

PUBLIC DISCLOSURE

February 27, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Tioga State Bank
RSSD No. 910118**

**1 Main Street
P.O. Box 386
Spencer, NY 14883**

FEDERAL RESERVE BANK OF NEW YORK

**33 LIBERTY STREET
NEW YORK, N.Y. 10045**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING: Tioga State Bank is rated “SATISFACTORY.”

The following table indicates the performance level of the institution with respect to the lending and community development tests.

PERFORMANCE LEVELS	TIOGA STATE BANK PERFORMANCE TESTS	
	Lending Test	Community Development Test
Outstanding		
Satisfactory	X	X
Needs to Improve		
Substantial Noncompliance		

The satisfactory performance of Tioga State Bank (“Tioga”) with regard to the Community Reinvestment Act (“CRA”) is based on the following performance criteria:

- The bank’s loan-to-deposit ratio was reasonable.
- A substantial majority of loans were made in the assessment areas.
- The distribution of loans to individuals of different income (including low- and moderate income) levels and businesses of different sizes was reasonable.
- The geographic distribution of loans in the assessment area was reasonable.
- The community development performance demonstrates adequate responsiveness to the community development needs of its assessment areas.

DESCRIPTION OF INSTITUTION

Tioga is a retail commercial bank, wholly owned by TSB Services Inc., a one-bank holding company. The bank operates 11 branches in the southwestern portion of upstate New York, with the majority of its branches located in Tioga and Broome Counties.

The bank offers various deposit and loan products and services to consumers and small to medium-sized businesses. As of December 31, 2005, the bank's total assets were \$268 million with total net loans and leases of \$150 million. Most of the loans, \$109 million or 73 percent, are real estate-related, of which 70% were secured with 1-4 family residential properties. Consumer loans total \$9 million or 6 percent of all loans, and commercial and industrial loans total \$30 million or 20 percent of all loans.

As of December 31, 2005, Tioga's 11 full-service branch offices contained deposits of \$224 million. Of the 11 branches, 5 are located in Tioga County, 4 are located in Broome County, and the remaining 2 branches are located in Chemung and Tompkins Counties. Tioga has an 8% combined deposit market share in Broome and Tioga Counties as of June 30, 2005.

There are no financial or legal impediments preventing Tioga from servicing the credit needs of consumers and small businesses in its assessment areas.

Tioga's previous CRA examination was dated February 25, 2002, and the bank received an overall rating of "satisfactory" under the small retail bank evaluation method.

DESCRIPTION OF THE BANK'S ASSESSMENT AREAS

Tioga's assessment areas are located within 3 Metropolitan Statistical Areas (MSA) as follows:

- MSA 13780 (Binghamton, NY) consisting of Tioga County and portions of Broome County
- MSA 21300 (Chemung, NY) consisting of a small portion of Chemung County
- MSA 27060 (Ithaca, NY) consisting of a small portion of Tompkins County

The assessment areas do not arbitrarily exclude low- or moderate-income ("LMI") geographies. A map illustrating Tioga's assessment areas is on page BB15.

SCOPE OF EXAMINATION

Tioga was examined using the FFIEC CRA Intermediate-Small Bank examination procedures. The examination covered the period of January 1, 2002 through December 31, 2005. A sample of HMDA-related, consumer, and small business loans was analyzed. Loans for analysis were selected using the Board of Governors' sampling procedures and data was verified as part of the onsite exam. The loan sample review period covered January 1, 2004 through September 30, 2005, and included a sample of 140 HMDA-related loans, 151 small business loans, and 179 consumer loans. Community development activities occurring January 1, 2002 through December 31, 2005 were considered.

A full scope review was conducted of the MSA 13780 (Binghamton, NY). A limited scope review was conducted of assessment areas MSA 21300 (Chemung, NY) and MSA 27060 (Ithaca, NY). MSA 13780 was selected for a full-scope review because it contains 82% of the bank's branches, 84% of the bank's retail deposits and 83% of the bank's retail lending activity.

Examiners also conducted interviews with two community development organizations in order to gain an understanding of local credit needs. One community contact focused on affordable housing for LMI individuals while the other promoted economic development through lending programs for small businesses.

PERFORMANCE CONTEXT

The following demographic and economic information was obtained from publicly available sources that include the U.S. Department of Commerce's Bureau of Census, the New York State Department of Labor, the U.S. Department of Housing and Urban Development ("HUD") and the New York Association of Realtors.

Demographic Characteristics

According to the 2000 Census, the population of MSA 13780 (Binghamton, NY) totals 227,714. This total represents a decline of 11% from the 1990 population level. The MSA is comprised of Broome and Tioga Counties, with Broome County representing 88% of the MSA's population. The City of Binghamton is the largest city in the MSA and is located within Broome County. Tioga State Bank has historically operated primarily within Tioga County but has expanded into Broome County over the last few years.

