CHEMUNG FINANCIAL CORP
Form 10-K
March 13, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______________ to _____________
Commission File Number 0-13888

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

NEW YORK	16-123703-8
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Chemung Canal Plaza, P.O. Box 1522, Elmira, New York	14902
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, Par Value $0.01 Per Share	NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:
(Title of Class)
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

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

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

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

CHEMUNG FINANCIAL CORPORATION

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

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

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

ASU: Accounting Standards Update
Bank: Chemung Canal Trust Company
CDO: Collateralized Debt Obligation
Corporation: Chemung Financial Corporation
FASB: Financial Accounting Standards Board
FDIC: Federal Deposit Insurance Corporation
FHLBNY: Federal Home Loan Bank of 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
OTTI: Other-than-temporary impairment
PCI: Purchased credit impaired
SEC: Securities and Exchange Commission
TDRs: Troubled debt restructurings

PART I

ITEM 1. BUSINESS

General

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

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

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

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

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

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

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

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

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

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

Growth Strategy

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

Description of Business

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

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

Lending Activities

Lending Strategy

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

Lending Authority

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

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

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

Lending Segments

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

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

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

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

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

Funding Activities

Funding Strategy

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

Funding Sources

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

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

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

Wealth Management Strategy

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

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

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

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

Market Area and Competition

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

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

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

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

Employees

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

Available Information

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

Supervision and Regulation

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

The Corporation

Bank Holding Company Act

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

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

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

New York Law

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

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

Federal Securities Law

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

The SEC has adopted certain proxy disclosure rules regarding executive compensation and corporate governance, with which the Corporation must comply. They include: (i) increased disclosure of stock and option award compensation; (ii) disclosure regarding any potential conflict of interest of any compensation consultants of the Corporation; (iii) enhanced disclosure regarding compensation committee independence and experience, qualifications, skills and diversity of its directors and any director nominees; (iv) “say-on-pay” disclosure; and (v) information relating to the leadership structure of the Corporation's board of directors and the board's role in the risk management process. Additionally, these rules require the Corporation to report the voting results of annual meetings in a much more timely manner on Form 8-K, rather than on a quarterly or annual report.

Sarbanes-Oxley Act of 2002

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

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

Support of Subsidiary Banks

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

The Bank

General

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

Loans to One Borrower

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

Branching

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

Payment of Dividends

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

Federal Reserve System

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

Standards for Safety and Soundness

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

Real Estate Lending Standards

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

Transactions with Related Parties

The Federal Reserve Act governs transactions between the Bank and its affiliates, including the Corporation and CFS Group, Inc. In general, an affiliate of the Bank is any company that controls, is controlled by, or is under common control with the Bank. Generally, the Federal Reserve Act limits the extent to which the Bank or its subsidiaries may engage in "covered transactions" with any one affiliate to 10% of the Bank's capital stock and surplus, and contains an aggregate limit of 20% of capital stock and surplus for covered transactions with all affiliates. Covered transactions include loans, asset purchases, the issuance of guarantees, and similar transactions. The Bank's loans to insiders must be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features. The loans are also subject to maximum dollar limits and must generally be approved by the Board.

Deposit Insurance

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

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

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

Regulatory Capital Requirements

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

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

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

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

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

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

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

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

Prompt Corrective Action

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

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

The new capital rules described above under "Regulatory Capital Requirements" maintain the general structure of the current prompt corrective action framework while increasing some of the thresholds for the prompt corrective action capital categories. For example, an adequately capitalized bank is required to maintain a Tier 1 risk-based capital ratio of 6.0% (increased from the current level of 4.0%). The rule also introduces the common equity Tier 1 capital ratio as a new prompt corrective action capital category threshold.

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

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

Federal Home Loan Bank

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

Community Reinvestment Act

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

Fair Lending and Consumer Protection Laws

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

Prohibitions Against Tying Arrangements

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

Privacy Regulations

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

The USA PATRIOT Act

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

CFS Group, Inc.

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

Additional Important Legislation and Regulation

The Dodd-Frank Act

The Dodd-Frank Act, enacted on July 21, 2010, significantly changed the bank regulatory landscape and has impacted and will continue to impact the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare various studies and reports for Congress. We have summarized below significant rules adopted by the federal agencies pursuant to the Dodd-Frank Act.

Consumer Financial Protection Bureau Rules

The Dodd-Frank Act created the CFPB, with wide-ranging powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. The Dodd-Frank Act also weakened the federal preemption rules that have been applicable to national banks and federal savings associations, and gives state attorneys general certain powers to enforce federal consumer protection regulations.

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

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

Securities and Exchange Commission Rules

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

Banking Agency Rules

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

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

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

Gramm-Leach-Bliley Act

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

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

ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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

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

Bank regulators periodically review the Corporation’s allowance for loan losses and may require the Corporation to increase its provision for loan losses or loan charge-offs. Any increase in the allowance for loan losses or loan charge-offs as required by these regulatory authorities could have a material adverse effect on our results of operations and/or financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Corporation is a legal entity separate and distinct from the Bank and other subsidiaries. Its principal source of cash flow, including cash flow to pay dividends to its shareholders, is dividends from the Bank. There are statutory and regulatory limitations on the payment of dividends by the Bank to the Corporation, as well as by the Corporation to its shareholders. Federal Reserve regulations affect the ability of the Bank to pay dividends and other distributions and to make loans to the Corporation. If the Bank is unable to make dividend payments to the Corporation and sufficient capital is not otherwise available, we may not be able to make dividend payments to our common shareholders.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Management has identified certain accounting policies as being critical because they require management's judgment to ascertain the valuations of assets, liabilities, commitments and contingencies. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset, valuing an asset or liability or reducing a liability. We have established detailed policies and control procedures that are intended to ensure that these critical accounting estimates and judgments are well controlled and applied consistently. In addition, these policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding our judgments and the estimates pertaining to these matters, actual outcomes may be materially different from amounts previously estimated. For example, because of the inherent uncertainty of estimates, management cannot provide any assurance that the Bank will not significantly increase its allowance for loan losses if actual losses are more than the amount reserved. Any increase in its allowance for loan losses or loan charge-offs could have a material adverse effect on our financial condition and results of operations. In addition, we cannot guarantee that we will not be required to adjust accounting policies or restate prior financial statements.

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

There may be claims and litigation pertaining to fiduciary responsibility.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

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

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

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

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

Cortland County
*1094 State Rte. 222, Cortland, NY 13045

Saratoga County
*7 Southside Dr., Clifton Park, NY 12065

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

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

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

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

Pennsylvania

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

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

* Leased facilities

Leased Off-Site ATM Locations

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

ITEM 3. LEGAL PROCEEDINGS

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

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

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

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

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

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

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

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

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

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

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

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

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

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

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

STOCK PERFORMANCE GRAPH

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

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

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

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

ITEM 6. SELECTED FINANCIAL DATA

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

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

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

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

(in thousands) (3)								
Weighted average shares outstanding (in thousands)	4,683	4,660	4,641	4,383	3,607	3,603	0.5 %	5.4 %

(1) Earnings per share is computed by dividing net income by the weighted average number of common shares outstanding. There is no difference between basic and diluted earnings per share.
(2) Tangible book value is total shareholders' equity less goodwill and other intangible assets divided by common shares outstanding.
(3) All issuable shares including those related to directors' restricted stock units and directors' stock compensation.
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SELECTED RATIOS AT OR FOR THE YEARS ENDED DECEMBER 31,	2014	2013	2012	2011	2010
Return on average assets	0.54 %	0.67 %	0.88 %	0.90 %	1.02 %
Return on average equity	5.74 %	6.50 %	8.41 %	8.77 %	10.64%
Dividend yield at year end	3.76 %	3.08 %	4.20 %	4.40 %	4.48 %
Dividend payout	58.80 %	41.04 %	51.84 %	38.50%	34.84%
Total capital to risk adjusted assets	11.84 %	12.10 %	13.10 %	13.28%	14.54%
Tier I capital to risk adjusted assets	10.59 %	10.57 %	11.68 %	11.84%	12.92%
Tier I leverage ratio	7.78 %	8.08 %	8.74 %	8.27 %	8.72 %
Average equity to average assets	9.43 %	10.28 %	10.46 %	10.23%	9.60 %
Year-end equity to year-end assets ratio	8.77 %	9.39 %	10.50 %	10.35%	10.16%
Loans to deposits	87.62 %	78.65 %	85.30 %	79.61%	77.83%
Allowance for loan losses to total loans	1.22 %	1.28 %	1.17 %	1.21 %	1.55 %
Allowance for loan losses to non-performing loans	175.96%	150.11%	172.96%	70.97%	89.62%
Non-performing assets to total assets	0.71 %	0.61 %	0.53 %	1.19 %	1.18 %
Net interest rate spread	3.48 %	3.78 %	3.96 %	3.92 %	3.60 %
Net interest margin	3.59 %	3.91 %	4.14 %	4.13 %	3.88 %
Efficiency ratio (1)	78.75 %	72.49 %	70.92 %	68.11%	67.37%

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

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

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

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

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

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

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

ASU: Accounting Standards Update
Bank: Chemung Canal Trust Company
CDO: Collateralized Debt Obligation
Corporation: Chemung Financial Corporation
FASB: Financial Accounting Standards Board
FDIC: Federal Deposit Insurance Corporation
FHLBNY: Federal Home Loan Bank of 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
OTTI: Other-than-temporary impairment
PCI: Purchased credit impaired
SEC: Securities and Exchange Commission
TDRs: Troubled debt restructurings

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

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

Use of Non-GAAP Financial Measures

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

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Tax-Equivalent Net Interest Income and Net Interest Margin

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

Tangible Book Value per Share

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

Adjustments for Certain Items of Income or Expense

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

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

Overview

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

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

Highlights

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

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

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

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

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

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

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

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

Critical Accounting Policies, Estimates and Risks and Uncertainties

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

Management considers the accounting policy relating to the allowance for loan losses to be a critical accounting policy given the uncertainty in evaluating the level of the allowance required to cover probable incurred credit losses inherent in the loan portfolio, and the material effect that such judgments can have on the Corporation's results of operations. While management's current evaluation of the allowance for loan losses indicates that the allowance is adequate, under adversely different conditions or assumptions the allowance would need to be increased. For example, if historical loan loss experience significantly worsened or if current economic conditions significantly deteriorated, additional provisions for loan losses would be required to increase the allowance. In addition, the assumptions and estimates used in the internal reviews of the Corporation's non-performing loans and potential problem loans, and the associated evaluation of the related collateral coverage for these loans, has a significant impact on the overall analysis of the adequacy of the allowance for loan losses. Real estate values in the Corporation’s market area did not increase dramatically in the prior several years, and, as a result, any declines in real estate values have been modest. While management has concluded that the current evaluation of collateral values is reasonable under the circumstances, if collateral evaluations were significantly lowered, the Corporation's allowance for loan losses policy would also require additional provisions for loan losses.

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

Financial Condition

Summary

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

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

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

Balance Sheet Comparisons

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

TABLE 1. SELECTED AVERAGE BALANCE SHEET INFORMATION

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

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

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

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

TABLE 2. SELECTED PERIOD-END BALANCE SHEET INFORMATION

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

(1) Earning assets include securities available for sale, at estimated fair value and securities held to maturity based on amortized cost, loans and loans held for sale net of deferred loan fees, interest-bearing deposits, FHLBNY stock, FRBNY stock and federal funds sold.
(2) Loans and loans held for sale, net of deferred loan fees.
(3) Investments include securities available for sale, at estimated fair value, securities held to maturity, at amortized cost, FHLBNY stock, FRBNY stock, federal funds sold and interest-bearing deposits.
(4) Borrowings include FHLBNY advances, securities sold under agreements to repurchase and capitalized lease obligations.

Cash and Cash Equivalents

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

Securities

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

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

TABLE 3. SECURITIES AVAILABLE FOR SALE

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

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

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

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

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

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

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

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

Management evaluates securities for OTTI on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For the year ended December 31, 2014, the Corporation had no OTTI charges. For the year ended December 31, 2013, the Corporation had less than $0.1 million in OTTI charges. During the fourth quarter of 2013, the Corporation sold one CDO consisting of a pool of trust preferred securities that had an amortized cost of $0.6 million. The CDO was sold for $0.6 million, resulting in a slight loss. The CDO was sold in light of the uncertainty surrounding the recently released rules contained in the “Volcker Rule” provision of the Dodd-Frank Act regarding the ability of banks to hold these types of securities and based on current market conditions. In addition to the CDO that was sold in the fourth quarter of 2013, the remaining CDO was liquidated and the Corporation recorded $0.5 million in other income during the first quarter of 2014. The Corporation does not own any other CDOs in its investment securities portfolio. For more detailed information on OTTI, see Footnote (3), “Securities” in the Notes to Consolidated Financial Statements.

