

CHEMUNG FINANCIAL CORP

Form 10-K

March 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-13888

CHEMUNG FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

NEW YORK

16-123703-8

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

One Chemung Canal Plaza, P.O. Box 1522, Elmira, New York

14902

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (607) 737-3711

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
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Common Stock, Par Value \$0.01 Per Share	NASDAQ Stock Market, LLC
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Securities registered pursuant to Section 12(g) of the Act:

(Title of Class)

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for 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 NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required 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 that 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

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incorporated by reference in Part III of this Form 10-K or any amendment 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 definition of "large accelerated filer," "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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

Based upon the closing price of the registrant's Common Stock as of June 30, 2014, the aggregate market value of the voting stock held by non-affiliates of the registrant was \$100,470,741.

As of March 13, 2015, there were 4,647,320 shares of Common Stock, \$0.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on May 7, 2015 are incorporated by reference into Part III, Items 10, 11, 12, 13, and 14 of this Form 10-K.

CHEMUNG FINANCIAL CORPORATION

ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

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Some of the information contained in this report concerning the markets and industry in which we operate is derived from publicly available information and from industry sources. Although we believe that this publicly available information and information provided by these industry sources are reliable, we have not independently verified the accuracy of any of this information.

To assist the reader, the Corporation has provided the following list of commonly used acronyms and abbreviations included in Part I.

ASU: Accounting Standards Update	FRBNY: Federal Reserve Bank of New York
Bank: Chemung Canal Trust Company	Freddie Mac: Federal Home Loan Mortgage Corporation
CDO: Collateralized Debt Obligation	GAAP: U.S. generally accepted accounting principles
Corporation: Chemung Financial Corporation	OTTI: Other-than-temporary impairment
FASB: Financial Accounting Standards Board	PCI: Purchased credit impaired
FDIC: Federal Deposit Insurance Corporation	SEC: Securities and Exchange Commission
FHLBNY: Federal Home Loan Bank of New York	TDRs: Troubled debt restructurings
FRB: Board of Governors of the Federal Reserve System	

PART I

ITEM 1. BUSINESS

General

Chemung Financial Corporation (the "Corporation") was incorporated on January 2, 1985 under the laws of the State of New York and is headquartered in Elmira, NY. The Corporation was organized for the purpose of acquiring Chemung Canal Trust Company (the "Bank"). The Bank was established in 1833 under the name Chemung Canal Bank, and was subsequently granted a New York State bank charter in 1895. In 1902, the Bank was reorganized as a New York State trust company under the name Elmira Trust Company, and its name was changed to Chemung Canal Trust Company in 1903.

The Corporation became a financial holding company in June, 2000. Financial holding company status provided the Corporation with the flexibility to offer an array of financial services, such as insurance products, mutual funds, and brokerage services, which provide additional sources of fee based income and allow the Corporation to better serve its customers. The Corporation established a financial services subsidiary, CFS Group, Inc., in September 2001 which offers non-banking financial services such as mutual funds, annuities, brokerage services, insurance and tax preparation services.

The Corporation's Board of Directors has concluded that the expansion of the franchise's geographic footprint, an increase in the Bank's earning assets and the generation of new sources of non-interest income are important components of its strategic plan. Towards that end, in recent years it has completed the following transactions:

On May 3, 2007, the Bank acquired the trust business of Partners Trust Bank, Utica, New York. At the time of the acquisition, the Bank acquired \$351.0 million in trust assets.

On March 14, 2008, the Bank acquired three branches from Manufacturers and Traders Trust Company in the New York counties of Broome and Tioga. At the time of the acquisition, the Bank assumed \$64.4 million in deposits and acquired \$12.6 million in loans.

On May 29, 2009, the Corporation acquired Canton Bancorp, Inc., the holding company of Bank of Canton based in Canton, Pennsylvania. At the time of the merger, Canton Bancorp, Inc. had \$81.1 million in assets,

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\$58.8 million in loans and \$72.9 million in deposits.

On April 8, 2011, the Corporation acquired Fort Orange Financial Corp. (“FOFC”), the holding company of Capital Bank & Trust Company (“Capital Bank”) based in Albany, New York. At the time of the merger, Capital Bank had \$254.4 million in assets, \$170.7 million in loans and \$199.2 million in deposits.

On November 23, 2013, the Bank completed the acquisition of six branch offices from Bank of America located in Cayuga, Cortland, Seneca and Tompkins counties in New York. As part of the transaction, the Corporation acquired \$177.7 million in deposits and \$1.2 million in loans.

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As a result of these transactions and organic growth, the Corporation had \$1.525 billion in assets, \$1.122 billion in loans, \$1.280 billion in deposits and \$133.6 million in shareholders' equity at December 31, 2014.

Growth Strategy

The Corporation's growth strategy is to leverage its expanding branch network in current or new markets to build client relationships and grow loans and deposits. Consistent with the Corporation's community banking model, emphasis is placed on acquiring stable, low-cost deposits, primarily checking account deposits and other low interest-bearing deposits to fund high-quality loans. Expanding the branch network involves branch purchases or opening de novo branches in contiguous markets and acquiring other financial institutions in the Northeast. The Corporation evaluates acquisition targets based on the economic viability of the markets they are in, the degree to which they can be effectively integrated into the Corporation's current operations and the degree to which they are accretive to capital and earnings.

Description of Business

The Corporation, through the Bank and CFS Group, Inc., provides a wide range of financial services, including demand, savings and time deposits, commercial, residential and consumer loans, letters of credit, wealth management services, employee benefit plans, securities and insurance brokerage services. The Bank derives its income primarily from interest and fees on loans, interest on investment securities, Wealth Management Group fee income and fees received in connection with deposit and other services. The Bank's operating expenses are interest expense paid on deposits and borrowings, salaries and employee benefit plans and general operating expenses.

In order to compete with other financial services companies, the Corporation relies upon personal relationships established by its officers, employees and directors with our clients. The Corporation has maintained a strong community orientation by supporting the active participation of officers and employees in local charitable, civic, school, religious and community development activities. The Corporation believes that its emphasis on local relationship banking together with a prudent approach to lending, are important factors in its success and growth.

Lending Activities

Lending Strategy

The Corporation's objective is to channel deposits gathered locally into high-quality, market-yielding loans without taking unacceptable credit and/or interest rate risk. The Corporation seeks to have a diversified loan portfolio consisting of commercial and agricultural loans, commercial mortgages, residential mortgages, home equity lines of credit and home equity term loans, consumer and indirect auto loans. The Bank operates with a traditional community bank model where the relationship manager possesses credit skills and has significant influence over credit decisions. This creates value since clients and prospects know they are dealing with a decision maker.

Lending Authority

The Board of Directors establishes the lending policies, underwriting standards and loan approval limits of the Bank. In accordance with those policies, the Board of Directors has designated certain officers to consider and approve loans within their designated authority. These officers exercise substantial authority over credit and pricing decisions, subject to loan committee approval for larger credits. The Bank recognizes that exceptions to the lending policies may occasionally occur and has established procedures for approving exceptions to these policies.

In underwriting loans, primary emphasis is placed on the borrower's financial condition, including ability to generate cash flow to support the debt and other cash expenses. In addition, substantial consideration is given to collateral value and marketability as well as the borrower's character, reputation and other relevant factors. Interest rates charged by the Bank vary with degree of risk, type, size, complexity, repricing frequency and other relevant factors associated with the loans. Competition from other financial services companies also impacts interest rates charged on loans.

The Corporation has also implemented reporting systems to monitor loan originations, loan quality, concentration of credit, loan delinquencies, non-performing loans and potential problem loans.

Lending Segments

The Corporation segments its loan portfolio into the following major lending categories: (i) commercial and agricultural, (ii) commercial mortgages, (iii) residential mortgages and (iv) consumer loans.

Commercial and agricultural loans primarily consist of loans to small to mid-sized businesses in our market area in a diverse range of industries. These loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. Further, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value. The credit risk related to commercial loans is largely influenced by general economic conditions and the resulting impact on a borrower's operations or on the value of underlying collateral, if any.

Commercial mortgage loans generally have larger balances and involve a greater degree of risk than residential mortgage loans, and they therefore pose higher potential losses on an individual customer basis. Loan repayment is often dependent on the successful operation and management of the properties and/or the businesses occupying the properties, as well as on the collateral securing the loan. Economic events or conditions in the real estate market could have an adverse impact on the cash flows generated by properties securing the Company's commercial real estate loans and on the value of such properties.

Residential mortgage loans are generally made on the basis of the borrower's ability to make repayment from his or her employment and other income, but are secured by real property whose value tends to be more easily ascertainable. Credit risk for these types of loans is generally influenced by general economic conditions, the characteristics of individual borrowers and the nature of the loan collateral.

The consumer loan segment includes home equity lines of credit and home equity loans, which exhibit many of the same risk characteristics as residential mortgages. Indirect and other consumer loans may entail greater credit risk than residential mortgage and home equity loans, particularly in the case of other consumer loans which are unsecured or, in the case of indirect consumer loans, secured by depreciable assets, such as automobiles or boats. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, thus are more likely to be affected by adverse personal circumstances such as job loss, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

Funding Activities

Funding Strategy

The Corporation's deposit strategy is to fund the Bank with stable, low-cost deposits, primarily checking account deposits and other low interest-bearing deposit accounts. A checking account is the driver of a banking relationship and consumers consider the bank where they have their checking account as their primary bank. These customers will typically turn to their primary bank first when in need of other financial services. The Corporation also considers brokered deposits to be an element of its deposit strategy and anticipates that it will continue using brokered deposits as a secondary source of funding to support growth. Borrowings may be used on a short-term basis for liquidity purposes or on a long-term basis to fund asset growth.

Funding Sources

The Corporation's primary sources of funds are deposits, principal and interest payments on loans and securities, borrowings and funds generated from operations of the Bank. The Bank also has access to advances from the FHLBNY, other financial institutions and the FRBNY. Contractual loan payments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general market interest rates and economic conditions.

The Corporation considers core deposits, consisting of non-interest-bearing and interest-bearing checking accounts, savings accounts, and insured money market accounts, to be a significant component of our deposits. The Corporation monitors the activity on these core deposits and, based on historical experience and pricing strategy, believes it will continue to retain a large portion of such accounts. The Bank is currently not limited with respect to the rates that it may offer on deposit products. The Bank believes it is competitive in the types of accounts and interest rates it has offered on its deposit products. The Bank regularly evaluates the internal cost of funds, surveys rates offered by competitors, reviews cash flow requirements for lending and liquidity, and executes rate changes when necessary as part of its asset/liability management, profitability and growth strategies.

The flow of deposits is influenced significantly by general economic conditions, changes in prevailing interest rates and competition. The Bank's deposits are obtained predominantly from the areas in which its retail offices are located. The Bank relies primarily on customer service, long-standing relationships and other banking services, including loans and wealth management services, to attract and retain these deposits. However, market interest rates and rates offered by competing financial institutions affect the Bank's ability to attract and retain deposits. The Bank utilizes a combination of traditional media, such as print, television, and radio, as well as digital advertising, such as social media and eBlasts, when advertising its deposit products.

Wealth Management Strategy

With \$1.956 billion of assets under management or administration at year-end 2014, the Wealth Management Group is responsible for the largest component of non-interest income. Wealth management services provided by the Bank include services as executor and trustee under wills and agreements, and guardian, custodian, trustee and agent for pension, profit-sharing and other employee benefit trusts, as well as various investment, pension, estate planning and employee benefit administrative services. The Corporation's growth strategy also includes the acquisition of trust businesses to generate new sources of fee income.

The Corporation offers an array of financial services including mutual funds, securities and insurance brokerage, tax preparation and other services through CFS Group Inc., its wholly owned subsidiary

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For additional information, including information concerning the results of operations of the Corporation and its subsidiaries, see Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7.

There were no material changes in the manner of doing business by the Corporation or its subsidiaries during the fiscal year ended December 31, 2014.

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Market Area and Competition

The Bank operates 34 branch offices located in 11 counties in New York and Bradford County in Pennsylvania. Bank branch offices are located in the following New York counties: Chemung, where the Bank is headquartered, Broome, Cayuga, Cortland, Schuyler, Seneca, Steuben, Tioga and Tompkins. The Bank also operates under the name “Capital Bank, a division of Chemung Canal Trust Company”, with branch offices located in Albany and Saratoga counties in New York.

Albany and Saratoga counties rely heavily on business related to New York State government activities, the nanotechnology industry and colleges located within these counties. Tompkins County is dominated by the presence of Cornell University and Ithaca College. The world headquarters of Corning Incorporated, the region’s largest employer, is located in Steuben County. The remaining New York counties have a combination of service, small manufacturing and tourism related businesses, with colleges located in Broome, Chemung and Cortland counties.

Within all these market areas, the Bank encounters intense competition in the lending and deposit gathering aspects of its business from local, regional and national commercial banks and thrift institutions, credit unions and other providers of financial services, such as brokerage firms, investment companies, insurance companies and internet banking institutions. The Bank also competes with non-financial institutions, including retail stores and certain utilities that maintain their own credit programs, as well as governmental agencies that make loans to certain borrowers. Many of these competitors are not subject to regulation as extensive as that affecting the Bank and, as a result, may have a competitive advantage over the Bank in certain respects. This is particularly true of credit unions because their pricing structure is not encumbered by the payment of income taxes.

Similarly, the competition for the Bank's wealth management services is primarily from local offices of national brokerage firms, independent investment advisors, national and regional banks as well as internet based brokerage/advisory firms. The Bank operates full-service wealth management centers in Chemung and Broome counties in New York.

Employees

As of December 31, 2014, the Corporation and its subsidiaries employed 393 persons on a full-time equivalent basis. None of the Corporation's employees are covered by collective bargaining agreements, and the Corporation believes that its relationship with its employees is good.

Available Information

The SEC maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding the Corporation. You may also read and copy materials we file with the SEC at the SEC's Public Reference Room at 100 F St., NE, Washington, D.C. 20549. You may obtain information concerning the operation of the Public Reference Room by calling 1-800-SEC-0330. In addition, we maintain a corporate web site at www.chemungcanal.com. We make available free of charge through our web site our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed with the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act. These items are available as soon as reasonably practicable after we electronically file or furnish such material with the SEC. These items are also available on our web site as Interactive Data Files as required pursuant to Rule 405 of Regulation S-T (§232.405). The contents of our web site are not a part of this report. These materials are also available free of charge by written request to: Kathleen S. McKillip, Corporate Secretary, Chemung Canal Trust Company, One Chemung Canal Plaza, Elmira, NY 14901.

Supervision and Regulation

The Corporation and the Bank are subject to comprehensive regulation, supervision and examination by regulatory authorities. Numerous statutes and regulations apply to the Corporation's and, to a greater extent, the Bank's, operations, including required reserves, investments, loans, deposits, issuances of securities, payments of dividends and establishment of branches. Set forth below is a brief description of some of these laws and regulations. The description does not purport to be complete, and is qualified in its entirety by reference to the text of the applicable laws and regulations.

The Corporation

Bank Holding Company Act

The Corporation is a bank holding company registered with, and subject to regulation and examination by, the Board of Governors of the Federal Reserve System ("Federal Reserve") pursuant to the Bank Holding Company Act of 1956, as amended (the "BHCA"). The Federal Reserve regulates and requires the filing of reports describing the activities of bank holding companies, and conducts periodic examinations to test compliance with applicable regulatory requirements. The Federal Reserve has enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders, and to require a bank holding company to divest subsidiaries.

The Corporation generally may engage in the activities permissible for a bank holding company, which includes banking, managing or controlling banks, performing certain servicing activities for subsidiaries, and engaging in other activities that the Federal Reserve has determined to be so closely related to banking as to be a proper incident thereto. Because the Corporation also has elected financial holding company status, it may also engage in a broader range of activities that are determined by the Federal Reserve and the Secretary of the Treasury to be financial in nature or incidental to financial activities or activities that are determined by the Federal Reserve to be complementary to a financial activity and that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.

The BHCA prohibits a bank holding company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, or increasing such ownership or control of any bank, without the prior approval of the Federal Reserve.

New York Law

The Corporation is organized under New York law and is subject to the New York Business Corporation Law, which governs the rights and obligations of directors and shareholders and other corporate matters.

The Corporation is also a bank holding company as defined in the New York Banking Law by virtue of its ownership and control of the Bank. Generally, this means that the New York State Department of Financial Services ("NYDFS") must approve the Corporation's acquisition of control of other banking institutions and similar transactions.

Federal Securities Law

The Corporation is subject to the information, reporting, proxy solicitation, insider trading, and other rules contained in the Securities Exchange Act of 1934 (the "Exchange Act"), the disclosure requirements of the Securities Act of 1933 (the "Securities Act") and the regulations of the SEC thereunder. In addition, the Corporation must comply with the corporate governance and listing standards of the NASDAQ Stock Market to maintain the listing of its common stock on the exchange. These standards include rules relating to a listed company's board of directors, audit committees and independent director oversight of executive compensation, the director nomination process, a code of conduct and shareholder meetings.

The SEC has adopted certain proxy disclosure rules regarding executive compensation and corporate governance, with which the Corporation must comply. They include: (i) increased disclosure of stock and option award compensation; (ii) disclosure regarding any potential conflict of interest of any compensation consultants of the Corporation; (iii) enhanced disclosure regarding compensation committee independence and experience, qualifications, skills and diversity of its directors and any director nominees; (iv) "say-on-pay" disclosure; and (v) information relating to the

leadership structure of the Corporation's board of directors and the board's role in the risk management process. Additionally, these rules require the Corporation to report the voting results of annual meetings in a much more timely manner on Form 8-K, rather than on a quarterly or annual report.

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Sarbanes-Oxley Act of 2002

The Corporation is also subject to the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”). The Sarbanes-Oxley Act revised the laws affecting public companies’ corporate governance, accounting obligations, and corporate reporting by: (i) creating a new federal accounting oversight body; (ii) revamping auditor independence rules; (iii) enacting new corporate responsibility and governance measures; (iv) enhancing disclosures by public companies, their directors, and their executive officers; (v) strengthening the powers and resources of the SEC; and (vi) imposing new criminal and civil penalties for securities fraud and related wrongful conduct.

