

CHEMUNG FINANCIAL CORP
Form 10-Q
August 07, 2015
UNITED STATES SECURITIES
AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-Q
QUARTERLY REPORT
PURSUANT TO SECTION 13
 OR 15(d) OF THE
SECURITIES EXCHANGE
ACT OF 1934

For Quarterly period ended June 30,
2015

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

Commission File No. 0-13888

CHEMUNG FINANCIAL
CORPORATION
(Exact name of registrant as
specified in its charter)

New York 16-1237038
(State or other I.R.S.
jurisdiction of Employer
incorporation or Identification
organization) No.

One Chemung Canal
Plaza, P.O. Box 14902
1522, Elmira, NY
(Address of principal (Zip Code)
executive offices)

(607) 737-3711 or (800) 836-3711
(Registrant's telephone number,
including area code)

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: X 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: X NO: _____

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

| | | |
|-------------------------|---------------------------|-----|
| Large accelerated filer | Non-accelerated filer | [] |
| Accelerated filer [X] | Smaller reporting company | [] |

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

YES: NO: X

The number of shares of the registrant's common stock, \$.01 par value, outstanding on August 6, 2015 was 4,656,052.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIESINDEX

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GLOSSARY OF ABBREVIATIONS AND TERMS

To assist the reader the Corporation has provided the following list of commonly used abbreviations and terms included in the Notes to the Unaudited Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Abbreviations

| | |
|----------------|---|
| ALCO | Asset-Liability Committee |
| ASU | Accounting Standards Update |
| Bank | Chemung Canal Trust Company |
| CDARS | Certificate of Deposit Account Registry Service |
| CDO | Collateralized Debt Obligation |
| CFS | CFS Group, Inc. |
| Corporation | Chemung Financial Corporation |
| Dodd-Frank Act | The Dodd-Frank Wall Street Reform and Consumer Protection Act |
| EPS | Earnings per share |
| FASB | Financial Accounting Standards Board |
| FDIC | Federal Deposit Insurance Corporation |
| FHLBNY | Federal Home Loan Bank New York |
| FRB | Board of Governors of the Federal Reserve System |
| FRBNY | Federal Reserve Bank of New York |
| Freddie Mac | Federal Home Loan Mortgage Corporation |
| GAAP | U.S. Generally Accepted Accounting Principles |
| ICS | Insured Cash Sweep Service |
| MD&A | Management's Discussion and Analysis of Financial Condition and Results of Operations |
| NAICS | North American Industry Classification System |
| OPEB | Other postemployment benefits |
| OREO | Other real estate owned |
| OTTI | Other-than-temporary impairment |
| PCI | Purchased credit impaired |
| ROA | Return on average assets |
| ROE | Return on average equity |
| RWA | Risk-weighted assets |
| SBA | Small Business Administration |
| SEC | Securities and Exchange Commission |
| TDRs | Troubled debt restructurings |
| WMG | Wealth Management Group |

Terms

| | |
|--|---|
| Allowance for loan losses to total loans | Represents period-end allowance for loan losses divided by retained loans. |
| Assets under administration | Represents assets that are beneficially owned by clients and all investment decisions pertaining to these assets are also made by clients. |
| Assets under management | Represents assets that are managed on behalf of clients. |
| Basel III | A comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. |
| Benefit obligation | |

Refers to the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for OPEB plans.

Capital Bank

Division of Chemung Canal Trust Company located in the “Capital Region” of New York State and includes the counties of Albany and Saratoga.

CDARS

Program involving a network of financial institutions that exchange certificates of deposits 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.