Loans

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

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

TABLE 5. LOANS

	December 31,									
	2014	%	2013	%	2012	%	2011	%	2010	%
Commercial and agricultural	$166,406	14.8	$145,363	14.6	$133,851	15.0	$142,209	17.8	$114,697	18.7
Commercial mortgages	452,593	40.4	373,147	37.5	320,198	35.9	264,589	33.2	133,070	21.7
Residential mortgages	196,809	17.5	195,997	19.7	200,475	22.4	193,600	24.3	173,468	28.3
Indirect consumer loans	184,763	16.5	164,846	16.5	130,573	14.6	97,165	12.2	98,941	16.1
Consumer loans	121,003	10.8	116,513	11.7	108,420	12.1	99,352	12.5	93,508	15.2
Total	$1,121,574	100.0	$995,866	100.0	$893,517	100.0	$796,915	100.0	$613,684	100.0

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

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

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

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

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

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

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

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

Non-Performing Assets

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

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

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

TABLE 7. NON-PERFORMING ASSETS

December 31,	2014	2013	2012	2011	2010
Non-accrual loans	$6,798	$7,456	$7,456	$9,554	$6,805
Non-accrual troubled debt restructurings	980	1,061	1,061	4,057	3,793
Total non-performing loans	7,778	8,517	8,517	13,611	10,598
Other real estate owned	3,065	538	538	898	741
Total non-performing assets	$10,843	$9,055	$9,055	$14,509	$11,339

Ratio of non-performing loans to total loans	0.69 %	0.86 %	0.68 %	1.71 %	1.73 %
Ratio of non-performing assets to total assets	0.71 %	0.61 %	0.53 %	1.19 %	1.18 %
Ratio of allowance for loan losses to non-performing loans	175.96%	150.01%	172.96%	70.97%	89.62%

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

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

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

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

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

Non-Performing Loans

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

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

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

Troubled Debt Restructurings

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

Impaired Loans

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

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

Allowance for Loan Losses

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

Specific valuation allowances are established based on management’s analyses of individually impaired loans. Factors considered by management in determining impairment include payment status, evaluations of the underlying collateral, expected cash flows, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. If a loan is determined to be impaired and is placed on nonaccrual status, all future payments received are applied to principal and a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan’s existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

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

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

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

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

TABLE 9. ALLOCATION OF ALLOWANCE FOR LOAN LOSSES

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

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

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

TABLE 10. SUMMARY OF LOAN LOSS EXPERIENCE

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

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

Other Real Estate Owned

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

Other Assets

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

Deposits

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

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

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

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

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

Borrowings

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

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

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

Liquidity and Capital Resources

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

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

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

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

Shareholders' Equity

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

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

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

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

Off-Balance Sheet Arrangements

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

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

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

TABLE 12. COMMITMENT MATURITY BY PERIOD

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

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

Contractual Obligations

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

TABLE 13. CONTRACTUAL OBLIGATIONS

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

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

Results of Operations 2014 vs. 2013

Net Income

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

The decline in 2014 earnings was due primarily to increases of $11.1 million in non-interest expense and $1.2 million in the provision for loan losses, partially offset by increases of $8.7 million in non-interest income and $2.9 million in net interest income. The increase in non-interest expense was due to a $4.3 million accrual for legal settlement regarding two legal proceedings involving the Bank's Wealth Management Group, along with increases of $2.0 million in salaries and wages, $1.6 million in net occupancy expense, $1.6 million in data processing expense, $0.7 million in professional services, $0.6 million in furniture and equipment expense and $0.4 million in amortization of intangible assets. A portion of the increase in non-interest expense was due to operating expenses directly related to the branch offices acquired in the fourth quarter of 2013, along with upgrades for ATMs and software. The increase in non-interest income was due primarily to $6.9 million in net gains on security transactions, along with increases of $0.4 million in Wealth Management Group fee income and $0.6 million in service charges on deposit accounts.

Net Interest Income

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

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

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

Provision for Loan Losses

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

Non-Interest Income

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

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

Non-Interest Expense

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

Income Taxes

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

Results of Operations 2013 vs. 2012

Net Income

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

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

Net Interest Income

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

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

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

Provision for Loan Losses

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

Non-Interest Income

Non-interest income for 2013 was $18.1 million compared with $17.2 million for 2012, an increase of $0.9 million, or 5.2%. The increase was due primarily to a gain of $0.5 million from the branch acquisition and increases of $0.5 million in Wealth Management Group fee income and $0.5 million in service charges on deposit accounts. These items were partially offset by reductions of $0.8 million in casualty gains from insurance reimbursements related to the September 2011 flooding of the Owego and Tioga offices and $0.3 million in net gain on securities transactions.

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

Non-Interest Expense

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

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

Income Taxes

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

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

TABLE 14. AVERAGE BALANCES AND YIELDS

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

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

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

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

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

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CHANGES DUE TO VOLUME AND RATE

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

TABLE 15. RATE/VOLUME ANALYSIS OF NET INTEREST INCOME

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

ADOPTION OF NEW ACCOUNTING STANDARDS

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

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

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

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

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

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

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

Credit Risk

The Corporation manages credit risk consistent with state and federal laws governing the making of loans through written policies and procedures; loan review to identify loan problems at the earliest possible time; collection procedures (continued even after a loan is charged off); an adequate allowance for loan losses; and continuing education and training to ensure lending expertise. Diversification by loan product is maintained through offering commercial loans, 1-4 family mortgages, and a full range of consumer loans.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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

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

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

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

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

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

(c) Changes in Internal Control over Financial Reporting

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

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

/s/ Ronald M. Bentley	/s/ Karl F. Krebs
Ronald M. Bentley	Karl F. Krebs
President and Chief Executive Officer	Chief Financial Officer and Treasurer
March 13, 2015	March 13, 2015

Item 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

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

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

Report of Independent Registered Public Accounting Firm-Crowe Horwath LLP

Consolidated Financial Statements

- Consolidated Balance Sheets as of December 31, 2014 and 2013
- Consolidated Statements of Income for the three years ended December 31, 2014
- Consolidated Statements of Comprehensive Income for the three years ended December 31, 2014
- Consolidated Statements of Shareholders' Equity for the three years ended December 31, 2014
- Consolidated Statements of Cash Flows for the three years ended December 31, 2014
- Notes to Consolidated Financial Statements

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

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

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

CHEMUNG FINANCIAL CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
Pages F-1 to F-55

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Chemung Financial Corporation as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income (loss), shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2014. We also have audited Chemung Financial Corporation’s internal control over financial reporting as of December 31, 2014, based on criteria established in the 1992 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Chemung Financial Corporation’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting as disclosed in Item 9A. Our responsibility is to express an opinion on these financial statements and an opinion on Chemung Financial Corporation’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

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

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

/s/ Crowe Horwath LLP
Livingston, New Jersey
March 13, 2015

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

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

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

See accompanying notes to consolidated financial statements.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	YEARS ENDED DECEMBER 31		
(amounts in thousands, except per share amounts)	2014	2013	2012
Interest and Dividend Income:			
Loans, including fees	$47,139	$45,136	$45,298
Taxable securities	5,043	4,391	5,357
Tax exempt securities	967	1,100	1,268
Interest-bearing deposits	64	36	153
Total interest and dividend income	53,213	50,663	52,076
Interest Expense:			
Deposits	2,043	2,350	3,181
Borrowed funds	754	824	1,059
Securities sold under agreements to repurchase	848	858	994
Total interest expense	3,645	4,032	5,234
Net interest income	49,568	46,631	46,842
Provision for loan losses	3,981	2,755	828
Net interest income after provision for loan losses	45,587	43,876	46,014
Other operating income:			
Wealth management group fee income	7,747	7,344	6,827
Service charges on deposit accounts	5,281	4,706	4,241
Net gains on securities transactions	6,869	16	301
Net impairment loss on investment securities	-	(29)	-
Net gain on sales of loans held for sale	301	503	484
Casualty gains	-	-	790
Net gains (losses) on sales of other real estate owned	(64)	28	(45)
Gain from bargain purchase	-	470	-
Income from bank owned life insurance	78	84	87
Other	6,544	4,955	4,503
Total other operating income	26,756	18,077	17,188
Other operating expenses:			
Salaries and wages	21,315	19,365	18,918
Pension and other employee benefits	5,733	5,939	5,624
Net occupancy expenses	7,098	5,501	5,164
Furniture and equipment expenses	2,972	2,326	2,205
Data processing expense	6,393	4,750	4,421
Professional services	1,597	928	1,443
Legal settlements	4,250	-	-
Amortization of intangible assets	1,310	921	1,047
Marketing and advertising expense	1,079	1,033	1,068
Other real estate owned expenses	247	194	328
FDIC insurance	1,116	866	807
Loan expense	811	779	788
Merger and acquisition related expenses	115	1,387	30
Other	6,441	5,411	4,952
Total other operating expenses	60,477	49,400	46,795
Income before income tax expense	11,866	12,553	16,407

Income tax expense	3,709	3,822	5,385
Net income	$8,157	$8,731	$11,022
Weighted average shares outstanding	4,683	4,660	4,641
Basic and diluted earnings per share	$1.74	$1.87	$2.38

See accompanying notes to consolidated financial statements.

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

(amounts in thousands)	YEARS ENDED DECEMBER 31 2014	2013	2012
Net income	$8,157	$8,731	$11,022
Other comprehensive income (loss):			
Unrealized holding (losses) gains on securities available for sale	236	(3,229)	411
Reclassification adjustment for other-than-temporary losses realized in net income	-	29	-
Reclassification adjustment gains realized in net income	(6,869)	(16)	(301)
Net unrealized (losses) gains	(6,633)	(3,216)	110
Tax effect	2,550	1,236	(75)
Net of tax amount	(4,083)	(1,980)	35
Change in funded status of defined benefit pension plan and other benefit plans:			
Net gain (loss) arising during the period	(8,481)	6,487	(3,624)
Reclassification adjustment for amortization of prior service costs	(90)	(83)	(83)
Reclassification adjustment for amortization of net actuarial loss	681	1,624	1,431
Total before tax effect	(7,890)	8,028	(2,276)
Tax effect	3,033	(3,086)	875
Net of tax amount	(4,857)	4,942	(1,401)
Total other comprehensive income (loss)	(8,940)	2,962	(1,366)
Comprehensive income (loss)	$(783)	$11,693	$9,656

See accompanying notes to consolidated financial statements.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balances at January 1, 2012	$ 53	$ 45,582	$ 100,629	$ (18,894)	$ (1,441)	$ 125,929
Net income	-	-	11,022	-	-	11,022
Other comprehensive loss	-	-	-	-	(1,366)	(1,366)
Restricted stock awards	-	80	-	-	-	80
Distribution of 3,240 shares of treasury stock for directors' deferred compensation plan	-	(82)	-	83	-	1
Distribution of 10,760 shares of treasury stock granted for employee restricted stock awards, net	-	(274)	-	274	-	-
Restricted stock units for directors' deferred compensation plan	-	87	-	-	-	87
Cash dividends declared ($1.00 per share)	-	-	(4,573)	-	-	(4,573)
Distribution of 10,238 shares of treasury stock for directors' compensation	-	(28)	-	261	-	233
Distribution of 3,453 shares of treasury stock for employee compensation	-	(8)	-	88	-	80
Sale of 10,100 shares of treasury stock	-	-	-	258	-	258
Purchase of 25,468 shares of treasury stock	-	-	-	(636)	-	(636)
Balances at December 31, 2012	$ 53	$ 45,357	$ 107,078	$ (18,566)	$ (2,807)	$ 131,115
Net income	-	-	8,731	-	-	8,731
Other comprehensive income	-	-	-	-	2,962	2,962
Restricted stock awards	-	131	-	-	-	131
Distribution of 3,356 shares of treasury stock for directors' deferred compensation plan	-	(75)	-	86	-	11
Distribution of 8,087 shares of treasury stock granted for employee restricted stock awards, net	-	(206)	-	206	-	-
Restricted stock units for directors' deferred compensation plan	-	99	-	-	-	99
Cash dividends declared ($1.04 per share)	-	-	(4,778)	-	-	(4,778)
Distribution of 7,969 shares of treasury stock for directors' compensation	-	14	-	203	-	217
Distribution of 4,116 shares of treasury stock for employee compensation	-	7	-	105	-	112
Forfeit 1,797 shares of restricted stock awards	-	61	-	(61)	-	-
Sale of 2,369 shares of treasury stock	-	11	-	60	-	71
Purchase of 3,094 shares of treasury stock	-	-	-	(93)	-	(93)
Balances at December 31, 2013	$ 53	$ 45,399	$ 111,031	$ (18,060)	$ 155	$ 138,578

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(continued)	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balances at December 31, 2013	$ 53	$ 45,399	$ 111,031	$ (18,060)	$ 155	$ 138,578
Net income	-	-	8,157	-	-	8,157
Other comprehensive loss	-	-	-	-	(8,940)	(8,940)
Restricted stock awards	-	151	-	-	-	151
Distribution of 3,467 shares of treasury stock granted for directors' deferred compensation plan	-	(85)	-	88	-	3
Distribution of 11,279 shares of treasury stock granted for employee restricted stock awards, net	-	(288)	-	288	-	-
Restricted stock units for directors' deferred compensation plan	-	94	-	-	-	94
Cash dividends declared ($1.04 per share)	-	-	(4,805)	-		(4,805)
Distribution of 8,385 shares of treasury stock for directors' compensation	-	59	-	214	-	273
Distribution of 3,595 shares of treasury stock for employee compensation	-	25	-	92	-	117
Balances at December 31, 2014	$ 53	$ 45,355	$ 114,383	$ (17,378)	$ (8,785)	$ 133,628