The SEC has adopted regulations under the Sarbanes-Oxley Act, including: (i) executive compensation disclosure rules; (ii) standards of independence for directors who serve on the Corporation’s audit committee; (iii) disclosure requirements as to whether at least one member of the Corporation’s audit committee qualifies as a “financial expert” as defined in the SEC regulations; (iv) whether the Corporation has adopted a code of ethics applicable to its chief executive officer, chief financial officer, or those persons performing similar functions; (v) and disclosure requirements regarding the operations of board nominating committees and the means, if any, by which security holders may communicate with directors.

Support of Subsidiary Banks

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), discussed in the section of this document entitled “Additional Important Legislation and Regulation”, codifies the Federal Reserve’s long-standing policy of requiring bank holding companies to act as a source of financial and managerial strength to their subsidiary banks, as a statutory requirement. Under this requirement, the Corporation is expected to commit resources to support its banking subsidiaries, including at times when it may not be advantageous for the Corporation to do so.

The Bank

General

The Bank is a commercial bank chartered under the laws of New York State and is supervised by the NYSDDFS. The Bank also is a member bank of the Federal Reserve System and, therefore, the Federal Reserve serves as its primary federal regulator. The FDIC insures the Bank’s deposit accounts up to applicable limits. The Bank must file reports with the Federal Financial Institution Examination Council (“FFIEC”), the Federal Reserve and the FDIC concerning its activities and financial condition and must obtain regulatory approval before commencing certain activities or engaging in transactions such as mergers and other business combinations or the establishment, closing, purchase or sale of branch offices. This regulatory structure gives the regulatory authorities extensive discretion in the enforcement of laws and regulations and the supervision of the Bank.

Loans to One Borrower

The Bank generally may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. Up to an additional 10% of unimpaired capital and surplus can be lent if the additional amount is fully secured by readily marketable collateral. At December 31, 2014, the Bank’s legal lending limit on loans to one borrower was \$20.5 million for loans not fully secured by readily marketable collateral and \$22.6 million for loans secured by readily marketable collateral. The Bank’s internal limit on loans is set at \$15.0 million. At that date, the Bank did not have any loans or agreements to extend credit to a single or related group of borrowers in excess of its legal lending limit.

Branching

Subject to the approval of the NYSDFS, New York chartered commercial banks may establish branch offices anywhere within New York State, except in communities having populations of less than 50,000 inhabitants in which another New York chartered commercial bank or a national bank has its principal office. Additionally, under the Dodd-Frank Act, state chartered banks may generally branch into other states to the same extent as commercial banks chartered under the laws of that state may branch.

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Payment of Dividends

The Bank is subject to substantial regulatory restrictions relating to its ability to pay dividends to the Corporation. Under Federal Reserve and NYSDDFS regulations, the Bank may not pay a dividend without prior approval of the Federal Reserve and the NYSDDFS if the total amount of all dividends declared during such calendar year, including the proposed dividend, exceeds the sum of its retained net income to date during the calendar year and its retained net income over the preceding two calendar years. As of December 31, 2014, approximately \$13.6 million was available for the payment of dividends by the Bank to the Corporation without prior approval. The Bank's ability to pay dividends also is subject to the Bank being in compliance with regulatory capital requirements. The Bank is currently in compliance with these requirements.

Federal Reserve System

All depository institutions must maintain with a Federal Reserve Bank reserves against their transaction accounts (primarily checking, NOW, and Super NOW accounts) and non-personal time accounts. As of December 31, 2014, the Bank was in compliance with applicable reserve requirements. In all years preceding 2008, these reserves were maintained as vault cash or noninterest-bearing accounts, thereby reducing the Bank's earnings potential. In the fourth quarter of 2008, the Federal Reserve Banks announced that they would begin to pay interest on member banks' required reserve balances, as well as excess reserve balances.

Standards for Safety and Soundness

The Federal Reserve has adopted guidelines prescribing safety and soundness standards. These guidelines establish general standards relating to capital adequacy, asset quality, management, earnings performance, liquidity and sensitivity to market risk. In evaluating these safety and soundness standards, the Federal Reserve also evaluates internal controls and information systems, internal audit systems, loan documentation, credit underwriting, exposure to changes in interest rates, asset growth, compensation, fees, and benefits. In general, the guidelines require appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The Federal Reserve may order an institution that has been given notice that it is not satisfying these safety and soundness standards to submit a compliance plan, and if an institution fails to do so, the Federal Reserve must issue an order directing action to correct the deficiency and may issue an order directing other action. If an institution fails to comply with such an order, the Federal Reserve may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Real Estate Lending Standards

The Federal Reserve has adopted guidelines that generally require each Federal Reserve state member bank to establish and maintain written internal real estate lending standards that are consistent with safe and sound banking practices and appropriate to the size of the bank and the nature and scope of its real estate lending activities. The standards also must be consistent with accompanying Federal Reserve guidelines, which include loan-to-value ratios for the different types of real estate loans.

Transactions with Related Parties

The Federal Reserve Act governs transactions between the Bank and its affiliates, including the Corporation and CFS Group, Inc. In general, an affiliate of the Bank is any company that controls, is controlled by, or is under common control with the Bank. Generally, the Federal Reserve Act limits the extent to which the Bank or its subsidiaries may engage in "covered transactions" with any one affiliate to 10% of the Bank's capital stock and surplus, and contains an aggregate limit of 20% of capital stock and surplus for covered transactions with all affiliates. Covered transactions include loans, asset purchases, the issuance of guarantees, and similar transactions. The Bank's loans to insiders must

be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features. The loans are also subject to maximum dollar limits and must generally be approved by the Board.

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Deposit Insurance

The FDIC insures the deposits of the Bank up to regulatory limits and the deposits are subject to the deposit insurance premium assessments of the Deposit Insurance Fund ("DIF"). The FDIC currently maintains a risk-based assessment system under which assessment rates vary based on the level of risk posed by the institution to the DIF. The assessment rate may, therefore, change after any of these measurements change.

The FDIC has adopted a final rule making certain changes to the deposit insurance assessment system. Among other things, the rule revised the assessment rate schedule effective April 1, 2011, and adopted additional rate schedules that will go into effect when the DIF reserve ratio reaches various milestones. The rule changed the deposit insurance assessment system from one that was based on domestic deposits to one that is based on average consolidated total assets minus average tangible equity. In addition, the rule provides that FDIC dividend payments will be suspended if the DIF reserve ratio exceeds 1.5 percent but that assessment rates will decrease when the DIF reserve ratio reaches certain thresholds.

All institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the federal government established to recapitalize the former Savings Association Insurance Fund. These assessments will continue until the FICO bonds mature in 2017. The FDIC's FICO assessment authority is separate from its authority to assess risk-based premiums for deposit insurance. The FICO assessment rate is adjusted quarterly to reflect changes in the assessment bases of the fund and is not risk-based by institution. The FICO assessment rate for the first quarter of 2015, due December 31, 2014, was 0.000375% of insured deposits.

Regulatory Capital Requirements

Current Federal Reserve regulations require state member banks to meet three minimum capital standards, which are:

- a minimum tangible capital ratio requirement of 1.5% of tangible capital to adjusted total assets;
- a general minimum leverage ratio requirement of 4.0% of core capital to adjusted total assets (minimum of 3% for certain banks that have been assigned the highest composite rating under the Uniform Financial Institutions Ratings System); and
- a minimum risk-based capital ratio requirement of 8.0% of core and supplementary capital to total risk-weighted assets, provided that the amount of supplementary capital used to satisfy this requirement may not exceed 100% of core capital.

On October 11, 2013, the Federal Reserve approved a final rule that amends the regulatory capital rules for state member banks effective January 1, 2015. The Federal Reserve approved the new capital rules in coordination with substantially identical final rules approved by the FDIC and the Office of the Comptroller of the Currency for other types of banking organizations. The revisions make the capital rules consistent with agreements that were reached by the Basel Committee on Banking Supervision ("Basel III") and certain provisions of the Dodd-Frank Act. In general, the new capital rules revise regulatory capital definitions and minimum ratios; redefine Tier 1 Capital as two components (common equity Tier 1 capital and additional Tier 1 capital); create a new "common equity Tier 1 risk-based capital ratio"; implement a capital conservation buffer; revise prompt corrective action thresholds; and change risk weights for certain assets and off-balance sheet exposures.

The new capital rules implement a revised definition of regulatory capital, a new common equity Tier 1 minimum capital requirement of 4.5%, and a higher minimum Tier 1 capital requirement of 6.0% (which is an increase from 4.0%). Under the new rules, the total capital ratio remains at 8.0%, and the minimum leverage ratio (Tier 1 capital to total assets) for all banking organizations, regardless of supervisory rating, is 4.0%. Additionally, under the new capital rules, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements. The buffer is measured relative to risk-weighted assets. The final rules also enhance risk sensitivity and address weaknesses identified by the regulators over recent years with the measure of risk-weighted assets, including through new measures of creditworthiness to replace references to credit ratings, consistent with the requirements of the Dodd-Frank Act.

The new capital requirements also include changes in the risk-weights of assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and the unsecured portion of non-residential mortgage loans that are 90 days past due or otherwise on nonaccrual status; a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; a 250% risk weight (up from 100%) for mortgage servicing rights and deferred tax assets that are not deducted from capital; and increased risk weights (from 0% to up to 600%) for equity exposures.

The new minimum capital requirements generally become effective for all banking organizations (except for the largest internationally active banking organizations) on January 1, 2015, whereas the capital conservation buffer and the deductions from common equity Tier 1 capital phase in over time, beginning on January 1, 2016.

The Corporation is subject to Federal Reserve capital requirements applicable to bank holding companies, which are similar to those applicable to the Bank.

In assessing a state member bank's capital adequacy, the Federal Reserve takes into consideration not only these numeric factors but also qualitative factors, and has the authority to establish higher capital requirements for individual banks where necessary. The Bank, in accordance with its internal prudential standards, targets as its goal the maintenance of capital ratios which exceed these minimum requirements and that are consistent with its risk profile. As of December 31, 2014, the Bank exceeded all regulatory capital ratios necessary to be considered well capitalized.

Prompt Corrective Action

The Federal Deposit Insurance Act (the "FDIA") requires the federal banking agencies to resolve the problems of insured banks at the least possible loss to the DIF. The Federal Reserve has adopted prompt corrective action regulations to carry out this statutory mandate. The Federal Reserve's regulations authorize, and in some situations, require, the Federal Reserve to take certain supervisory actions against undercapitalized state member banks, including the imposition of restrictions on asset growth and other forms of expansion. The prompt corrective action regulations place state member banks in one of the following five categories based on the bank's capital:

- well capitalized
- adequately capitalized
- undercapitalized
- significantly undercapitalized
- critically undercapitalized

The new capital rules described above under "Regulatory Capital Requirements" maintain the general structure of the current prompt corrective action framework while increasing some of the thresholds for the prompt corrective action

capital categories. For example, an adequately capitalized bank is required to maintain a Tier 1 risk-based capital ratio of 6.0% (increased from the current level of 4.0%). The rule also introduces the common equity Tier 1 capital ratio as a new prompt corrective action capital category threshold.

As an institution's capital decreases within the three undercapitalized categories listed above, the severity of the action that is authorized or required to be taken by the Federal Reserve for state member banks under the prompt corrective action regulations increases. All banks are prohibited from paying dividends or other capital distributions or paying management fees to any controlling person if, following such distribution, the bank would be undercapitalized. The Federal Reserve is required to monitor closely the condition of an undercapitalized institution and to restrict the growth of its assets.

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An undercapitalized state member bank is required to file a capital restoration plan with the Federal Reserve within 45 days (or other timeframe prescribed by the Federal Reserve) of the date the bank receives notice that it is within any of the three undercapitalized categories, and the plan must be guaranteed by its parent holding company, subject to a cap on the guarantee that is the lesser of: (i) an amount equal to 5.0% of the bank's total assets at the time it was notified that it became undercapitalized; and (ii) the amount that is necessary to restore the bank's capital ratios to the levels required to be classified as "adequately classified," as those ratios and levels are defined as of the time the bank failed to comply with the plan. If the bank fails to submit an acceptable plan, it is treated as if it were "significantly undercapitalized." Banks that are significantly or critically undercapitalized are subject to a wider range of regulatory requirements and restrictions.

Federal Home Loan Bank

The Bank is also a member of the FHLBNY, which provides a central credit facility primarily for member institutions for home mortgage and neighborhood lending. The Bank is subject to the rules and requirements of the FHLBNY, including the requirement to acquire and hold shares of capital stock in the FHLBNY. The Bank was in compliance with the rules and requirements of the FHLBNY at December 31, 2014.

Community Reinvestment Act

Under the federal Community Reinvestment Act (the "CRA"), the Bank, consistent with its safe and sound operation, must help meet the credit needs of its entire community, including low and moderate income neighborhoods. The Federal Reserve periodically assesses the Bank's compliance with CRA requirements. The Bank received a "satisfactory" rating for CRA on its last performance evaluation conducted by the Federal Reserve as of May 19, 2014.

Fair Lending and Consumer Protection Laws

The Bank must also comply with the federal Equal Credit Opportunity Act and the New York Executive Law, which prohibit creditors from discrimination in their lending practices on bases specified in these statutes. In addition, the Bank is subject to a number of federal statutes and regulations implementing them, which are designed to protect the general public, borrowers, depositors, and other customers of depository institutions. These include the Bank Secrecy Act, the Truth in Lending Act, the Home Ownership and Equity Protection Act, the Truth in Savings Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Electronic Funds Transfers Act, the Fair Credit Reporting Act, the Right to Financial Privacy Act, the Expedited Funds Availability Act, the Flood Disaster Protection Act, the Fair Debt Collection Practices Act, Helping Families Save Their Homes Act, and the Consumer Protection for Depository Institutions Sales of Insurance regulation. The Federal Reserve and, in some instances, other regulators, including the U.S. Department of Justice, the Federal Trade Commission ("FTC"), the Consumer Financial Protection Bureau ("CFPB") and state Attorneys General, may take enforcement action against institutions that fail to comply with these laws.

Prohibitions Against Tying Arrangements

Subject to some exceptions, the BHCA and Federal Reserve regulations prohibit banks from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the bank or its affiliates or not obtain services of a competitor of the bank.

Privacy Regulations

Federal Reserve regulations generally require the Bank to disclose its privacy policy. The policy must identify with whom the Bank shares its customers' "nonpublic personal information," at the time of establishing the customer

relationship and annually thereafter. In addition, the Bank must provide its customers with the ability to “opt out” of having their personal information shared with unaffiliated third parties and not to disclose account numbers or access codes to non-affiliated third parties for marketing purposes. The Bank’s privacy policy complies with Federal Reserve regulations.

The USA PATRIOT Act

The Bank is subject to the USA PATRIOT Act, which gives the federal government powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. The USA PATRIOT Act imposes affirmative obligations on financial institutions, including the Bank, to establish anti-money laundering programs which require: (i) the establishment of internal policies, procedures, and controls; (ii) the designation of an anti-money laundering compliance officer; (iii) ongoing employee training programs; and (iv) an independent audit function to test the anti-money laundering program. The Federal Reserve must consider the Bank's effectiveness in combating money laundering when ruling on merger and other applications.

CFS Group, Inc.

CFS Group, Inc. is subject to supervision by other regulatory authorities as determined by the activities in which it is engaged. Insurance activities are supervised by the NYSDFS, and brokerage activities are subject to supervision by the SEC and the Financial Industry Regulatory Authority ("FINRA").

Additional Important Legislation and Regulation

The Dodd-Frank Act

The Dodd-Frank Act, enacted on July 21, 2010, significantly changed the bank regulatory landscape and has impacted and will continue to impact the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. 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. We have summarized below significant rules adopted by the federal agencies pursuant to the Dodd-Frank Act.

Consumer Financial Protection Bureau Rules

The Dodd-Frank Act created the CFPB, with wide-ranging 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. The Dodd-Frank Act also weakened the federal preemption rules that have been applicable to national banks and federal savings associations, and gives state attorneys general certain powers to enforce federal consumer protection regulations.

The CFPB has issued several new rules pursuant to the Dodd-Frank Act concerning the regulation of mortgage markets in the U.S. The rules amend several existing regulations, including Regulation Z, which implements the Truth in Lending Act, Regulation X, which implements the Real Estate Settlement Procedures Act and Regulation B, which implements the Equal Credit Opportunity Act. The CFPB has also issued amendments to Regulation P, which governs information privacy and Regulation E, which implements the Electronic Funds Transfers Act.

In December 2013, the Federal Reserve and the SEC released final rules to implement the provisions of the Dodd-Frank Act, commonly known as the "Volcker Rule." The Volcker Rule, among other things, prohibits banking entities from engaging in proprietary trading and from sponsoring, having an ownership interest in or having certain relationships with a hedge fund or private equity fund, subject to certain exemptions. At December 31, 2014, we were not engaged in any activities and we did not have any ownership interests in any funds that are not permitted under the Volcker Rule.

Securities and Exchange Commission Rules

As discussed above under “Federal Securities Law”, pursuant to the Dodd-Frank Act, the SEC has issued regulations that provide the shareholders of public companies with an advisory vote on: i) executive compensation ("say-on-pay" votes); ii) the desired frequency of say-on-pay votes; and iii) compensation arrangements and understandings in connection with merger transactions, known as "golden parachute" arrangements. The SEC has also adopted corporate governance regulations that provide to shareholders of companies subject to the SEC’s proxy rules: i) the opportunity to nominate directors at a shareholder meeting and to have their nominees included in the company proxy materials sent to all shareholders; and ii) the ability to use the shareholder proposal process to establish procedures for the inclusion of shareholder director nominations in company proxy materials.

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Banking Agency Rules

As discussed above under “Regulatory Capital Requirements”, pursuant to the Dodd-Frank Act, the Federal Reserve and the other federal banking agencies have established minimum leverage and risk-based capital requirements for insured depository institutions and bank holding companies.

The Dodd-Frank Act directs the federal banking regulators to promulgate rules requiring the reporting of incentive-based compensation and prohibiting excessive incentive-based compensation paid to executives of depository institutions and their holding companies with assets in excess of \$1.0 billion. In April 2011, the Federal Reserve, along with other federal banking supervisors, issued a joint notice of proposed rulemaking implementing those requirements.

