

CHEMUNG FINANCIAL CORP
Form 10-Q
May 08, 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 March
31, 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 May 7, 2015 was 4,650,073.

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	Represents revenue from investments that receive tax credits and tax-exempt securities are presented on a basis comparable to taxable investments and securities; the corresponding income tax impact related to tax-exempt items is recorded within income tax expense.
GAAP Holding company and other	Accounting principles generally accepted in the United States of America.
ICS	Consists of the operations for Chemung Financial Corporation (parent only) and CFS. 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 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. 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.
RWA	
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)	March 31, 2015	December 31, 2014
ASSETS		
Cash and due from financial institutions	\$29,643	\$28,130
Interest-bearing deposits in other financial institutions	55,230	1,033
Total cash and cash equivalents	84,873	29,163
Trading assets, at fair value	601	549
Securities available for sale, at estimated fair value	266,307	280,507
Securities held to maturity, estimated fair value of \$6,076 at March 31, 2015 and \$6,197 at December 31, 2014	5,693	5,831
FHLBNY and FRBNY Stock, at cost	4,148	5,535
Loans, net of deferred loan fees	1,143,572	1,121,574
Allowance for loan losses	(13,892)	(13,686)
Loans, net	1,129,680	1,107,888
Loans held for sale	628	665
Premises and equipment, net	31,548	32,287
Goodwill	21,824	21,824
Other intangible assets, net	4,763	5,067
Bank owned life insurance	2,782	2,764
Accrued interest receivable and other assets	31,925	32,459
Total assets	\$1,584,772	\$1,524,539
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	\$376,773	\$366,298
Interest-bearing	991,357	913,716
Total deposits	1,368,130	1,280,014
FHLBNY overnight advances	-	30,830
Securities sold under agreements to repurchase	31,084	29,652
FHLBNY term advances	19,283	19,310
Long term capital lease obligation	2,976	2,976
Dividends payable	1,209	1,204
Accrued interest payable and other liabilities	25,797	26,925
Total liabilities	1,448,479	1,390,911
Shareholders' equity:		
Common stock, \$0.01 par value per share, 10,000,000 shares authorized; 5,310,076 issued at March 31, 2015 and December 31, 2014	53	53
Additional-paid-in-capital	45,477	45,355
Retained earnings	115,450	114,383

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Treasury stock, at cost (662,244 shares at March 31, 2015; 680,948 shares at December 31, 2014)	(16,900)	(17,378)
Accumulated other comprehensive loss	(7,787)	(8,785)
Total shareholders' equity	136,293	133,628
Total liabilities and shareholders' equity	\$1,584,772	\$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)

	THREE MONTHS ENDED MARCH 31,	
(in thousands, except per share data)	2015	2014
Interest and dividend income:		
Loans, including fees	\$11,903	\$11,168
Taxable securities	1,089	1,503
Tax exempt securities	219	264
Interest-bearing deposits	23	19
Total interest and dividend income	13,234	12,954
Interest expense		
Deposits	486	522
Securities sold under agreements to repurchase	209	209
Borrowed funds	197	190
Total interest expense	892	921
Net interest income	12,342	12,033
Provision for loan losses	390	639
Net interest income after provision for loan losses	11,952	11,394
Other non-interest income:		
WMG fee income	2,126	1,883
Service charges on deposit accounts	1,138	1,232
Net gain on security transactions	50	-
Net gain on sales of loans held for sale	52	41
Net gains (losses) on sales of other real estate owned	78	(30)
Income from bank owned life insurance	18	19
Other	1,724	1,819
Total other non-interest income	5,186	4,964
Other non-interest expense:		
Salaries and wages	5,100	5,153
Pension and other employee benefits	1,729	1,359
Net occupancy expenses	1,850	1,793
Furniture and equipment expenses	733	630
Data processing expense	1,561	1,481
Professional services	269	222
Amortization of intangible assets	304	344
Marketing and advertising expenses	235	293
Other real estate owned expenses	84	87
FDIC insurance	286	269
Loan expense	140	149
Merger and acquisition related expenses	-	86
Other	1,445	1,477
Total other non-interest expenses	13,736	13,343
Income before income tax expense	3,402	3,015
Income tax expense	1,126	951
Net income	\$2,276	\$2,064

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Weighted average shares outstanding	4,707	4,677
Basic and diluted earnings per share	\$0.48	\$0.44

See accompanying notes to unaudited consolidated financial statements.

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

(in thousands)	Three Months Ended March 31,	
	2015	2014
Net income	\$2,276	\$2,064
Other comprehensive income:		
Unrealized holding gains on securities available for sale	1,265	884
Reclassification adjustment for gains realized in net income	(50)	-
Net unrealized gains	1,215	884
Tax effect	441	340
Net of tax amount	774	544
Change in funded status of defined benefit pension plan and other benefit plans:		
Net gain (loss) arising during the period	-	-
Reclassification adjustment for amortization of prior service costs	(22)	(22)
Reclassification adjustment for amortization of net actuarial loss	383	165
Total before tax effect	361	143
Tax effect	137	55
Net of tax amount	224	88
Total other comprehensive income	998	632
Comprehensive income	\$3,274	\$2,696

See accompanying notes to consolidated financial statements.

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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
(in thousands, except share data)						
Balances at January 1, 2014	\$ 53	\$ 45,399	\$ 111,031	\$(18,060)	\$ 155	\$ 138,578
Net income	-	-	2,064	-	-	2,064
Other comprehensive income	-	-	-	-	632	632
Restricted stock awards	-	36	-	-	-	36
Restricted stock units for directors' deferred compensation plan	-	23	-	-	-	23
Cash dividends declared (\$0.26 per share)	-	-	(1,200)	-	-	(1,200)
Distribution of 8,385 shares of treasury stock for directors' compensation	-	59	-	214	-	273
Distribution of 990 shares of treasury stock for employee restricted stock awards, net	-	(26)	-	26	-	-
Distribution of 3,595 shares of treasury stock for employee compensation	-	25	-	92	-	117
Balances at March 31, 2014	\$ 53	\$ 45,516	\$ 111,895	\$(17,728)	\$ 787	\$ 140,523
Balances at January 1, 2015	\$ 53	\$ 45,355	\$ 114,383	\$(17,378)	\$(8,785)	\$ 133,628
Net income	-	-	2,276	-	-	2,276
Other comprehensive income	-	-	-	-	998	998
Restricted stock awards	-	52	-	-	-	52
Restricted stock units for directors' deferred compensation plan	-	25	-	-	-	25
Cash dividends declared (\$0.26 per share)	-	-	(1,209)	-	-	(1,209)
Distribution of 9,673 shares of treasury stock for directors' compensation	-	24	-	247	-	271
Distribution of 3,303 shares of treasury stock for employee compensation	-	8	-	85	-	93
Sale of 5,728 shares of treasury stock	-	13	-	146	-	159
Balances at March 31, 2015	\$ 53	\$ 45,477	\$ 115,450	\$(16,900)	\$(7,787)	\$ 136,293