See accompanying notes to consolidated financial statements.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)	Years Ended December 31,		
CASH FLOWS FROM OPERATING ACTIVITIES:	2014	2013	2012
Net income	$8,157	$8,731	$11,022
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of intangible assets	1,310	921	1,047
Deferred income tax (benefit) expense	(2,263)	(121)	647
Provision for loan losses	3,981	2,755	828
Loss on disposal of fixed assets	14	-	-
Depreciation and amortization of fixed assets	3,861	3,236	2,946
Amortization of premiums on securities, net	2,398	2,280	1,827
Gains on sales of loans held for sale, net	(301)	(503)	(484)
Proceeds from sales of loans held for sale	14,062	20,076	15,684
Loans originated and held for sale	(13,731)	(19,210)	(15,862)
Gain on bargain purchase	-	(470)	-
Net (gains) losses on sale of other real estate owned	64	(28)	45
Net gains on trading assets	(50)	(43)	(27)
Net gains on securities transactions	(6,869)	(16)	(301)
Net impairment loss recognized on investment securities	-	29	-
Proceeds from sales of trading assets	7	112	96
Purchase of trading assets	(140)	(87)	(123)
(Increase) decrease in other assets	(7,438)	(6,213)	6,084
Decrease in prepaid FDIC Assessment	-	1,970	733
Decrease in accrued interest payable	(99)	(108)	(348)
Expense related to restricted stock units for directors' deferred compensation plan	94	99	87
Expense related to employee stock compensation	117	112	80
Expense related to employee restricted stock awards	151	131	80
Increase in other liabilities	15,086	9,403	588
Proceeds from bank owned life insurance	110	-	-
Income from bank owned life insurance	(78)	(84)	(87)
Net cash provided by operating activities	18,443	22,972	24,562
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and calls of securities available for sale	62,738	18,150	90,870
Proceeds from maturities and principal collected on securities available for sale	24,222	44,046	29,342
Proceeds from maturities and principal collected on securities held to maturity	3,201	5,703	4,296
Purchases of securities available for sale	(23,613)	(174,034)	(80,444)
Purchases of securities held to maturity	(2,537)	(6,449)	(1,733)
Purchase of Federal Home Loan Bank and Federal Reserve Bank stock	(3,907)	(16,124)	(26)
Redemption of Federal Home Loan Bank and Federal Reserve Bank stock	2,854	16,353	825
Purchases of premises and equipment	(2,586)	(3,711)	(3,668)
Cash received acquisition of Bank of America branches	-	173,673	-
Cash paid Bank of America branches	-	(2,768)	-
Proceeds from sale of other real estate owned	342	155	796
Net increase in loans	(131,852)	(101,481)	(97,115)
Net cash used by investing activities	(71,138)	(46,487)	(56,857)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in demand deposits, interest-bearing demand accounts,	46,407	67,566	86,541

savings accounts, and insured money market accounts			
Net decrease in time deposits	(32,649)	(27,085)	(40,300)
Net decrease in securities sold under agreements to repurchase	(3,049)	(9)	(4,396)
Proceeds from FHLB overnight advances, net	30,830	-	-
Repayments of Federal Home Loan Bank long term advances	(5,933)	(1,983)	(16,119)
Payments made on capital lease	(561)	-	-
Purchase of treasury stock	-	(93)	(636)
Sale of treasury stock	-	71	258
Cash dividends paid	(4,796)	(3,584)	(5,714)
Net cash provided by financing activities	30,249	34,883	19,634
Net (decrease) increase in cash and cash equivalents	(22,446)	11,368	(12,661)
Cash and cash equivalents, beginning of period	51,609	40,241	52,902
Cash and cash equivalents, end of period	$29,163	$51,609	$40,241

(continued)

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(continued)	2014	2013	2012
Cash paid during the year for:			
Interest	$3,744	$4,163	$5,643
Income Taxes	$3,346	$5,304	$1,732
Supplemental disclosure of non-cash activity:			
Transfer of loans to other real estate owned	$3,074	$103	$618
Dividends declared, not yet paid	$1,204	$1,195	$-
Assets acquired through long term capital lease obligation	$3,537	$-	$-

See accompanying notes to consolidated financial statements.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014, 2013 and 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

To assist the reader, the Corporation has provided the following list of commonly used acronyms and abbreviations included in the Notes to Consolidated Financial Statements.

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

ORGANIZATION

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

BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in conformity with GAAP and include the accounts of the Corporation and its subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation.

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.

SECURITIES

Management determines the appropriate classification of securities at the time of purchase. If management has the intent and the Corporation has the ability at the time of purchase to hold securities until maturity, they are classified as held to maturity and carried at amortized cost. Securities to be held for indefinite periods of time or not intended to be held to maturity are classified as available for sale and carried at fair value. Unrealized holding gains and losses on securities classified as available for sale are excluded from earnings and are reported as accumulated other comprehensive income (loss) in shareholders' equity, net of the related tax effects, until realized. Realized gains and losses are determined using the specific identification method.

Management evaluates securities for OTTI on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and

2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

In order to determine OTTI for purchased beneficial interests that, on the purchase date, were not highly rated, the Corporation compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment of yield using the interest method. Dividend and interest income is recognized when collected.

FEDERAL HOME LOAN BANK AND FEDERAL RESERVE BANK STOCK

The Bank is a member of both the FHLBNY and the FRBNY. FHLBNY members are required to own a certain amount of stock based on the level of borrowings and other factors, while FRBNY members are required to own a certain amount of stock based on a percentage of the Bank's capital stock and surplus. FHLBNY and FRBNY stock are carried at cost and classified as non-marketable equities and periodically evaluated for impairment based on ultimate recovery of par value. Cash dividends are reported as income.

BANK OWNED LIFE INSURANCE

Bank Owned Life Insurance ("BOLI") is recorded at the amount that can be realized under the insurance contracts at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Changes in the cash surrender value are recorded in other income.

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, as well as the commitments to sell the loans that are originated for sale, are regularly evaluated for changes in fair value. If necessary, a valuation allowance is established with a charge to income for unrealized losses attributable to a change in market rates.

LOANS

Loans are stated at the amount of unpaid principal balance net of deferred loan fees. Additionally, recorded investment in loans includes interest receivable on loans. The Corporation has the ability and intent to hold its loans for the foreseeable future. The Corporation's loan portfolio, including acquired loans, is comprised of the following segments: (i) commercial and agricultural, (ii) commercial mortgages, (iii) residential mortgages, and (iv) consumer loans.

Commercial and agricultural loans primarily consist of loans to small to mid-sized businesses in the Corporation's market area in a diverse range of industries. These loans are typically made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. Commercial mortgage loans are generally non-owner occupied commercial properties or owner occupied commercial real estate with larger balances. Repayment of these loans is often dependent upon the successful operation and management of the properties and the businesses occupying the properties, as well as on the collateral securing the loan. Residential mortgage loans are generally made on the basis of the borrower's ability to make repayment from their employment and other income, but are secured by real property. Consumer loans include home equity lines of credit and home equity loans, which exhibit many of the same characteristics as residential mortgages. Indirect and other consumer loans are typically secured by depreciable assets, such as automobiles or boats, and are dependent on the borrower's continuing financial stability.

Interest on loans is accrued and credited to operations using the interest method. Past due status is based on the contractual terms of the loan. The accrual of interest is generally discontinued and previously accrued interest is reversed when loans become 90 days delinquent. Loans may also be placed on non-accrual status if management believes such classification is otherwise warranted. All payments received on non-accrual loans are applied to principal. Loans are returned to accrual status when they become current as to principal and interest and remain current for a period of six consecutive months or when, in the opinion of management, the Corporation expects to receive all of its original principal and interest. Loan origination fees and certain direct loan origination costs are deferred and amortized over the life of the loan as an adjustment to yield, using the interest method.

ACQUIRED LOANS

Non-Impaired Acquired Loans:

Loans acquired are initially recorded at fair value with no carryover of the related allowance for loan losses. After acquisition, losses beyond those estimated in determining the initial fair value are recognized through the allowance for loan losses. Determining fair value of the loans involves estimating the amount and timing of expected principal and interest cash flows to be collected on the loans and discounting those cash flows at a market interest rate.

Purchased Credit Impaired Loans:

Loans acquired that show evidence of credit deterioration since origination are considered purchased credit impaired loans These loans are recorded at the fair value of the amount paid, such that there is no carryover of the seller's allowance for loan losses.

Such purchased loans are accounted for individually. The Corporation estimates the amount and timing of expected cash flows for each purchased loan and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

After acquisition, losses are recognized by an increase in the allowance for loan losses. Over the life of the loan expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a reserve is established. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income. These loans are charged against the allowance for loan losses when management believes that the collectability of all or a portion of the principal is unlikely.

TROUBLED DEBT RESTRUCTURINGS

A TDR is a formally renegotiated loan in which the Bank, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that would not have been granted to the borrower otherwise. Not all loans that are restructured as a TDR are classified as non-accrual before the restructuring occurs. Restructured loans can convert from non-accrual to accrual status when said loans have demonstrated performance, generally evidenced by six months of payment performance in accordance with the restructured terms, or by the presence of other significant items.

ALLOWANCE FOR LOAN LOSSES

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

A loan is classified as impaired when, based on current information and events, it is probable that the Corporation will be unable to collect both the principal and interest due under the contractual terms of the loan agreement. Specific valuation allowances are established based on management's analyses of individually impaired loans. Factors considered by management in determining impairment include payment status, evaluations of the underlying collateral, expected cash flows, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. If a loan is determined to be impaired and is placed on nonaccrual status, all future payments received are applied to principal and a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. Loans not impaired but classified as substandard and special mention use a historical loss factor on a rolling five year history of net losses. For all other unclassified loans, the historical loss experience is determined by portfolio class and is based on the actual loss history experienced by the Corporation over the most recent two years.

This actual loss experience is supplemented with other qualitative factors based on the risks present for each portfolio class. These qualitative factors include consideration of the following: (1) lending policies and procedures, including underwriting standards and collection, charge-off and recovery policies, (2) national and local economic and business conditions and developments, including the condition of various market segments, (3) loan profiles and volume of the portfolio, (4) the experience, ability, and depth of lending management and staff, (5) the volume and severity of past due, classified and watch-list loans, non-accrual loans, troubled debt restructurings, and other modifications (6) the quality of the Bank's loan review system and the degree of oversight by the Bank's Board of Directors, (7) collateral related issues: secured vs. unsecured, type, declining valuation environment and trend of other related factors, (8) the existence and effect of any concentrations of credit, and changes in the level of such concentrations, (9) the effect of external factors, such as competition and legal and regulatory requirements, on the level of estimated credit losses in the Bank's current portfolio and (10) the impact of the global economy.

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

PREMISES AND EQUIPMENT

Land is carried at cost, while buildings, equipment, leasehold improvements and furniture are stated at cost less accumulated depreciation and amortization. Depreciation is charged to current operations under the straight-line method over the estimated useful lives of the assets, which range from 15 to 50 years for buildings and from 3 to 10 years for equipment and furniture. Amortization of leasehold improvements and leased equipment is recognized on the straight-line method over the shorter of the lease term or the estimated life of the asset.

OTHER REAL ESTATE

Real estate acquired through foreclosure or deed in lieu of foreclosure is recorded at estimated fair value of the property less estimated costs to dispose at the time of acquisition to establish a new carrying value. Write downs from the carrying value of the loan to estimated fair value which are required at the time of foreclosure are charged to the allowance for loan losses. Subsequent adjustments to the carrying values of such properties resulting from declines in fair value are charged to operations in the period in which the declines occur.

INCOME TAXES

The Corporation files a consolidated tax return. Deferred tax assets and liabilities are recognized for future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for unused tax loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates to apply to taxable income in the years in which temporary differences are expected to be recovered or settled, or the tax loss carry forwards are expected to be utilized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

WEALTH MANAGEMENT GROUP FEE INCOME

Assets held in a fiduciary or agency capacity for customers are not included in the accompanying consolidated balance sheets, since such assets are not assets of the Corporation. Wealth Management Group income is recognized on the accrual method as earned based on contractual rates applied to the balances of individual trust accounts. The unaudited market value of trust assets under administration total $1.956 billion at December 31, 2014 and $1.888 billion at December 31, 2013.

POSTRETIREMENT BENEFITS

Pension Plan:

The Chemung Canal Trust Company Pension Plan is a non-contributory defined benefit pension plan. The Pension Plan is a "qualified plan" under the IRS Code and therefore must be funded. Contributions are deposited to the Plan and held in trust. The Plan assets may only be used to pay retirement benefits and eligible plan expenses. The plan was amended such that new employees hired on or after July 10, 2010 will not be eligible to participate in the plan, however, existing participants at that time will continue to accrue benefits. The amendment has resulted in a decrease over time in the future benefit obligations of the plan and the corresponding net periodic benefit cost associated with the plan.

Under the Plan, pension benefits are based upon final average annual compensation where the annual compensation is total base earnings paid plus 401(k) salary deferrals. Bonuses, overtime, commissions and dividends are excluded. The normal retirement benefit equals 1.2% of final average compensation (highest consecutive five years of annual compensation in the prior ten years) times years of service (up to a maximum of 25 years), plus 1% of average monthly compensation for each additional year of service (up to a maximum of 10 years), plus .65% of average monthly compensation in excess of covered compensation for each year of credited service up to 35 years. Covered compensation is the average of the social security taxable wage bases in effect for the 35 year period prior to normal social security retirement age. Compensation for purposes of determining benefits under the Plan is reviewed annually.

Defined Contribution Profit Sharing, Savings and Investment Plan:

The Corporation also sponsors a 401(K) defined contribution profit sharing, savings and investment plan which covers all eligible employees with a minimum of 1,000 hours of annual service. The Corporation makes non-discretionary contributions and discretionary matching and profit sharing contributions to the plan based on the financial results of the Corporation. The plan's assets consist of Chemung Financial Corporation common stock, as well as other common and preferred stocks, U.S. Government securities, corporate bonds and notes, and mutual funds. The plan’s expense is the amount of non-discretionary contributions and discretionary matching and profit sharing contributions, and is charged to other expenses in the consolidated statements of income.

Defined Benefit Health Care Plan:

The Corporation sponsors a defined benefit health care plan that provides postretirement medical benefits to employees who meet minimum age and service requirements. This plan was amended effective July 1, 2006. Prior to this amendment, all retirees age 55 or older were eligible for coverage under the Corporation's self-insured health care plan, contributing 40% of the cost of the coverage. Under the amended plan, coverage for Medicare eligible retirees who reside in the Central New York geographic area is provided under a group sponsored plan with Excellus BlueCross BlueShield called Medicare Blue PPO, with the retiree paying 100% of the premium. Excellus BlueCross BlueShield assumes full liability for the payment of health care benefits incurred after July 1, 2006. Current Medicare eligible retirees who reside outside of the Central New York geographic area were eligible for coverage under the Corporation's self insurance plan thru December 31, 2009, contributing 50% of the cost of coverage. Effective January 1, 2010, these out of area retirees were eligible for coverage under a Medicare Supplement Plan C administered by Excellus BlueCross BlueShield, contributing 50% of the premium. Current and future retirees between the ages of 55 and 65, will continue to be eligible for coverage under the Corporation's self insured plan, contributing 50% of the cost of the coverage. Employees who retire after July 1, 2006, and become Medicare eligible will only have access to the Medicare Blue PPO plan. Additionally, effective July 1, 2006, dental benefits were eliminated for all retirees. The cost of the plan is based on actuarial computations of current and future benefits for employees, and is charged to other operating expenses in the consolidated statements of income.