Many other provisions of the Dodd-Frank Act still require extensive rulemaking, guidance and interpretation by regulatory agencies. Accordingly, in many respects, the ultimate impact of the legislation and its effects on the Corporation and the Bank remain uncertain. We are continuing to closely monitor and evaluate regulatory developments. Such developments could adversely affect our financial condition and results of operations through significant increases in our regulatory compliance costs.

Gramm-Leach-Bliley Act

Under the privacy and data security provisions of the Financial Modernization Act of 1999, also known as the Gramm-Leach-Bliley Act ("GLB Act"), and rules promulgated thereunder, all financial institutions, including the Corporation, the Bank and CFS Group, Inc., are required to establish policies and procedures to restrict the sharing of nonpublic customer data with nonaffiliated parties at the customer's request and to protect customer data from unauthorized access. In addition, the Fair Credit Reporting Act ("FCRA"), as amended by the Fair and Accurate Credit Transactions Act of 2003 ("FACT Act"), includes many provisions affecting the Corporation, Bank, and/or CFS Group, Inc., including provisions concerning obtaining consumer reports, furnishing information to consumer reporting agencies, maintaining a program to prevent identity theft, sharing of certain information among affiliated companies, and other provisions. For instance, FCRA requires persons subject to FCRA to notify their customers if they report negative information about them to a credit bureau or if they are granted credit on terms less favorable than those generally available. The Federal Reserve and the FTC have extensive rulemaking authority under the FACT Act, and the Corporation and the Bank are subject to the rules that have been promulgated by the Federal Reserve and FTC thereunder, including recent rules regarding limitations on affiliate marketing and implementation of programs to identify, detect and mitigate the risk of identity theft through red flags. The Corporation has developed policies and procedures for itself and its subsidiaries to maintain compliance and believes it is in compliance with all privacy, information sharing and notification provisions of the GLB Act and FCRA.

The GLB Act and FCRA also impose requirements regarding data security and the safeguarding of customer information. The Bank is subject to the Interagency Guidelines Establishing Information Security Standards (“Security Guidelines”), which implement section 501(b) of the GLB Act and section 216 of the FACT Act. The Security Guidelines establish standards relating to administrative, technical, and physical safeguards to ensure the security, confidentiality, integrity and the proper disposal of customer information. The Bank believes it is in compliance with all such standards.

ITEM 1A. RISK FACTORS

The Corporation's business is subject to many risks and uncertainties. Although the Corporation seeks ways to manage these risks and develop programs to control those that management can control, the Corporation ultimately cannot predict the extent to which these risks and uncertainties could affect our results. Actual results may differ materially from management's expectations. The material risks and uncertainties that management believes affect the Corporation are discussed below. You should consider all of the following risks together with all of the other information in this Annual Report on Form 10-K.

Economic conditions may adversely affect the Corporation's financial performance.

A decline or prolonged weakness in business and economic conditions generally or specifically in the principal markets in which the Corporation does business could have one or more of the following adverse effects on the Corporation's business: (i) a decrease in the demand for loans and other products and services; (ii) a decrease in the value of the Corporation's loans or other assets secured by consumer or commercial real estate; (iii) an impairment of certain of the Corporation's intangible assets, such as goodwill; and (iv) an increase in the number of borrowers and counterparties who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to the Corporation. Additionally, in light of economic conditions, the Corporation's ability to assess the creditworthiness of its customers may be impaired if the models and approaches that it uses to select, manage and underwrite loans become less predictive of future behaviors. Further, competition in the Corporation's industry may intensify as a result of consolidation of financial services companies in response to market conditions and the Corporation may face increased regulatory scrutiny, which may increase its costs and limit its ability to pursue business opportunities.

Commercial real estate and business loans increase the Corporation's exposure to credit risks.

At December 31, 2014, the Corporation's portfolio of commercial real estate and business loans totaled \$619 million or 55.2% of total loans. The Corporation plans to continue to emphasize the origination of these types of loans, which generally expose the Corporation to a greater risk of nonpayment and loss than residential real estate or consumer loans because repayment of commercial real estate and business loans often depends on the successful operations and income stream of the borrower's business. Additionally, such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate and consumer loans. Also, some of the Corporation's borrowers have more than one commercial loan outstanding. Consequently, an adverse development with respect to one loan or one credit relationship can expose the Corporation to a significantly greater risk of loss compared to an adverse development with respect to residential real estate and consumer loans. The Corporation targets its business lending and marketing strategy towards small to medium-sized businesses. These small to medium-sized businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. If general economic conditions negatively impact these businesses, the Corporation's results of operations and financial condition may be adversely affected.

Increases to the allowance for loan losses may cause the Corporation's earnings to decrease.

The Corporation's customers may not repay their loans according to the original terms, and the collateral securing the payment of those loans may be insufficient to pay any remaining loan balance. Hence, we may experience significant loan losses, which could have a material adverse effect on our operating results. Management makes various assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of its borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. In determining the amount of the allowance for loan losses, management relies on loan quality reviews, past loss experience, and an evaluation of economic conditions, among other factors. If these assumptions prove to be incorrect, the allowance for loan losses may not be sufficient to cover losses inherent in the Corporation's loan

portfolio, resulting in additions to the allowance. Material additions to the allowance would materially decrease net income.

The Corporation's emphasis on the origination of commercial loans is one of the more significant factors in evaluating its allowance for loan losses. As the Corporation continues to increase the amount of these loans, additional or increased provisions for loan losses may be necessary, which could result in a decrease in earnings.

Bank regulators periodically review the Corporation's allowance for loan losses and may require the Corporation to increase its provision for loan losses or loan charge-offs. Any increase in the 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/or financial condition.

Changes in interest rates could adversely affect the Corporation's results of operations and financial condition.

The Corporation's results of operations and financial condition are significantly affected by changes in interest rates. Our financial results depend substantially on net interest income, which is the difference between the interest income that we earn on interest-earning assets and the interest expense paid on interest-bearing liabilities. If the Corporation's interest-earning assets mature or reprice more quickly than its interest-bearing liabilities in a given period as a result of decreasing interest rates, net interest income may decrease. Likewise, net interest income may decrease if interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period as a result of increasing interest rates. The Corporation has taken steps to mitigate this risk, such as holding fewer longer-term residential mortgages, as well as investing excess funds in shorter-term investments.

Changes in interest rates also affect the fair value of the Corporation's interest-earning assets and, in particular, its investment securities available for sale. Generally, the fair value of investment securities fluctuates inversely with changes in interest rates. Decreases in the fair value of investment securities available for sale, therefore, could have an adverse effect on our shareholders' equity or earnings if the decrease in fair value is deemed to be other than temporary.

Changes in interest rates may also affect the average life of loans and mortgage-related securities. Decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce borrowing costs. Under these circumstances, the Corporation is subject to reinvestment risk to the extent that it is unable to reinvest the cash received from such prepayments at rates that are comparable to the rates on its existing loans and securities. Additionally, increases in interest rates may decrease loan demand and make it more difficult for borrowers to repay adjustable rate loans.

Strong competition within our industry and market area could limit the Corporation's growth and profitability.

The Corporation faces substantial competition in all phases of its operations from a variety of different competitors. Future growth and success will depend on the ability to compete effectively in this highly competitive environment. The Corporation competes for deposits, loans and other financial services with a variety of banks, thrifts, credit unions and other financial institutions as well as other entities, which provide financial services. Some of the financial institutions and financial services organizations with which we compete are not subject to the same degree of regulation as the Corporation. Many competitors have been in business for many years, have established customer bases, are larger, and have substantially higher lending limits. The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties.

The Corporation's growth strategy may not prove to be successful and our market value and profitability may suffer.

As part of the Corporation's strategy for continued growth, we may open additional branches. New branches do not initially contribute to operating profits due to the impact of overhead expenses and the start-up phase of generating loans and deposits. To the extent that additional branches are opened, the Corporation may experience the effects of higher operating expenses relative to operating income from the new operations, which may have an adverse effect on the Corporation's levels of net income, return on average equity and return on average assets.

In addition, the Corporation may acquire banks and related businesses that it believes provide a strategic fit with its business, such as the 2011 acquisition of FOFC and the 2013 acquisition of six branches of Bank of America. To the extent that the Corporation grows through acquisitions, it cannot provide assurance that such strategic decisions will be accretive to earnings.

Compliance with the Dodd-Frank Act may increase the Corporation's costs of operations and adversely affect the Corporation's earnings and financial condition.

The Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial-services industry. Among other things, the Dodd-Frank Act creates the CFPB, tightens capital standards, imposes clearing and margining requirements on many derivatives activities, and generally increases oversight and regulation of financial institutions and financial activities.

In addition to the self-implementing provisions of the statute, the Dodd-Frank Act calls for many administrative rulemakings by various federal agencies to implement various parts of the legislation. While regulators have adopted a number of new rules required by the Dodd-Frank Act, others have not been proposed or if proposed, not been adopted in final form. The Corporation cannot be certain when final rules affecting it will be issued through such rulemakings, and what the specific content of such rules will be. The financial reform legislation and any implementing rules that are ultimately issued could have adverse implications on the financial industry, the competitive environment, and the Corporation's ability to conduct business. The Corporation will have to apply resources to ensure that it is in compliance with all applicable provisions of the Dodd-Frank Act and any implementing rules, which may increase the Corporation's costs of operations and adversely impact its earnings.

The Corporation operates in a highly regulated environment and may be adversely affected by changes in laws and regulations.

Currently, the Corporation and its subsidiaries are subject to extensive regulation, supervision, and examination by regulatory authorities. For example, the Federal Reserve regulates the Corporation and the Federal Reserve, the FDIC and the NYSDFS regulate the Bank. Such regulators govern the activities in which the Corporation and its subsidiaries may engage. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of a bank, the classification of assets by a bank, and the adequacy of a bank's allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, or legislation, could have a material impact on the Corporation and its operations. The Corporation believes that it is in substantial compliance with applicable federal, state and local laws, rules and regulations. Because our business is highly regulated, the laws, rules and applicable regulations are subject to regular modification and change. There can be no assurance that proposed laws, rules and regulations, or any other law, rule or regulation, will not be adopted in the future, which could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects.

The impending capital requirement changes from Basel III discussed in Item 1 - "Business-Supervision and Regulation", could have a material adverse impact on the Corporation. Even though the Bank exceeds current and proposed minimum regulatory capital levels, adverse changes to residential mortgage risk weights, new requirements for common equity capital, inclusion of accumulated other comprehensive income in regulatory capital, the phase out of trust preferred securities, along with the adoption of new capital conservation buffers would reduce the Bank's current capital position and over time could cause the Bank to fail to meet minimum regulatory requirements. These capital positions are subject to volatility due to changes in interest rates and credit spreads. Although there is a phase-in period in the proposed rules, other factors such as the low interest rate environment, slow economic recovery, and further constraints on profitability by regulators could impact the Bank's ability to meet the new regulatory minimums once the phase-in periods have ended.

The Corporation is a holding company and depends on its subsidiaries for dividends, distributions and other payments.

The Corporation is a legal entity separate and distinct from the Bank and other subsidiaries. Its principal source of cash flow, including cash flow to pay dividends to its shareholders, is dividends from the Bank. There are statutory and regulatory limitations on the payment of dividends by the Bank to the Corporation, as well as by the Corporation

to its shareholders. Federal Reserve regulations affect the ability of the Bank to pay dividends and other distributions and to make loans to the Corporation. If the Bank is unable to make dividend payments to the Corporation and sufficient capital is not otherwise available, we may not be able to make dividend payments to our common shareholders.

The Corporation holds certain intangible assets that could be classified as impaired in the future. If these assets are considered to be either partially or fully impaired in the future, our earnings and the book values of these assets would decrease.

The Corporation is required to test its goodwill and core deposit intangible assets for impairment on a periodic basis. The impairment testing process considers a variety of factors, including the current market price of its common stock, the estimated net present value of its assets and liabilities, and information concerning the terminal valuation of similarly situated insured depository institutions. If an impairment determination is made in a future reporting period, our earnings and the book value of these intangible assets would be reduced by the amount of the impairment. If an impairment loss is recorded, it will have little or no impact on the tangible book value of our common shares or our regulatory capital levels, but such an impairment loss could significantly restrict the Bank from paying a dividend to the Corporation.

We may not be able to attract and retain skilled people.

Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities in which we engage can be intense and we may not be able to hire people or to retain them. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on the business because we would lose the employees' skills, knowledge of the market, and years of industry experience and may have difficulty promptly finding qualified replacement personnel.

Our controls and procedures may fail or be circumvented, which may result in a material adverse effect on our business.

Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met.

The Corporation continually encounters technological change and the failure to understand and adapt to these changes could adversely affect our business.

The banking industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. The Corporation's future success will depend, in part, on the ability to address the needs of customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in operations. Many competitors have substantially greater resources to invest in technological improvements. There can be no assurance that the Corporation will be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

The Corporation is subject to security and operational risks relating to its use of technology.

Despite instituted safeguards, the Corporation cannot be certain that all of its systems are entirely free from vulnerability to attack or other technological difficulties or failures, such as cyber-attacks. The Corporation relies on the services of a variety of vendors to meet its data processing and communication needs. If information security is breached or other technology difficulties or failures occur, information may be lost or misappropriated, services and operations may be interrupted and the Corporation could be exposed to claims from customers. Any of these results could have a material adverse effect on the Corporation's business, financial condition, results of operations or liquidity.

Provisions of our certificate of incorporation, bylaws, as well as New York law and certain banking laws, could delay or prevent a takeover of us by a third party.

Provisions of the Corporation's certificate of incorporation and bylaws, New York law, and state and federal banking laws, including regulatory approval requirements, could delay, defer or prevent a third party from acquiring the Corporation, despite the possible benefit to the Corporation's shareholders, or otherwise adversely affect the market price of the Corporation's common stock. These provisions include: a two-thirds affirmative vote of all outstanding shares of Corporation stock for certain business combinations; a supermajority shareholder vote of 75% of outstanding stock for business combinations involving 10% shareholders; the election of directors to staggered terms of three years; and advance notice requirements for nominations for election to the Corporation's board of directors and for proposing matters that shareholders may act on at a shareholder meeting. In addition, the Corporation is subject to New York law, which among other things prohibits the Corporation from engaging in a business combination with any interested stockholder for a period of five years from the date the person became an interested stockholder unless certain conditions are met. These provisions may discourage potential takeover attempts, discouraging bids for the Corporation's common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of the Corporation's common stock. These provisions could also discourage proxy contests and make it more difficult for shareholders to elect directors other than candidates nominated by the Board.

The risks presented by acquisitions could adversely affect our financial condition and results of operations.

The business strategy of the Corporation has included and may continue to include growth through acquisition from time to time. Any future acquisitions will be accompanied by the risks commonly encountered in acquisitions. These risks may include, among other things: our ability to realize anticipated cost savings, the difficulty of integrating operations and personnel, the loss of key employees, the potential disruption of our or the acquired company's ongoing business in such a way that could result in decreased revenues, the inability of our management to maximize our financial and strategic position, the inability to maintain uniform standards, controls, procedures and policies, and the impairment of relationships with the acquired company's employees and customers as a result of changes in ownership and management.

Severe weather and other natural disasters can affect the Corporation's business.

Our main office and our branch offices can be affected by natural disasters such as severe storms and flooding. These kinds of events could interrupt our operations, particularly our ability to deliver deposit and other retail banking services to our customers and as a result, our business could suffer serious harm. While we maintain adequate insurance against property and casualty losses arising from most natural disasters, and we have successfully overcome the challenges caused by past flooding in Central New York, there can be no assurance that we will be as successful if and when disasters occur.

Our accounting policies and estimates are critical to how we report our financial condition and results of operations, and any changes to such accounting policies and estimates could materially affect how we report our financial condition and results of operations.

Management has identified certain accounting policies as being critical because they require management's judgment to ascertain the valuations of assets, liabilities, commitments and contingencies. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset, valuing an asset or liability or reducing a liability. We have established detailed policies and control procedures that are intended to ensure that these critical accounting estimates and judgments are well controlled and applied consistently. In addition, these policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding our judgments and the estimates pertaining to these

matters, actual outcomes may be materially different from amounts previously estimated. For example, because of the inherent uncertainty of estimates, management cannot provide any assurance that the Bank will not significantly increase its allowance for loan losses if actual losses are more than the amount reserved. Any increase in its allowance for loan losses or loan charge-offs could have a material adverse effect on our financial condition and results of operations. In addition, we cannot guarantee that we will not be required to adjust accounting policies or restate prior financial statements.

Further, from time to time, the FASB and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. The ongoing economic recession has resulted in increased scrutiny of accounting standards by legislators and our regulators, particularly as they relate to fair value accounting principles. In addition, ongoing efforts to achieve convergence between GAAP and International Financial Reporting Standards may result in changes to GAAP. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements or otherwise adversely affecting our financial condition or results of operations.

There may be claims and litigation pertaining to fiduciary responsibility.

From time to time as part of the Corporation's normal course of business, customers make claims and take legal action against the Corporation based on its actions or inactions related to the fiduciary responsibilities of the Wealth Management Group segment. If such claims and legal actions are not resolved in a manner favorable to the Corporation, they may result in financial liability and/or adversely affect the market perception of the Corporation and its products and services. This may also impact customer demand for the Corporation's products and services. Any financial liability or reputation damage could have a material adverse effect on the Corporation's business, which, in turn, could have a material adverse effect on its financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

All properties owned or leased by the Bank are considered to be in good condition. For additional information about the Corporation's facilities, including rental expenses, see "Note 5 Premises and Equipment" in Notes to Consolidated Financial Statements in Part IV, Item 15. Exhibits and Financial Statement Schedules of this report. The Corporation holds no real estate in its own name.