Income Characteristics

The HUD-adjusted median family income for MSA 13780 was \$52,400 in 2004 and \$53,100 in 2005. These income levels are low in comparison to New York State's 2005 HUD-adjusted median family income of \$60,100. Of the 58 census tracts located in MSA 13780, 17 or 29% are LMI. All of the LMI census tracts are located in Broome County.

Housing Characteristics

Given the relatively lower levels of owner-occupancy in LMI census tracts, opportunities for homeownership can be limited. The median annual sales price of existing single-family homes in Broome County was \$84,500 in 2004 and increased to \$92,500 in 2005. In Tioga County, the median annual sales price of existing single-family homes was slightly higher at \$89,000 in 2004 and \$100,850 in 2005. MSA 13780's housing costs are low in comparison to New York State's median annual sales price of existing single-family homes of 255,000 in 2005. Although housing costs are comparatively low in the MSA, housing affordability for low-income borrowers, which represent 19% of all borrowers, can still be difficult. According to community contacts, the need exists for down payment assistance, reduced rate mortgages, and specialized mortgage products to further home ownership opportunities, particularly for lower-income individuals.

Labor, Employment and Economic Characteristics

According to community contacts, the economy in the Binghamton area has not been growing and the population is increasingly elderly. The MSA 13780 assessment area contains 7,329 business establishments, of which 86% had gross annual revenues (“GAR”) less than or equal to \$1 million. Community contacts noted that small business financing is an important assessment area credit need. The 2005 unemployment rate for MSA 13780 was 4.9% and generally comparable with the State’s 2005 unemployment rate of 5.0%. The MSA’s 2004 unemployment rate of 5.3% was higher but lower in comparison with the State’s unemployment rate of 5.8%.

Exhibit 1 on the following page contains additional demographic details for MSA 13780.

Exhibit 1

Assessment Area Demographics*

Assessment Area: MSA 13780

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	4	6.9	1,366	2.3	437	32.0	10,767	18.5
Moderate-income	13	22.4	8,302	14.2	1,587	19.1	10,804	18.5
Middle-income	27	46.6	31,484	54.0	2,092	6.6	13,357	22.9
Upper-income	14	24.1	17,151	29.4	605	3.5	23,375	40.1
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	58	100.0	58,303	100.0	4,721	8.1	58,303	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	4,299	657	1.1	15.3	2,931	68.2	711	16.5
Moderate-income	19,144	6,158	10.2	32.2	10,623	55.5	2,363	12.3
Middle-income	51,199	34,477	57.1	67.3	12,767	24.9	3,955	7.7
Upper-income	24,946	19,135	31.7	76.7	4,736	19.0	1,075	4.3
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	99,588	60,427	100.0	60.7	31,057	31.2	8,104	8.1
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Low-income	662	9.0	509	8.1	106	15.4	47	13.5
Moderate-income	1,473	20.1	1,264	20.1	149	21.7	60	17.3
Middle-income	3,562	48.6	3,113	49.5	275	40.0	174	50.1
Upper-income	1,632	22.3	1,408	22.4	158	23.0	66	19.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	7,329	100.0	6,294	100.0	688	100.0	347	100.0
	Percentage of Total Businesses:			85.9		9.4		4.7

*Based on 2000 Census Information.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Tioga's record of meeting the credit needs of its assessment areas through its lending performance is rated satisfactory. Tioga originated a substantial majority of its loans within its assessment areas and its loan-to-deposit ratio was reasonable. The overall distribution of its loans to borrowers of different incomes and businesses of different sizes was also reasonable. The geographic distribution of loans reflects reasonable penetration throughout the bank's assessment areas in relation to performance context considerations.

Loan-to-Deposit Ratio

Tioga's loan-to-deposit ratio was reasonable given the bank's size, financial condition, and the credit needs of its assessment areas. The bank's average loan-to-deposit ratio for the eight most recent quarters ending December 31, 2005, was 59%, based on information contained in its *Consolidated Report of Condition and Income*. This ratio was below the national peer average of 81% for similarly sized banks, but generally comparable to an average of 64% for 3 similarly sized banks located in a similar geographic area of New York State.

Lending in Assessment Areas

Tioga originated a substantial majority of its loans in its assessment areas. Overall, 90% of the sampled loans were originated in the assessment areas. Of the 151 small business loans, 179 consumer loans and 140 HMDA-related loans sampled in the review period, 136 or 90% of the small business loans, 167 or 93% of consumer loans and 121 or 86% of the HMDA-related loans were extended to businesses and individuals located in the bank's assessment area.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Overall, the bank's record of lending in MSA 13780 to borrowers of different income levels, including LMI individuals, and businesses of different sizes was reasonable given the demographics of the assessment area. Overall performance within MSA 21300 and MSA 27060 was consistent with the MSA 13780 conclusion. Exhibit 2 depicts lending distribution in each loan category.