Executive Supplemental Pension Plan:

U.S. laws place limitations on compensation amounts that may be included under the Pension Plan. The Executive Supplemental Pension Plan is provided to executives in order to produce total retirement benefits, as a percentage of compensation that is comparable to employees whose compensation is not restricted by the annual compensation limit. Pension amounts, which exceed the applicable Internal Revenue Service code limitations, will be paid under the Executive Supplemental Pension Plan.

The Executive Supplemental Pension Plan is a “non-qualified plan” under the Internal Revenue Service Code. Contributions to the Plan are not held in trust; therefore, they may be subject to the claims of creditors in the event of bankruptcy or insolvency. When payments come due under the Plan, cash is distributed from general assets. The cost of the plan is based on actuarial computations of current and future benefits for executives, and is charged to other operating expense in the consolidated statements of income.

Defined Contribution Supplemental Executive Retirement Plan:

The Defined Contribution Supplemental Executive Retirement Plan is provided to certain executives to motivate and retain key management employees by providing a nonqualified retirement benefit that is payable at retirement, disability, death and certain other events. The Defined Contribution Supplemental Executive Retirement Plan will deliver a retirement benefit comparable to that received by other executive officers participating in the bank's Defined Benefit Plan.

The Supplemental Executive Retirement Plan is intended to be an unfunded plan maintained primarily for the purpose of providing deferred compensation benefits for a select group of management or highly compensated employees under Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974. The plan's expense is the Corporation's annual contribution plus interest credits.

STOCK-BASED COMPENSATION

Restricted Stock Plan:

The Restricted Stock Plan, in effect as of June 16, 2010, is designed to align the interests of the Corporation's executives and senior managers with the interests of the Corporation and its shareholders, to ensure the Corporation's compensation practices are competitive and comparable with those of its peers, and to promote the retention of select management-level employees. Under the terms of the Plan, the Corporation may make discretionary grants of restricted shares of the Corporation's common stock to or for the benefit of employees selected to participate in the Plan. Each officer of the Corporation, other than the Corporation's chief executive officer, is eligible to participate in the Plan. Awards are based on the performance, responsibility and contributions of the employee and are targeted at an average of the peer group. The maximum number of shares of the Corporation's common stock that may be awarded as restricted shares to Plan participants may not exceed 15,000 per calendar year. Twenty percent of the restricted stock awarded to a participant vests each year commencing with the first anniversary date of the award and is 100 percent vested on the fifth anniversary date. Except in the case of the participant's death, disability, or in the event of a change in control, the participant's unvested shares of unrestricted stock will be forfeited if the participant leaves the employ of the Corporation or the Bank, with or without cause, or if the participant retires prior to attainment of age 65. The plan's expense is recognized as compensation expense ratably over the vesting period for the fair value of the award, measured at the grant date.

Deferred Directors Fee Plan:

A Deferred Directors Fee Plan for non-employee directors provides that directors may elect to defer receipt of all or any part of their fees. Deferrals are either credited with interest compounded quarterly at the Applicable Federal Rate for short-term debt instruments or converted to units, which appreciate or depreciate, as would an actual share of the Corporation's common stock purchased on the deferral date. Cash deferrals will be paid into an interest bearing account and paid in cash. Units will be paid in shares of common stock. All directors' fees are charged to other operating expense in the consolidated statements of income.

Directors' Compensation Plan:

The purpose of the Directors' Compensation Plan is to enable the Corporation to attract and retain persons of exceptional ability to serve as directors and stockholders in enhancing the value of the common stock of the Corporation. The Plan was originally established to provide for the cash payment of an annual retainer and fees to non-employee directors serving on the Board of Directors of the Corporation and the Bank. The Plan was subsequently amended to provide: (i) payment of additional compensation to each non-employee director in shares of the Corporation's common stock in an amount equal to the total cash compensation earned by each non-employee director during the year for service on the Board of Directors of each of the Corporation and the Bank, and for each year of service thereafter, to be distributed from treasury shares in January of the following calendar year; and (ii) payment to the President and CEO of the Corporation and the Bank for his service on the Boards of Directors of the Corporation and the Bank in an amount equal in value to the average cash compensation awarded to non-employee directors who have served twelve (12) months of the previous year. The maximum number of shares of Corporation's common stock that may be granted under the Plan may not exceed 20,000 per year. The Plan was amended, effective January 1, 2012, to provide that the value of a share of common stock granted under the Plan shall be determined as the average of the closing prices of a share of common stock as quoted on the applicable established securities market for each of the prior 30 trading days ending on December 31st of the calendar year. The cost of all cash and stock compensation is charged to other operating expenses in the consolidated statements of income.

Incentive Compensation Plan:

The Incentive Compensation Plan replaces the President and CEO Bonus Plan that was in effect prior to January 1, 2012. The purpose of the Incentive Compensation Plan is to attract and retain highly qualified officers and key employees, and to motivate such persons to serve the Corporation and the Bank and to expend maximum effort to improve the business results and earnings of the Corporation by providing to such persons an opportunity to acquire or increase a direct proprietary interest in the operations and future success of the Corporation. To this end, the Incentive Compensation Plan provides for the discretionary grant of cash and/or unrestricted stock, i.e., common stock of the Corporation that is free of any restrictions, such as restrictions on transferability, to select officers and key employees as designated by the Board in its sole discretion. The maximum number of shares that can be awarded as unrestricted stock under the Incentive Compensation Plan to any individual is 10,000 per calendar year; and the maximum amount that may be earned in cash as an Incentive Award in any calendar year by any individual is $300,000. The right of any eligible employee to receive a grant of an incentive award, whether in the form of cash or unrestricted stock, is subject to performance standards that are specified by either the Compensation Committee or the Board. The cost of all cash and unrestricted stock compensation is charged to other operating expenses in the consolidated statements of income.

Non-qualified Deferred Compensation Plan:

The Deferred Compensation Plan allows a select group of management and employees to defer all or a portion of their annual compensation to a future date. Eligible employees are generally highly compensated employees and are designated by the Board from time to time. Investments in the plan are recorded as trading assets and deferred amounts are an unfunded liability of the Corporation. The plan requires deferral elections be made before the beginning of the calendar year during which the participant will perform the services to which the compensation relates. Participants in the Plan are required to elect a form of distribution, either lump sum payment or annual installments not to exceed ten years, and a time of distribution, either a specified age or a specified date. The terms and conditions for the deferral of compensation are subject to the provisions of 409A of the IRS Code. The income from investments and cost of the plan are recorded as other operating income and other operating expenses, respectively, in the consolidated statements of income.

GOODWILL AND INTANGIBLE ASSETS

Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Corporation has selected December 31 as the date to perform the annual impairment test. Goodwill is the only intangible asset with an indefinite life on our balance sheet. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. The balances are reviewed for impairment on an ongoing basis or whenever events or changes in business circumstances warrant a review of the carrying value. If impairment is determined to exist, the related write-down of the intangible asset's carrying value is charged to operations. Based on these impairment reviews, the Corporation determined that goodwill and other intangible assets were not impaired at December 31, 2014.

The Corporation's intangible assets with definite useful lives resulted from the purchase of the trust business of Partners Trust Bank in May of 2007, the acquisition of three former M&T Bank branch offices in March 2008, the acquisition of Canton Bancorp, Inc. in May 2009, the acquisition of Fort Orange Financial Corp. in April 2011 and the acquisition of six branches of Bank of America in November of 2013, with balances of $2.4 million, $21 thousand, $8 thousand, $1.1 million and $1.6 million, respectively, at December 31, 2014. The trust business intangible is being amortized to expense over the expected useful life of 15 years. The identifiable core deposit and customer relationship intangibles related to the M&T branch offices, and Canton Bancorp, Inc. acquisitions are being amortized to expense using a 7.25 year accelerated method. The identifiable core deposit related to the branch offices in the Bank of America acquisition is being amortized to expense using a 7 year accelerated method. The identifiable core deposit intangible related to the FOFC acquisition is being amortized using a 10 year sum-of-the-years digits method.

ADVERTISING COSTS

Costs for advertising products and services or for promoting our corporate image are expensed as incurred.

EARNINGS PER COMMON SHARE

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 as they are earned. All outstanding unvested share based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Restricted stock awards are grants of participating securities. The impact of the participating securities on earnings per share is not material. Earnings per share information is adjusted to present comparative results for stock splits and stock dividends that occur.

COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale and changes in the funded status of the Corporation’s defined benefit pension plan and other benefit plans, net of the related tax effect, which are also recognized as separate components of equity.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and amounts due from banks and interest-bearing deposits with other financial institutions.

TRADING ASSETS

Securities that are held to fund a non-qualified deferred compensation plan are recorded at fair value with changes in fair value included in earnings.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Corporation enters into sales of securities under agreements to repurchase. The agreements are treated as financings, and the obligations to repurchase securities sold are reflected as liabilities in the consolidated balance sheets. The amount of the securities underlying the agreements continues to be carried in the Corporation's securities portfolio. The Corporation has agreed to repurchase securities identical to those sold. The securities underlying the agreements are under the Corporation's control.

OTHER FINANCIAL INSTRUMENTS

The Corporation is a party to certain other financial instruments with off-balance sheet risk such as unused portions of lines of credit and commitments to fund new loans. The Corporation's policy is to record such instruments when funded.

SEGMENT REPORTING

The Corporation has identified separate operating segments and internal financial information is primarily reported and aggregated in two lines of business, banking and wealth management services.

RECLASSIFICATION

Amounts in the prior years' consolidated financial statements are reclassified whenever necessary to conform to the current year's presentation.

SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events for recognition and disclosure through March, 13, 2015, which is the date the financial statements were available to be issued.

(2) RESTRICTIONS ON CASH AND DUE FROM BANK ACCOUNTS

The Corporation was in compliance with the reserve requirement with the Federal Reserve Bank of New York as of December 31, 2014.

The Corporation also maintains a pre-funded settlement account with a financial institution in the amount of $1.4 million for electronic funds transaction settlement purposes at December 31, 2014.

(3) SECURITIES

Amortized cost and estimated fair value of securities available for sale at December 31, 2014 and 2013 are as follows (amounts in thousands):

	2014		2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Obligations of U.S. Government and U.S. Government sponsored enterprises	$180,535	$181,673	$187,098	$188,106
Mortgage-backed securities, residential	60,787	61,660	104,069	104,356
Collateralized mortgage obligations	335	338	1,001	1,015
Obligations of states and political subdivisions	30,677	31,451	37,339	38,376
Corporate bonds and notes	1,502	1,533	2,879	2,946
SBA loan pools	1,296	1,304	1,471	1,488
Trust preferred securities	1,906	2,028	1,898	2,034
Corporate stocks	285	520	444	7,695
Total	$277,323	$280,507	$336,199	$346,016

Gross unrealized gains and losses on securities available for sale at December 31, 2014 and 2013, were as follows (amounts in thousands):

	2014		2013	
	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses
Obligations of U.S. Government and U.S. Government sponsored enterprises	$1,300	$ 162	$1,914	$ 906
Mortgage-backed securities, residential	892	19	1,037	750
Collateralized mortgage obligations	3	-	14	-
Obligations of states and political subdivisions	802	28	1,059	22
Corporate bonds and notes	35	4	76	9
SBA loan pools	11	3	17	-
Trust preferred securities	122	-	136	-
Corporate stocks	235	-	7,253	2
Total	$3,400	$ 216	$11,506	$ 1,689

The amortized cost and estimated fair value of debt securities available for sale 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 (amounts in thousands):

	December 31, 2014	
	Amortized Cost	Fair Value
Within one year	$37,087	$37,552
After one, but within five years	172,100	173,534
After five, but within ten years	5,433	5,599
After ten years	-	-
Mortgage-backed securities, residential	60,787	61,660
Collateralized mortgage obligations	335	338
SBA loan pools	1,296	1,304
Total	$277,038	$279,987

Actual maturities may differ from contractual maturities above because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

The proceeds from sales and calls of securities resulting in gains or losses are listed below (amounts in thousands):

	2014	2013	2012
Proceeds	$36,258	$2,650	$26,210
Gross gains	$6,869	$16	$301
Tax expense	$2,641	$6	$116

Amortized cost and estimated fair value of securities held to maturity at December 31, 2014 and 2013 are as follows (amounts in thousands):

	2014		2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Obligations of states and political subdivisions	$5,175	$ 5,535	$5,472	$ 5,891
Time deposits with other financial institutions	656	662	1,023	1,039
	$5,831	$ 6,197	$6,495	$ 6,930

Gross unrealized gains and losses on securities held to maturity at December 31, 2014 and 2013, were as follows (amounts in thousands):

	2014		2013	
	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses
Obligations of states and political subdivisions	$360	$ -	$419	$ -
Time deposits with other financial institutions	6	-	16	-
Total	$366	$ -	$435	$ -

There were no sales of securities held to maturity in 2014 or 2013.