See accompanying notes to unaudited consolidated financial statements.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2015	2014
(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$2,276	\$2,064
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	304	344
Provision for loan losses	390	639
Gain on disposal of fixed assets	(9)	(7)
Depreciation and amortization of fixed assets	1,024	886
Amortization of premiums on securities, net	549	614
Gains on sales of loans held for sale, net	(52)	(41)
Proceeds from sales of loans held for sale	2,341	1,804
Loans originated and held for sale	(2,252)	(1,143)
Net gains on trading assets	(10)	(12)
Net gains on securities transactions	(50)	-
Net (gains) losses on sales of other real estate owned	(78)	30
Purchase of trading assets	(42)	(35)
(Increase) decrease in other assets	(25)	1,354
Decrease in accrued interest payable	(12)	(46)
Expense related to restricted stock units for directors' deferred compensation plan	25	23
Expense related to employee stock compensation	93	117
Expense related to employee stock awards	52	36
Decrease in other liabilities	(1,062)	(4,021)
Income from bank owned life insurance	(18)	(19)
Net cash provided by operating activities	3,444	2,587
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and calls of securities available for sale	5,751	5,000
Proceeds from maturities and principal collected on securities available for sale	9,165	5,027
Proceeds from maturities and principal collected on securities held to maturity	598	630
Purchases of securities available for sale	-	(875)
Purchases of securities held to maturity	(460)	(261)
Purchase of FHLB NY and FRB NY stock	(2,391)	-
Redemption of FHLB NY and FRB NY stock	3,778	-
Proceeds from sale of equipment	9	7
Purchases of premises and equipment	(285)	(198)
Proceeds from sales of other real estate owned	647	249
Net increase in loans	(22,192)	(28,958)
Net cash used by investing activities	(5,380)	(19,379)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, interest-bearing demand accounts, savings accounts, and insured money market accounts	112,008	34,257
Net decrease in time deposits	(23,892)	(8,623)
Net increase (decrease) in securities sold under agreements to repurchase	1,432	(2,055)
Repayments of FHLB NY long term advances	(27)	(54)
Repayments of FHLB NY overnight advances, net	(30,830)	-

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Sale of treasury stock	159	-
Cash dividends paid	(1,204)	(1,194)
Net cash provided by financing activities	57,646	22,331
Net increase in cash and cash equivalents	55,710	5,539
Cash and cash equivalents, beginning of period	29,163	51,609
Cash and cash equivalents, end of period	\$84,873	\$57,148

See accompanying notes to unaudited consolidated financial statements.

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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
 (UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2015	2014
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	\$904	\$967
Income taxes	\$1,546	\$68
Supplemental disclosure of non-cash activity:		
Transfer of loans to other real estate owned	\$10	\$-
Dividends declared, not yet paid	\$1,209	\$1,200

See accompanying notes to unaudited consolidated financial statements.

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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Corporation, through its wholly owned subsidiaries, the Bank and CFS, provides a wide range of banking, financing, fiduciary and other financial services to its clients. The Corporation and the Bank are subject to the regulations of certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. These financial statements include the accounts of the Corporation and its subsidiaries, and all significant intercompany balances and transactions are eliminated in consolidation. Amounts in the prior periods' consolidated financial statements are reclassified whenever necessary to conform to the current period's presentation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and disclosures provided, and actual results could differ. In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures necessary for the fair presentation of the accompanying consolidated financial statements have been included.

Subsequent Events

The Corporation has evaluated events and transactions through the time the unaudited consolidated financial statements were issued. Financial statements are considered issued when they are widely distributed to all shareholders and other financial statement users, or filed with the SEC. In conjunction with applicable accounting standards, all material subsequent events have been either recognized in the unaudited consolidated financial statements or disclosed in the notes to the unaudited consolidated financial statements.

Recent Account Pronouncements

In January 2014, the FASB issued ASU 2014-04, an amendment to Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40), Reclassification of Collateralized Mortgage Loans upon a Troubled Debt Restructuring. The objective of this ASU is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, such that all or a portion of the loan should be derecognized and the real estate property recognized. The main provisions would also require additional disclosures regarding the amount of foreclosed residential real estate property held by the creditor and the recorded investments of consumer mortgage loans that are in the process of foreclosure at each interim and annual reporting period. This ASU became effective for the Corporation in fiscal years and interim periods within those years, beginning after December 15, 2014. The Corporation has adopted this guidance for the reporting periods after December 15, 2014 and did not have a material impact on its financial statements.

In May 2014, the FASB issued ASU 2014-09, an amendment to Revenue from Contracts with Customers (Topic 606). The objective of the ASU is to align the recognition of revenue with the transfer of promised goods or services

provided to customers in an amount that reflects the consideration which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for annual reported period beginning after December 15, 2016, including interim periods within that reporting period. The standard allows an entity to apply the amendments in the ASU using either the retrospective or cumulative effect transition method. The Corporation is evaluating the potential impact on the Corporation's financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. Under ASU 2015-03 the Corporation will present debt issuance costs in the balance sheet as a reduction from the related debt liability rather than as an asset. Amortization of such costs will continue to be reported as interest expense. ASU 2015-03 will be effective for the Corporation beginning January 1, 2016, though early adoption is permitted. Retrospective adoption is required. The Corporation is evaluating the potential impact on the Corporation's financial statements.

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NOTE 2

EARNING PER COMMON SHARE (shares in thousands)

Basic earnings per share is net income divided by the weighted average number of common shares outstanding during the period. Issuable shares, including those related to directors' restricted stock units and directors' stock compensation, are considered outstanding and are included in the computation of basic earnings per share. All outstanding unvested share based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Restricted stock awards are grants of participating securities and are considered outstanding at grant date. Earnings per share information is adjusted to present comparative results for stock splits and stock dividends that occur. Earnings per share were computed by dividing net income by 4,707 and 4,677 weighted average shares outstanding for the three-month periods ended March 31, 2015 and 2014, respectively. There were no dilutive common stock equivalents during the three-month periods ended March 31, 2015 or 2014.

NOTE 3

SECURITIES

Amortized cost and estimated fair value of securities available for sale are as follows (in thousands):

	March 31, 2015			Estimated
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Obligations of U.S. Government and U.S.				
Government sponsored enterprises	\$168,426	\$ 2,021	\$ -	\$170,447
Mortgage-backed securities, residential	57,951	1,231	-	59,182
Collateralized mortgage obligations	229	2	-	231
Obligations of states and political subdivisions	30,356	808	12	31,152
Corporate bonds and notes	1,500	28	-	1,528
SBA loan pools	1,253	10	3	1,260
Trust Preferred securities	1,908	116	-	2,024
Corporate stocks	285	198	-	483
Total	\$261,908	\$ 4,414	\$ 15	\$266,307

	December 31, 2014			Estimated
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Obligations of U.S. Government and U.S.				
Government sponsored enterprises	\$180,535	\$ 1,300	\$ 162	\$181,673
Mortgage-backed securities, residential	60,787	892	19	61,660
Collateralized mortgage obligations	335	3	-	338
Obligations of states and political subdivisions	30,677	802	28	31,451
Corporate bonds and notes	1,502	35	4	1,533
SBA loan pools	1,296	11	3	1,304
Trust preferred securities	1,906	122	-	2,028
Corporate stocks	285	235	-	520
Total	\$277,323	\$ 3,400	\$ 216	\$280,507

Amortized cost and estimated fair value of securities held to maturity are as follows (in thousands):

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March 31, 2015

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of states and political subdivisions	\$5,253	\$ 379	\$ -	\$ 5,632
Time deposits with other financial institutions	440	4	-	444
Total	\$5,693	\$ 383	\$ -	\$ 6,076

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	December 31, 2014			Estimated
	Amortized	Unrealized	Unrealized	Fair
	Cost	Gains	Losses	Value
Obligations of states and political subdivisions	\$5,175	\$ 360	\$ -	\$ 5,535
Time deposits with other financial institutions	656	6	-	662
Total	\$5,831	\$ 366	\$ -	\$ 6,197