Corporate Headquarters
Executive and Administrative Offices
One Chemung Canal Plaza, Elmira, NY 14901

New York

Albany County

*132 State St., Albany, NY 12207
*65 Wolf Rd., Albany, NY 12205
*581 Loudon Rd., Latham, NY 12110
*1365 New Scotland Rd., Slingerlands, NY 12159

Broome County

*127 Court St., Binghamton, NY 13901
*601-635 Harry L. Dr., Johnson City, NY 13790 (Oakdale Mall)
*100 Rano Blvd., Vestal, NY 13850

Cayuga County

*120 Genesee St., Auburn, NY 13021
185 Grant Ave., Auburn, NY 13021

Chemung County

One Chemung Canal Plaza, Elmira, NY 14901
628 W. Church St., Elmira, NY 14905
437 Maple St., Big Flats, NY 14814
951 Pennsylvania Ave., Elmira, NY 14904
100 W. McCann's Blvd., Elmira Heights, NY 14903
29 Arnot Rd., Horseheads, NY 14845
602 S. Main St., Horseheads, NY 14845

Pennsylvania

Bradford County

5 West Main St., Canton, PA 17724
304 Main St., Towanda, PA 18848
159 Canton St., Troy, PA 16947

CFS Group

*136 State St., Albany, NY 12207
One Chemung Canal Plaza, Elmira, NY 14901
628 W. Church St., Elmira, NY 14905

Cortland County

*1094 State Rte. 222, Cortland, NY 13045

Saratoga County

*7 Southside Dr., Clifton Park, NY 12065

Schuyler County

318 N. Franklin St., Watkins Glen, NY 14891
303 W. Main St., Montour Falls, NY 14865

Seneca County

Seneca Falls-54 Fall St., Seneca Falls, NY 13148

Tioga County

203 Main St., Owego, NY 13827
1054 State Route 17C, Owego, NY 13827
405 Chemung St., Waverly, NY 14892

Tompkins County

806 W. Buffalo St., Ithaca, NY 14850
304 Elmira Rd., Ithaca, NY 14850
*909 Hanshaw Rd., Ithaca, NY 14850
*202 E. State St., Ithaca, NY 14850 (The Commons)

* Leased facilities

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Leased Off-Site ATM Locations

Elmira-Corning Regional Airport	Big Flats, NY
Corning Community College	Corning, NY
Elmira College	Elmira, NY
E-Z Food Mart	Elmira, NY
Hardinge Inc. (employees only)	Elmira, NY
Quality Beverage	Elmira, NY
Collegetown Bagels	Ithaca, NY
Ithaca College	Ithaca, NY
Lansing Market	Lansing, NY
Schuyler Hospital	Montour Falls, NY

ITEM 3. LEGAL PROCEEDINGS

The Bank is a party in two legal proceedings involving its Wealth Management Group. In both proceedings, the Bank, as trustee pursuant to written trust instruments, has sought judicial settlement of trust accounts in the New York Surrogate's Court for Chemung County. Individuals who are beneficiaries under the trusts have filed formal objections and/or demand letters with the Court in both of these accounting proceedings, objecting to the final settlement of the trust accounts. The objectants primarily assert that the Bank acted imprudently by failing to diversify the trusts' investments and they claim \$13.2 million and \$24.1 million, consisting of damages and disallowed trustee's commissions, plus unspecified legal fees in the respective proceedings. For both legal proceedings, the Bank agreed to participate in non-binding mediation which began November 10, 2014. As a result of mediation and in anticipation of a settlement with both parties, the Bank's Board of Directors approved the establishment of an accrual for legal settlement in the amount of \$12.1 million, offset by a \$7.9 million receivable for insurance proceeds. Two stipulations reflecting the settlements have been submitted to the Surrogate's Court.

In the normal course of business, there are various outstanding claims and legal proceedings involving the Corporation or its subsidiaries. Except for the above matter, we believe that we are not a party to any pending legal, arbitration, or regulatory proceedings that could have a material adverse impact on our financial results or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES

None.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Corporation's stock is traded on the NASDAQ Global Market under the symbol "CHMG".

The table below shows the price ranges for the Corporation's common stock during each of the indicated quarters. On November 14, 2012, the Corporation filed a Form 8-K with the SEC announcing that shares of its common stock would begin trading on the NASDAQ Global Market effective with the opening of trading on November 16, 2012. Since November 16, 2012, through December 31, 2014, the information is based upon the high and low sales prices reported by the NASDAQ Global Market.

Common Stock Market Prices and Dividends Paid During the Past Two Years

December 31, 2014	High	Low	Dividends
4th Quarter	\$30.70	\$27.38	\$0.26
3rd Quarter	31.14	27.00	0.26
2nd Quarter	31.20	27.00	0.26
1st Quarter	35.90	26.81	0.26

December 31, 2013	High	Low	Dividends
4th Quarter	\$36.00	\$30.23	\$0.26
3rd Quarter	35.85	30.31	0.26
2nd Quarter	34.53	30.18	0.26
1st Quarter	33.99	28.41	0.00

Under New York law, the Corporation may pay dividends on our common stock either: (i) out of surplus, so that the Corporation's net assets remaining after such payment equal the amount of its stated capital, or (ii) if there is no surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Our payment of dividends on our common stock is dependent, in large part, upon receipt of dividends from the Bank, which is subject to certain restrictions which may limit its ability to pay us dividends. See Item 1, "Business – Regulation and Supervision-The Bank-Payment of Dividends" for an explanation of legal limitations on the Bank's ability to pay dividends.

As of February 28, 2015, there were 1,793 registered holders of record of the Corporation's stock, which includes 1,196 Non Objecting Beneficial Owners shares held in street name.

The table below sets forth the information with respect to purchases made by the Corporation of our common stock during the quarter ended December 31, 2014:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs

10/1/14-10/31/14	-	\$ -	-	121,906
11/1/14-11/30/14	-	\$ -	-	121,906
12/1/14-12/31/14	-	\$ -	-	121,906
Quarter ended 12/31/14	-	\$ -	-	121,906

On December 19, 2012, the Corporation's Board of Directors approved a stock repurchase plan authorizing the purchase of up to 125,000 shares of the Corporation's outstanding common stock. Purchases may be made from time to time on the open market or in private negotiated transactions and will be at the discretion of management. For the year ending December 31, 2014, no shares had been purchased under this plan. Since inception of the plan, a total of 3,094 shares have been purchased under the plan.

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STOCK PERFORMANCE GRAPH

The following graph compares the yearly change in the cumulative total shareholder return on the Corporation's common stock against the cumulative total return of the NASDAQ Stock Market (U.S. Companies), NASDAQ Bank Stocks Index and SNL \$1B - \$5B Bank Index for the period of five years commencing December 31, 2009.

Index	Period Ending					
	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
Chemung Financial Corporation	100.00	115.43	121.51	166.49	196.52	164.99
NASDAQ Composite	100.00	118.15	117.22	138.02	193.47	222.16
NASDAQ Bank	100.00	114.16	102.17	121.26	171.86	180.31
SNL Bank \$1B-\$5B	100.00	113.35	103.38	127.47	185.36	193.81

The cumulative total return includes (1) dividends paid and (2) changes in the share price of the Corporation's common stock and assumes that all dividends were reinvested. The above graph assumes that the value of the investment in Chemung Financial Corporation and each index was \$100 on December 31, 2009.

The Total Returns Index for NASDAQ Stock Market (U.S. Companies) and Bank Stocks indices were obtained from SNL Financial LC, Charlottesville, VA.

ITEM 6. SELECTED FINANCIAL DATA

The following tables present selected financial data as of and for the years ended December 31, 2014, 2013, 2012, 2011 and 2010. The selected financial data is derived from our audited consolidated financial statements. The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and related notes.

SUMMARIZED BALANCE SHEET DATA AT

DECEMBER 31, (in thousands)	2014	2013	2012	2011	2010
Total assets	\$1,524,539	\$1,476,143	\$1,248,160	\$1,216,260	\$958,327
Loans	1,121,574	995,866	893,517	796,915	613,684
Investment securities	286,338	352,511	245,434	289,182	231,260
FHLB NY and FRBNY stock	5,535	4,482	4,710	5,509	3,329
Deposits	1,280,014	1,266,256	1,047,497	1,001,053	788,500
Securities sold under agreements to repurchase	29,652	32,701	32,711	37,107	44,775
FHLB NY advances	50,140	25,243	27,225	43,344	20,000
Long term capital lease obligation	2,976	-	-	-	-
Shareholders' equity	133,628	138,578	131,115	125,929	97,409

SUMMARIZED EARNINGS DATA FOR THE YEARS ENDED

DECEMBER 31, (in thousands)	2014	2013	2012	2011	2010
Net interest income	\$49,568	\$46,631	\$46,842	\$43,915	\$34,530
Provision for loan losses	3,981	2,755	828	958	1,125
Net interest income after provision for loan losses	45,587	43,876	46,014	42,957	33,405
Wealth management group fee income	7,747	7,344	6,827	6,710	10,497
Service charges on deposit accounts	5,281	4,706	4,241	4,282	4,552
Securities gains (losses), net	6,869	(13)	301	1,108	451
Other income	6,859	6,040	5,819	5,364	4,145
Total non-interest income	26,756	18,077	17,188	17,464	19,645
Legal settlements	4,250	-	-	-	-
Merger and acquisition related expenses	115	1,387	30	2,255	482
Other operating expenses	56,112	48,013	46,765	42,595	37,361
Total non-interest expense	60,477	49,400	46,795	44,850	37,843
Income before income tax expense	11,866	12,553	16,407	15,571	15,207
Income tax expense	3,709	3,822	5,385	5,033	5,105
Net income	\$8,157	\$8,731	\$11,022	\$10,538	\$10,102

SELECTED PER SHARE DATA ON SHARES OF COMMON STOCK AT OR FOR THE YEARS ENDED	2014	2013	2012	2011	2010	2009	% Change 2013 To 2014	Compounded Annual Growth 5 Years	
DECEMBER 31,									
Earnings per share (1)	\$1.74	\$1.87	\$2.38	\$2.40	\$2.80	\$1.45	(7.0 %)	3.7	%
Dividends declared	1.04	1.04	1.00	1.00	1.00	1.00	- %	0.8	%
Tangible book value (2)	22.71	23.63	22.40	21.07	22.90	20.74	(3.9 %)	1.8	%
Book Value	28.44	29.67	28.20	27.14	26.92	24.97	(4.1 %)	2.6	%
Market price at 12/31	27.66	34.17	29.89	22.75	22.30	21.25	(19.1 %)	5.4	%
Common shares outstanding at period end	4,699	4,671	4,649	4,641	3,619	3,608	0.6 %	5.4	%

(in thousands) (3)

Weighted average shares

outstanding (in thousands)	4,683	4,660	4,641	4,383	3,607	3,603	0.5	%	5.4	%
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(1) Earnings per share is computed by dividing net income by the weighted average number of common shares outstanding. There is no difference between basic and diluted earnings per share.

(2) Tangible book value is total shareholders' equity less goodwill and other intangible assets divided by common shares outstanding.

(3) All issuable shares including those related to directors' restricted stock units and directors' stock compensation.

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SELECTED RATIOS AT OR FOR THE YEARS ENDED DECEMBER 31,	2014	2013	2012	2011	2010
Return on average assets	0.54 %	0.67 %	0.88 %	0.90 %	1.02 %
Return on average equity	5.74 %	6.50 %	8.41 %	8.77 %	10.64 %
Dividend yield at year end	3.76 %	3.08 %	4.20 %	4.40 %	4.48 %
Dividend payout	58.80 %	41.04 %	51.84 %	38.50 %	34.84 %
Total capital to risk adjusted assets	11.84 %	12.10 %	13.10 %	13.28 %	14.54 %
Tier I capital to risk adjusted assets	10.59 %	10.57 %	11.68 %	11.84 %	12.92 %
Tier I leverage ratio	7.78 %	8.08 %	8.74 %	8.27 %	8.72 %
Average equity to average assets	9.43 %	10.28 %	10.46 %	10.23 %	9.60 %
Year-end equity to year-end assets ratio	8.77 %	9.39 %	10.50 %	10.35 %	10.16 %
Loans to deposits	87.62 %	78.65 %	85.30 %	79.61 %	77.83 %
Allowance for loan losses to total loans	1.22 %	1.28 %	1.17 %	1.21 %	1.55 %
Allowance for loan losses to non-performing loans	175.96 %	150.11 %	172.96 %	70.97 %	89.62 %
Non-performing assets to total assets	0.71 %	0.61 %	0.53 %	1.19 %	1.18 %
Net interest rate spread	3.48 %	3.78 %	3.96 %	3.92 %	3.60 %
Net interest margin	3.59 %	3.91 %	4.14 %	4.13 %	3.88 %
Efficiency ratio (1)	78.75 %	72.49 %	70.92 %	68.11 %	67.37 %

(1) Efficiency ratio is non-interest expense less merger and acquisition related expenses less amortization of intangible assets less legal settlement divided by the total of fully taxable equivalent net interest income plus non-interest income less net gain on securities transactions less gain from bargain purchase less gain on liquidation of trust preferred securities.

The following tables summarize the Corporation's unaudited net income and basic earnings per share at each quarter end for the years 2014 and 2013 (amounts in thousands, except per share data):

UNAUDITED QUARTERLY DATA	2014			
	Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
Interest and dividend income	\$12,954	\$12,996	\$13,341	\$13,922
Interest expense	921	921	915	888
Net interest income	12,033	12,075	12,426	13,034
Provision for loan losses	639	1,103	589	1,650
Net interest income after provision for loan losses	11,394	10,972	11,837	11,384
Total other operating income	4,964	5,406	4,986	11,400
Total other operating expenses	13,343	13,579	17,763	15,792
Income (loss) before income tax expense (benefit)	3,015	2,799	(940)	6,992
Income tax expense (benefit)	951	869	(621)	2,510
Net income (loss)	\$2,064	\$1,930	\$(319)	\$4,482
Basic and diluted earnings (loss) per share	\$0.44	\$0.41	\$(0.07)	\$0.96

UNAUDITED QUARTERLY DATA	2013			
	Quarter Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
Interest and dividend income	\$12,748	\$12,333	\$12,509	\$13,073
Interest expense	1,031	1,005	993	1,003
Net interest income	11,717	11,328	11,516	12,070
Provision for loan losses	431	450	874	1,000
Net interest income after provision for loan losses	11,286	10,878	10,642	11,070

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Total other operating income	4,022	4,475	4,351	5,229
Total other operating expenses	11,725	11,392	11,812	14,471
Income before income tax expense	3,583	3,961	3,181	1,828
Income tax expense	1,171	1,306	1,002	343
Net Income	\$2,412	\$2,655	\$2,179	\$1,485
Basic and diluted earnings per share	\$0.52	\$0.57	\$0.46	\$0.32

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

To assist the reader, the Corporation has provided the following list of commonly used acronyms and abbreviations included in Management's Discussion and Analysis of Financial Condition and Results of Operations.

ASU: Accounting Standards Update	FRBNY: Federal Reserve Bank of New York
Bank: Chemung Canal Trust Company	Freddie Mac: Federal Home Loan Mortgage Corporation
CDO: Collateralized Debt Obligation	GAAP: U.S. generally accepted accounting principles
Corporation: Chemung Financial Corporation	OTTI: Other-than-temporary impairment
FASB: Financial Accounting Standards Board	PCI: Purchased credit impaired
FDIC: Federal Deposit Insurance Corporation	SEC: Securities and Exchange Commission
FHLBNY: Federal Home Loan Bank of New York	TDRs: Troubled debt restructurings
FRB: Board of Governors of the Federal Reserve System	

The purpose of this discussion is to focus on information about the financial condition and results of operations of the Corporation. Reference should be made to the accompanying consolidated financial statements and footnotes, and the selected financial data appearing elsewhere in this report for an understanding of the following discussion and analysis.

This discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The Corporation intends its forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these sections. All statements regarding the Corporation's expected financial position and operating results, the Corporation's business strategy, the Corporation's financial plans, forecasted demographic and economic trends relating to the Corporation's industry and similar matters are forward-looking statements. These statements can sometimes be identified by the Corporation's use of forward-looking words such as "may," "will," "anticipate," "estimate," "expect," or "intend." The Corporation cannot promise that its expectations in such forward-looking statements will turn out to be correct. The Corporation's actual results could be materially different from expectations because of various factors, including changes in economic conditions or interest rates, credit risk, difficulties in managing the Corporation's growth, competition, changes in law or the regulatory environment, including the Dodd-Frank Act, and changes in general business and economic trends. Information concerning these and other factors can be found in the Corporation's periodic filings with the SEC, including the discussion under the heading "Item 1A. Risk Factors" in this form 10-K. These filings are available publicly on the SEC's web site at <http://www.sec.gov>, on the Corporation's web site at <http://www.chemungcanal.com> or upon request from the Corporate Secretary at (607) 737-3746. Except as otherwise required by law, the Corporation undertakes no obligation to publicly update or revise its forward-looking statements, whether as a result of new information, future events or otherwise.

Use of Non-GAAP Financial Measures

The SEC has adopted Regulation G, which applies to all public disclosures, including earnings releases, made by registered companies that contain "non-GAAP financial measures." Under Regulation G, companies making public disclosures containing non-GAAP financial measures must also disclose, along with each non-GAAP financial measure, certain additional information, including a reconciliation of the non-GAAP financial measure to the closest comparable GAAP financial measure and a statement of the Corporation's reasons for utilizing the non-GAAP financial measure as part of its financial disclosures. The SEC has exempted from the definition of "non-GAAP financial measures" certain commonly used financial measures that are not based on GAAP. When these exempted measures are included in public disclosures, supplemental information is not required. The following measures used in this Report, which are commonly utilized by financial institutions, have not been specifically exempted by the SEC and may constitute "non-GAAP financial measures" within the meaning of the SEC's new rules, although we are unable to state with certainty that the SEC would so regard them.

Tax-Equivalent Net Interest Income and Net Interest Margin

Net interest income is commonly presented on a tax-equivalent basis. That is, to the extent that some component of the institution's net interest income, which is presented on a before-tax basis, is exempt from taxation (e.g., is received by the institution as a result of its holdings of state or municipal obligations), an amount equal to the tax benefit derived from that component is added to the actual before-tax net interest income total. This adjustment is considered helpful in comparing one financial institution's net interest income to that of other institutions or in analyzing any institution's net interest income trend line over time, to correct any analytical distortion that might otherwise arise from the fact that financial institutions vary widely in the proportions of their portfolios that are invested in tax-exempt securities, and that even a single institution may significantly alter over time the proportion of its own portfolio that is invested in tax-exempt obligations. Moreover, net interest income is itself a component of a second financial measure commonly used by financial institutions, net interest margin, which is the ratio of net interest income to average interest-earning assets. For purposes of this measure as well, fully taxable equivalent net interest income is generally used by financial institutions, as opposed to actual net interest income, again to provide a better basis of comparison from institution to institution and to better demonstrate a single institution's performance over time. The Corporation follows these practices.