The contractual maturity of securities held to maturity is as follows at December 31, 2014 (amounts in thousands):

	December 31, 2014	
	Amortized Cost	Fair Value
Within one year	$2,629	$2,658
After one, but within five years	2,199	2,390
After five, but within ten years	1,003	1,149
After ten years	-	-
Total	$5,831	$6,197

The following table summarizes the investment securities available for sale with unrealized losses at December 31, 2014 and December 31, 2013 by aggregated major security type and length of time in a continuous unrealized position (amounts in thousands):

	Less than 12 months		12 months or longer		Total	
2014	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
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
SBA loan pools	276	1	316	2	592	3
Total temporarily impaired securities	$73,464	$ 150	$6,560	$ 66	$80,024	$ 216

	Less than 12 months		12 months or longer		Total	
2013	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government and U.S. Government sponsored enterprises	$83,840	$ 867	$1,978	$ 39	$85,818	$ 906
Mortgage-backed securities, residential	63,115	750	-	-	63,115	750
Obligations of states and political subdivisions	4,589	22	-	-	4,589	22
Corporate bonds and notes	238	9	-	-	238	9
Corporate stocks	-	-	2	2	2	2
Total temporarily impaired securities	$151,782	$ 1,648	$1,980	$ 41	$153,762	$ 1,689

Other-Than-Temporary-Impairment

As of December 31, 2014, the majority of the Corporation's unrealized losses in the investment securities portfolio related to obligations of U.S. Government and U.S. Government sponsored enterprises and mortgage-backed securities. 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 December 31, 2014.

During the fourth quarter of 2013, the Corporation sold one CDO consisting of a pool of trust preferred securities that had an amortized cost of $600 thousand. Total proceeds from the sale of this CDO, was $600 thousand resulting in a slight loss. The Corporation recognized $29 thousand of additional credit loss in OTTI during 2013. This CDO was sold in light of the uncertainty surrounding the recently released rules contained in the "Volcker Rule" regarding the ability of banks to hold these types of securities and based on current market conditions.

The table below presents a roll forward of the cumulative credit losses recognized in earnings for the periods ended December 31, 2014, 2013 and 2012 (amounts in thousands):

	2014	2013	2012
Beginning balance, January 1,	$1,939	$3,506	$3,506
Amounts related to credit loss for which other-than-temporary impairment was not previously recognized	-	-	-
Additions/Subtractions:			
Amounts related to securities for which the company intends to sell or that it will be more likely than not that the company 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 on securities sold during the year	-	(1,596)	-
Reductions for previous credit losses realized on securities liquidated during the year	(1,939)	-	-
Increases to the amount related to the credit loss for which other-than-temporary impairment was previously recognized	-	29	-
Ending balance, December 31,	$-	$1,939	$3,506

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 to reflect proceeds received from the liquidation. The Corporation does not own any other CDO's in its investment securities portfolio.

The fair value of securities pledged to secure public funds on deposit or for other purposes as required by law was $190.7 million at December 31, 2014 and $188.9 million at December 31, 2013.

The table below shows the securities pledged to secure securities sold under agreements to repurchase at December 31, 2014 and 2013. (amounts in thousands)

	2014		2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government and U. S. Government sponsored enterprises	$36,195	$36,641	$33,746	$34,369

Mortgage-backed securities, residential	7,934	8,350	11,802	12,365
Collateralized mortgage obligations	48	48	205	207
Total	$44,177	$45,039	$45,753	$46,941

There are no securities of a single issuer (other than securities of U.S. Government sponsored enterprises) that exceed 10% of shareholders' equity at December 31, 2014 or 2013.

The Corporation has an equity investment in Cephas Capital Partners, L.P. This small business investment company was established for the purpose of providing financing to small businesses in market areas served by the Corporation, including minority-owned small businesses and those that are anticipated to create jobs for the low to moderate income levels in the targeted areas. As of December 31, 2014 and 2013, these investments totaled $0.7 million and $1.0 million, respectively, are included in other assets, and are accounted for under the equity method of accounting.

(4) LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the loan portfolio, net of deferred loan fees is summarized as follows (amounts in thousands):

	December 31, 2014	December 31, 2013
Commercial and agricultural:		
Commercial and industrial	$165,385	$144,787
Agricultural	1,021	576
Commercial mortgages:		
Construction	54,831	27,440
Commercial mortgages	397,762	345,707
Residential mortgages	196,809	195,997
Consumer loans:		
Credit cards	1,654	1,756
Home equity lines and loans	99,354	95,905
Indirect consumer loans	184,763	164,846
Direct consumer loans	19,995	18,852
Total loans, net of deferred loan fees	$1,121,574	$995,866
Interest receivable on loans	2,780	2,597
Total recorded investment in loans	$1,124,354	$998,463

Residential mortgages held for sale as of December 31, 2014 and 2013 totaling $0.7 million and $0.7 million, respectively, are not included in the above table.

Residential mortgages totaling $152.7 million at December 31, 2014 and $145.1 million at December 31, 2013 were pledged under a blanket collateral agreement for the Corporation's line of credit with the FHLBNY.

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 years ended December 31, 2014, 2013 and 2012, respectively (amounts in thousands):

	December 31, 2014					
Allowance for loan losses	Commercial, and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total
Beginning balance:	$1,979	$ 6,243	$ 1,517	$ 3,037	$ -	$12,776
Charge Offs:	(444)	(2,229)	(97)	(1,508)	-	(4,278)
Recoveries:	385	156	32	634	-	1,207

Net (charge offs) recoveries	(59)	(2,073)	(65)	(874)	-	(3,071)
Provision	(460)	2,156	120	2,165	-	3,981
Ending balance	$1,460	$ 6,326	$ 1,572	$ 4,328	$ -	$13,686

	December 31, 2013					
Allowance for loan losses	Commercial, and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total
Beginning balance:	$1,708	$ 4,428	$ 1,565	$ 2,706	$ 26	$10,433
Charge Offs:	(186)	(44)	(124)	(1,139)	-	(1,493)
Recoveries:	537	98	65	381	-	1,081
Net recoveries (charge offs)	351	54	(59)	(758)	-	(412)
Provision	(80)	1,761	11	1,089	(26)	2,755
Ending balance	$1,979	$ 6,243	$ 1,517	$ 3,037	$ -	$12,776

	December 31, 2012					
Allowance for loan losses	Commercial, and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total
Beginning balance:	$3,143	$ 2,570	$ 1,310	$ 2,193	$ 443	$9,659
Reclassification of acquired loan discount	74	50	-	-	-	124
Charge Offs:	(181)	(335)	(83)	(674)	-	(1,273)
Recoveries:	802	55	-	238	-	1,095
Net recoveries (charge offs)	621	(280)	(83)	(436)	-	(178)
Provision	(2,130)	2,088	338	949	(417)	828
Ending balance	$1,708	$ 4,428	$ 1,565	$ 2,706	$ 26	$10,433

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 December 31, 2014 and December 31, 2013 (amounts in thousands):

	December 31, 2014				
Allowance for loan losses	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
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

	December 31, 2013				
Allowance for loan losses	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$576	$ 466	$ -	$ 4	$1,046
Collectively evaluated for impairment	1,403	4,407	1,497	3,033	10,340
Loans acquired with deteriorated credit quality	-	1,370	20	-	1,390
Total ending allowance balance	$1,979	$ 6,243	$ 1,517	$ 3,037	$12,776

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

	December 31, 2013				
Loans:	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Loans individually evaluated for impairment	$ 2,946	$ 10,703	$ 117	$ 131	$ 13,897
Loans collectively evaluated for impairment	142,108	354,636	196,147	281,979	974,870
Loans acquired with deteriorated credit quality	678	8,757	261	-	9,696
Total ending loans balance	$ 145,732	$ 374,096	$ 196,525	$ 282,110	$ 998,463

The following tables present loans individually evaluated for impairment recognized by class of loans as of December 31, 2014 and December 31, 2013, the average recorded investment and interest income recognized by class of loans as of the years ended December 31, 2014, 2013 and 2012 (amounts in thousands):

	December 31, 2014			December 31, 2013		
	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	$1,359	$ 1,364	$ -	$1,906	$ 1,909	$ -
Commercial mortgages:						
Construction	1,927	1,910	-	2,329	2,319	-
Commercial mortgages	7,803	7,708	-	7,406	7,439	-
Residential mortgages	253	253	-	117	117	-
Consumer loans:						
Home equity lines and loans	429	432	-	71	73	-
With an allowance recorded:						
Commercial and agricultural:						
Commercial and industrial	89	89	89	1,037	1,037	
Commercial mortgages:						576
Commercial mortgages	4,210	4,094	1,145	951	945	
Consumer loans:						466
Home equity lines and loans	54	54	1	58	58	4
Total	$16,124	$ 15,904	$ 1,235	$13,875	$ 13,897	$ 1,046

	December 31, 2014		December 31, 2013		December 31, 2012	
	Average Recorded Investment	Interest Income Recognized (1)	Average Recorded Investment	Interest Income Recognized (1)	Average Recorded Investment	Interest Income Recognized (1)
With no related allowance recorded:						
Commercial and agricultural:						
Commercial and industrial	$1,463	$ 40	$1,605	$ 71	$481	$ 1
Commercial mortgages:						
Construction	2,104	102	3,364	95	73	1
Commercial mortgages	7,492	259	5,991	249	1,990	10
Residential mortgages	141	1	125	-	106	-
Consumer loans:						
Home equity lines & loans	143	6	47	2	30	-
With an allowance recorded:						
Commercial and agricultural:						
Commercial and industrial	502	-	719	-	1,831	-
Commercial mortgages:						
Construction	-	-	-	-	4	-
Commercial mortgages	1,611	41	867	-	872	-
Residential mortgages	-	-	-	-	64	-
Consumer loans:						
Home equity lines and loans	56	4	47	3	-	-
Direct consumer loans	-	-	3	-	-	-

Total	$13,512	$ 453	$12,768	$ 421	$5,451	$ 12

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

The following tables present the recorded investment in past due and non-accrual status by class of loans as of December 31, 2014 and December 31, 2013 (amounts in thousands):

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.

December 31, 2013

	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	$143,100	$29	$ -	$ 678	$ 1,348	$145,155
Agricultural	577	-	-	-	-	577
Commercial mortgages:						
Construction	24,742	-	1,454	774	540	27,510
Commercial mortgages	335,123	1,138	-	7,983	2,342	346,586
Residential mortgages	187,448	5,458	-	261	3,358	196,525
Consumer loans:						
Credit cards	1,729	9	19	-	-	1,757
Home equity lines and loans	95,349	150	-	-	635	96,134
Indirect consumer loans	163,810	1,235	-	-	249	165,294
Direct consumer loans	18,830	50	-	-	45	18,925
Total	$970,708	$8,069	$ 1,473	$ 9,696	$ 8,517	$998,463

(1) Includes all loans on non-accrual status regardless of the number of days such loans were delinquent as of December 31, 2013.

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 December 31, 2014, 2013 and 2012, the Corporation has a recorded investment in troubled debt restructurings of $9.7 million, $7.9 million, and $5.7 million, respectively. There were specific reserves of $0.3 million allocated for troubled debt restructurings at December 31, 2014 and December 31, 2013, respectively, and no specific reserves allocated at December 31, 2012. As of December 31, 2014, troubled debt restructurings totaling $8.7 were accruing interest under the modified terms and $1.0 million were on non-accrual status. As of December 31, 2013, troubled debt restructurings totaling $6.8 million were accruing interest under the modified terms and $1.1 million were on non-accrual status. As of December 31, 2012, troubled debt restructurings totaling $5.4 million were accruing interest under the modified terms and $0.4 million were on non-accrual status. The Corporation has committed additional amounts totaling up to less than $0.1 million and $0.2 million as of December 31, 2014 and December 31, 2013, respectively, to customers with outstanding loans that are classified as troubled debt restructurings. The Corporation did not commit to lend any additional amounts to customers with outstanding loans that were classified as troubled debt restructurings as of December 31, 2012.

During the years ended December 31, 2014, 2013 and 2012, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: 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 or a permanent reduction of the recorded investment in the loan.

The following table presents loans by class modified as troubled debt restructurings that occurred during the years ended December 31, 2014, 2013 and 2012 (amounts in thousands):

December 31, 2014	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial and agricultural:			
Commercial and industrial	4	$ 1,028	$ 1,028
Commercial mortgages:			
Commercial mortgages	4	2,666	2,623
Residential mortgages	1	149	150
Consumer loans:			
Home equity lines and loans	1	366	366
Total	10	$ 4,209	$ 4,167

December 31, 2013	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			

Commercial and agricultural:			
Commercial and industrial	5	$ 1,343	$ 1,343
Commercial mortgages:			
Construction	1	326	326
Commercial mortgages	1	133	133
Consumer loans:			
Home equity lines and loans	3	134	134
Total	10	$ 1,936	$ 1,936

December 31, 2012	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial and agricultural:			
Commercial and industrial	4	$ 1,307	$ 1,307
Commercial mortgages:			
Construction	1	251	251
Commercial mortgages	3	3,872	3,872
Total	8	$ 5,430	$ 5,430

The troubled debt restructurings described above increased the allowance for loan losses by $0.2 million and resulted in less than $0.1 million in charge offs during the twelve months ended December 31, 2014. The troubled debt restructurings described above increased the allowance for loan losses by $0.1 million and resulted in no charge offs during the year ended December 31, 2013. The troubled debt restructurings described above did not increase the allowance for loan losses and resulted in no charge offs during the year ended December 31, 2012.

There were no payment defaults on any loans previously modified as troubled debt restructurings during the years ended December 31, 2014, December 31, 2013 or December 31, 2012, 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.