The amortized cost and estimated fair value of debt securities are shown below by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately (in thousands):

	March 31, 2015			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	\$33,780	\$34,151	\$2,639	\$2,667
After one, but within five years	162,966	165,245	2,051	2,243
After five, but within ten years	5,444	5,755	1,003	1,166
After ten years	-	-	-	-
	202,190	205,151	5,693	6,076
Mortgage-backed securities, residential	57,951	59,182	-	-
Collateralized mortgage obligations	229	231	-	-
SBA loan pools	1,253	1,260	-	-
Total	\$261,623	\$265,824	\$5,693	\$6,076

The proceeds from sales and calls of securities resulting in gains or losses as of March 31, 2015 and 2014 are listed below (in thousands):

	2015	2014
Proceeds	\$ 51	\$ -
Gross gains	\$ 50	\$ -
Tax expense	\$ 19	\$ -

The following tables summarize the investment securities available for sale with unrealized losses at March 31, 2015 and December 31, 2014 by aggregated major security type and length of time in a continuous unrealized loss position (in thousands):

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2015						
Obligations of states and political subdivisions	\$1,850	\$ 10	\$740	\$ 2	\$2,590	\$ 12
SBA loan pools	-	-	579	3	579	3
Total temporarily impaired securities	\$1,850	\$ 10	\$1,319	\$ 5	\$3,169	\$ 15

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2014						
Obligations of U.S. Government and U.S. Government sponsored enterprises	\$57,512	\$ 108	\$4,945	\$ 54	\$62,457	\$ 162
Mortgage-backed securities, residential	11,051	19	-	-	11,051	19
Obligations of states and political subdivisions	4,625	22	1,056	6	5,681	28
Corporate bonds and notes	-	-	243	4	243	4
Corporate stocks	276	1	316	2	592	3
Total temporarily impaired securities	\$73,464	\$ 150	\$6,560	\$ 66	\$80,024	\$ 216

Other-Than-Temporary Impairment

As of March 31, 2015, the majority of the Corporation's unrealized losses in the investment securities portfolio related to obligations of states and political subdivisions. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Corporation does not have the intent to sell these securities and it is not likely that it will be required to sell these securities before their anticipated recovery, the Corporation does not consider these securities to be other-than-temporarily impaired at March 31, 2015.

During the first quarter of 2014, the Corporation received notice that one CDO consisting of a pool of trust preferred securities was liquidated and recorded \$500 thousand in other operating income during the first quarter of 2014. The Corporation does not own any other CDO's in its investment securities portfolio.

The tables below present a roll forward of the cumulative credit losses recognized in earnings for the three-month periods ended March 31, 2015 and 2014 (in thousands):

	2015	2014
Beginning balance, January 1,	\$ -	\$1,939
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized	-	-
Additions/Subtractions:		
Amounts realized for securities sold during the period	-	-
Amounts related to securities for which the Corporation intends to sell or that it will be more likely than not that the Corporation will be required to sell prior to recovery of amortized cost basis	-	-
Reductions for increase in cash flows expected to be collected that are recognized over the remaining life of the security	-	-
Reductions for previous credit losses realized in securities liquidated during the period	-	(1,939)
Increases to the amount related to the credit loss for which other-than-temporary impairment was previously recognized	-	-
Ending balance, March 31,	\$ -	\$-

NOTE 4

LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the loan portfolio, net of deferred origination fees and cost, and unearned income is summarized as follows (in thousands):

	March 31, 2015	December 31, 2014
Commercial and agricultural:		
Commercial and industrial	\$170,677	\$165,385
Agricultural	1,155	1,021
Commercial mortgages:		
Construction	49,392	54,831
Commercial mortgages	430,993	397,762
Residential mortgages	198,628	196,809
Consumer loans:		
Credit cards	1,526	1,654
Home equity lines and loans	98,706	99,354
Indirect consumer loans	173,722	184,763
Direct consumer loans	18,773	19,995
Total loans, net of deferred loan fees	\$1,143,572	\$1,121,574
Interest receivable on loans	2,673	2,780
Total recorded investment in loans	\$1,146,245	\$1,124,354

The Corporation's concentrations of credit risk by loan type are reflected in the preceding table. The concentrations of credit risk with standby letters of credit, committed lines of credit and commitments to originate new loans generally follow the loan classifications in the table above.

The following tables present the activity in the allowance for loan losses by portfolio segment for the three-month periods ending March 31, 2015 and 2014 (in thousands):

	Three Months Ended March 31, 2015				
	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Allowance for loan losses					
Beginning balance:	\$1,460	\$ 6,326	\$ 1,572	\$ 4,328	\$13,686
Charge-offs:	-	-	(21)	(369)	(390)
Recoveries:	15	67	-	124	206
Net recoveries (charge-offs)	15	67	(21)	(245)	(184)
Provision	196	137	43	14	390
Ending balance	\$1,671	\$ 6,530	\$ 1,594	\$ 4,097	\$13,892

	Three Months Ended March 31, 2014				
	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Allowance for loan losses					
Beginning balance:	\$1,979	\$ 6,243	\$ 1,517	\$ 3,037	\$12,776
Charge-offs:	(55)	(44)	(7)	(467)	(573)

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Recoveries:	92	38	-	183	313
Net recoveries (charge-offs)	37	(6)	(7)	(284)	(260)
Provision	(71)	247	42	421	639
Ending balance	\$1,945	\$ 6,484	\$ 1,552	\$ 3,174	\$13,155

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of March 31, 2015 and December 31, 2014 (in thousands):

	March 31, 2015				
	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Allowance for loan losses					
Ending allowance balance					
attributable to loans:					
Individually evaluated for					
impairment	\$ 301	\$ 1,280	\$ -	\$ -	\$ 1,581
Collectively evaluated for					
impairment	1,370	5,214	1,572	4,097	12,253
Loans acquired with					
deteriorated credit quality	-	36	22	-	58
Total ending allowance balance	\$ 1,671	\$ 6,530	\$ 1,594	\$ 4,097	\$ 13,892

	December 31, 2014				
	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Allowance for loan losses					
Ending allowance balance					
attributable to loans:					
Individually evaluated for					
impairment	\$ 89	\$ 1,145	\$ -	\$ 1	\$ 1,235
Collectively evaluated for					
impairment	1,335	5,145	1,550	4,327	12,357
Loans acquired with					
deteriorated credit quality	36	36	22	-	94
Total ending allowance balance	\$ 1,460	\$ 6,326	\$ 1,572	\$ 4,328	\$ 13,686

	March 31, 2015				
	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Loans:					
Loans individually					
evaluated for impairment	\$ 1,973	\$ 13,767	\$ 249	\$ 483	\$ 16,472
Loans collectively					
evaluated for impairment	170,254	465,960	198,622	292,920	1,127,756
Loans acquired with					
deteriorated credit quality	-	1,761	256	-	2,017
Total ending loans balance	\$ 172,227	\$ 481,488	\$ 199,127	\$ 293,403	\$ 1,146,245

	December 31, 2014				
	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Loans:					
Loans individually					
evaluated for impairment	\$ 1,452	\$ 13,712	\$ 254	\$ 486	\$ 15,904