| | |
|---|---|
| Collateralized debt obligation | A structured financial product that pools together cash flow-generating assets, such as mortgages, bonds, and loans. |
| Collateralized mortgage obligations | A type of mortgage-backed security with principal repayments organized according to their maturities and into different classes based on risk. The mortgages serve as collateral and are organized into classes based on their risk profile. |
| Dodd-Frank Act | The Dodd-Frank Act was enacted on July 21, 2010 and 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. |
| Fully taxable equivalent basis | Income from tax-exempt loans and investment securities that have been increased by an amount equivalent to the taxes that would have been paid if this income were taxable at statutory rates; the corresponding income tax impact related to tax-exempt items is recorded within income tax expense. |
| GAAP | Accounting principles generally accepted in the United States of America. |
| Holding company and other | Consists of the operations for Chemung Financial Corporation (parent only) and CFS. |
| ICS | Program involving a network of financial institutions that exchange interest-bearing money market deposits 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. |
| Loans held for sale | Residential real estate loans originated for sale on the secondary market with maturities from 15-30 years. |
| Mortgage-backed securities | A type of asset-backed security that is secured by a collection of mortgages. |
| Municipal clients | A political unit, such as a city, town, or village, incorporated for local self-government. |
| N/A | Data is not applicable or available for the period presented. |
| N/M | Not meaningful. |
| Non-GAAP | A calculation not made according to GAAP. |
| Obligations of state and political subdivisions | An obligation that is guaranteed by the full faith and credit of a state or political subdivision that has the power to tax. |
| Obligations of U.S. Government | A federally guaranteed obligation backed by the full power of the U.S. government, including Treasury bills, Treasury notes and Treasury bonds. |
| Obligations of U.S. Government sponsored enterprise obligations | Obligations of agencies originally established or chartered by the U.S. government to serve public purposes as specified by the U.S. Congress; these obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government. |
| Other real estate owned | Represents real property owned by the Corporation, which is not directly related to its business and is most frequently the result of a foreclosure on real property. |
| OTTI | Impairment charge taken on a security whose fair value has fallen below the carrying value on the balance sheet and whose value is not expected to recover through the holding period of the security. |
| PCI loans | Represents loans that were acquired in the Fort Orange Financial Corp. transaction and deemed to be credit-impaired on the acquisition date in accordance with the guidance of FASB. |

| | |
|--|---|
| Political subdivision | A county, city, town, or other municipal corporation, a public authority, or a publicly-owned entity that is an instrumentality of a state or a municipal corporation. |
| Pre-provision profit/(loss) | Represents total net revenue less noninterest expense. The Corporation believes that this financial measure is useful in assessing the ability of a bank to generate income in excess of its provision for credit losses. |
| RWA | Risk-weighted assets consist of on- and off-balance sheet assets that are assigned to one of several broad risk categories and weighted by factors representing their risk and potential for default. On-balance sheet assets are risk-weighted based on the perceived credit risk associated with the obligor or counterparty, the nature of any collateral, and the guarantor, if any. Off-balance sheet assets such as lending-related commitments, guarantees, derivatives and other applicable off-balance sheet positions are risk-weighted by multiplying the contractual amount by the appropriate credit conversion factor to determine the on-balance sheet credit equivalent amount, which is then risk-weighted based on the same factors used for on-balance sheet assets. Risk-weighted assets also incorporate a measure for market risk related to applicable trading assets-debt and equity instruments. The resulting risk-weighted values for each of the risk categories are then aggregated to determine total risk-weighted assets. |
| SBA loan pools | Business loans partially guaranteed by the SBA |
| Securities sold under agreements to repurchase | Sale of securities together with an agreement for the seller to buy back the securities at a later date. |
| TDR | A TDR is deemed to occur when the Corporation modifies the original terms of a loan agreement by granting a concession to a borrower that is experiencing financial difficulty. |
| Trust preferred securities | A hybrid security with characteristics of both subordinated debt and preferred stock which allows for early redemption by the issuer, makes fixed or variable payments, and matures at face value. |
| Unaudited | Financial statements and information that have not been subjected to auditing procedures sufficient to permit an independent certified public accountant to express an opinion. |
| Wealth Management Group | Provides 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, financial planning, pension, estate planning and employee benefit administration services. |

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
UNAUDITED

| (in thousands, except share and per share data) | June 30, 2015 | December 31, 2014 |
|--|------------------|-------------------------|
| ASSETS | | |
| Cash and due from financial institutions | \$28,014 | \$28,130 |
| Interest-bearing deposits in other financial institutions | 1,650 | 1,033 |
| Total cash and cash equivalents | 29,664 | 29,163 |
| Trading assets, at fair value | 635 | 549 |
| Securities available for sale, at estimated fair value | 290,571 | 280,507 |
| Securities held to maturity, estimated fair value of \$6,351 at June 30, 2015 and \$6,197 at December 31, 2014 | 6,045 | 5,831 |
| FHLB NY and FRB NY Stock, at cost | 4,873 | 5,535 |
| Loans, net of deferred loan fees | 1,150,406 | 1,121,574 |
| Allowance for loan losses | (14,028) | (13,686) |
| Loans, net | 1,136,378 | 1,107,888 |
| Loans held for sale | 668 | 665 |
| Premises and equipment, net | 30,874 | 32,287 |
| Goodwill | 21,824 | 21,824 |
| Other intangible assets, net | 4,478 | 5,067 |
| Bank owned life insurance | 2,801 | 2,764 |
| Accrued interest receivable and other assets | 24,822 | 32,459 |
| Total assets | \$1,553,633 | \$1,524,539 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits: | | |
| Non-interest-bearing | \$385,467 | \$366,298 |
| Interest-bearing | 946,510 | 913,716 |
| Total deposits | 1,331,977 | 1,280,014 |
| FHLB NY overnight advances | 15,600 | 30,830 |
| Securities sold under agreements to repurchase | 31,882 | 29,652 |
| FHLB NY term advances | 19,256 | 19,310 |
| Long term capital lease obligation | 2,945 | 2,976 |
| Dividends payable | 1,210 | 1,204 |
| Accrued interest payable and other liabilities | 14,243 | 26,925 |
| Total liabilities | 1,417,113 | 1,390,911 |
| Shareholders' equity: | | |
| Common stock, \$0.01 par value per share, 10,000,000 shares authorized; 5,310,076 issued at June 30, 2015 and December 31, 2014 | 53 | 53 |
| Additional-paid-in-capital | 45,468 | 45,355 |
| Retained earnings | 116,817 | 114,383 |