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 as 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 December 31, 2014 and December 31, 2013, the risk category of the recorded investment of loans by class of loans is as follows (amounts in thousands):

	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

	December 31, 2013						
	Not Rated	Pass	Loans acquired with deteriorated credit quality	Special Mention	Substandard	Doubtful	Total
Commercial and agricultural:							
Commercial and industrial	$ -	$ 133,615	$ 678	$ 5,117	$ 4,724	$ 1,021	$ 145,155
Agricultural	-	577	-	-	-	-	577
Commercial mortgages:							
Construction	-	23,087	774	2,783	866	-	27,510
Commercial mortgages	-	313,956	7,983	13,611	11,036	-	346,586
Residential mortgages	192,995	-	261	-	3,269	-	196,525
Consumer loans							
Credit cards	1,757	-	-	-	-	-	1,757
Home equity lines and loans	95,422	-	-	-	712	-	96,134
Indirect consumer loans	165,045	-	-	-	249	-	165,294
Direct consumer loans	18,880	-	-	-	45	-	18,925
Total	$ 474,099	$ 471,235	$ 9,696	$ 21,511	$ 20,901	$ 1,021	$ 998,463

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 December 31, 2014 and December 31, 2013 (amounts in thousands):

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

December 31, 2013		Consumer Loans			
	Residential Mortgages	Credit Card	Home Equity Lines and Loans	Indirect Consumer Loans	Other Direct Consumer Loans
Performing	$ 193,167	$ 1,757	$ 95,499	$ 165,045	$ 18,880
Non-Performing	3,358	-	635	249	45
Total	$ 196,525	$ 1,757	$ 96,134	$ 165,294	$ 18,925

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.

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, 2014 to December 31, 2014 (amounts in thousands):

	Balance at December 31, 2013	Income Accretion	All Other Adjustments	Balance at December 31, 2014
Contractually required principal and interest	$ 11,230	$ -	$ (7,609)	$ 3,621
Contractual cash flows not expected to be collected (non accretable discount)	(543)	-	(27)	(570)
Cash flows expected to be collected	10,687	-	(7,636)	3,051
Interest component of expected cash flows (accretable yield)	(991)	515	56	(420)
Fair value of loans acquired with deteriorating credit quality	$ 9,696	$ 515	$ (7,580)	$ 2,631

(5) PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2014 and 2013 are as follows (amounts in thousands):

	2014	2013
Land	$4,803	$4,803
Buildings	35,067	34,379
Projects in progress	132	-
Equipment and furniture	40,088	34,920
Leasehold improvements	6,094	6,041
	86,184	80,143
Less accumulated depreciation and amortization	53,897	50,104
	$32,287	$30,039

Depreciation expense was $3.9 million, $3.2 million and $2.9 million for 2014, 2013 and 2012, respectively.

Operating Leases: The Corporation leases certain branch properties under operating leases. Rent Expense was $2.0 million, $1.3 million, and $1.1 million for 2014, 2013, and 2012, respectively. Rent commitments, before considering renewal options that generally are present, were as follows (amounts in thousands):

Year	Estimated Expense
2015	$ 1,429
2016	1,166
2017	1,143
2018	1,147
2019	834
2020 and thereafter	4,154
Total	$ 9,873

Capital Leases: The Corporation leases certain buildings under capital leases. The lease arrangements require monthly payments through 2030.

The Corporation has included these leases in premises and equipment as follows:

	2014	2013
Buildings	$3,537	$ -
Accumulated depreciation	-	-
	$3,537	$ -

The following is a schedule by year of future minimum lease payments under the capitalized lease, together with the present value of net minimum lease payments as of December 31, 2014 (amounts in thousands):

Year	Amount
2015	$ 234
2016	234
2017	234
2018	234
2019	234
2020 and thereafter	2,644

Total minimum lease payments	3,814
Less amount representing interest	838
Present value of net minimum lease payments	$ 2,976

(6) GOODWILL AND INTANGIBLE ASSETS

The changes in goodwill included in the core banking segment during the years ended December 31, 2014 and 2013 were as follows (amounts in thousands):

	2014	2013
Beginning of year	$21,824	$21,824
Acquired goodwill	-	-
End of year	$21,824	$21,824

Acquired intangible assets were as follows at December 31, 2014 and 2013 (amounts in thousands):

	At December 31, 2014		At December 31, 2013	
	Balance Acquired	Accumulated Amortization	Balance Acquired	Accumulated Amortization
Core deposit intangibles	$5,975	$ 3,279	$5,975	$ 2,338
Other customer relationship intangibles	5,633	3,262	6,063	3,323
Total	$11,608	$ 6,541	$12,038	$ 5,661

Aggregate amortization expense was $1.3 million, $0.9 million and $1.0 million for 2014, 2013 and 2012, respectively.

The remaining estimated aggregate amortization expense at December 31, 2014 is listed below (amounts in thousands):

Year	Estimated Expense
2015	$ 1,136
2016	986
2017	859
2018	734
2019	609
2020 and thereafter	743
Total	$ 5,067

(7) DEPOSITS

A summary of deposits at December 31, 2014 and 2013 is as follows (amounts in thousands):

	2014	2013
Non-interest-bearing demand deposits	$366,298	$351,222
Interest-bearing demand deposits	110,819	114,679
Insured money market accounts	392,871	361,095
Savings deposits	198,183	194,768
Time deposits	211,843	244,492
	$1,280,014	$1,266,256

Scheduled maturities of time deposits at December 31, 2014, are summarized as follows (amounts in thousands):

Year	
2015	$155,295
2016	34,803
2017	9,486
2018	4,775
2019	5,851
2020 and thereafter	1,633
	$211,843

Time deposits that meet or exceed the FDIC Insurance limit of $250,000 at December 31, 2014 and 2013 were $42.8 million and $37.7 million, respectively.

Time deposits include certificates of deposit in denominations of $100 thousand or more aggregating $80.5 million and $88.8 million at December 31, 2014 and 2013, respectively. Interest expense on such certificates was $0.5 million, $0.8 million and $1.2 million for 2014, 2013 and 2012, respectively.

Maturities of time deposits in denominations of $100 thousand or more outstanding at December 31, 2014 are summarized as follows (amounts in thousands):

3 months or less	$31,484
Over 3 through 6 months	15,286
Over 6 through 12 months	17,842
Over 12 months	15,845
	$80,457

(8) SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

A summary of securities sold under agreements to repurchase as of and for the years ended December 31, 2014, 2013 and 2012 is as follows (amounts in thousands):

	2014	2013	2012
Balance at December 31	$29,652	$32,701	$32,711
Maximum month-end balance	$31,914	$32,701	$38,284
Average balance during year	$30,667	$31,102	$34,534
Weighted-average interest rate at December 31	2.82 %	2.93 %	3.02 %
Average interest rate paid during year	2.77 %	2.76 %	2.88 %

Information concerning outstanding securities repurchase agreements as of December 31, 2014 is summarized as follows (amounts in thousands):

Remaining Term to Final Maturity (1)	Repurchase Liability	Accrued Interest Payable	Weighted Average Rate	Estimated Fair Value of Collateral Securities (2)
Within 90 days	$ 9,652	$ -	0.10 %	$ 16,682
After 90 days but within one year	-	-	- %	-
After one year but within five years	20,000	63	4.13 %	23,530
After five years but within ten years	-	-	- %	-
Total	$ 29,652	$ 63	2.82 %	$ 40,212

(1) At December 31, 2014, the securities repurchase agreements were non-callable with a weighted-average rate of 3.10%, and a weighted-average term to maturity of approximately 1.9 years.

(2) Represents the estimated fair value of the securities subject to the repurchase agreements, including accrued interest receivable, of approximately $342 thousand at December 31, 2014.

(9) FEDERAL HOME LOAN BANK TERM ADVANCES AND OVERNIGHT ADVANCES

The following is a summary of Federal Home Loan Bank fixed rate advances at December 31, 2014 and 2013. The carrying amount includes the advance balance plus purchase accounting adjustments that are amortized over the term of the advance (amounts in thousands):

2014

Amount	Rate	Maturity Date	Call Date
$30,830	0.32%	January 2, 2015	-
10,000	4.60%	December 22, 2016	-
4,138	3.90%	October 19, 2017	January 19, 2015
3,103	2.91%	December 4, 2017	March 3, 2015
2,069	3.05%	January 2, 2018	April 1, 2015
$50,140	1.73%		

2013

Amount	Rate	Maturity Date	Call Date
$1,033	3.20%	June 18, 2014	-
775	3.05%	October 2, 2014	-
4,134	3.84%	October 20, 2014	January 20, 2014
10,000	4.60%	December 22, 2016	-
4,134	3.90%	October 19, 2017	January 19, 2014
3,100	2.91%	December 4, 2017	March 4, 2014
2,067	3.05%	January 2, 2018	April 1, 2014
$ 25,243	3.93%		

Each advance is payable at its maturity date, with a prepayment penalty for term advances. The advances were collateralized by $152.7 million and $145.1 million of first mortgage loans under a blanket lien arrangement at December 31, 2014 and 2013, respectively. Based on this collateral and the Corporation's holdings of FHLBNY stock, the Corporation is eligible to borrow up to a total of $86.0 million at year-end 2014.

(10) INCOME TAXES

For the years ended December 31, 2014, 2013 and 2012, income tax expense attributable to income from operations consisted of the following (amounts in thousands):

Current:	2014	2013	2012
State	$606	$395	$530

Federal	5,366	3,548	4,208
	5,972	3,943	4,738
Deferred expense/(benefit)	(2,263)	(121)	647
	$3,709	$3,822	$5,385

Income tax expense differed from the amounts computed by applying the U.S. Federal statutory income tax rate to income before income tax expense as follows (amounts in thousands):

	2014	2013	2012
Tax computed at statutory rate	$4,034	$4,268	$5,578
Tax-exempt interest	(456)	(483)	(506)
Dividend exclusion	(60)	(46)	(40)
State taxes, net of Federal impact	227	188	439
Nondeductible interest expense	8	11	16
Other items, net	(44)	(116)	(102)
Income tax expense	$3,709	$3,822	$5,385

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2014 and 2013, are presented below (amounts in thousands):

	2014	2013
Deferred tax assets:		
Allowance for loan losses	$5,182	$4,889
Accrual for employee benefit plans	709	754
Depreciation	1,010	431
Deferred compensation and directors' fees	1,076	947
Purchase accounting adjustment – deposits	65	137
Purchase accounting adjustment – loans	259	340
Purchase accounting adjustment - fixed assets	221	224
Accounting for defined benefit pension and other benefit plans	6,624	3,691
Trust preferred impairment write down	540	742
Nonaccrued interest	617	626
Accrued expense	1,580	-
Other	456	647
Total gross deferred tax assets	18,339	13,428

Deferred tax liabilities:		
Deferred loan fees and costs	910	929
Prepaid pension	5,179	5,435
Net unrealized gains on securities available for sale	1,359	3,929
Discount accretion	410	352
Core deposit intangible	1,479	1,556
Other	153	144
Total gross deferred tax liabilities	9,490	12,345
Net deferred tax asset	$8,849	$1,083

Realization of deferred tax assets is dependent upon the generation of future taxable income or the existence of sufficient taxable income within the loss carryback period. A valuation allowance is recognized when it is more likely than not that some portion of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, management considers the scheduled reversal of the deferred tax assets, the level of historical taxable income and projected future taxable income over the periods in which the temporary differences comprising the deferred tax assets will be deductible. Based on its assessment, management determined that no valuation allowance is necessary.

As of December 31, 2014, December 31, 2013 and December 31, 2012 the Corporation did not have any unrecognized tax benefits.

The Corporation accounts for interest and penalties related to uncertain tax positions as part of its provision for Federal and State income taxes. As of December 31, 2014, 2013 and 2012, the Corporation did not accrue any interest or penalties related to its uncertain tax positions.

The Corporation is not currently subject to examinations by Federal taxing authorities for the years prior to 2010 and for New York State taxing authorities for the years prior to 2010.

(11) PENSION PLAN AND OTHER BENEFIT PLANS

Pension Plan

The Corporation has a noncontributory defined benefit pension plan covering a majority of employees. The plan's defined benefit formula generally bases payments to retired employees upon their length of service multiplied by a percentage of the average monthly pay over the last five years of employment.

The Corporation uses a December 31 measurement date for its pension plan.

The Corporation amended the Defined Benefit Pension Plan during 2010. New employees hired on or after the effective date will not be eligible to participate in the plan, however, existing participants at that time will continue to accrue benefits. The amendment will result in a decrease over time in the future benefit obligations of the plan and the corresponding net periodic benefit cost associated with the plan.

The following table presents (1) changes in the plan's projected benefit obligation and plan assets, and (2) the plan's funded status at December 31, 2014 and 2013 (amounts in thousands):

Change in projected benefit obligation:	2014	2013
Benefit obligation at beginning of year	$36,186	$38,051
Service cost	1,045	1,195
Interest cost	1,738	1,587
Actuarial (gain) loss	8,064	(3,269)
Benefits paid	(1,489)	(1,378)
Benefit obligation at end of year	$45,544	$36,186

Change in plan assets:	2014	2013
Fair value of plan assets at beginning of year	$41,782	$37,239
Actual return on plan assets	3,043	5,921
Employer contributions	-	-
Benefits paid	(1,489)	(1,378)
Fair value of plan assets at end of year	$43,336	$41,782
Funded status	$(2,207)	$5,596

Amount recognized in accumulated other comprehensive income (loss) at December 31, 2014 and 2013 consist of the following (amounts in thousands):

	2014	2013
Net actuarial loss	$17,388	$9,843
Prior service cost	15	22
Total before tax effects	$17,403	$9,865

The accumulated benefit obligation at December 31, 2014 and 2013 was $38.7 million and $31.2 million, respectively.