Tangible Book Value per Share

Tangible equity is total shareholders' equity less intangible assets. Tangible book value per share is tangible equity divided by total shares issued and outstanding. Tangible book value per share is often regarded as a more meaningful comparative ratio than book value per share as calculated under GAAP, that is, total shareholders' equity including intangible assets divided by total shares issued and outstanding. Intangible assets include goodwill and other intangible assets resulting from business combinations.

Adjustments for Certain Items of Income or Expense

In addition to disclosures of certain GAAP financial measures, including net income, earnings per share ("EPS"), return on average assets ("ROA"), and return on average equity ("ROE"), we may also provide comparative disclosures that adjust these GAAP financial measures for a particular period by removing from the calculation thereof the impact of certain transactions or other material items of income or expense occurring during the period, including certain nonrecurring items. The Corporation believes that the resulting non-GAAP financial measures may improve an understanding of its results of operations by separating out any such transactions or items that may have had a disproportionate positive or negative impact on the Corporation's financial results during the particular period in question. In the Corporation's presentation of any such non-GAAP (adjusted) financial measures not specifically discussed in the preceding paragraphs, the Corporation supplies the supplemental financial information and explanations required under Regulation G.

The Corporation believes that the non-GAAP financial measures disclosed by it from time-to-time are useful in evaluating the Corporation's performance and that such information should be considered as supplemental in nature and not as a substitute for or superior to the related financial information prepared in accordance with GAAP. The Corporation's non-GAAP financial measures may differ from similar measures presented by other companies.

Overview

The Corporation has been a financial holding company since 2000, and the Bank was established in 1833 and CFS Group, Inc. in 2001. Through the Bank and CFS Group, Inc., the Corporation provides a wide range of financial services, including demand, savings and time deposits, commercial, residential and consumer loans, letters of credit, wealth management services, employee benefit plans, securities and insurance brokerage services. The Bank relies substantially on a foundation of locally generated deposits.

The Corporation, on a stand-alone basis, has minimal results of operations. The Bank derives its income primarily from interest and fees on loans, interest on investment securities, Wealth Management Group fee income and fees received in connection with deposit and other services. The Bank's operating expenses are interest expense paid on deposits and borrowings, salaries and employee benefit plans and general operating expenses.

Highlights

Below are highlights of the Corporation's operations for the year ended December 31, 2014:

Net income for 2014 was \$8.2 million, or \$1.74 per share, compared with \$8.7 million, or \$1.87 per share, for 2013, a decrease of \$0.5 million, or 6.6%.

Returns on average assets and average equity for 2014 were 0.54% and 5.74%, respectively, compared with 0.67% and 6.50%, respectively, for 2013.

Net interest margin (fully taxable equivalent) for 2014 was 3.59%, down from 3.91% for 2013.

The non-performing assets to total assets ratio was 0.71% at December 31, 2014 compared with 0.61% at December 31, 2013.

Book value per share was \$28.44 at December 31, 2014 compared with \$29.67 at December 31, 2013, a decrease of \$1.23, or 4.1%. Tangible book value per share was \$22.71 at December 31, 2014 compared with \$23.63 at December 31, 2013, a decrease of \$0.92 or 3.9%.

Tangible equity to tangible assets ratio decreased to 7.13% at December 31, 2014 compared with 7.62% at December 31, 2013.

The Corporation's January 29, 2015 earnings release did not reflect an additional provision for loan losses of \$0.7 million due to the impairment of a commercial loan, as we were unable to reasonably estimate the provision as of the date of the earnings release. The additional provision changed the previously reported full year net income of \$8.6 million to \$8.2 million, income tax expense of \$4.0 million to \$3.7 million, provision for loan losses of \$3.3 million to \$4.0 million, basic and diluted earnings per share of \$1.83 to \$1.74 and total shareholders' equity of \$134.0 million to \$133.6 million. The Corporation's earnings release also did not include a \$7.9 million gross-up of the accrual for legal settlement, which had no income statement impact, to reflect the receivable for insurance proceeds. The provision for loan loss and the gross-up of the accrual for legal settlement adjustments changed the previously reported total assets of \$1.517 billion to \$1.524 billion and total liabilities of \$1.383 billion to \$1.391 billion.

Critical Accounting Policies, Estimates and Risks and Uncertainties

Critical accounting policies include the areas where the Corporation has made what it considers to be particularly difficult, subjective or complex judgments concerning estimates, and where these estimates can significantly affect the Corporation's financial results under different assumptions and conditions. The Corporation prepares its financial statements in conformity with GAAP. As a result, the Corporation is required to make certain estimates, judgments and assumptions that it believes are reasonable based upon the information available at that time. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. Actual results could be different from these estimates.

Management considers the accounting policy relating to the allowance for loan losses to be a critical accounting policy given the uncertainty in evaluating the level of the allowance required to cover probable incurred credit losses inherent in the loan portfolio, and the material effect that such judgments can have on the Corporation's results of operations. While management's current evaluation of the allowance for loan losses indicates that the allowance is adequate, under adversely different conditions or assumptions the allowance would need to be increased. For example, if historical loan loss experience significantly worsened or if current economic conditions significantly deteriorated, additional provisions for loan losses would be required to increase the allowance. In addition, the

assumptions and estimates used in the internal reviews of the Corporation's non-performing loans and potential problem loans, and the associated evaluation of the related collateral coverage for these loans, has a significant impact on the overall analysis of the adequacy of the allowance for loan losses. Real estate values in the Corporation's market area did not increase dramatically in the prior several years, and, as a result, any declines in real estate values have been modest. While management has concluded that the current evaluation of collateral values is reasonable under the circumstances, if collateral evaluations were significantly lowered, the Corporation's allowance for loan losses policy would also require additional provisions for loan losses.

Management also considers the accounting policy relating to the valuation of goodwill and other intangible assets to be a critical accounting policy. The initial carrying value of goodwill and other intangible assets is determined using estimated fair values developed from various sources and other generally accepted valuation techniques. Estimates are based upon financial, economic, market and other conditions as they existed as of the date of a particular acquisition. These estimates of fair value are the results of judgments made by the Corporation based upon estimates that are inherently uncertain and changes in the assumptions upon which the estimates were based may have a significant impact on the resulting estimates. In addition to the initial determination of the carrying value, on an ongoing basis management must assess whether there is any impairment of goodwill and other intangible assets that would require an adjustment in carrying value and recognition of a loss in the consolidated statement of income.

Financial Condition

Summary

Consolidated assets at December 31, 2014 totaled \$1.525 billion, an increase of \$48.4 million or 3.3% since December 31, 2013. The growth was due primarily to increases of \$125.7 million, in total portfolio loans. The increase in portfolio loans was due to strong growth of \$100.5 million in commercial loans and \$19.9 million in indirect consumer loans.

Total shareholders' equity was \$133.6 million at December 31, 2014, a decrease of \$5.0 million from December 31, 2013, due primarily to the Corporation's \$8.9 million reduction in accumulated other comprehensive income, declared dividends of \$4.8 million and partially offset by net income of \$8.2 million and a reduction of \$0.7 million in treasury stock.

The market value of total assets under management or administration in the Corporation's Wealth Management Group was \$1.956 billion at December 31, 2014 compared with \$1.888 billion at December 31, 2013, an increase of \$68.0 million, or 3.6%.

Balance Sheet Comparisons

Table 1 contains selected average balance sheet information for each year in the six-year period ended December 31, 2014 (amounts in millions):

TABLE 1. SELECTED AVERAGE BALANCE SHEET INFORMATION

Average Balance Sheet	2014	2013	2012	2011	2010	2009	% Change 2013 to 2014	Compounded Annual Growth 5 Years		
Total Assets	\$1,506.3	\$1,306.4	\$1,253.7	\$1,175.0	\$988.6	\$928.8	15.3	%	10.2	%
Earning Assets (1)	1,399.3	1,209.7	1,150.4	1,078.4	905.5	852.4	15.7	%	10.4	%
Loans (2)	1,066.4	942.9	844.2	741.0	590.6	586.7	13.1	%	12.7	%
Investments (3)	332.9	266.8	306.2	337.4	314.9	265.7	24.8	%	4.6	%
Deposits	1,297.4	1,092.8	1,045.0	967.1	819.1	753.9	18.7	%	11.5	%
))	
Borrowings (4)	56.7	69.5	70.7	81.3	68.4	79.2	(18.4	%	(6.5	%
Shareholders' Equity	142.0	134.3	131.1	120.2	94.9	85.4	5.7	%	10.7	%

(1) Average earning assets include securities available for sale and securities held to maturity based on amortized cost, loans and loans held for sale net of deferred loan fees, interest-bearing deposits, FHLB NY stock, FRBNY stock and federal funds sold.

(2) Average loans and loans held for sale, net of deferred loan fees.

- (3) Average balances for investments include securities available for sale and securities held to maturity, based on amortized cost, FHLBNY stock, FRBNY stock, federal funds sold and interest-bearing deposits.
- (4) Average borrowings include FHLBNY advances, securities sold under agreements to repurchase and capitalized lease obligations.

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Table 2 contains selected period-end balance sheet information for each year in the six-year period ended December 31, 2014 (amounts in millions):

TABLE 2. SELECTED PERIOD-END BALANCE SHEET INFORMATION

Ending Balance Sheet	2014	2013	2012	2011	2010	2009	% Change		Compounded	
							2013 to	2014	Annual	Growth 5
									Years	
Total Assets	\$1,524.5	\$1,476.1	\$1,248.2	\$1,216.3	\$958.3	\$975.6	3.3	%	9.3	%
Earning Assets (1)	1,415.1	1,373.6	1,155.7	1,116.3	892.4	900.9	3.0	%	9.5	%
Loans (2)	1,121.5	995.9	893.5	796.9	613.7	595.9	12.6	%	13.5	%
Allowance for loan losses	13.7	12.8	10.4	9.7	9.5	10.0	7.2	%	6.6	%
Investments (3)	292.9	377.0	261.2	319.4	278.7	305.0	(22.3))%	(0.8))%
Deposits	1,280.0	1,266.3	1,047.5	1,001.1	788.5	803.1	1.1	%	9.8	%
Borrowings (4)	79.8	57.9	59.9	80.5	64.8	74.3	37.8	%	1.4	%
Shareholders' Equity	133.6	138.6	131.1	125.9	97.4	90.1	(3.6))%	8.2	%

(1) Earning assets include securities available for sale, at estimated fair value and securities held to maturity based on amortized cost, loans and loans held for sale net of deferred loan fees, interest-bearing deposits, FHLB NY stock, FRB NY stock and federal funds sold.

(2) Loans and loans held for sale, net of deferred loan fees.

(3) Investments include securities available for sale, at estimated fair value, securities held to maturity, at amortized cost, FHLB NY stock, FRB NY stock, federal funds sold and interest-bearing deposits.

(4) Borrowings include FHLB NY advances, securities sold under agreements to repurchase and capitalized lease obligations.

Cash and Cash Equivalents

Total cash and cash equivalents decreased \$22.4 million since December 31, 2013, due primarily to decreases of \$19.0 million in interest-bearing deposits in other financial institutions and \$3.4 million in cash and due from financial institutions.

Securities

The Corporation's Funds Management Policy includes an investment policy that in general, requires debt securities purchased for the bond portfolio to carry a minimum agency rating of "A". After an independent credit analysis is performed, the policy also allows the Corporation to purchase local municipal obligations that are not rated. The Corporation intends to maintain a reasonable level of securities to provide adequate liquidity and in order to have securities available to pledge to secure public deposits, repurchase agreements and other types of transactions. Fluctuations in the fair value of the Corporation's securities relate primarily to changes in interest rates.

Marketable securities are classified as Available for Sale, while investments in local municipal obligations are generally classified as Held to Maturity. The composition of the available for sale segment of the securities portfolio is summarized in Table 3 as follows (amounts in thousands):

TABLE 3. SECURITIES AVAILABLE FOR SALE

Securities Available for Sale	2014			2013		
	Amortized Cost	Estimated Fair Value	Unrealized Gains (Losses)	Amortized Cost	Estimated Fair Value	Unrealized Gains (Losses)

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Obligations of U.S. Government and U.S Government sponsored enterprises	\$180,535	\$181,673	\$ 1,138	\$187,098	\$188,106	\$ 1,008
Mortgage-backed securities, residential	60,787	61,660	873	104,069	104,356	287
Collateralized mortgage obligations	335	338	3	1,001	1,015	14
Obligations of states and political subdivisions	30,677	31,451	774	37,339	38,376	1,037
Corporate bonds and notes	1,502	1,533	31	2,879	2,946	67
SBA loan pools	1,296	1,304	8	1,471	1,488	17
Trust preferred securities	1,906	2,028	122	1,898	2,034	136
Corporate stocks	285	520	235	444	7,695	7,251
Totals	\$277,323	\$280,507	\$ 3,184	\$336,199	\$346,016	\$ 9,817

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The available for sale segment of the securities portfolio totaled \$280.5 million at December 31, 2014, a decrease of \$65.5 million, or 18.9%, from \$346.0 million at December 31, 2013. The decrease resulted primarily from sales and calls of \$62.7 million, and maturities and principal collected of \$24.2 million, partially offset by purchases of \$23.6 million. The proceeds from the sales, calls, maturities and principal collected of securities were used to help fund the growth of the loan portfolio.

The held to maturity segment of the securities portfolio consists of obligations of political subdivisions in the Corporation's market areas. These securities totaled \$5.8 million at December 31, 2014, a decrease of \$0.7 million, or 10.2%, from \$6.5 million at December 31, 2013. The decrease was due primarily to maturities and principal collected of \$3.2 million, partially offset by purchases of \$2.5 million.

Non-marketable equity securities at December 31, 2014 include shares of FRBNY stock and FHLBNY stock, carried at their cost of \$1.7 million and \$3.8 million, respectively. The fair value of these securities is assumed to approximate their cost. The investment in these stocks is regulated by regulatory policies of the respective institutions.

Table 4 sets forth the carrying amounts and maturities of available for sale and held to maturity debt securities at December 31, 2014 and the weighted average yields of such securities (all yields are calculated on the basis of the amortized cost and weighted for the scheduled maturity of each security, except mortgage-backed securities which are based on the average life at the projected prepayment speed of each security). Federal tax equivalent adjustments have been made in calculating yields on municipal obligations (amounts in thousands):

TABLE 4. MATURITIES AND YIELDS OF AVAILABLE FOR SALE AND HELD TO MATURITY SECURITIES

	Maturing							
	Within One Year		After One, But Within Five Years		After Five, But Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Obligations of U.S. Government and U.S. Government sponsored enterprises	\$26,813	2.02 %	\$149,504	1.27 %	\$5,356	2.66 %	\$-	-
Mortgage-backed securities, residential	116	4.81 %	60,015	2.05 %	1,419	2.01 %	110	3.49 %
Collateralized mortgage obligations	246	3.49 %	92	4.71 %	-	-	-	-
Obligations of states and political subdivisions	9,912	2.85 %	25,711	3.94 %	1,003	6.05 %	-	-
Corporate bonds and notes	772	3.98 %	518	4.13 %	243	3.25 %	-	-
SBA loan pools	-	-	712	1.79 %	592	1.74 %	-	-
Trust preferred securities	2,028	8.94 %	-	-	-	-	-	-
Time deposits with other financial institutions	656	2.07 %	-	-	-	-	-	-
Total	\$40,543	2.58 %	\$236,552	1.76 %	\$8,613	2.91 %	\$110	3.49 %

Management evaluates securities for OTTI on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For the year ended December 31, 2014, the Corporation had no OTTI charges. For the year ended December 31, 2013, the Corporation had less than \$0.1 million in OTTI charges. During the fourth quarter of 2013, the Corporation sold one CDO consisting of a pool of trust preferred securities that had an amortized cost of \$0.6 million. The CDO was sold for \$0.6 million, resulting in a slight loss. The CDO was sold in

light of the uncertainty surrounding the recently released rules contained in the “Volcker Rule” provision of the Dodd-Frank Act regarding the ability of banks to hold these types of securities and based on current market conditions. In addition to the CDO that was sold in the fourth quarter of 2013, the remaining CDO was liquidated and the Corporation recorded \$0.5 million in other income during the first quarter of 2014. The Corporation does not own any other CDOs in its investment securities portfolio. For more detailed information on OTTI, see Footnote (3), “Securities” in the Notes to Consolidated Financial Statements.

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Loans

The Corporation has reporting systems to monitor: (i) loan originations and concentrations, (ii) delinquent loans, (iii) non-performing assets, including non-performing loans, troubled debt restructurings, other real estate owned, (iv) impaired loans, and (v) potential problem loans. Management reviews these systems on a regular basis.

Table 5 shows the Corporation's loan composition by segment and percentage of total loans at the end of each of the last five years (amounts in thousands):

TABLE 5. LOANS

December 31,

	2014	%	2013	%	2012	%	2011	%	2010	%
Commercial and agricultural	\$166,406	14.8	\$145,363	14.6	\$133,851	15.0	\$142,209	17.8	\$114,697	18.7
Commercial mortgages	452,593	40.4	373,147	37.5	320,198	35.9	264,589	33.2	133,070	21.7
Residential mortgages	196,809	17.5	195,997	19.7	200,475	22.4	193,600	24.3	173,468	28.3
Indirect consumer loans	184,763	16.5	164,846	16.5	130,573	14.6	97,165	12.2	98,941	16.1
Consumer loans	121,003	10.8	116,513	11.7	108,420	12.1	99,352	12.5	93,508	15.2
Total	\$1,121,574	100.0	\$995,866	100.0	\$893,517	100.0	\$796,915	100.0	\$613,684	100.0

Portfolio loans totaled \$1.122 billion at December 31, 2014, an increase of \$125.7 million, or 12.6%, from \$995.9 million at December 31, 2013. The increase in portfolio loans was due to strong growth of \$100.5 million, or 19.4%, in commercial loans and \$19.9 million, or 12.1%, in indirect consumer loans. The growth in commercial loans was due primarily to an increase in commercial loans in the Capital Bank division in the Albany, New York region. The growth in indirect consumer loans was a result of the Corporation's extension into the first nine months of 2014 its loan program with reduced pricing on high quality indirect auto loans.