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Loans collectively					
evaluated for impairment	164,748	438,246	196,783	306,042	1,105,819
Loans acquired with					
deteriorated credit quality	620	1,761	250	-	2,631
Total ending loans balance	\$166,820	\$453,719	\$197,287	\$306,528	\$1,124,354

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The following tables present loans individually evaluated for impairment recognized by class of loans as of March 31, 2015 and December 31, 2014, the average recorded investment and interest income recognized by class of loans as of the three-month periods ended March 31, 2015 and 2014 (in thousands):

	March 31, 2015			December 31, 2014		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:						
Commercial and agricultural:						
Commercial and industrial	\$ 1,668	\$ 1,670	\$ -	\$ 1,359	\$ 1,364	\$ -
Commercial mortgages:						
Construction	1,919	1,899	-	1,927	1,910	-
Commercial mortgages other	7,686	7,593	-	7,803	7,708	-
Residential mortgages	249	249	-	253	253	-
Consumer loans:						
Home equity lines and loans	480	483	-	429	432	-
With an allowance recorded:						
Commercial and agricultural:						
Commercial and industrial	301	303	301	89	89	89
Commercial mortgages:						
Commercial mortgages other	4,394	4,275	1,280	4,210	4,094	1,145
Consumer loans:						
Home equity lines and loans	-	-	-	54	54	1
Total	\$ 16,697	\$ 16,472	\$ 1,581	\$ 16,124	\$ 15,904	\$ 1,235

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial and agricultural:				
Commercial and industrial	\$ 1,517	\$ 15	\$ 1,656	\$ 14
Commercial mortgages:				
Construction	1,904	25	2,296	25
Commercial mortgages other	7,674	63	7,005	63
Residential mortgages	252	1	115	-
Consumer loans:				
Home equity lines & loans	458	6	72	1
With an allowance recorded:				
Commercial and agricultural:				
Commercial and industrial	196	3	921	-
Commercial mortgages:				
Commercial mortgages other	4,184	23	863	-
Consumer loans:				
Home equity lines and loans	27	-	58	1
Total	\$ 16,212	\$ 136	\$ 12,986	\$ 104

(1) Cash basis interest income approximates interest income recognized.

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The following tables present the recorded investment in past due and non-accrual status by class of loans as of March 31, 2015 and December 31, 2014 (in thousands):

March 31, 2015	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Loans acquired with deteriorated credit quality	Non-Accrual (1)	Total
Commercial and agricultural:						
Commercial and industrial	\$ 170,397	\$ 317	\$ 24	\$ -	\$ 331	\$ 171,069
Agricultural	1,158	-	-	-	-	1,158
Commercial mortgages:						
Construction	47,913	-	1,444	-	148	49,505
Commercial mortgages	424,367	536	-	1,761	5,319	431,983
Residential mortgages	193,684	1,482	-	256	3,705	199,127
Consumer loans:						
Credit cards	1,505	13	8	-	-	1,526
Home equity lines and loans	97,626	672	-	-	655	98,953
Indirect consumer loans	172,573	1,266	-	-	249	174,088
Direct consumer loans	18,781	43	-	-	12	18,836
Total	\$ 1,128,004	\$ 4,329	\$ 1,476	\$ 2,017	\$ 10,419	\$ 1,146,245

(1) Includes all loans on non-accrual status regardless of the number of days such loans were delinquent as of March 31, 2015.

December 31, 2014	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Loans acquired with deteriorated credit quality	Non-Accrual (1)	Total
Commercial and agricultural:						
Commercial and industrial	\$ 164,109	\$ 756	\$ -	\$ 620	\$ 312	\$ 165,797
Agricultural	1,023	-	-	-	-	1,023
Commercial mortgages:						
Construction	53,371	-	1,446	-	150	54,967
Commercial mortgages	391,096	3,064	-	1,761	2,831	398,752
Residential mortgages	191,089	2,333	-	250	3,615	197,287
Consumer loans:						
Credit cards	1,641	5	8	-	-	1,654
Home equity lines and loans	98,340	736	-	-	515	99,591
Indirect consumer loans	183,103	1,789	-	-	325	185,217
Direct consumer loans	19,988	48	-	-	30	20,066
Total	\$ 1,103,760	\$ 8,731	\$ 1,454	\$ 2,631	\$ 7,778	\$ 1,124,354

(1) Includes all loans on non-accrual status regardless of the number of days such loans were delinquent as of December 31, 2014.

Troubled Debt Restructurings:

A modification of a loan may result in classification as a TDR when a borrower is experiencing financial difficulty and the modification constitutes a concession. 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 March 31, 2015 and December 31, 2014, the Corporation has a recorded investment in TDRs of \$10.0 million and \$9.7 million, respectively. There were specific reserves of \$0.5 million and \$0.3 million allocated for TDRs at March 31, 2015 and December 31, 2014, respectively. As of March 31, 2015, TDRs totaling \$9.1 million were accruing interest under the modified terms and \$0.9 million were on non-accrual status. As of December 31, 2014, TDRs totaling \$8.7 million were accruing interest under the modified terms and \$1.0 million were on non-accrual status. The Corporation had committed additional amounts up to less than \$0.1 million as of both March 31, 2015 and December 31, 2014, to customers with outstanding loans that are classified as TDRs.

During the three months ended March 31, 2015 and 2014, the terms of certain loans were modified as TDRs. The modification of the terms of such loans included one or a combination of the following: reduced scheduled payments for greater than three months or an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk.

The following table presents loans by class modified as TDRs that occurred during the three months ended March 31, 2015 and 2014 (in thousands):

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
March 31, 2015			
Troubled debt restructurings:			
Commercial and agricultural:			
Commercial and industrial	1	\$ 477	\$ 477
Total	1	\$ 477	\$ 477
March 31, 2014			
Troubled debt restructurings:			
Commercial and agricultural:			
Commercial and industrial	1	\$ 503	\$ 503
Commercial mortgages:			
Commercial mortgages	2	367	323
Total	3	\$ 870	\$ 826

The TDRs described above did not increase the allowance for loan losses and resulted in no charge-offs during the three months ended March 31, 2015. The TDRs described above did not increase the allowance for loan losses and resulted in less than \$0.1 million in charge-offs during the three months ended March 31, 2014.

There were no payment defaults on any loans previously modified as TDRs during the three months ending March 31, 2015 or 2014, within twelve months following the modification. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

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Credit Quality Indicators

The Corporation establishes a risk rating at origination for all commercial loans. The main factors considered in assigning risk ratings include, but are not limited to: historic and future debt service coverage, collateral position, operating performance, liquidity, leverage, payment history, management ability, and the customer's industry. Commercial relationship managers monitor all loans in their respective portfolios for any changes in the borrower's ability to service their debt and affirm the risk ratings for the loans at least annually.

For the retail loans, which include residential mortgages, indirect and direct consumer loans, home equity lines and loans, and credit cards, once a loan is properly approved and closed, the Corporation evaluates credit quality based upon loan repayment.

The Corporation uses the risk rating system to identify criticized and classified loans. Commercial relationships within the criticized and classified risk ratings are analyzed quarterly. The Corporation uses the following definitions for criticized and classified loans (which are consistent with regulatory guidelines):

Special Mention – Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or the institution's credit position at some future date.