The principal actuarial assumptions used in determining the projected benefit obligation as of December 31, 2014, 2013 and 2012 were as follows:

	2014	2013	2012
Discount rate	4.09%	4.92%	4.26%
Assumed rate of future compensation increase	5.00%	5.00%	5.00%

Components of net periodic benefit cost and other amounts recognized in other comprehensive income (loss) in 2014, 2013 and 2012 consist of the following (amounts in thousands):

Net periodic benefit cost	2014	2013	2012
Service cost, benefits earned during the year	$1,045	$1,195	$1,074
Interest cost on projected benefit obligation	1,738	1,587	1,606
Expected return on plan assets	(3,174)	(2,824)	(2,743)
Amortization of net loss	649	1,579	1,410
Amortization of prior service cost	7	14	14
Net periodic cost	$265	$1,551	$1,361

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss):	2014	2013	2012
Net actuarial (gain) loss	$8,195	$(6,367)	$3,365
Recognized loss	(649)	(1,579)	(1,410)
Amortization of prior service cost	(7)	(14)	(14)
Total recognized in other comprehensive (loss) income (before tax effect)	$7,539	$(7,960)	$1,941
Total recognized in net benefit cost and other comprehensive (loss) income (before tax effect)	$7,804	$(6,409)	$3,302

Amounts expected to be recognized in net periodic cost during 2015	
Loss recognition	$1,475
Prior service cost recognition	$7

The principal actuarial assumptions used in determining the net periodic benefit cost for the years ended December 31, 2014, 2013 and 2012 were as follows:

	2014	2013	2012
Discount rate	4.92%	4.26%	4.95%
Expected long-term rate of return on assets	7.75%	7.75%	8.00%
Assumed rate of future compensation increase	5.00%	5.00%	5.00%

The Corporation changes important assumptions whenever changing conditions warrant. At December 31, 2014, the Corporation adopted the Retirement Plan 2014 (RP-2014) and Mortality Projection 2014 (MP-2014) mortality tables, which were finalized by the Society of Actuaries in October 2014 and reflected improved life expectancies and an expectation that this trend will continue. The discount rate is evaluated at least annually and the expected long-term return on plan assets will typically be revised every three to five years, or as conditions warrant. Other material assumptions include the compensation increase rates, rates of employee terminations, and rates of participant mortality.

The Corporation's overall investment strategy is to achieve a mix of investments for long-term growth and for near-term benefit payments with a wide diversification of asset types. The target allocations for plan assets are shown in the table below. Equity securities primarily include investments in common or preferred shares of both U.S. and international companies. Debt securities include U.S. Treasury and Government bonds as well as U.S. Corporate bonds. Other investments may consist of mutual funds, money market funds and cash & cash equivalents. While no significant changes in the asset allocations are expected during 2014, the Corporation may make changes at any time.

The expected return on plan assets was determined based on a Capital Asset Pricing Model ("CAPM") using historical and expected future returns of the various asset classes, reflecting the target allocations described below.

Asset Class	Target Allocation 2014	Percentage of Plan Assets at December 31, 2014	2013	Expected Long-Term Rate of Return
Large cap domestic equities	30% - 60 %	50 %	54 %	10.3 %
Mid-cap domestic equities	0% - 20 %	14 %	8 %	10.6 %
Small-cap domestic equities	0% - 15 %	3 %	3 %	10.8 %
International equities	0% - 25 %	4 %	4 %	10.3 %
Intermediate fixed income	20% - 50 %	26 %	26 %	4.7 %
Alternative assets	0% - 10 %	2 %	3 %	7.5 %
Cash	0% - 20 %	1 %	2 %	2.5 %
Total		100 %	100 %	

The investment policy of the plan is to provide for long-term growth of principal and income without undue exposure to risk. The focus is on long-term capital appreciation and income generation. The Corporation maintains an Investment Policy Statement ("IPS") that guides the investment allocation in the plan. The IPS describes the target asset allocation positions as shown in the table above.

The Corporation has appointed an Employee Pension and Profit Sharing Committee to manage the general philosophy, objectives and process of the plan. The Employee Pension and Profit Sharing Committee meets with the Investment Manager periodically to review the plan's performance and to ensure that the current investment allocation is within the guidelines set forth in the IPS. Only the Employee Pension and Profit Sharing Committee, in consultation with the Investment Manager, can make adjustments to maintain target ranges and for any permanent changes to the IPS. Quarterly, the Board of Directors' Trust and Employee Benefits Committee reviews the performance of the plan with the Investment Manager.

As of December 31, 2014 and 2013, the Corporation's pension plan did not hold any direct investment in the Corporation's common stock.

The Corporation used the following methods and significant assumptions to estimate the fair value of each type of financial instrument held by the pension plan:

Fair value is the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. The fair value hierarchy described below requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Discounted cash flows are calculated using spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

The fair value of the plan assets at December 31, 2014 and 2013, by asset class are as follows (amounts in thousands):

		Fair Value Measurement at December 31, 2014 Using		
Plan Assets	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$626	$626	$ -	$ -
Equity securities:				
U.S. companies	28,011	28,011	-	-
International companies	856	856	-	-
Mutual funds	7,111	7,111	-	-
Debt securities:				
U.S. Treasuries/Government bonds	2,701	2,701	-	-
U.S. Corporate bonds	3,775	-	3,775	-
Foreign bonds, notes & debentures	256	-	256	-
Total plan assets	$43,336	$39,305	$ 4,031	$ -

		Fair Value Measurement at December 31, 2013 Using		
Plan Assets	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$982	$982	$ -	$ -
Equity securities:				
U.S. companies	27,170	27,170	-	-
Mutual funds	7,288	7,288	-	-
Debt securities:				
U.S. Treasuries/Government bonds	3,309	3,309	-	-
U.S. Corporate bonds	2,771	-	2,771	-
Foreign bonds, notes & debentures	262	-	262	-
Total plan assets	$41,782	$38,749	$ 3,033	$ -

The following table presents the estimated benefit payments for each of the next five years and the aggregate amount expected to be paid in years six through ten for the pension plan (amounts in thousands):

Calendar Year	Future Expected Benefit Payments
2015	$ 1,761
2016	$ 1,849
2017	$ 1,949
2018	$ 2,052
2019	$ 2,114
2020-2024	$ 11,949

The Corporation does not expect to contribute to the plan during 2015. Funding requirements for subsequent years are uncertain and will significantly depend on changes in assumptions used to calculate plan funding levels, the actual return on plan assets, changes in the employee groups covered by the plan, and any legislative or regulatory changes affecting plan funding requirements.

For tax planning, financial planning, cash flow management or cost reduction purposes the Corporation may increase, accelerate, decrease or delay contributions to the plan to the extent permitted by law.

Defined Contribution Profit Sharing, Savings and Investment Plan

The Corporation also sponsors a defined contribution profit sharing, savings and investment plan which covers all eligible employees with a minimum of 1,000 hours of annual service. The Corporation makes discretionary matching and profit sharing contributions to the plan for employees hired prior to July 1, 2010 based on the financial results of the Corporation. The Corporation also contributes to a non-discretionary 401K plan which covers all eligible employees hired after July 1, 2010. Expense related to both plans totaled $620 thousand, $521 thousand, and $393 thousand for the years ended December 31, 2014, 2013 and 2012, respectively. The plan's assets at December 31, 2014, 2013 and 2012 include 170,714, 178,113 and 189,337 shares, respectively, of Chemung Financial Corporation common stock, as well as other common and preferred stocks, U.S. Government securities, corporate bonds and notes, and mutual funds.

Defined Benefit Health Care Plan

The Corporation uses a December 31 measurement date for its postretirement medical benefits plan.

The following table presents (1) changes in the plan's accumulated postretirement benefit obligation and (2) the plan's funded status at December 31, 2014 and 2013 (amounts in thousands):

Changes in accumulated postretirement benefit obligation:	2014	2013
Accumulated postretirement benefit obligation - beginning of year	$1,490	$1,534
Service cost	39	44
Interest cost	72	66
Participant contributions	84	74
Actuarial (gain) loss	177	(61)
Benefits paid	(199)	(167)
Accumulated postretirement benefit obligation at end of year	$1,663	$1,490

Change in plan assets:	2014	2013
Fair value of plan assets at beginning of year	$-	$-
Employer contribution	115	93
Plan participants’ contributions	84	74
Benefits paid	(199)	(167)
Fair value of plan assets at end of year	$-	$-
Funded status	$(1,663)	$(1,490)

Amount recognized in accumulated other comprehensive income (loss) at December 31, 2014 and 2013 consist of the following (amounts in thousands):

	2014	2013
Net actuarial loss	$322	$148
Prior service benefit	(531)	(628)
Total before tax effects	$(209)	$(480)

Weighted-average assumption for disclosure as of December 31,	2014	2013	2012
Discount rate	4.09 %	4.92 %	4.26 %

Health care cost trend: Initial	7.00 %	8.00 %	9.00 %
Health care cost trend: Ultimate	5.00 %	5.00 %	5.00 %
Year ultimate cost trend reached	2018	2018	2018

The components of net periodic postretirement benefit cost for the years ended December 31, 2014, 2013 and 2012 are as follows (amounts in thousands):

Net periodic benefit cost	2014	2013	2012
Service cost	$39	$44	$39
Interest cost	72	66	71
Amortization of prior service benefit	(97)	(97)	(97)
Recognized actuarial loss	3	10	1
Net periodic postretirement cost	$17	$23	$14

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss):	2014	2013	2012
Net actuarial (gain) loss	$177	$(61)	$178
Recognized actuarial loss	(3)	(10)	(1)
Amortization of prior service benefit	97	97	97
Total recognized in other comprehensive income (loss) (before tax effect)	$271	$26	$274
Total recognized in net benefit cost and other comprehensive income (loss) (before tax effect)	$288	$49	$288

During 2014 the plan's total unrecognized net loss increased by $174 thousand. Because the total unrecognized net gain or loss in the plan exceeds 10% of the accumulated postretirement benefit obligation, the excess will be amortized over the average future working lifetime of active plan participants. As of January 1, 2014 the average future working lifetime of active participants was 14.89 years. Actual results for 2015 will depend on the 2015 actuarial valuation of the plan.

Amounts expected to be recognized in net periodic cost during 2015:	
Loss recognition	$10
Prior service cost recognition	$(97)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point change in assumed health care cost trend rates would have the following effects (amounts in thousands):

Effect of a 1% increase in health care trend rate on:	2014	2013	2012
Benefit obligation	$ 5	$ 15	$ 4
Total service and interest cost	$ -	$ -	$ -

Effect of a 1% decrease in health care trend rate on:	2014	2013	2012
Benefit obligation	$ (6)	$(23)	$ (5)
Total service and interest cost	$ -	$(2)	$ (1)

Weighted-average assumptions for net periodic cost as of December 31,:	2014	2013	2012
Discount rate	4.92 %	4.26 %	4.95 %
Health care cost trend: Initial	8.00 %	9.00 %	10.00 %
Health care cost tread: Ultimate	5.00 %	5.00 %	5.00 %
Year ultimate reached	2018	2018 %	2018

The following table presents the estimated benefit payments for each of the next five years and the aggregate amount expected to be paid in years six through ten (amounts in thousands):

Calendar Year	Future Estimated Benefit Payments
2015	$ 201
2016	$ 176
2017	$ 140
2018	$ 150
2019	$ 159
2020-2024	$ 652

The Corporation's policy is to contribute the amount required to fund postretirement benefits as they become due to retirees. The amount expected to be required in contributions to the plan during 2015 is $201 thousand.

Executive Supplemental Pension Plan

The Corporation also sponsors an Executive Supplemental Pension Plan for certain current and former executive officers to restore certain pension benefits that may be reduced due to limitations under the Internal Revenue Code. The benefits under this plan are unfunded as of December 31, 2014 and 2013.

The Corporation uses a December 31 measurement date for its Executive Supplemental Pension Plan.

The following table presents Executive Supplemental Pension plan status at December 31, 2014 and 2013 (amounts in thousands):

Change in projected benefit obligation:	2014	2013
Benefit obligation at beginning of year	$1,116	$1,162
Service cost	38	40
Interest cost	55	48
Actuarial (gain) loss	110	(59)
Benefits paid	(75)	(75)
Projected benefit obligation at end of year	$1,244	$1,116

Changes in plan assets:	2014	2013
Fair value of plan assets at beginning of year	$-	$-
Employer contributions	75	75
Benefits paid	(75)	(75)
Fair value of plan assets at end of year	$-	$-
Unfunded status	$(1,244)	$(1,116)

Amounts recognized in accumulated other comprehensive income (loss) at December 31, 2014 and 2013 consist of the following (amounts in thousands):

	2014	2013
Net actuarial loss	$275	$194
Prior service cost	-	-
Total before tax effects	$275	$194

Accumulated benefit obligation at December 31, 2014 and 2013 was $1.2 million and $1.0 million, respectively.

Weighted-average assumption for disclosure as of December 31,:	2014	2013	2012
Discount rate	4.09%	4.92%	4.26%
Assumed rate of future compensation increase	5.00%	5.00%	5.00%

The components of net periodic benefit cost for the years ended December 31, 2014, 2013 and 2012 are as follows (amounts in thousands):

Net periodic benefit cost	2014	2013	2012
Service cost	$38	$40	$35
Interest cost	55	48	51
Recognized actuarial loss	29	34	20

Net periodic postretirement benefit cost	$122	$122	$106

Other changes in plan assets and benefit obligation recognized in other comprehensive income (loss):	2014	2013	2012
Net actuarial (gain) loss	$110	$(59)	$81
Recognized actuarial loss	(29)	(34)	(20)
Total recognized in other comprehensive income (loss) (before tax effect)	$81	$(93)	$61
Total recognized in net benefit cost and other comprehensive income (loss) (before tax effect)	$203	$29	$167

Amounts expected to be recognized in net periodic cost during 2015:	
Loss recognition	$50
Prior service cost recognition	$-

Weighted-average assumptions for net periodic cost as of December 31,:	2014	2013	2012
Discount rate	4.92 %	4.26%	4.95 %
Salary scale	5.00 %	5.00%	5.00 %

The following table presents the estimated benefit payments for each of the next five years and the aggregate amount expected to be paid in years six through ten for the Supplemental Pension Plan (amounts in thousands):

Calendar Year	Future Estimated Benefit Payments
2015	$ 75
2016	$ 75
2017	$ 75
2018	$ 116
2019	$ 116
2020-2024	$ 580

The Corporation expects to contribute $75 thousand to the plan during 2015. Corporation contributions are equal to the benefit payments to plan participants.