Residential mortgage loans totaled \$196.8 million at December 31, 2014, an increase of \$0.8 million, or 0.4%, from December 31, 2013. In addition, during 2014, \$13.6 million of residential mortgages were sold in the secondary market to Freddie Mac, with an additional \$0.1 million of residential mortgages sold to the State of New York Mortgage Agency.

The Corporation anticipates that future growth in portfolio loans will continue to be in the commercial mortgage and commercial and agricultural loan segments.

Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other conditions. The Corporation's concentration policy limits the volume of commercial loans to any one specific industry. Specific industries are identified using the North American Industry Classification System ("NAICS") codes. The volume of commercial loans, with the exception of commercial mortgages, to any one specific industry is limited to Tier 1 capital plus the allowance for loan losses. The volume of commercial mortgages is limited to three times the total of Tier 1 capital plus the allowance for loan losses. The Corporation is in compliance with the concentration policy limits.

The Corporation also monitors specific NAICS industry classifications of commercial loans to identify concentrations greater than 10.0% of total loans. At December 31, 2014 and 2013, commercial loans to borrowers involved in the real estate, and real estate rental and lending businesses were 36.1% and 31.1% of total loans, respectively. No other concentration of loans existed in the commercial loan portfolio in excess of 10.0% of total loans as of December 31, 2014 and 2013.

Table 6 shows the maturity of only commercial and agricultural loans and commercial mortgages outstanding as of December 31, 2014. Also provided are the amounts due after one year, classified according to the sensitivity to changes in interest rates (amounts in thousands):

TABLE 6. LOAN AMOUNTS
CONTRACTUALLY DUE AFTER
DECEMBER 31, 2014

	After One Year	But Within Five Years	After Five Years	Total
Commercial and agricultural and commercial mortgages	\$73,671	\$131,105	\$414,223	\$618,999
Loans maturing after one year with:				
Fixed interest rates	\$25,686	\$91,608	\$104,137	\$221,431
Variable interest rates	47,985	39,497	310,086	397,568
Total	\$73,671	\$131,105	\$414,223	\$618,999

Non-Performing Assets

Non-performing assets consist of non-accrual loans, non-accrual troubled debt restructurings and other real estate owned that has been acquired in partial or full satisfaction of loan obligations or upon foreclosure.

Past due status on all loans is based on the contractual terms of the loan. It is generally the Corporation's policy that a loan 90 days past due be placed in non-accrual status unless factors exist that would eliminate the need to place a loan in this status. A loan may also be designated as non-accrual at any time if payment of principal or interest in full is not expected due to deterioration in the financial condition of the borrower. At the time loans are placed in non-accrual status, the accrual of interest is discontinued and previously accrued interest is reversed. All payments received on non-accrual loans are applied to principal. Loans are considered for return to accrual status when they become current as to principal and interest and remain current for a period of six consecutive months or when, in the opinion of management, the Corporation expects to receive all of its contractual principal and interest. In the case of non-accrual loans where a portion of the loan has been charged off, the remaining balance is kept in non-accrual status until the entire principal balance has been recovered.

Table 7 summarizes the Corporation's non-performing assets, excluding purchased credit impaired loans (amounts in thousands):

TABLE 7. NON-PERFORMING ASSETS

December 31,	2014	2013	2012	2011	2010					
Non-accrual loans	\$6,798	\$7,456	\$7,456	\$9,554	\$6,805					
Non-accrual troubled debt restructurings	980	1,061	1,061	4,057	3,793					
Total non-performing loans	7,778	8,517	8,517	13,611	10,598					
Other real estate owned	3,065	538	538	898	741					
Total non-performing assets	\$10,843	\$9,055	\$9,055	\$14,509	\$11,339					
Ratio of non-performing loans to total loans			0.69	% 0.86	% 0.68	% 1.71	% 1.73			
Ratio of non-performing assets to total assets			0.71	% 0.61	% 0.53	% 1.19	% 1.18			
Ratio of allowance for loan losses to non-performing loans			175.96%	150.01%	172.96%	70.97%	89.62%			

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Accruing loans past due 90 days or more (1)	\$1,454	\$1,473	\$4,484	\$7,304	\$11
Accruing troubled debt restructurings (1)	\$8,705	\$6,831	\$5,364	\$-	\$659

(1) These loans are not included in nonperforming assets above.

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Table 8 shows interest income on non-accrual and troubled debt restructured loans for the indicated years ended December 31 (amounts in thousands):

TABLE 8. INTEREST INCOME ON NON-ACCRUAL AND TROUBLED DEBT RESTRUCTURED LOANS

	2014	2013	2012
Interest income that would have been recorded under original terms	\$463	\$541	\$666
Interest income recorded during the period	\$367	\$336	\$12

Non-Performing Loans

The recorded investment in non-performing loans at December 31, 2014, totaled \$7.8 million compared to \$8.5 million at year-end 2013, a decrease of \$0.7 million. The decrease in non-performing loans was due to decreases of \$0.6 million in non-accrual loans and \$0.1 million in non-accrual TDRs. Non-performing commercial loans decreased \$0.9 million while non-performing residential mortgages increased \$0.3 million.

The recorded investment in accruing loans 90 days or more past due totaled \$1.5 million at December 31, 2014, level with the recorded investment at December, 31, 2013. At December 31, 2014, the recorded investment in accruing loans 90 days or more past due included \$1.4 million in acquired construction loans not considered by management to be PCI loans, which for a variety of reasons are 90 days or more past their stated maturity dates. However, the borrowers continue to make required interest payments. Additionally, these loans carry third party credit enhancements, and based on the strength of those credit enhancements, the Corporation has not identified these loans as PCI loans and expects to incur no losses on these loans.

Not included in the non-performing loan totals are loans acquired in the April 2011 acquisition of Fort Orange Financial Corp. and its wholly-owned subsidiary, Capital Bank, which the Corporation had identified as PCI loans totaled \$2.6 million and \$9.7 million at December 31, 2014 and 2013, respectively. The PCI loans are accounted for under separate accounting guidance, Accounting Standards Codification (“ASC”) Subtopic 310-30, “Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality” as disclosed in Note 4 of the financial statements.

Troubled Debt Restructurings

The Corporation works closely with borrowers that have financial difficulties to identify viable solutions that minimize the potential for loss. In that regard, the Corporation has modified the terms of select loans to maximize their collectability. These modifications may be considered TDRs under current accounting guidance. The Corporation offers various types of modifications which may involve a change in the schedule of payments, a reduction in the interest rate, an extension of the maturity date, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, requesting additional collateral, releasing collateral for consideration, substituting or adding a new borrower or guarantor, a permanent reduction of the recorded investment in the loan or a permanent reduction of the interest on the loan. As of December 31, 2014, the Corporation had \$1.0 million of non-accrual TDRs compared with \$1.1 million as of December 31, 2013. The decrease in non-accrual TDRs was in the commercial loan segment of the loan portfolio. As of December 31, 2014, the Corporation had \$8.7 million of accruing TDRs compared with \$6.8 million as of December 31, 2013. The increase in accruing TDRs was primarily in the commercial loan segment of the loan portfolio.

Impaired Loans

A loan is classified as impaired when, based on current information and events, it is probable that the Corporation will be unable to collect both the principal and interest due under the contractual terms of the loan agreement. Impaired loans at December 31, 2014 totaled \$15.9 million, including TDRs of \$9.7 million, compared to \$13.9 million at December 31, 2013, including TDRs of \$7.9 million. The increase in impaired loans was in the commercial loan segment of the loan portfolio. Not included in the impaired loan totals are acquired loans which the Corporation has identified as PCI loans, as these loans are accounted for under ASC Subtopic 310-30 as noted under the above discussion of non-performing loans. Included in the impaired loan total at December 31, 2014, are loans totaling \$4.9 million for which impairment allowances of \$1.2 million have been specifically allocated to the allowance for loan losses. As of December 31, 2013, the impaired loan total included \$2.0 million of loans for which specific impairment allowances of \$1.0 million were allocated to the allowance for loan losses. The increase in the amount of impaired loans for which specific allowances were allocated to the allowance for loan losses was due to an increase of \$3.1 million in impaired commercial mortgages, partially offset by a decrease of \$0.9 million in commercial and industrial loans.

The majority of the Corporation's impaired loans are secured and measured for impairment based on collateral evaluations. It is the Corporation's policy to obtain updated appraisals, by independent third parties, on loans secured by real estate at the time a loan is determined to be impaired. An impairment measurement is performed based upon the most recent appraisal on file to determine the amount of any specific allocation or charge-off. In determining the amount of any specific allocation or charge-off, the Corporation will make adjustments to reflect the estimated costs to sell the property. Upon receipt and review of the updated appraisal, an additional measurement is performed to determine if any adjustments are necessary to reflect the proper provisioning or charge-off. Impaired loans are reviewed on a quarterly basis to determine if any changes in credit quality or market conditions would require any additional allocation or recognition of additional charge-offs. Real estate values in the Corporation's market area have been holding steady. Non-real estate collateral may be valued using (i) an appraisal, (ii) net book value of the collateral per the borrower's financial statements, or (iii) accounts receivable aging reports, that may be adjusted based on management's knowledge of the client and client's business. If market conditions warrant, future appraisals are obtained for both real estate and non-real estate collateral.

Allowance for Loan Losses

The allowance is an amount that management believes will be adequate to absorb probable incurred losses on existing loans. The allowance is established based on management's evaluation of the probable inherent losses in our portfolio in accordance with GAAP, and is comprised of both specific valuation allowances and general valuation allowances.

Specific valuation allowances are established based on management's analyses of individually impaired loans. Factors considered by management in determining impairment include payment status, evaluations of the underlying collateral, expected cash flows, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. 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. If a loan is determined to be impaired and is placed on nonaccrual status, all future payments received are applied to principal and a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. Loans not impaired but classified as substandard and special mention use a historical loss factor on a rolling five year history of net losses. For all other unclassified loans, the historical loss experience is determined by portfolio class and is based on the actual loss history experienced by the Corporation over the most recent two years. This actual loss experience is supplemented with other qualitative factors based on the risks present for each portfolio class. These qualitative factors include consideration of the following: (1) lending policies and procedures, including underwriting standards and collection, charge-off and recovery policies, (2) national and local economic and business conditions and developments, including the condition of various market segments, (3) loan profiles and volume of the portfolio, (4) the experience, ability, and depth of lending management and staff, (5) the volume and severity of past due, classified and watch-list loans, non-accrual loans, troubled debt restructurings, and other modifications (6) the quality of the Bank's loan review system and the degree of oversight by the Bank's Board of Directors, (7) collateral related issues: secured vs. unsecured, type, declining valuation environment and trend of other related factors, (8) the existence and effect of any concentrations of credit, and changes in the level of such concentrations, (9) the effect of external factors, such as competition and legal and regulatory requirements, on the level of estimated credit losses in the Bank's current portfolio and (10) the impact of the global economy.

The allowance for loan losses is increased through a provision for loan losses charged to operations. Loans are charged against the allowance for loan losses when management believes that the collectability of all or a portion of the principal is unlikely. Management's evaluation of the adequacy of the allowance for loan losses is performed on a periodic basis and takes into consideration such factors as the credit risk grade assigned to the loan, historical loan loss experience and review of specific impaired loans. 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 the Corporation's allowance for loan losses. Such agencies may require the Corporation to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Prior to December 31, 2012, the Corporation utilized the sum of all allowance amounts derived as described above, combined with a reasonable unallocated allowance, as the primary indicator of the appropriate level of allowance for loan losses. During the fourth quarter of 2012, the Corporation refined its allowance calculation whereby it "allocated" the portion of the allowance that was previously deemed to be unallocated allowance. This refined allowance calculation included specific allowance allocations for qualitative factors including (i) concentrations of credit, (ii) general economic and business conditions, (iii) trends that could affect collateral values and (iv) expectations regarding the current business cycle. The Corporation may also consider other qualitative factors in future periods for additional allowance allocations, including, among other factors, (1) credit quality trends (including trends in non-performing loans expected to result from existing conditions), (2) seasoning of the loan portfolio, (3) specific industry conditions affecting portfolio segments, (4) the Corporation's expansion into new markets and (5) the offering of new loan products.

Table 9 summarizes the Corporation's allocation of the allowance for loan losses and percent of loans by category to total loans for each year in the five-year period ended December 31, 2014 (amounts in thousands):

TABLE 9. ALLOCATION OF ALLOWANCE FOR LOAN LOSSES

Balance at end of period applicable to:	2014	%	2013	%	2012	%	2011	%	2010	%
Commercial and agricultural	\$1,460	14.8	\$1,979	14.6	\$1,708	15.0	\$3,143	17.8	\$2,118	18.6
Commercial mortgages	6,326	40.4	6,243	37.5	4,428	35.9	2,570	33.2	2,575	21.7
Residential mortgages	1,572	17.5	1,517	19.7	1,565	22.4	1,310	24.3	1,302	28.3
Consumer loans	4,328	27.3	3,037	28.2	2,706	26.7	2,193	24.7	2,727	31.4

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	13,686	100.0	12,776	100.0	10,407	100.0	9,216	100.0	8,722	100.0
Unallocated	-		-		26		443		776	
Total	\$13,686		\$12,776		\$10,433		\$9,659		\$9,498	

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Table 10 summarizes the Corporation's loan loss experience for each year in the five-year period ended December 31, 2014 (amounts in thousands, except ratio data):

TABLE 10. SUMMARY OF LOAN LOSS EXPERIENCE

	Years Ended December 31,				
	2014	2013	2012	2011	2010
Allowance for loan losses at beginning of year	\$12,776	\$10,433	\$9,659	\$9,498	\$9,967
Reclassification of acquired loan discount			124	-	-
Charge-offs:					
Commercial and agricultural	444	186	181	686	817
Commercial mortgages	2,229	44	335	19	471
Residential mortgages	97	124	83	67	83
Consumer loans	1,508	1,139	674	726	840
Total	4,278	1,493	1,273	1,498	2,211
Recoveries:					
Commercial and agricultural	385	537	802	423	414
Commercial mortgages	156	98	55	41	15
Residential mortgages	32	65	-	45	-
Consumer loans	634	381	238	192	188
Total	1,207	1,081	1,095	701	617
Net charge-offs	3,071	412	178	797	1,594
Provision charged to operations	3,981	2,755	828	958	1,125
Allowance for loan losses at end of year	\$13,686	\$12,776	\$10,433	\$9,659	\$9,498
Ratio of net charge-offs during year to average loans outstanding	0.29 %	0.04 %	0.02 %	0.11 %	0.27 %
Ratio of allowance for loan losses to total loans outstanding	1.22 %	1.28 %	1.17 %	1.21 %	1.55 %

Net charge-offs for 2014 were \$3.1 million compared with \$0.4 million for 2013. The ratio of net charge-offs to average loans outstanding was 0.29% for 2014 compared to 0.04% for 2013. The increase in net charge-offs was due primarily to increases of \$2.1 million in commercial mortgage and \$0.4 million in commercial and agricultural net charge-offs.

Other Real Estate Owned

At December 31, 2014, other real estate owned ("OREO") totaled \$3.1 million compared to \$0.5 million at December 31, 2013. The increase in other real estate owned was due primarily to the transfer of two acquired PCI commercial loans.

Other Assets

The \$10.1 million increase in other assets was due primarily to the recording of a receivable from the Corporation's insurance carrier related to the settlement of the two legal proceedings involving its Wealth Management Group and the increase in other real estate owned.

Deposits

Deposits totaled \$1.280 billion at December 31, 2014, compared with \$1.266 billion at December 31, 2013, an increase of \$13.8 million, or 1.1%. At December 31, 2014, demand deposit and money market accounts comprised 68.0% of total deposits compared with 65.3% at December 31, 2013. Sorted by public, commercial, consumer and broker sources, the growth in deposits was due primarily to increases of \$38.3 million in brokered and \$5.7 million in commercial deposits, partially offset by decreases of \$25.2 million in consumer and \$5.0 million in public deposits accounts.

Brokered deposits include funds obtained through brokers, and the Bank's participation in the Certificate of Deposit Account Registry Service ("CDARS") and Insured Cash Sweep Service ("ICS") programs. The CDARS and ICS programs involve a network of financial institutions that exchange funds among members in order to ensure FDIC insurance coverage on customer deposits above the single institution limit. Using a sophisticated matching system, funds are exchanged on a dollar-for-dollar basis, so that the equivalent of an original deposit comes back to the originating institution. Deposits obtained through brokers were \$2.3 million and \$5.0 million as of December 31, 2014 and 2013, respectively. Deposits obtained through the CDARS and ICS programs were \$76.7 million and \$35.7 million as of December 31, 2014 and 2013, respectively. The increase in CDARS and ICS deposits was due to the Corporation offering the programs to local municipalities.

The Corporation's deposit strategy is to fund the Bank with stable, low-cost deposits, primarily checking account deposits and other low interest-bearing deposit accounts. A checking account is the driver of a banking relationship and consumers consider the bank where they have their checking account as their primary bank. These customers will typically turn to their primary bank first when in need of other financial services. Strategies that have been developed and implemented to generate these deposits include: (i) acquire deposits by entering new markets through de novo branching, (ii) an annual checking account marketing campaign, (iii) training branch employees to identify and meet client financial needs with Bank products and services, (iv) link business and consumer loans to a primary checking account at the Bank, (v) aggressively promote direct deposit of client's payroll checks or benefit checks and (vi) constantly monitor the Corporation's pricing strategies to ensure competitive products and services.

The Corporation also considers brokered deposits to be an element of its deposit strategy and anticipates that it will continue using brokered deposits as a secondary source of funding to support growth.

Information regarding deposits is included in Note 7 to the consolidated financial statements appearing elsewhere in this report.

Borrowings

FHLBNY advances increased \$24.9 million to \$50.1 million at December 31, 2014 from \$25.2 million at December 31, 2013. FHLBNY overnight advances increased \$30.8 million during 2014 while FHLBNY term advances decreased \$5.9 million.

For each of the three years ended December 31, 2014, 2013 and 2012, respectively, the average outstanding balance of borrowings that mature in one year or less did not exceed 30% of shareholders' equity.