Substandard – Loans classified as substandard are inadequately protected by the current net worth and paying capability of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are included in groups of homogeneous loans. Based on the analyses performed as of March 31, 2015 and December 31, 2014, the risk category of the recorded investment of loans by class of loans is as follows (in thousands):

	March 31, 2015		Loans acquired with deteriorated credit quality	Special Mention	Substandard	Doubtful	Total
	Not Rated	Pass					
Commercial and agricultural:							
Commercial and industrial	\$-	\$164,385	\$ -	\$4,220	\$ 2,285	\$ 179	\$171,069
Agricultural	-	1,158	-	-	-	-	1,158
Commercial mortgages:							
Construction	-	47,607	-	1,750	148	-	49,505
Commercial mortgages	-	403,633	1,761	9,021	13,368	4,200	431,983
Residential mortgages	195,166	-	256	-	3,705	-	199,127

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Consumer loans							
Credit cards	1,526	-	-	-	-	-	1,526
Home equity lines and loans	98,298	-	-	-	655	-	98,953
Indirect consumer loans	173,835	-	-	-	253	-	174,088
Direct consumer loans	18,824	-	-	-	12	-	18,836
Total	\$487,649	\$616,783	\$ 2,017	\$14,991	\$ 20,426	\$ 4,379	\$1,146,245

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December 31, 2014

	Not Rated	Pass	Loans acquired with deteriorated credit quality	Special Mention	Substandard	Doubtful	Total
Commercial and agricultural:							
Commercial and industrial	\$-	\$158,140	\$ 620	\$3,695	\$ 3,306	\$ 36	\$165,797
Agricultural	-	1,023	-	-	-	-	1,023
Commercial mortgages:							
Construction	-	51,525	-	3,292	150	-	54,967
Commercial mortgages	-	365,448	1,761	20,871	10,266	406	398,752
Residential mortgages	193,422	-	250	-	3,615	-	197,287
Consumer loans							
Credit cards	1,654	-	-	-	-	-	1,654
Home equity lines and loans	99,076	-	-	-	515	-	99,591
Indirect consumer loans	184,940	-	-	-	277	-	185,217
Direct consumer loans	20,045	-	-	-	21	-	20,066
Total	\$499,137	\$576,136	\$ 2,631	\$27,858	\$ 18,150	\$ 442	\$1,124,354

The Corporation considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, the Corporation also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity as of March 31, 2015 and December 31, 2014 (in thousands):

March 31, 2015

	Consumer Loans				
	Residential Mortgages	Credit Card	Home Equity Lines and Loans	Indirect Consumer Loans	Other Direct Consumer Loans
Performing	\$195,422	\$1,526	\$98,298	\$173,839	\$18,824
Non-Performing	3,705	-	655	249	12
	\$199,127	\$1,526	\$98,953	\$174,088	\$18,836

December 31, 2014

	Consumer Loans				
	Residential Mortgages	Credit Card	Home Equity Lines and Loans	Indirect Consumer Loans	Other Direct Consumer Loans
Performing	\$193,672	\$1,654	\$99,076	\$184,892	\$20,036
Non-Performing	3,615	-	515	325	30

\$197,287 \$1,654 \$99,591 \$185,217 \$20,066

At the time of the merger with Fort Orange Financial Corp., the Corporation identified certain loans with evidence of deteriorated credit quality, and the probability that the Corporation would be unable to collect all contractually required payments from the borrower. These loans are classified as PCI loans. The Corporation adjusted its estimates of future expected losses, cash flows, and renewal assumptions on the PCI loans during the current year. These adjustments were made for changes in expected cash flows due to loans refinanced beyond original maturity dates, impairments recognized subsequent to the acquisition, advances made for taxes or insurance to protect collateral held and payments received in excess of amounts originally expected.

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The table below summarizes the changes in total contractually required principal and interest cash payments, management's estimate of expected total cash payments and carrying value of the PCI loans from January 1, 2015 to March 31, 2015 (in thousands):

	Balance at December 31, 2014	Income Accretion	All Other Adjustments	Balance at March 31, 2015
Contractually required principal and interest	\$ 3,621	\$ -	\$ (676) \$2,945
Contractual cash flows not expected to be collected (nonaccretable discount)	(570)	-	(25)	(595)
Cash flows expected to be collected	3,051	-	(701) 2,350
Interest component of expected cash flows (accretable yield)	(420)	63	(24)	(333)
Fair value of loans acquired with deteriorating credit quality	\$ 2,631	\$ 63	\$ (677) \$2,017

NOTE 5

FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Corporation used the following methods and significant assumptions to estimate fair value:

Investment Securities: The fair values of securities available for sale are usually determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs), or matrix pricing, which is a mathematical technique widely used to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Trading Assets: Securities that are held to fund a deferred compensation plan are recorded at fair value with changes in fair value included in earnings. The fair values of trading assets are determined by quoted market prices (Level 1 inputs).

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value have been partially charged-off or receive specific allocations as part of the allowance for loan loss accounting. For collateral dependent loans, fair value is commonly based on real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and

typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, typically resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

OREO: Assets acquired through or instead of loan foreclosures are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

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Appraisals for both collateral-dependent impaired loans and OREO are performed by certified general appraisers (commercial properties) or certified residential appraisers (residential properties) whose qualifications and licenses have been reviewed and verified by the Corporation. Once received, appraisals are reviewed for reasonableness of assumptions, approaches utilized, Uniform Standards of Professional Appraisal Practice and other regulatory compliance, as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. Appraisals are generally completed within the previous 12 month period prior to a property being placed into OREO. On impaired loans, appraisal values are adjusted based on the age of the appraisal, the position of the lien, the type of the property and its condition.

Assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

		Fair Value Measurement at March 31, 2015 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
Financial Assets:				
Obligations of U.S. Government and U.S. Government sponsored enterprises	\$170,447	\$31,266	\$ 139,181	\$ -
Mortgage-backed securities, residential	59,182	-	59,182	-
Collateralized mortgage obligations	231	-	231	-
Obligations of states and political subdivisions	31,152	-	31,152	-
Corporate bonds and notes	1,528	-	1,528	-
SBA loan pools	1,260	-	1,260	-
Trust Preferred securities	2,024	-	2,024	-
Corporate stocks	483	55	428	-
Total available for sale securities	\$266,307	\$31,321	\$ 234,986	\$ -
Trading assets	\$601	\$601	\$ -	\$ -

		Fair Value Measurement at December 31, 2014 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
Financial Assets:				
Obligations of U.S. Government and U.S.	\$181,673	\$31,115	\$ 150,558	\$ -

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Government sponsored enterprises					
Mortgage-backed securities, residential	61,660	-	61,660	-	-
Collateralized mortgage obligations	338	-	338	-	-
Obligations of states and political subdivisions	31,451	-	31,451	-	-
Corporate bonds and notes	1,533	-	1,533	-	-
SBA loan pools	1,304	-	1,304	-	-
Trust Preferred securities	2,028	-	2,028	-	-
Corporate stocks	520	104	416	-	-
Total available for sale securities	\$280,507	\$31,219	\$ 249,288	\$	-
Trading assets	\$549	\$549	\$ -	\$	-

There were no transfers between Level 1 and Level 2 during the three-month period ending March 31, 2015 or the year ending December 31, 2014.