EXHIBIT 2			
Distribution of Loans by Income Level of Borrower			
MSA 13780 –Assessment Area			
January 1, 2004 – September 30, 2005			
	HMDA-RELATED	CONSUMER	TOTAL
LOW-INCOME: Less than 50% of Median Income			
Number	6	27	33
Percentage	7%	21%	15%
Amount (\$)	\$158,000	\$300,000	\$458,000
Percentage	4%	7%	6%
MODERATE-INCOME: At least 50% & less than 80% of Median Income			
Number	17	28	45
Percentage	21%	21%	21%
Amount (\$)	\$566,000	\$538,000	\$1,104,000
Percentage	15%	13%	14%
MIDDLE-INCOME: At least 80% & less than 120% of Median Income			
Number	31	34	65
Percentage	38%	26%	31%
Amount (\$)	\$1,313,000	\$639,000	\$1,952,000
Percentage	34%	15%	24%
UPPER-INCOME: 120% or more of Median Income			
Number	28	42	70
Percentage	34%	32%	33%
Amount (\$)	\$1,860,000	\$2,799,000	\$4,659,000
Percentage	48%	65%	57%

HMDA-related Loans

As detailed in Exhibit 2, the distribution of HMDA-related lending to borrowers of different income levels was reasonable. The proportion of lending to LMI borrowers was adequate and was less than the proportion of families that are LMI in the assessment area. LMI families represent 38% of families in the assessment area. While Tioga’s lending to moderate-income borrowers was comparable to the market demographics, lending to low-income borrowers was not as robust and more reflective of the housing affordability issues noted in the performance context section of this evaluation.

Consumer Loans

Consumer lending distribution was excellent and slightly exceeded the proportion of LMI families in the assessment area. LMI families account for 38% of families in the assessment area. For details, see Exhibit 2 on the prior page.

Small Business Loans

Lending to businesses with gross annual revenues (GAR) of \$1 million or less was reasonable. As shown in Exhibit 3, Tioga extended 54% of its loans to businesses with GAR of \$1 million or less. In comparison, 86% of businesses in the assessment area have GAR of \$1 million or less.

EXHIBIT 3					
Distribution of Loans by Size of Business					
MSA 13780 - Assessment Area					
January 1, 2004 – September 30, 2005					
SMALL BUSINESS LENDING SUMMARY					
Number of loans to businesses	Number of loans to <u>small</u> businesses*	% of loans to <u>small</u> businesses	\$ Amount of loans to businesses	\$ Amount of loans to <u>small</u> businesses*	% of \$ amount of loans to <u>small</u> businesses*
125	68	54%	\$9,190,000	\$6,134,000	67%

Geographic Distribution of Loans

Overall, the geographic distribution of HMDA-related, consumer, and small business loans across geographies of different income levels in MSA 13780 (Binghamton, NY) was weak but considered reasonable in relation to performance context issues. The bank recently opened a branch at the end of 2004 in the City of Binghamton located within MSA 13780 (Binghamton NY). This new branch resulted in the recent addition of 11 LMI census tracts within the bank’s MSA 13780 assessment area. The other 6 LMI census tracts in the bank’s MSA 13780 assessment area were added since the last examination too as the bank expanded into Broome County. Tioga also competes with 5 other large banks operating in Broome County. These banks have a larger presence and been established in the county for a longer time period, thus making lending opportunities highly competitive for Tioga in Broome County.

MSA 27060 and MSA 21300 contain only a small number (3 in MSA 27060 and 2 in MSA 21300) of middle-income census tracts and a geographic distribution analysis was not performed in these assessment areas as a result. The distribution of lending for each loan category in the MSA 13780 assessment area is detailed on the following page.

* Businesses with gross annual revenues of \$1 million or less.

HMDA-related Loans

The level of HMDA-related lending in LMI census tracts was weak but considered reasonable with 1% of loans extended in low-income tracts and 1% of loans extended in moderate-income tracts. In comparison, 1% and 10% of owner-occupied housing units were located in LMI tracts, respectively.

Consumer Loans

The geographic distribution of the bank's consumer loans was weak but considered reasonable with no consumer loans originated in LMI census tracts compared to 4% of households located in low-income tracts and 14% of households located in moderate-income tracts.

Small Business Loans

The geographic distribution of the bank's small business loans was weak but considered reasonable. In low-income census tracts, 1% of loans were originated in comparison with 9% of businesses located in such tracts. In addition, 4% of small business loans were originated in moderate-income census tracts compared with 20% of businesses located in those tracts.

Response to Complaints

Tioga received no complaints relating to the bank's CRA performance and no complaints have been filed with the Federal Reserve Bank of New York since the previous examination.

