007 we entered the Tompkins County market through the addition of four branch operations. During 2008 we increased our mortgage business substantially in Tompkins County to hold the third largest market share for mortgage originations of 6% or \$23.9 Million.

During 2008 the Bank closed \$57.6 million of mortgage loans. For the first two months of 2009 the Bank has closed \$12 million of mortgage loans versus \$2 million for the same period in 2008.

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As a result of the Bank's participation in the United States Department of the Treasury's ("Treasury Department") Capital Purchase Program under the Emergency Economic Stabilization Act of 2008 ("EESA"), the Bank has become subject to certain requirements under the EESA and the American Reinvestment and Recovery Act of 2009 ("ARRA") and Treasury Department regulations to be issued under both acts pertaining to the compensation paid by the Bank to its senior executive officers (for fiscal year 2008, Messrs. Hosey, Carr, Berkley, and Hodel).

On December 18, 2008, the Bank entered into letter agreements with each of its senior executive officers (as defined by Section 111(b) of the EESA) whereby each such officer waived any right to any "golden parachute payment" as defined by Section 111(b) of the EESA (b) (4)

and agreed to permit to the Bank to recover all bonus and incentive compensation paid to the officer if such compensation was paid on the basis of financial statements or performance metric criteria which are determined by the Treasury Department or the Bank's legal counsel to be materially inaccurate.

On January 27, 2009, the Compensation Committee met and reviewed the compensation paid to the Bank's executive officers to ensure that incentive compensation arrangements do not encourage the Bank's executive officers to take unnecessary and excessive risks. The Compensation Committee certifies that it has reviewed with the senior risk officers of the Bank such incentive compensation arrangements and has made reasonable efforts to ensure that such arrangements do not encourage the Bank's senior executive officers (as defined by Section 111(b) of the EESA) to take unnecessary and excessive risks that threaten the value of the Bank.

Attached are the summary compensation tables for the Bank's highest paid executive officers.

Very truly yours,

Michael P. Hosey  
President  
Chief Executive Officer

# ELMIRA SAVINGS BANK

## Summary Compensation for the Year Ended December 31, 2008

Name and Principal Position	Year	Salary	Stock Options (1)	Bonus (5)	Non-equity Incentive Plan Compensation	Retirement Plan Contributions (2)	Nonqualified Deferred Compensation Earnings (3)	All Other Compensation (4)	Total
Michael P. Hosey President & CEO	2008	\$ 236,250	\$ 52,917	\$ 21,375	\$ -	\$ 19,221	\$ (23,839)	\$ 11,002	\$ 316,926
	2007	\$ 224,711	\$ 80,332	\$ -	\$ -	\$ 17,977	\$ 3,588	\$ 8,711	\$ 335,319
	2006	209,425	45,917	-	15,600	18,010	815	16,252	306,019
Thomas M. Carr EVP & COO & CFO	2008	\$ 140,000	\$ 26,951	\$ 11,875	\$ -	\$ 12,482	\$ (22,509)	\$ 8,169	\$ 176,968
	2007	\$ 124,827	\$ 25,390	\$ -	\$ -	\$ 9,986	\$ 478	\$ 7,437	\$ 168,118
	2006	115,695	19,854	-	8,640	9,951	4,823	11,343	170,306
Kevin J. Berkley SVP & MLO	2008	\$ 104,500	\$ -	\$ 2,100	\$ -	\$ 6,218	\$ -	\$ 3,695	\$ 116,513
	2007	\$ 3,231	\$ -	\$ 17,000	\$ -	\$ -	\$ -	\$ -	\$ 20,231
	2006	-	-	-	-	-	-	-	-
William M. Hodel SVP & CLO	2008	\$ 96,500	\$ 10,181	\$ 1,821	\$ -	\$ 7,856	\$ -	\$ 933	\$ 117,291
	2007	\$ 97,281	\$ 4,551	\$ -	\$ -	\$ 7,783	\$ -	\$ 490	\$ 110,104
	2006	93,622	2,720	-	-	7,463	-	904	104,709

- (1) The amounts included in the "Stock Options" column include the dollar amount of compensation expense we recognized for the fiscal year ended December 31, 2008 in accordance with FAS 123R. Assumptions used in the calculation of these amounts are included in Note 13 to our audited financial statements for the fiscal year ended December 31, 2008 included in our annual report on Form 10-K for such fiscal year.
- (2) Includes contributions made by the Bank calculated based on year-end salaries of participating executive officers to their respective 401(k) plan accounts. Details appear in the section entitled "Retirement Plan Contributions from Summary Compensation Table."
- (3) Does not include earnings on compensation deferred under nonqualified deferred compensation plans paid at a rate of interest exceeding 120% of the applicable federal long-term rate. Earnings under the Bank's nonqualified deferred compensation plans are paid on the basis of returns received by the Bank on investment vehicles selected by participating executives.
- (4) Includes all items of nonmonetary compensation the Bank paid directly to third parties as detailed in the table appearing in the section entitled "Car Allowance and Club Dues."
- (5) These bonuses were awarded outside of the incentive compensation plans.