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Assets and liabilities measured at fair value on a non-recurring basis are summarized below (in thousands):

	Fair Value	Fair Value Measurement at March 31, 2015 Using Quoted Prices in Active Markets for Significant Identifiable Assets		
		(Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Impaired Loans:				
Commercial mortgages:				
Commercial mortgages	\$2,993	\$-	\$ -	\$ 2,993
Total impaired loans	\$2,993	\$-	\$ -	\$ 2,993
Other real estate owned:				
Commercial mortgages:				
Commercial mortgages	\$2,496	\$-	\$ -	\$ 2,496
Residential mortgages	10	-	-	10
Total other real estate owned, net	\$2,506	\$-	\$ -	\$ 2,506

	Fair Value	Fair Value Measurement at December 31, 2014 Using Quoted Prices in Active Markets for Significant Identifiable Assets		
		(Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Impaired Loans:				
Commercial mortgages:				
Commercial mortgages	\$3,593	\$-	\$ -	\$ 3,593
Consumer loans:				
Home equity lines and loans	52	-	-	52
Total impaired loans	\$3,645	\$-	\$ -	\$ 3,645
Other real estate owned:				
Commercial mortgages:				
Commercial mortgages	\$3,063	\$-	\$ -	\$ 3,063
Consumer loans:				
Home equity lines and loans	2	-	-	2
Total other real estate owned, net	\$3,065	\$-	\$ -	\$ 3,065

The following table presents information related to Level 3 non-recurring fair value measurement at March 31, 2015 and December 31, 2014 (in thousands):

Description	Fair Value at March 31, 2015	Technique	Unobservable Inputs
Impaired loans	\$2,993	Third party appraisals	¹ Management discount based on underlying collateral characteristics and market conditions
Other real estate owned	\$2,506	Third party appraisals	¹ Estimated holding period ² Estimated closing costs

Description	Fair Value at December 31, 2014	Technique	Unobservable Inputs
Impaired loans	\$ 3,645	Third party appraisals	¹ Management discount based on underlying collateral characteristics and market conditions
Other real estate owned	\$ 3,065	Third party appraisals	¹ Estimated holding period ² Estimated closing costs

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of \$4.6 million with a valuation allowance of \$1.6 million as of March 31, 2015, resulting in \$653 thousand decrease in the provision for loan losses for the three-month period ended March 31, 2015. Impaired loans had a principal balance of \$4.9 million, with a valuation allowance of \$1.2 million as of December 31, 2014, resulting in an increase of \$232 thousand in the provision for loan losses for the year ending December 31, 2014.

OREO, which is measured by the lower of cost or fair value less costs to sell, had a net carrying amount of \$2.5 million with no valuation allowance at March 31, 2015. There were no write downs for the three-month period ending March 31, 2015. OREO had a net carrying amount of \$3.1 million at December 31, 2014. The net carrying amount reflects the outstanding balance of \$3.1 million, net of a valuation allowance of \$2 thousand at December 31, 2014.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash, Due From and Interest-Bearing Deposits in Other Financial Institutions

For those short-term instruments that generally mature in 90 days or less, the carrying value approximates fair value of which non-interest-bearing deposits are classified as Level 1 and interest-bearing deposits with the FHLBNY and FRBNY are classified as Level 1.

FHLBNY and FRBNY Stock

It is not practicable to determine the fair value of FHLBNY and FRBNY stock due to restrictions placed on its transferability.

Loans Receivable

For variable-rate loans that reprice frequently, fair values approximate carrying values. The fair values for other loans are estimated through discounted cash flow analysis using interest rates currently being offered for loans with similar terms and credit quality. Loans are classified as Level 3. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Loans Held for Sale

Certain mortgage loans are originated with the intent to sell. Loans held for sale are recorded at the lower of cost or fair value in the aggregate. Loans held for sale are classified as Level 2.

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Deposits

The fair values disclosed for demand deposits, savings accounts and money market accounts are, by definition, equal to the amounts payable on demand at the reporting date (i.e., their carrying values) and classified as Level 1.

The fair value of certificates of deposits is estimated using a discounted cash flow approach that applies interest rates currently being offered on certificates to a schedule of the weighted-average expected monthly maturities and classified as Level 2.

Securities Sold Under Agreements to Repurchase

These instruments bear both variable and fixed rates of interest. Therefore, the carrying value approximates fair value for the variable rate instruments and the fair value of fixed rate instruments is based on discounted cash flows to maturity. These are classified as Level 2.

FHLBNY Term Advances

These instruments bear a stated rate of interest to maturity and, therefore, the fair value is based on discounted cash flows to maturity and classified as Level 2.

Commitments to Extend Credit

The fair value of commitments to extend credit is based on fees currently charged to enter into similar agreements, the counter-party's credit standing and discounted cash flow analysis. The fair value of these commitments to extend credit approximates the recorded amounts of the related fees and is not material at March 31, 2015 and December 31, 2014.

Accrued Interest Receivable and Payable

For these short-term instruments, the carrying value approximates fair value resulting in a classification of Level 1, Level 2 or Level 3 depending upon the classification of the asset/liability they are associated with.

The carrying amounts and estimated fair values of other financial instruments, at March 31, 2015 and December 31, 2014, are as follows (in thousands):

	Fair Value Measurements at March 31, 2015 Using				
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Estimated Fair Value (1)
Financial assets:					
Cash and due from financial institutions	\$29,643	\$29,643	\$ -	\$ -	\$29,643
Interest-bearing deposits in other financial institutions	55,230	55,230	-	-	55,230
Trading assets	601	601	-	-	601
Securities available for sale	266,307	31,321	234,986	-	266,307

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Securities held to maturity	5,693	-	6,076	-	6,076
FHLBNY and FRBNY stock	4,148	-	-	-	N/ A
Loans, net	1,129,680	-	-	1,155,496	1,155,496
Loans held for sale	628	-	628	-	628
Accrued interest receivable	4,482	361	1,488	2,633	4,482
Financial liabilities:					
Deposits:					
Demand, savings, and insured					
money market accounts	\$1,180,179	\$1,180,179	\$ -	\$ -	\$1,180,179
Time deposits	187,951	-	188,436	-	188,436
Securities sold under agreements					
to repurchase	31,084	-	32,285	-	32,285
FHLBNY term advances	19,283	-	20,239	-	20,239
Accrued interest payable	225	17	208	-	225

(1) Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

	Fair Value Measurements at December 31, 2014 Using				
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Estimated Fair Value (1)
Financial assets:					
Cash and due from financial institutions	\$28,130	\$28,130	\$ -	\$ -	\$28,130
Interest-bearing deposits in other financial institutions	1,033	1,033	-	-	1,033
Trading assets	549	549	-	-	549
Securities available for sale	280,507	31,219	249,288	-	280,507
Securities held to maturity	5,831	-	6,197	-	6,197
FHLBNY and FRBNY stock	5,535	-	-	-	N/ A
Loans, net	1,107,888	-	-	1,135,590	1,135,590
Loans held for sale	665	-	665	-	665
Accrued interest receivable	4,185	145	1,295	2,745	4,185
Financial liabilities:					
Deposits:					
Demand, savings, and insured money market accounts	\$1,068,171	\$1,068,171	\$ -	\$ -	\$1,068,171
Time deposits	211,843	-	212,397	-	212,397
Securities sold under agreements to repurchase	29,652	-	30,853	-	30,853
FHLBNY overnight advances	30,830	-	30,832	-	30,832
FHLBNY term advances	19,310	-	20,235	-	20,235
Accrued interest payable	237	15	222	-	237

(1) Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

NOTE 6

GOODWILL AND INTANGIBLE ASSETS

The changes in goodwill included in the core banking segment during the periods ending March 31, 2015 and 2014 were as follows (in thousands):

	2015	2014
Beginning of year	\$21,824	\$21,824
Acquired goodwill	-	-
End balance March 31,	\$21,824	\$21,824

Acquired intangible assets were as follows at March 31, 2015 and December 31, 2014 (in thousands):

At March 31, 2015 At December 31, 2014

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	Balance Acquired	Accumulated Amortization	Balance Acquired	Accumulated Amortization
Core deposit intangibles	\$5,975	\$ 3,491	\$5,975	\$ 3,279
Other customer relationship intangibles	5,633	3,354	5,633	3,262
Total	\$11,608	\$ 6,845	\$11,608	\$ 6,541

Aggregate amortization expense was \$0.3 million for the three-month periods ended March 31, 2015 and 2014, respectively.