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| | | |
|--|-------------|-------------|
| Treasury stock, at cost (654,560 shares at June 30, 2015; 680,948 shares at December 31, 2014) | (16,704) | (17,378) |
| Accumulated other comprehensive loss | (9,114) | (8,785) |
| Total shareholders' equity | 136,520 | 133,628 |
| | | |
| Total liabilities and shareholders' equity | \$1,553,633 | \$1,524,539 |

See accompanying notes to unaudited consolidated financial statements.

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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

| (in thousands, except per share data) | Three Months | | Six Months Ended | |
|--|---------------------------|----------|------------------|----------|
| | Ended June 30, 2015 | 2014 | June 30, 2015 | 2014 |
| Interest and dividend income: | | | | |
| Loans, including fees | \$12,096 | \$11,449 | \$23,999 | \$22,617 |
| Taxable securities | 1,164 | 1,264 | 2,253 | 2,768 |
| Tax exempt securities | 239 | 258 | 458 | 522 |
| Interest-bearing deposits | 20 | 25 | 43 | 43 |
| Total interest and dividend income | 13,519 | 12,996 | 26,753 | 25,950 |
| Interest expense | | | | |
| Deposits | 492 | 517 | 978 | 1,040 |
| Securities sold under agreements to repurchase | 212 | 212 | 421 | 420 |
| Borrowed funds | 168 | 192 | 365 | 382 |
| Total interest expense | 872 | 921 | 1,764 | 1,842 |
| Net interest income | 12,647 | 12,075 | 24,989 | 24,108 |
| Provision for loan losses | 259 | 1,103 | 649 | 1,741 |
| Net interest income after provision for loan losses | 12,388 | 10,972 | 24,340 | 22,367 |
| Non-interest income: | | | | |
| WMG fee income | 2,198 | 1,989 | 4,324 | 3,872 |
| Service charges on deposit accounts | 1,224 | 1,350 | 2,362 | 2,582 |
| Net gains on securities transactions | 252 | 522 | 302 | 522 |
| Net gains on sales of loans held for sale | 98 | 83 | 150 | 125 |
| Net gains (losses) on sales of other real estate owned | 42 | (14) | 120 | (44) |
| Income from bank owned life insurance | 19 | 19 | 37 | 39 |
| Other | 1,493 | 1,457 | 3,217 | 3,274 |
| Total non-interest income | 5,326 | 5,406 | 10,512 | 10,370 |
| Non-interest expense: | | | | |
| Salaries and wages | 5,188 | 5,156 | 10,288 | 10,309 |
| Pension and other employee benefits | 1,557 | 1,479 | 3,286 | 2,838 |
| Net occupancy expenses | 1,757 | 1,659 | 3,607 | 3,452 |
| Furniture and equipment expenses | 789 | 715 | 1,522 | 1,345 |
| Data processing expense | 1,552 | 1,414 | 3,113 | 2,895 |
| Professional services | 420 | 421 | 689 | 643 |
| Amortization of intangible assets | 285 | 324 | 589 | 669 |
| Marketing and advertising expenses | 271 | 332 | 506 | 625 |
| Other real estate owned expenses | 224 | 45 | 308 | 132 |
| FDIC insurance | 280 | 274 | 566 | 543 |
| Loan expense | 175 | 146 | 315 | 295 |
| Merger and acquisition related expenses | - | 29 | - | 115 |
| Other | 1,325 | 1,585 | 2,770 | 3,062 |
| Total non-interest expenses | 13,823 | 13,579 | 27,559 | 26,923 |
| Income before income tax expense | 3,891 | 2,799 | 7,293 | 5,814 |
| Income tax expense | | | | |