COMMUNITY DEVELOPMENT TEST

Tioga's community development performance demonstrates adequate responsiveness to the community development needs of its assessment areas through community development loans, qualified investments, and community development services, as appropriate, considering Tioga's capacity and the need and availability of such opportunities for community development in Tioga's assessment areas.

This conclusion considers that Tioga only very recently qualified as an intermediate-small bank as of January 1, 2006. Additionally, the category of intermediate-small bank was only recently created in September 2005 as part of the CRA regulation amendments. Accordingly, a minimal amount of time had passed before the bank was evaluated under the community development test criteria.

Community Development Loans

Tioga originated \$5.1 million of community development loans representing 10 loans within MSA 13780 (Binghamton NY). Of this total, 42% assisted in revitalizing and stabilizing parts of the assessment area, 29% financed affordable housing, 25% targeted community development service activities and 5% targeted economic development initiatives.

In addition, Tioga originated one community development loan totaling \$1.3 million outside of the bank's assessment areas. This loan financed an organization providing community services targeted to low- and moderate-income individuals.

Examples of the community development loans follow:

- Construction loan to build a 22 unit affordable apartment for LMI senior citizens;
- Line of credit to a not-for-profit organization with a mission of promoting adequate and affordable health care to LMI individuals; and
- Construction loans for a building within an Empire Development Zone that will house a business providing jobs for many for LMI individuals.

Qualified Investments

Tioga's qualified investments totaled \$135 thousand with the investment dollars primarily targeting economic development through financing small businesses. These investments were in the form of loan funds financing businesses in the assessment areas as well as throughout the state and regional area. Tioga also made a nominal amount of qualified grants to organizations with a community development purpose totaling \$535 dollars.

Community Development Services

Tioga opened one branch office within a moderate-income census tract located in the City of Binghamton providing needed financial services in the area. In addition, Tioga's employees participated in a reasonable amount of community development service activities. These activities are described below:

- Six employees participated as board or committee members of 8 community development organizations;
- Seven financial education seminars were conducted at or around various branch offices on the topics of identity theft and understanding a credit report; and
- Branch offices were used as collection centers for a community hunger outreach program.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices, including the Equal Credit Opportunity Act and the Fair Housing Act, was identified as being inconsistent with helping to meet community credit needs.

CRA APPENDIX A

GLOSSARY

Census tract: A small, relatively permanent statistical subdivision of a county or statistically equivalent entity delineated for data presentation purposes by a local group of census data users or the geographic staff of a regional census center in accordance with Census Bureau guidelines. Designed to be relatively homogeneous units with respect to population characteristics, economic status, and living conditions at the time they are established, census tracts generally contain between 1,000 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries are delineated with the intention of being stable over many decades, so they generally follow relatively permanent visible features. However, they may follow governmental unit boundaries and other invisible features in some instances; the boundary of a state or county (or statistically equivalent entity) is always a census tract boundary.

Community development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Family: A family is a group of two or more people related by birth, marriage, or adoption and residing together; all such people (including related subfamily members) are considered as members of one family.

Full review: Performance is analyzed considering performance context, quantitative factors and qualitative factors.

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (“HMDA”): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and income of applicants, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancings of home improvement and home purchase loans.

Household: A household consists of all the people who occupy a housing unit. A household includes the related family members and all the unrelated people, if any, such as lodgers, foster children, wards, or employees who share the housing unit. A person living alone in a housing unit, or a group of unrelated people sharing a housing unit such as partners or roomers, is also counted as a household. The count of households excludes group quarters.

Limited-scope review: Performance is analyzed using only quantitative factors.

Low-income: Individual income that is less than 50% of the area median income, or a median family income that is less than 50%, in the case of a geography.

Metropolitan Statistical Area (“MSA”): A geographic entity defined by the federal Office of Management and Budget for use by federal statistical agencies, based on the concept of a core area with a large population nucleus, plus adjacent communities having a high degree of economic and social integration with that core.

Metropolitan Division: A county or group of counties within a **Metropolitan Statistical Area** that contains a population of at least 2.5 million and represents an employment center(s) associated through commuting ties.

Middle-income: Individual income that is at least 80% and less than 120% of the area median income, or a median family income that is at least 80% and less than 120%, in the case of a geography.

Moderate-income: Individual income that is at least 50% and less than 80% of the area median income, or a median family income that is at least 50% and less than 80%, in the case of a geography.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share or grant that has as its primary purpose community development.

Small loan(s) to business(es): A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (“Call Report”) and the Thrift Financial Reporting (“TFR”) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Upper-income: Individual income that is more than 120% of the area median income, or a median family income that is more than 120%, in the case of a geography.

Tioga State Bank

Assessment Area

January 1, 2004 - September 30, 2005