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The remaining estimated aggregate amortization expense at March 31, 2015 is listed below (in thousands):

Year	Estimated Expense
2015	\$ 833
2016	986
2017	859
2018	734
2019	609
2020 and thereafter	742
Total	\$ 4,763

NOTE 7

ACCUMULATED OTHER COMPREHENSIVE INCOME OR LOSS

Accumulated other comprehensive income or loss represents the net unrealized holding gains or losses on securities available for sale and the funded status of the Corporation's defined benefit pension plan and other benefit plans, as of the consolidated balance sheet dates, net of the related tax effect.

The following is a summary of the changes in accumulated other comprehensive income or loss by component, net of tax, for the periods indicated (in thousands):

	Unrealized Gains and Losses on Securities Available for Sale	Defined Benefit and Other Benefit Plans	Total
Balance at January 1, 2015	\$ 1,960	\$(10,745)	\$(8,785)
Other comprehensive income before reclassification	805	-	805
Amounts reclassified from accumulated other comprehensive income	(31)	224	193
Net current period other comprehensive gain	774	224	998
Balance at March 31, 2015	\$ 2,734	\$(10,521)	\$(7,787)

	Unrealized Gains and Losses on Securities Available for Sale	Defined Benefit and Other Benefit Plans	Total
Balance at January 1, 2014	\$ 6,043	\$(5,888)	\$ 155
Other comprehensive income before reclassification	544	-	544
Amounts reclassified from accumulated other comprehensive income	-	88	88
Net current period other comprehensive gain	544	88	632
Balance at March 31, 2014	\$ 6,587	\$(5,800)	\$ 787

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The following is the reclassification out of accumulated other comprehensive income for the periods indicated (in thousands):

Details about Accumulated Other Comprehensive Income Components	Three Months Ended March 31, 2015	2014	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on securities available for sale:			
Reclassification adjustment for other-than-temporary gains (losses) realized in income	\$-	\$-	
Realized gains on securities available for sale	50	-	Net gains on securities transactions
Tax effect	(19)	-	Income tax expense
Net of tax	31	-	
Amortization of defined pension plan and other benefit plan items:			
Prior service costs (a)	(22)	(22)	Pension and other employee benefits
Actuarial losses (a)	383	165	Pension and other employee benefits
Tax effect	(137)	(55)	Income tax expense
Net of tax	224	88	
Total reclassification for the period, net of tax	\$224	\$88	

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension and other benefit plan costs (see Note 9 for additional information).

NOTE 8

COMMITMENTS AND CONTINGENCIES

The Corporation is 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, overdraft protection and commitments to fund new loans. In accordance with GAAP, these financial instruments are not recorded in the financial statements. 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.

The following table lists the contractual amounts of financial instruments with off-balance sheet risk at March 31, 2015 and December 31, 2014 (in thousands):

	March 31, 2015		December 31, 2014	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	\$27,618	\$10,415	\$23,756	\$11,082
Unused lines of credit	\$1,120	\$177,007	\$812	\$185,235
Standby letters of credit	\$-	\$17,053	\$-	\$16,747

On March 26, 2015, the New York Surrogate's Court for Chemung County entered an order approving two stipulations that discontinued litigation against the Wealth Management Group of the Bank and approved settlements of the

litigations. Under the terms of the settlements, the Bank agreed to pay the two parties \$12.1 million, in total. As of March 31, 2015 and December 31, 2014, the balance sheet included an accrual for legal settlement in the amount of \$12.1 million and a receivable for insurance proceeds in the amount of \$7.9 million. Subsequent to March 31, 2015, all insurance proceeds were received and the approved settlements were paid. The Corporation was appropriately reserved for these settlements as of December 31, 2014.

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.

NOTE 9 COMPONENTS OF QUARTERLY AND YEAR TO DATE NET PERIODIC BENEFIT COSTS

The components of net periodic expense for the Corporation's pension and other benefit plans for the periods indicated are as follows (in thousands):

	Three Months Ended March 31, 2015 2014	
Qualified Pension Plan		
Service cost, benefits earned during the period	\$354	\$271
Interest cost on projected benefit obligation	457	435
Expected return on plan assets	(823)	(793)
Amortization of unrecognized transition obligation	-	-
Amortization of unrecognized prior service cost	2	2
Amortization of unrecognized net loss	368	160
Net periodic pension cost	\$358	\$75
Supplemental Pension Plan		
Service cost, benefits earned during the period	\$11	\$10
Interest cost on projected benefit obligation	12	13
Expected return on plan assets	-	-
Amortization of unrecognized prior service cost	-	-
Amortization of unrecognized net loss	13	5
Net periodic supplemental pension cost	\$36	\$28
Postretirement Plan, Medical and Life		
Service cost, benefits earned during the period	\$12	\$11
Interest cost on projected benefit obligation	16	18
Expected return on plan assets	-	-
Amortization of unrecognized prior service cost	(24)	(24)
Amortization of unrecognized net loss	2	-
Net periodic postretirement, medical and life cost	\$6	\$5

NOTE 10

SEGMENT REPORTING

The Corporation manages its operations through two primary business segments: core banking and WMG. The core banking segment provides revenues by attracting deposits from the general public and using such funds to originate consumer, commercial, commercial real estate, and residential mortgage loans, primarily in the Corporation's local markets and to invest in securities. The WMG services segment provides revenues by providing trust and investment advisory services to clients.

Accounting policies for the segments are the same as those described in Note 1. Summarized financial information concerning the Corporation's reportable segments and the reconciliation to the Corporation's consolidated results are shown in the following table. Income taxes are allocated based on the separate taxable income of each entity and indirect overhead expenses are allocated based on reasonable and equitable allocations applicable to the reportable segment. Holding company amounts are the primary differences between segment amounts and consolidated totals, and are reflected in the Holding Company and Other column below, along with amounts to eliminate transactions between segments (in thousands).

	Three Months Ended March 31, 2015			
	Core Banking	WMG	Holding Company And Other	Consolidated Totals
Net interest income	\$12,339	\$-	\$ 3	\$ 12,342
Provision for loan losses	390	-	-	390
Net interest income after provision for loan losses	11,949	-	3	11,952
Other non-interest income	2,738	2,102	346	5,186
Other non-interest expenses	12,148	1,304	284	13,736
Income before income tax expense	2,539	798	65	3,402
Income tax expense	815	302	9	1,126
Segment net income	\$1,724	\$496	\$ 56	\$ 2,276
Segment assets	\$1,578,386	\$4,707	\$ 1,679	\$ 1,584,772

	Three Months Ended March 31, 2014			
	Core Banking	WMG	Holding Company And Other	Consolidated Totals
Net interest income	\$12,030	\$-	\$ 3	\$ 12,033
Provision for loan losses	639	-	-	639
Net interest income after provision for loan losses	11,391	-	3	11,394
Other non-interest income	2,888	1,883	193	4,964
Other non-interest expenses	11,812	1,318	213	13,343
Income before income tax expense	2,467	565	(17)	3,015
Income tax expense (benefit)	758	217	(24)	951
Segment net income	\$1,709	\$348	\$ 7	\$ 2,064
Segment assets	\$1,490,857	\$4,878	\$ 1,796	\$ 1,497,531

NOTE 11 STOCK COMPENSATION

Board of Director's Stock Compensation

Members of the Board of Directors receive common shares of the Corporation equal in value to the amount of fees individually earned during the previous year for service as a director. The common shares are distributed to the Corporation's individual board members from treasury shares of the Corporation on or about January 15 following the calendar year of service.