Information regarding securities sold under agreements to repurchase and FHLBNY advances is included in notes 8 and 9 to the consolidated financial statements appearing elsewhere in this report.

Liquidity and Capital Resources

Liquidity management involves the ability to meet the cash flow requirements of deposit clients, borrowers, and the operating, investing and financing activities of the Corporation. The Corporation uses a variety of resources to meet its liquidity needs. These include short term investments, cash flow from lending and investing activities, core-deposit growth and non-core funding sources, such as time deposits of \$100,000 or more, securities sold under agreements to repurchase and other borrowings.

The Corporation is a member of the FHLBNY which allows it to access borrowings which enhance management's ability to satisfy future liquidity needs. Based on available collateral and current advances outstanding, the Corporation was eligible to borrow up to a total of \$86.0 million and \$73.1 million at December 31, 2014 and 2013, respectively. The Corporation also had a total of \$27.8 million of unsecured lines of credit with four different financial institutions, all of which was available at December 31, 2014 and 2013.

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During 2014, cash and cash equivalents decreased \$22.4 million. The major sources of cash during 2014 included \$18.4 million provided by operating activities, \$90.2 million in proceeds from sales, maturities, calls and principal reductions on securities, \$13.8 million in deposits and \$24.9 million in FHLB NY advances. These proceeds were used primarily to fund purchases of securities totaling \$27.2 million, a \$131.9 million net increase in loans, payment of cash dividends in the amount of \$4.8 million and purchases of fixed assets totaling \$2.6 million.

During 2013, cash and cash equivalents increased \$11.4 million. The major sources of cash during 2013 included \$170.9 million received from the branch acquisition, \$22.8 million provided by operating activities, \$67.9 million in proceeds from sales, maturities, calls and principal reductions on securities and \$40.9 million in organic deposit growth. These proceeds were used primarily to fund purchases of securities totaling \$180.5 million, a \$101.5 million net increase in loans, payment of cash dividends in the amount of \$3.6 million and purchases of fixed assets totaling \$3.7 million.

Shareholders' Equity

Total shareholders' equity was \$133.6 million at December 31, 2014, compared with \$138.6 million at December 31, 2013, a decrease of \$5.0 million, or 3.6%. The decrease was due primarily to an \$8.9 million decrease in accumulated other comprehensive income and declared dividends of \$4.8 million, partially offset by net income of \$8.2 million and a reduction of \$0.7 million in treasury stock. The total shareholders' equity to total assets ratio was 8.77% at December 31, 2014 compared with 9.39% at December 31, 2013. Tangible equity to tangible assets ratio decreased to 7.13% at December 31, 2014, from 7.62% at December 31, 2013.

The Corporation and the Bank are subject to capital adequacy guidelines of the Federal Reserve which establish a framework for the classification of financial holding companies and financial institutions into five categories: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. As of December 31, 2014, both the Corporation's and the Bank's capital ratios were in excess of those required to be considered well-capitalized under regulatory capital guidelines. A comparison of the Corporation's and the Bank's actual capital ratios to the ratios required to be adequately or well-capitalized at December 31, 2014 and 2013, is included in note 17 to the consolidated financial statements appearing elsewhere in this report. For more information regarding current capital regulations see Part I—"Business-Supervision and Regulation-Regulatory Capital."

Cash dividends declared during 2014 totaled \$4.8 million or \$1.04 per share compared to \$4.8 million or \$1.04 per share in 2013 and \$4.6 million or \$1.00 per share in 2012. Dividends declared during 2014 amounted to 58.8% of net income compared to 54.7% and 41.5% of net income for 2013 and 2012, respectively. Management seeks to continue generating sufficient capital internally, while continuing to pay adequate dividends to the Corporation's shareholders.

When shares of the Corporation become available in the market, the Corporation may purchase them after careful consideration of the Corporation's liquidity and capital positions. Purchases may be made from time to time on the open market or in privately negotiated transactions at the discretion of management. On December 19, 2012, the Board of Directors approved a new stock repurchase plan under which the Corporation may repurchase up to 125,000 shares. No shares were purchased under the new plan in 2014. During 2013, the Corporation purchased 3,094 shares at a total cost of \$93 thousand under the new plan. Under the previous plan, the Corporation purchased 68,564 shares.

Off-Balance Sheet Arrangements

In the normal course of operations, the Corporation engages in a variety of financial transactions that, in accordance with GAAP are not recorded in the financial statements. The Corporation is also a party to certain financial instruments with off balance sheet risk such as commitments under standby letters of credit, unused portions of lines of credit and commitments to fund new loans. The Corporation's policy is to record such instruments when funded.

These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are generally used by the Corporation to manage clients' requests for funding and other client needs.

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Table 11 shows the Corporation's off-balance sheet arrangements as of December 31, 2014 (amounts in thousands):

TABLE 12. COMMITMENT MATURITY BY PERIOD

	Total	2015	2016 - 2017	2018 - 2019	2020 and thereafter
Standby letters of credit	\$16,747	\$15,653	\$656	\$438	\$ -
Unused portions of lines of credit (1)	126,460	126,460	-	-	-
Commitments to fund new loans	34,838	34,838	-	-	-
Total	\$178,044	\$176,951	\$656	\$437	\$ -

(1) Not included in this total are unused portions of home equity lines of credit, credit card lines and consumer overdraft protection lines of credit, since no contractual maturity dates exist for these types of loans. Commitments to outside parties under these lines of credit were \$41,261, \$13,405 and \$4,921, respectively, at December 31, 2014.

Contractual Obligations

Table 13 shows the Corporation's contractual obligations under long-term agreements as of December 31, 2014 (amounts in thousands). Note references are to the Notes of the Consolidated Financial Statements:

TABLE 13. CONTRACTUAL OBLIGATIONS

	Payments Due by Period				
	Total	2015	2016 - 2017	2018 - 2019	2020 and thereafter
Time Deposits (Note 7)	\$211,843	\$155,295	\$44,289	\$10,626	\$ 1,633
Federal Home Loan Bank advances (Note 9)	50,140	30,830	17,241	2,069	-
Securities sold under agreements to repurchase (Note 8)	29,652	9,652	20,000	-	-
Operating leases (Note 5)	9,873	1,429	2,309	1,981	4,154
Capital leases (Note 5)	3,814	234	468	468	2,644
Data processing services and other	5,203	1,518	2,183	1,455	47
Total (1)	\$310,520	\$208,953	\$78,559	\$14,530	\$ 8,478

(1) Not included in the above total is the Corporation's obligation regarding the Pension Plan and Other Benefit Plans. Please refer to Part IV Item 15 Note 11 for information regarding these obligations at December 31, 2014.

Results of Operations 2014 vs. 2013

Net Income

Net income for 2014 was \$8.2 million, a decrease of \$0.5 million, or 6.6%, compared with \$8.7 million for 2013. Earnings per share for 2014 was \$1.74 compared with \$1.87 for 2013. Return on average assets and return on average equity for 2014 were 0.54% and 5.74%, respectively, compared with 0.67% and 6.50%, respectively, for 2013.

The decline in 2014 earnings was due primarily to increases of \$11.1 million in non-interest expense and \$1.2 million in the provision for loan losses, partially offset by increases of \$8.7 million in non-interest income and \$2.9 million in net interest income. The increase in non-interest expense was due to a \$4.3 million accrual for legal settlement regarding two legal proceedings involving the Bank's Wealth Management Group, along with increases of \$2.0 million in salaries and wages, \$1.6 million in net occupancy expense, \$1.6 million in data processing expense, \$0.7 million in professional services, \$0.6 million in furniture and equipment expense and \$0.4 million in amortization of intangible assets. A portion of the increase in non-interest expense was due to operating expenses directly related to the branch

offices acquired in the fourth quarter of 2013, along with upgrades for ATMs and software. The increase in non-interest income was due primarily to \$6.9 million in net gains on security transactions, along with increases of \$0.4 million in Wealth Management Group fee income and \$0.6 million in service charges on deposit accounts.

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Net Interest Income

Net interest income, which is the difference between the income we receive on interest-earning assets, such as loans and securities and the interest we pay on interest-bearing liabilities, such as deposits and borrowings, is the largest contributor to our earnings.

For 2014, net interest income totaled \$49.6 million, an increase of \$3.0 million, or 6.3%, compared with \$46.6 for 2013, and the net interest margin was 3.59% for 2014 compared with 3.91% for 2013. The decline in net interest income was due primarily to margin compression evidenced by a 40 basis point decrease in the yield on interest-earning assets, partially offset by a 10 basis point decline in the cost of funds and an increase of \$189.6 million in average interest-earning assets. The decline in net interest margin was due primarily to yields on interest-earning assets decreasing at a faster rate than the cost of interest-bearing liabilities. The decrease in yield on interest-earning assets was attributable to lower loan yields as loans continue to adjust to current market rates and the investment of cash from the acquired branch offices into investment securities.

For 2014, total average funding liabilities, including non-interest-bearing demand deposits, increased \$191.7 million, or 16.5%, to \$1.354 billion. The growth was primarily due to increases of \$120.7 million in average savings and money market deposits, \$59.3 million in non-interest-bearing demand deposits and \$30.2 million in interest-bearing demand deposits. These items were partially offset by decreases of \$12.9 million in borrowings and \$5.6 million in time deposits. While average interest-bearing liabilities increased \$132.4 million, or 15.4%, interest expense decreased \$0.4 million, or 9.6%, as the average cost of interest-bearing liabilities decreased 10 basis points to 0.37%.

Provision for Loan Losses

For 2014 the provision for loan loss expense totaled \$4.0 million compared to \$2.8 million for 2013. The increase was due primarily to additional impairments on commercial loans and growth in the loan portfolio.

Non-Interest Income

Non-interest income for 2014 was \$26.8 million compared with \$18.1 million for 2013, an increase of \$8.7 million, or 48.0%. The increase was due primarily to \$6.9 million in net gains on security transactions, and increases of \$0.4 million in Wealth Management Group fee income and \$0.6 million in service charges on deposit accounts.

Current assets under management or administration of the Corporation's Wealth Management Group include investment, trust and retirement-related business lines. The market value of total assets under management or administration in the Wealth Management Group were \$1.956 billion at December 31, 2014, compared with \$1.888 billion at December 31, 2013, an increase of \$68.0 million, or 3.6%. As a result, Wealth Management Group fee income increased for 2014. Wealth Management Group's efforts in 2014 were focused on programs that include a private banking program with financial planning capabilities to serve the financial needs of high net worth individuals and an enhanced retirement services program to increase the number of plans under management and fee income.

Non-Interest Expense

Non-interest expense for 2014 was \$60.5 million compared with \$49.4 million for 2013, an increase of \$11.1 million, or 22.4%. Excluding a \$4.3 million pre-tax legal settlement from 2014, non-interest expense increased \$6.8 million, or 13.8%, for 2014. The accrual for legal settlement was the result of two legal proceedings involving the Bank's Wealth Management Group. The \$6.8 million increase in non-interest expense, excluding the accrual for legal settlement, was due primarily to increases of \$2.0 million in salaries and wages, \$1.6 million in net occupancy expense, \$0.6 million in furniture and equipment expense, \$1.6 million in data processing costs, \$0.7 million in professional fees, \$0.4 million in amortization of intangible assets and \$1.0 million in other non-interest expenses. These items were partially offset by a decrease of \$1.3 million in merger and acquisition expense. A portion of the

increase in non-interest expense was due to operating expenses directly related to the branch offices acquired in the fourth quarter of 2013, along with upgrades for ATMs and software.

Income Taxes

Income tax expense for 2014 was \$3.7 million compared with \$3.8 million for 2013, a decrease of \$0.1 million, or 3.0%. Income tax expense reflects an effective tax rate of 31.3% for 2014 compared with 30.4% for 2013, due primarily to a decrease in the relative percentage of tax exempt income to pre-tax income.

Results of Operations 2013 vs. 2012

Net Income

Net income for 2013 was \$8.7 million, a decrease of \$2.3 million, or 20.8%, compared with \$11.0 million for 2012. Earnings per share for 2013 was \$1.87 compared with \$2.38 for 2012. Return on average assets and return on average equity for 2013 were 0.67% and 6.50%, respectively, compared with 0.88% and 8.41%, respectively, for 2012.

The decline in 2013 earnings was due primarily to increases of \$1.9 million in the provision for loan losses and \$2.6 million in non-interest expense, which included \$1.4 million in pre-tax branch acquisition costs. Net interest income decreased \$0.2 million in 2013. These items were partially offset by a reduction of \$1.6 million in income taxes and an increase of \$0.9 million in non-interest income. The increase in non-interest income was due primarily to increases of \$0.5 million in Wealth Management Group fee income, \$0.5 million in services charges on deposit accounts and a gain of \$0.5 million from the branch acquisition. These items were offset by the 2012 pre-tax casualty gain of \$0.8 million from insurance reimbursements related to the September 2011 flooding of the Owego and Tioga offices.

Net Interest Income

Net interest income, which is the difference between the income we receive on interest-earning assets, such as loans and securities and the interest we pay on interest-bearing liabilities, such as deposits and borrowings, is the largest contributor to our earnings.

For 2013, net interest income totaled \$46.6 million, a slight decrease of \$0.2 million, or 0.5%, compared with \$46.8 for 2012, and the net interest margin was 3.85% for 2013 compared with 4.07% for 2012. The decline in net interest income was due primarily to margin compression evidenced by a 34 basis point decrease in the yield on interest-earning assets, partially offset by a 16 basis point decline in the cost of funds and an increase of \$59.3 million in average earning assets. The decline in net interest margin was due primarily to yields on interest-earning assets decreasing at a faster rate than the cost of interest-bearing liabilities. The decrease in yield on interest-earning assets was attributable to lower loan yields as loans continue to reprice at current market rates. In addition, the Corporation anticipated a decline in the yield on interest-earning assets due in part to its investment of cash from the branch acquisition into investment securities.

For 2013, total average funding liabilities, including non-interest-bearing demand deposits, increased \$46.5 million, or 4.2%, to \$1.160 billion compared to 2012. The growth was primarily due to increases of \$49.6 million in average savings and money market deposits and \$18.4 million in demand deposits, partially offset by a decrease of \$26.9 million in time deposits. While average interest-bearing liabilities increased \$28.1 million, or 3.4%, interest expense decreased \$1.2 million, or 22.9%, as the average cost of interest-bearing liabilities decreased 16 basis points to 0.47%.

Provision for Loan Losses

For 2013 the provision for loan loss expense totaled \$2.8 million compared to \$0.8 million for 2012. The increase was due principally to the establishment of \$0.9 million in additional specific reserves on three commercial loans, loan portfolio growth and net charge-offs.

Non-Interest Income

Non-interest income for 2013 was \$18.1 million compared with \$17.2 million for 2012, an increase of \$0.9 million, or 5.2%. The increase was due primarily to a gain of \$0.5 million from the branch acquisition and increases of \$0.5 million in Wealth Management Group fee income and \$0.5 million in service charges on deposit accounts. These items were partially offset by reductions of \$0.8 million in casualty gains from insurance reimbursements related to

the September 2011 flooding of the Owego and Tioga offices and \$0.3 million in net gain on securities transactions.

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Current assets under management or administration of the Corporation's Wealth Management Group include investment, trust and retirement-related business lines. The market value of total assets under management or administration in the Wealth Management Group were \$1.888 billion at December 31, 2013, compared with \$1.735 billion at December 31, 2012, an increase of \$153.0 million, or 8.8%. As a result, Wealth Management Group fee income increased for 2013, as the Wealth Management Group's efforts were focused on programs that include a private banking program with financial planning capabilities, to serve the financial needs of high net worth individuals, and an enhanced retirement services program to increase the number of plans under management and fee income.

Non-Interest Expense

Non-interest expense for 2013 was \$49.4 million compared with \$46.8 million for 2012, an increase of \$2.6 million, or 5.6%. Excluding \$1.4 million in pre-tax branch acquisition costs from 2013, non-interest expense increased \$1.2 million, or 2.7% for 2013. This increase was due primarily to increases of \$0.4 million in salaries and wages, \$0.3 million in pension and other employee benefits, \$0.3 million in net occupancy expense and \$0.3 million in data processing costs. These items were partially offset by a decrease of \$0.5 million in professional services related to consultant fees.

Included in the increase in salaries and wages was \$0.1 million related to the branch acquisition, and the remainder to compensation expense related to merit increases and incentive compensation. The increase in pension and other employee benefits was primarily due to higher pension and retirement costs. The increase in net occupancy was due primarily to higher depreciation and rent expense, both related to the Bank of America branch acquisition. The increase in data processing expenses was primarily due to higher software maintenance fees and telephone data lines related to the branch acquisition.

Income Taxes

Income tax expense for 2013 was \$3.8 million compared with \$5.4 million for 2012, a decrease of \$1.6 million, or 29.0%. Income tax expense reflects an effective tax rate of 30.4% for 2013 compared with 32.8% for 2012, due primarily to lower pre-tax income and an increase in the relative percentage of tax exempt income to pre-tax income.

Table 14 sets forth certain information related to the Corporation's average consolidated balance sheets and its consolidated statements of income for the years indicated and reflects the average yield on assets and average cost of liabilities for the years indicated. For the purpose of the table below, non-accruing loans are included in the daily average loan amounts outstanding. Daily balances were used for average balance computations. Investment securities are stated at amortized cost. Tax equivalent adjustments have been made in calculating yields on obligations of states and political subdivisions, tax-free commercial loans and dividends on equity securities.

TABLE 14. AVERAGE BALANCES AND YIELDS

Distribution of Assets, Liabilities and Shareholders' Equity, Interest Rates and Interest Differential Year Ended December 31,

(Amounts in thousands)	2014			2013			2012		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Assets									
Earning assets:									
Commercial, agricultural and commercial mortgage loans	\$568,448	\$28,181	4.96%	\$486,364	\$26,146	5.38%	\$429,966	\$25,649	5.97%
Mortgage loans	195,266	8,134	4.17%	198,903	8,638	4.34%	194,643	9,425	4.84%
Consumer loans	302,665	10,947	3.62%	257,641	10,484	4.07%	219,646	10,322	4.70%
Taxable securities	267,117	5,122	1.92%	209,676	4,468	2.13%	214,616	5,424	2.53%
Tax-exempt securities	39,890	1,415	3.55%	42,253	1,605	3.80%	48,653	1,834	3.77%
Interest-bearing deposits	25,899	64	0.25%	14,836	36	0.24%	42,884	153	0.36%
Total earning assets	1,399,285	53,863	3.85%	1,209,673	51,377	4.25%	1,150,408	52,807	4.59%
Non-earning assets:									
Cash and due from banks	26,653			23,739			24,369		
Premises and equipment, net	30,447			25,606			24,806		
Other assets	52,014			46,752			50,854		
Allowance for loan losses	(13,082)			(11,212)			(10,425)		
AFS adjustment to fair value	11,007			11,809			13,713		
Total	\$1,506,324			\$1,306,367			\$1,253,725		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
Now deposits	\$126,593	101	0.08%	\$96,392	91	0.09%	\$89,759	95	0.11%
Savings and insured money market deposits	585,616	988	0.17%	464,976	833	0.18%	415,253	828	0.20%
Time deposits	223,841	954	0.43%	229,426	1,426	0.62%	256,291	2,258	0.88%
Federal Home Loan Bank advances, securities sold	56,625	1,602	2.83%	69,498	1,682	2.42%	70,716	2,053	2.90%

under agreements
to repurchase and
other debt

Total interest-bearing liabilities	992,675	3,645	0.37%	860,292	4,032	0.47%	832,019	5,234	0.63%
Non-interest-bearing liabilities:									
Demand deposits	361,393			302,046			283,654		
Other liabilities	10,210			9,744			6,933		
Total liabilities	\$1,364,278			\$1,172,082			\$1,122,606		
Shareholders' equity	142,046			134,285			131,119		
Total	\$1,506,324			\$1,306,367			\$1,253,725		
Fully taxable equivalent net interest income		50,218			47,345			47,573	
Net interest rate spread (1)			3.48%			3.78%			3.96%
Net interest margin, fully taxable equivalent (2)			3.59%			3.91%			4.14%
Taxable equivalent adjustment		(650)			(714)			(731)	
Net interest income		\$49,568			\$46,631			\$46,842	

(1) Net interest rate spread is the difference in the yield received on earning assets less the rate paid on interest-bearing liabilities.

(2) Net interest margin is the ratio of fully taxable equivalent net interest income divided by average earning assets.

CHANGES DUE TO VOLUME AND RATE

Net interest income can be analyzed in terms of the impact of changes in rates and volumes. Table 15 illustrates the extent to which changes in interest rates and in the volume of average interest-earning assets and interest-bearing liabilities have affected the Corporation's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate); (ii) changes attributable to changes in rates (changes in rates multiplied by prior volume); and (iii) the net changes. For purposes of this table, changes that are not due solely to volume or rate changes have been allocated to these categories based on the respective percentage changes in average volume and rate. Due to the numerous simultaneous volume and rate changes during the periods analyzed, it is not possible to precisely allocate changes between volume and rates. In addition, average earning assets include non-accrual loans and taxable equivalent adjustments were made.

TABLE 15. RATE/VOLUME ANALYSIS OF NET INTEREST INCOME

	2014 vs. 2013			2013 vs. 2012				
	Increase/(Decrease)			Increase/(Decrease)				
	Total Change	Due to Volume	Due to Rate	Total Change	Due to Volume	Due to Rate		
Interest income (in thousands)								
Commercial, agricultural and commercial mortgage loans	\$2,035	\$4,178	\$(2,143)	\$497	\$3,175	\$(2,678)		
Mortgage loans	(504)	(156)	(348)	(787)	202	(989)		
Consumer loans	463	1,708	(1,245)	162	1,651	(1,489)		
Taxable investment securities	654	1,134	(480)	(956)	(122)	(834)		
Tax-exempt investment securities	(190)	(87)	(103)	(229)	(243)	14		
Interest-bearing deposits	28	27	1	(117)	(79)	(38)		
Total interest income	\$2,486	\$6,804	\$(4,318)	\$(1,430)	\$4,584	\$(6,014)		
Interest expense (in thousands)								
Interest-bearing demand deposits			\$10	\$26	\$(16)	\$(4)	\$7	\$(11)
Savings and insured money market deposits			155	206	(51)	5	94	(89)
Time deposits			(472)	(34)	(438)	(832)	(218)	(614)
FHLB/NY advances, securities sold under agreements to repurchase and other debt			(80)	(339)	259	(371)	(34)	(337)
Total interest expense			(387)	(141)	(246)	(1,202)	(151)	(1,051)
Net interest income			\$2,873	\$6,945	\$(4,072)	\$(228)	\$4,735	\$(4,963)

ADOPTION OF NEW ACCOUNTING STANDARDS

There are no recently issued accounting standards that the Corporation feels will have a material impact on its consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Management considers interest rate risk to be the most significant market risk for the Corporation. Market risk is the risk of loss from adverse changes in market prices and rates. Interest rate risk is the exposure to adverse changes in the net income of the Corporation as a result of changes in interest rates.

The Corporation's primary earnings source is net interest income, which is affected by changes in the level of interest rates, the relationship between rates, the impact of interest rate fluctuations on asset prepayments, the level and composition of deposits and liabilities, and credit quality of earning assets.

The Corporation's objectives in its asset and liability management are to maintain a strong, stable net interest margin, to utilize its capital effectively without taking undue risks, to maintain adequate liquidity, and to reduce vulnerability of its operations to changes in interest rates. The Corporation's Asset/Liability Committee ("ALCO") has the strategic responsibility for setting the policy guidelines on acceptable exposure to interest rate risk. These guidelines contain specific measures and limits regarding the risks, which are monitored on a regular basis. The ALCO is made up of the president and chief executive officer, the chief financial officer, the asset liability management officer, and other officers representing key functions.

Interest rate risk is the risk that net interest income will fluctuate as a result of a change in interest rates. It is the assumption of interest rate risk, along with credit risk, that drives the net interest margin of a financial institution. For that reason, the ALCO has established tolerance limits based upon a 200-basis point change in interest rates, with appropriate floors set for interest-bearing liabilities. At December 31, 2014, it is estimated that an immediate 200-basis point decrease in interest rates would negatively impact the next 12 months net interest income by 9.45% and an immediate 200-basis point increase would negatively impact the next 12 months net interest income by 9.62%. Both are within the Corporation's policy guideline of 15%. Given the overall low level of current interest rates and the unlikely event of a 200-basis point decline from this point, management additionally modeled an immediate 100-basis point decline and an immediate 300-basis point increase in interest rates. When applied, it is estimated these scenarios would result in negative impacts to net interest income of 4.25% and 14.39%, respectively.

A related component of interest rate risk is the expectation that the market value of the Corporation's capital account will fluctuate with changes in interest rates. This component is a direct corollary to the earnings-impact component: an institution exposed to earnings erosion is also exposed to shrinkage in market value. At December 31, 2014, it is estimated that an immediate 200-basis point decrease in interest rates would negatively impact the market value of the Corporation's capital account by 7.29% and an immediate 200-basis point increase in interest rates would negatively impact the market value by 4.27%. Both are within the Corporation's policy guideline of 15%. Management also modeled the impact to the market value of the Corporation's capital with an immediate 100-basis point decline and an immediate 300-basis point increase in interest rates, based on the current interest rate environment. When applied, it is estimated these scenarios would result in negative impacts to the market value of the Corporation's capital of 3.99% and 6.61%, respectively.

Management does recognize the need for certain hedging strategies during periods of anticipated higher fluctuations in interest rates and the Funds Management Policy provides for limited use of certain derivatives in asset liability management. These strategies were not employed during 2014.

Credit Risk

The Corporation manages credit risk consistent with state and federal laws governing the making of loans through written policies and procedures; loan review to identify loan problems at the earliest possible time; collection procedures (continued even after a loan is charged off); an adequate allowance for loan losses; and continuing

education and training to ensure lending expertise. Diversification by loan product is maintained through offering commercial loans, 1-4 family mortgages, and a full range of consumer loans.

The Corporation monitors its loan portfolio carefully. The Loan Committee of the Corporation's Board of Directors is designated to receive required loan reports, oversee loan policy, and approve loans above authorized individual and Senior Loan Committee lending limits. The Senior Loan Committee, consisting of the President and Chief Executive Officer, Chief Administrative and Risk Officer (non-voting member), business client division manager, retail client division manager, commercial loan manager, consumer loan manager, mortgage loan manager, and the President and commercial loan manager of the Capital Bank division, implements the Board-approved loan policy.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements listed in Part III, Item 15 are filed as part of this report and appear on pages F-1 through F-55.

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

The Corporation's management, with the participation of our President and Chief Executive Officer, who is the Corporation's principal executive officer, and our Treasurer and Chief Financial Officer, who is the Corporation's principal financial officer, has evaluated the effectiveness of the Corporation's disclosure controls and procedures as of December 31, 2014. Based upon that evaluation, the President and Chief Executive Officer and the Treasurer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures are effective as of December 31, 2014.

(b) Management's Report on Internal Control over Financial Reporting

We, as members of management of the Corporation, are responsible for establishing and maintaining adequate internal control over financial reporting. The Corporation's internal control over financial reporting is a process designed to provide reasonable assurance to the Corporation's management and Board of Directors regarding the reliability of financial reporting and the preparation of the Corporation's financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Corporation's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As of December 31, 2014 management assessed the effectiveness of the Corporation's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in the "1992 Internal Control-Integrated Framework," issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on the assessment, we assert that the Corporation maintained effective internal control over financial reporting as of December 31, 2014 based on the specified criteria.

Crowe Horwath LLP, an independent registered public accounting firm, which audited the Corporation's 2014 consolidated financial statements included in the Annual Report, has issued an audit report on the effectiveness of the Corporation's internal control over financial reporting.

(c) Changes in Internal Control over Financial Reporting

During year ended December 31, 2014, we implemented internal control procedures to address a previously identified material weakness related to the identification of troubled debt restructurings. These internal controls included the creation of a formal tracking process of all extension, renewal, modification, or consolidation/refinance loans, which is completed on a quarterly basis, to ensure all troubled debt restructurings are properly identified, strengthening our procedures of troubled debt restructurings, and providing additional training to our loan underwriting and credit administration functions. After completing our testing of the design and operating effectiveness of these new procedures, we concluded that we have remediated the previously identified material weakness as of December 31, 2014.

During the fourth quarter, except for the items described above, there have been no changes in the Corporation's internal control over financial reporting that have materially affected, or that are reasonably likely to material affect, the Corporation's internal control over financial reporting.

/s/ Ronald M.

Bentley

Krebs

Ronald M. Bentley

President and Chief Executive Officer

March 13, 2015

Karl F. Krebs

Chief Financial Officer and Treasurer

March 13, 2015

/s/ Karl F.

Item 9B.

OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information responsive to this Item 10 is incorporated herein by reference to the Corporation's definitive proxy statement for its 2015 Annual Meeting of Shareholders, which will be filed with the SEC within 120 days after the Corporation's 2014 fiscal year end.

ITEM 11. EXECUTIVE COMPENSATION

Information responsive to this Item 11 is incorporated herein by reference to the Corporation's definitive proxy statement for its 2015 Annual Meeting of Shareholders, which will be filed with the SEC within 120 days after the Corporation's 2014 fiscal year end.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT, AND RELATED STOCKHOLDER MATTERS

Information responsive to this Item 12 is incorporated herein by reference to the Corporation's definitive proxy statement for its 2015 Annual Meeting of Shareholders, which will be filed with the SEC within 120 days after the Corporation's 2014 fiscal year end.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information responsive to this Item 13 is incorporated herein by reference to the Corporation's definitive proxy statement for its 2015 Annual Meeting of Shareholders, which will be filed with the SEC within 120 days after the Corporation's 2014 fiscal year end.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information responsive to this Item 14 is incorporated herein by reference to the Corporation's definitive proxy statement for its 2015 Annual Meeting of Shareholders, which will be filed with the SEC within 120 days after the Corporation's 2014 fiscal year end.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following consolidated financial statements of the Corporation appear on pages F-1 through F-55 of this (1) report and are incorporated in Part II, Item 8:

Report of Independent Registered Public Accounting Firm-Crowe Horwath LLP

Consolidated Financial Statements

Consolidated Balance Sheets as of December 31, 2014 and 2013

Consolidated Statements of Income for the three years ended December 31, 2014

Consolidated Statements of Comprehensive Income for the three years ended December 31, 2014

Consolidated Statements of Shareholders' Equity for the three years ended December 31, 2014

Consolidated Statements of Cash Flows for the three years ended December 31, 2014

Notes to Consolidated Financial Statements

Financial statement schedules have been omitted because they are not applicable or the required information is (2) shown in the Consolidated Financial Statements or the Notes thereto under Item 8, "Financial Statements and Supplementary Data".

(b) The following exhibits are either filed with this Form 10-K or are incorporated herein by reference. The Corporation's Securities Exchange Act file number is 000-13888.

Exhibit

- 10.4 Change of Control Agreement dated August 23, 2007 between Chemung Canal Trust Company and Melinda A. Sartori, Executive Vice President. (Filed as Exhibit 10.9 to Registrant's Form 10-K filed with the SEC on March 13, 2008 and incorporated herein by reference).
- 10.5 Change of Control Agreement dated January 19, 2011 between Chemung Canal Trust Company and Richard G. Carr, Executive Vice President. (Filed as Exhibit 10.11 to Registrant's Form 10-K filed with the SEC on March 16, 2011 and incorporated herein by reference).
- 10.6 Change of Control Agreement dated January 19, 2011 between Chemung Canal Trust Company and Louis C. DiFabio, Executive Vice President. (Filed as Exhibit 10.12 to Registrant's Form 10-K filed with the SEC on March 16, 2011 and incorporated herein by reference).
- 10.7 Change of Control Agreement dated April 8, 2011 between Chemung Canal Trust Company and Anders M. Tomson, President Capital Bank Division. (Filed as Exhibit 10.14 to Registrant's Form 10-Q filed with the SEC on May 13, 2011 and incorporated herein by reference).
- 10.8 Change of Control Agreement dated November 7, 2011 between Chemung Canal Trust Company and Karen R. Makowski, Executive Vice President and Chief Administration and Risk Officer. (Filed as Exhibit 10.16 to Registrant's Form 10-K on March 28, 2012 and incorporated herein by reference).
- 10.9 Change of Control Agreement dated October 16, 2013 between Chemung Canal Trust Company and Karl F. Krebs, Executive Vice President and Chief Financial Officer. (Filed as Exhibit 10.1 to Registrant's Form 8-K filed with the SEC on October 17, 2013 and incorporated herein by reference).
- 21 Subsidiaries of the Registrant.*
- 23 Consent of Crowe Horwath LLP, Independent Registered Public Accounting Firm.*
- 31.1 Certification of President Chief Executive Officer of the Registrant pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.*
- 31.2 Certification of Treasurer and Chief Financial Officer of the Registrant pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.*
- 32.1 Certification of President and Chief Executive Officer of the Registrant pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 19 U.S.C. §1350.*
- 32.2 Certification of Treasurer and Chief Financial Officer of the Registrant pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 19 U.S.C. §1350.*
- 101.INS Instance Document
- 101.SCH XBRL Taxonomy Schema*
- 101.CALXBRL Taxonomy Calculation Linkbase*
- 101.DEF XBRL Taxonomy Definition Linkbase*
- 101.LAB XBRL Taxonomy Label Linkbase*
- 101.PRE XBRL Taxonomy Presentation Linkbase*

* Filed herewith.

CHEMUNG FINANCIAL CORPORATION

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Chemung Financial Corporation
Elmira, New York

We have audited the accompanying consolidated balance sheets of Chemung Financial Corporation as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income (loss), shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2014. We also have audited Chemung Financial Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in the 1992 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Chemung Financial Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting as disclosed in Item 9A. Our responsibility is to express an opinion on these financial statements and an opinion on Chemung Financial Corporation's internal control over financial reporting 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chemung Financial Corporation as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Chemung Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of

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December 31, 2014 based on criteria established in the 1992 Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Crowe Horwath LLP

Livingston, New Jersey

March 13, 2015

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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share and per share amounts)	YEARS ENDED	
	2014	2013
ASSETS		
Cash and due from financial institutions	\$28,130	\$31,600
Interest-bearing deposits in other financial institutions	1,033	20,009
Total cash and cash equivalents	29,163	51,609
Trading assets, at fair value	549	366
Securities available for sale, at estimated fair value	280,507	346,016
Securities held to maturity, estimated fair value of \$6,197 at December 31, 2014 and \$6,930 at December 31, 2013	5,831	6,495
Federal Home Loan Bank and Federal Reserve Bank Stock, at cost	5,535	4,482
Loans, net of deferred loan fees	1,121,574	995,866
Allowance for loan losses	(13,686)	(12,776)
Loans, net	1,107,888	983,090
Loans held for sale	665	695
Premises and equipment, net	32,287	30,039
Goodwill	21,824	21,824
Other intangible assets, net	5,067	6,377
Bank owned life insurance	2,764	2,796
Accrued interest and other assets	32,459	22,354
Total assets	\$1,524,539	\$1,476,143
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	\$366,298	\$351,222
Interest-bearing	913,716	915,034
Total deposits	1,280,014	1,266,256
Federal Home Loan Bank overnight advances	30,830	-
Securities sold under agreements to repurchase	29,652	32,701
Federal Home Loan Bank term advances	19,310	25,243
Long term capital lease obligation	2,976	-
Dividends payable	1,204	1,195
Accrued interest payable and other liabilities	26,925	12,170
Total liabilities	1,390,911	1,337,565
Shareholders' equity:		
Common stock, \$.01 par value per share, 10,000,000 shares authorized; 5,310,076 issued at December 31, 2014 and December 31, 2013	53	53
Additional-paid-in capital	45,355	45,399
Retained earnings	114,383	111,031
Treasury stock, at cost (680,948 shares at December 31, 2014; 707,674	(17,378)	(18,060)

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shares at December 31, 2013)		
Accumulated other comprehensive income (loss)	(8,785)	155
Total shareholders' equity	133,628	138,578
Total liabilities and shareholders' equity	\$1,524,539	\$1,476,143

See accompanying notes to consolidated financial statements.

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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	YEARS ENDED		
	DECEMBER 31		
(amounts in thousands, except per share amounts)	2014	2013	2012
Interest and Dividend Income:			
Loans, including fees	\$		