Additionally, the President and Chief Executive Officer of the Corporation, who does not receive cash compensation as a member of the Board of Directors, is awarded common shares equal in value to the average of those awarded to board members not employed by the Corporation who have served for 12 months during the prior year.

During January 2015 and 2014, 9,673 and 8,385 shares, respectively, were re-issued from treasury to fund the stock component of directors' compensation. An expense of \$69 thousand and \$56 thousand related to this compensation was recognized during the three-month periods ending March 31, 2015 and 2014, respectively. This expense is accrued as shares are earned.

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Restricted Stock Plan

Pursuant to the Corporation's Restricted Stock Plan, the Corporation may make discretionary grants of restricted stock to officers other than the Corporation's Chief Executive Officer. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at issue date.

A summary of restricted stock activity for the three-month period ended March 31, 2015 is presented below:

	Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2015	26,428	\$ 27.92
Granted	-	\$ -
Vested	(413)	\$ 26.61
Forfeited or cancelled	-	\$ -
Nonvested at March 31, 2015	26,015	\$ 27.94

As of March 31, 2015, there was \$666 thousand of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 3.75 years. The total fair value of shares vested during the three-month period ended March 31, 2015 was \$11 thousand.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following is the MD&A of the Corporation in this Form 10-Q for the three months period ended March 31, 2015 and 2014. Reference should be made to the accompanying unaudited consolidated financial statements and footnotes, and the Corporation's 2014 Annual Report on Form 10-K, which was filed with the SEC on March 13, 2015, for an understanding of the following discussion and analysis. See the list of commonly used abbreviations and terms on pages 3-5.

The MD&A included in this Form 10-Q contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on the current beliefs and expectations of the Corporation's management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. For a discussion of those risks and uncertainties and the factors that could cause the Corporation's actual results to differ materially from those risks and uncertainties, see Forward-looking Statements below and Part I, Item 1A, Risk Factors, on pages 14-19 of the Corporation's 2014 Annual Report. For a discussion of use of non-GAAP financial measures, see page 52.

The Corporation has been a financial holding company since 2000, and the Bank was established in 1833 and CFS in 2001. Through the Bank and CFS, 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, insurance products, mutual funds and 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, WMG 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.

Forward-looking Statements

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 the Corporation's 2014 Annual Report on 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.

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Consolidated Financial Highlights

(in thousands, except share and per share data)	As of or for the Three Months Ended				
	March 31, 2015	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	March 31, 2014
RESULTS OF OPERATIONS					
Interest income	\$ 13,234	\$ 13,922	\$ 13,341	\$ 12,996	\$ 12,954
Interest expense	892	888	915	921	921
Net interest income	12,342	13,034	12,426	12,075	12,033
Provision for loan losses	390	1,650	589	1,103	639
Net interest income after provision for loan losses	11,952	11,384	11,837	10,972	11,394
Non-interest income	5,186	11,400	4,986	5,406	4,964
Non-interest expense	13,736	15,792	17,763	13,579	13,343
Income (loss) before income tax expense (benefit)	3,402	6,992	(940)	2,799	3,015
Income tax expense (benefit)	1,126	2,510	(621)	869	951
Net income (loss)	\$ 2,276	\$ 4,482	\$ (319)	\$ 1,930	\$ 2,064
Basic and diluted earnings (loss) per share	\$ 0.48	\$ 0.96	\$ (0.07)	\$ 0.41	\$ 0.44
Average basic and diluted shares outstanding	4,706,774	4,690,519	4,683,797	4,680,776	4,677,178
PERFORMANCE RATIOS					
Return on average assets	0.59 %	1.17 %	(0.08)%	0.51 %	0.56 %
Return on average equity	6.79 %	12.54 %	(0.90)%	5.44 %	5.93 %
Return on average tangible equity (a)	8.45 %	15.49 %	(1.11)%	6.75 %	7.41 %
Efficiency ratio (b)	76.26 %	85.10 %	75.07 %	77.21 %	77.28 %
Non-interest expense to average assets (c)	3.57 %	4.11 %	3.55 %	3.62 %	3.64 %
Loans to deposits	83.59 %	87.62 %	84.99 %	82.87 %	79.31 %
YIELDS / RATES - Fully Taxable Equivalent					
Yield on loans	4.28 %	4.49 %	4.33 %	4.40 %	4.51 %
Yield on investments	1.83 %	1.98 %	1.95 %	1.91 %	2.09 %
Yield on interest-earning assets	3.74 %	3.96 %	3.82 %	3.77 %	3.85 %
Cost of interest-bearing deposits	0.20 %	0.21 %	0.22 %	0.22 %	0.23 %
Cost of borrowings	2.74 %	2.65 %	2.85 %	2.93 %	2.91 %
Cost of interest-bearing liabilities	0.35 %	0.36 %	0.37 %	0.37 %	0.38 %
Interest rate spread	3.39 %	3.60 %	3.45 %	3.40 %	3.47 %
Net interest margin, fully taxable equivalent	3.49 %	3.71 %	3.55 %	3.51 %	3.58 %
CAPITAL					
Total equity to total assets at end of period	8.60 %	8.77 %	9.16 %	9.35 %	9.38 %
Tangible equity to tangible assets at end of period (a)	7.04 %	7.13 %	7.51 %	7.68 %	7.67 %
Book value per share	\$ 28.92	\$ 28.44	\$ 29.78	\$ 30.28	\$ 30.03
Tangible book value per share	23.28	22.71	23.98	24.40	24.08

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Period-end market value per share	28.30	27.66	28.09	29.54	27.12
Dividends declared per share	0.26	0.26	0.26	0.26	0.26
AVERAGE BALANCES					
Loans (d)	\$1,132,473	\$1,112,297	\$1,097,133	\$1,047,181	\$1,007,415
Earning assets	1,450,249	1,410,804	1,404,165	1,400,174	1,381,604
Total assets	1,558,919	1,522,834	1,509,315	1,504,153	1,488,577
Deposits	1,338,913	1,307,305	1,301,083	1,298,159	1,282,917
Total equity	135,974	141,845	142,944	142,318	141,061
Tangible equity (a)	109,219	114,786	115,553	114,603	112,996
ASSET QUALITY					
Net charge-offs	\$184	\$1,116	\$1,070	\$625	\$260
Non-performing loans (e)	10,419	7,778	7,209	7,712	8,567
Non-performing assets (f)	12,925	10,843	10,328	8,345	8,808
Allowance for loan losses	13,892	13,686	13,151	13,632	13,155
Annualized net charge-offs to average loans	0.07	% 0.40	% 0.39	% 0.24	% 0.10
Non-performing loans to total loans	0.91	% 0.69	% 0.65	% 0.71	% 0.84
Non-performing assets to total assets	0.82	% 0.71	%		