Defined Contribution Supplemental Executive Retirement Plan

The Corporation also sponsors a Defined Contribution Supplemental Executive Retirement Plan for certain current executive officers, which was initiated in 2012. The plan is unfunded as of December 31, 2014 and is intended to provide nonqualified deferred compensation benefits payable at retirement, disability, death or certain other events. The balance in the plan as of December 31, 2014 and December 31, 2013 was $550 thousand and $337 thousand, respectively. A total of $213 thousand and $155 thousand was expensed during the years ended December 31, 2014 and 2013, respectively In addition to each participants account being credited with the annual company contribution, each account will receive a quarterly interest credit that will equal the average yield on five year U.S. Treasury Notes.

(12) 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, 2014, and 2013, 9,673, 8,385 and 7,969 shares, respectively, were re-issued from treasury to fund the stock component of the directors' and the President and Chief Executive Officer's compensation. An expense of $271 thousand, $273 thousand and $217 thousand related to this compensation was recognized during the years 2014, 2013 and 2012, respectively. This expense is accrued as shares are earned.

Restricted Stock Plan

Pursuant to the Corporation's Restricted Stock Plan (the "Plan"), the Corporation may make discretionary grants of restricted stock to officers other than the Corporation's President and 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 as of December 31, 2014, and changes during the year ended is presented below:

	Shares	Weighted–Average Grant Date Fair Value
Nonvested at December 31, 2013	20,639	$ 27.17
Granted	11,279	28.40
Vested	(5,490)	26.09
Forfeited or Cancelled	-	-
Nonvested at December 31, 2014	26,428	$ 27.92

As of December 31, 2014, there was $718 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 3.95 years. The total fair value of shares vested during the years ended December 31, 2014 and 2013 were $152 thousand and $181 thousand, respectively.

(13) RELATED PARTY TRANSACTIONS

Members of the Board of Directors, certain Corporation officers, and their immediate families directly, or through entities in which they are principal owners (more than 10% interest), were customers of, and had loans and other transactions with the Corporation. These loans are summarized as follows for the years ended December 31, 2014 and 2013 (amounts in thousands):

	2014	2013
Balance at beginning of year	$26,408	$25,390
New loans or additional advances	33,282	30,056
Repayments	(21,888)	(29,038)
Balance at end of year	$37,802	$26,408

Deposits from principal officers, directors, and their affiliates at year-end 2014 and 2013 were $12.0 million and $9.8 million, respectively.

(14) COMMITMENTS AND CONTINGENCIES

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amounts of financial instruments with off-balance sheet risk at year-end were as follows (amounts in thousands):

	2014		2013	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$23,756	$11,082	$21,049	$7,893
Unused lines of credit	$812	$185,235	$2,190	$187,061
Standby letters of credit	$-	$16,747	$-	$17,290

Commitments to make Real Estate and Home Equity loans are generally made for periods of sixty days or less. As of December 31, 2014, the fixed rate commitments to make loans have interest rates ranging from 2.750% to 5.875% and maturities ranging from five years to thirty years. Commitments to fund commercial draw notes are generally made for periods of three months to eighteen months. As of December 31, 2014, the fixed rate commitments have interest rates ranging from 1.76% to 5.25%.

Because many commitments and almost all standby letters of credit expire without being funded in whole or in part, the contract amounts are not estimates of future cash flows. Loan commitments and unused lines of credit have off-balance sheet credit risk because only origination fees are recognized on the consolidated balance sheet until commitments are fulfilled or expire. The credit risk amounts are equal to the contractual amounts, assuming the amounts are fully advanced and collateral or other security is of no value. The Corporation does not anticipate losses as a result of these transactions. These commitments also have off-balance sheet interest rate risk in that the interest rate at which these commitments were made may not be at market rates on the date the commitments are fulfilled.

The Corporation has issued conditional commitments in the form of standby letters of credit to guarantee payment on behalf of a customer and guarantee the performance of a customer to a third party. Standby letters of credit generally arise in connection with lending relationships. The credit risk involved in issuing these instruments is essentially the same as that involved in extending loans to customers. Contingent obligations under standby letters of credit totaled $16.7 million at December 31, 2014 and represent the maximum potential future payments the Corporation could be required to make. Typically, these instruments have terms of twelve months or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. Each customer is evaluated individually for creditworthiness under the same underwriting standards used for commitments to extend credit and on-balance sheet instruments. Corporation policies governing loan collateral apply to standby letters of credit at the time of credit extension. The carrying amount and fair value of the Corporation's standby letters of credit at December 31, 2014 was not significant.

The Corporation has an executive severance agreement with its President and Chief Executive Officer.

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

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

(15) PARENT COMPANY FINANCIAL INFORMATION

Condensed parent company only financial statement information of Chemung Financial Corporation is as follows (investment in subsidiaries is recorded using the equity method of accounting) (amounts in thousands):

BALANCE SHEETS - DECEMBER 31	2014	2013
Assets:		
Cash on deposit with subsidiary bank	$3,200	$2,686
Investment in subsidiary - Chemung Canal Trust Company	128,081	133,557
Investment in subsidiary - CFS Group, Inc.	908	779
Dividends receivable from subsidiary bank	1,204	1,195
Securities available for sale, at estimated fair value	346	343
Other assets	1,129	1,254
Total assets	$134,868	$139,814
Liabilities and shareholders' equity:		
Dividends payable	1,204	1,195
Other liabilities	36	41
Total liabilities	1,240	1,236
Shareholders' equity:		
Total shareholders' equity	133,628	138,578
Total liabilities and shareholders' equity	$134,868	$139,814

STATEMENTS OF INCOME - YEARS ENDED DECEMBER 31	2014	2013	2012
Dividends from subsidiary bank	$4,805	$4,778	$4,573
Interest and dividend income	10	9	7
Other income	-	132	150
Operating expenses	261	324	331
Income before impact of subsidiaries' undistributed earnings	4,554	4,595	4,399
Equity in undistributed earnings of Chemung Canal Trust Company	3,307	3,873	6,411
Equity in undistributed earnings of CFS Group, Inc.	129	139	54
Income before income tax	7,990	8,607	10,864
Income tax benefit	(167)	(124)	(158)
Net Income	$8,157	$8,731	$11,022

STATEMENTS OF CASH FLOWS - YEARS ENDED DECEMBER 31	2014	2013	2012
Cash flows from operating activities:			
Net Income	$8,157	$8,731	$11,022
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of Chemung Canal Trust Company	(3,307)	(3,873)	(6,411)
Equity in undistributed earnings of CFS Group, Inc.	(129)	(139)	(54)
Change in dividend receivable	(9)	(1,195)	1,141
Change in other assets	126	558	765
Change in other liabilities	110	79	48
Expense related to employee stock compensation	117	112	80
Expense related to restricted stock units for directors' deferred compensation plan	94	99	87
Expense to employee restricted stock awards	151	131	80
Net cash provided by operating activities	5,310	4,503	6,758
Cash flow from financing activities:			
Cash dividends paid	(4,796)	(3,583)	(5,714)

Purchase of treasury stock	-	(93)	(636)
Sale of treasury stock	-	71	258
Net cash used in financing activities	(4,796)	(3,605)	(6,092)
Increase in cash and cash equivalents	514	898	666
Cash and cash equivalents at beginning of year	2,686	1,788	1,122
Cash and cash equivalents at end of year	$3,200	$2,686	$1,788

(16) FAIR VALUES

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.

Other Real Estate Owned (“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.

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 (amounts in thousands):

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

		Fair Value Measurement at December 31, 2013 Using		
Financial Assets:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of U.S. Government and U.S. Government sponsored enterprises	$188,106	$31,262	$ 156,844	$ -
Mortgage-backed securities, residential	104,356	-	104,356	-
Collateralized mortgage obligations	1,015	-	1,015	-
Obligations of states and political subdivisions	38,376	-	38,376	-
Corporate bonds and notes	2,946	-	2,946	-
SBA loan pools	1,488	-	1,488	-
Trust Preferred securities	2,034	-	2,034	-
Corporate stocks	7,695	7,279	416	-
Total available for sale securities	$346,016	$38,541	$ 307,475	$ -

Trading assets	$366	$366	$ -	$ -

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2014 and December, 31, 2013.

The significant unobservable inputs used in the fair value measurement of the Corporation's collateralized mortgage obligations are probabilities of specific-issuer defaults and deferrals and specific-issuer recovery assumptions. Significant increases in specific-issuer default assumptions or decreases in specific-issuer recovery assumptions would result in a significantly lower fair value measurement. Conversely, decreases in specific-issuer default assumptions or increases in specific-issuer recovery assumptions would result in a higher fair value measurement. The Corporation treats all interest payment deferrals as defaults and assumes no recoveries on defaults.

The tables below present a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2014 and 2013:

Trust Preferred Securities Available for Sale	Fair Value Measurement twelve-months ended December 31, 2014 Using Significant Unobservable Inputs (Level 3)	Fair Value Measurement twelve-months ended December 31, 2013 Using Significant Unobservable Inputs (Level 3)
Beginning balance	$ -	$ 445,600
Total gains/losses (realized/unrealized):		
Included in earnings:		
Impairment charge on investment securities	-	(29,025)
Included in other comprehensive income	-	183,425
Transfers in and/or out of Level 3	-	(600,000)
Ending balance, December 31	$ -	$ -

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

Financial Assets:	Fair Value	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)
Impaired Loans:				
Commercial mortgages:				
Commercial mortgages	$3,593	$-	$ -	$ 2,905
Consumer loans:				
Home equity lines and loans	52	-	-	52
Total Impaired Loans	$3,645	$-	$ -	$ 2,957
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

Financial Assets:	Fair Value	Fair Value Measurement at December 31, 2013 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans:				
Commercial and agricultural:				
Commercial and industrial	$ 460	$ -	$ -	$ 460
Commercial mortgages:				
Commercial mortgages	485	-	-	485
Consumer loans:				
Home equity lines and loans	54	-	-	54
Total Impaired Loans	$ 999	$ -	$ -	$ 999
Other real estate owned:				
Commercial and agricultural:				
Commercial and industrial	$ 101	$ -	$ -	$ 101
Commercial mortgages:				
Commercial mortgages	266	-	-	266
Residential mortgages	106	-	-	106
Consumer loans:				
Home equity lines and loans	65	-	-	65
Total Other Real Estate Owned, net	$ 538	$ -	$ -	$ 538

The following table presents information related to Level 3 non-recurring fair value measurement at December 31, 2014 and December 31, 2013 (amounts in thousands):

Description	Fair Value at December 31, 2014	Technique	Unobservable Inputs
Impaired loans	$ 3,645	Third party real estate and a 100% discount of personal property	1 Management discount based on underlying collateral characteristics and market conditions
OREO	$ 3,065	Third party appraisals	1 Estimated holding period 2 Estimated closing costs

Description	Fair Value at December 31, 2013	Technique	Unobservable Inputs
Impaired loans	$ 999	Third party real estate and a 100% discount of personal property	1 Management discount based on underlying collateral characteristics and market conditions

OREO	$ 538	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 $4.9 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. Impaired loans had a principal balance of $2.0 million with a valuation allowance of $1.0 million as of December 31, 2013, resulting in an increase of $853 thousand in the provision for loan losses for the year ending December 31, 2013.

OREO, which is measured by the lower of carrying or fair value less costs to sell, 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. OREO had a net carrying amount of $538 thousand at December 31, 2013. The net carrying amount reflects the outstanding balance of $732 thousand, net of a valuation allowance of $194 thousand at December 31, 2013, which resulted in a write down of $2 thousand for the year ended December 31, 2013.

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, and time deposits are classified as Level 2.

FHLB and FRB Stock

It is not practicable to determine the fair value of FHLBNY and FRBNY stock due to restrictions 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 are classified as Level 2.

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.

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 December 31, 2014 and 2013.

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 December 31, 2014 and December 31, 2013, are as follows (amounts in thousands):

	Fair Value Measurements at December 31, 2014 Using				
Financial assets:	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)
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.

	Fair Value Measurements at December 31, 2013 Using				
Financial Assets:	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)
Cash and due from financial institutions	$31,600	$31,600	$ -	$ -	$31,600
Interest-bearing deposits in other	20,009	20,009	-	-	20,009

financial institutions					
Trading assets	366	366	-	-	366
Securities available for sale	346,016	38,541	307,475	-	346,016
Securities held to maturity	6,495	-	6,930	-	6,930
FHLBNY and FRBNY stock	4,482	-	-	-	N/A
Loans, net	983,090	-	-	1,008,826	1,008,826
Loans held for sale	695	-	695	-	695
Accrued interest receivable	4,166	145	1,468	2,553	4,166
Financial liabilities:					
Deposits:					
Demand, savings, and insured money market accounts	$1,021,764	$1,021,764	$ -	$ -	$1,021,764
Time deposits	244,492	-	245,482	-	245,482
Securities sold under agreements to repurchase	32,701	-	33,636	-	33,636
FHLBNY Advances	25,243	-	26,064	-	26,064
Accrued interest payable	336	15	170	151	336

(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.

(17) REGULATORY CAPITAL REQUIREMENTS

The Corporation and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets (all as defined in the applicable regulations). Management believes that, as of December 31, 2014 and 2013, the Corporation and the Bank met all capital adequacy requirements to which they were subject.

As of December 31, 2014, the most recent notification from the Federal Reserve Bank of New York categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There have been no conditions or events since that notification that management believes have changed the Bank's or the Corporation's capital category.

The Corporation's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net income, combined with the retained net income of the preceding two years, subject to the capital requirements in the table below. During 2015, the Bank could, without prior approval, declare dividends of approximately $13.6 million plus any 2015 net income retained to the date of the dividend declaration.

The actual capital amounts and ratios of the Corporation and the Bank are presented in the following tables (amounts in thousands):

	Actual		Required To Be Adequately Capitalized		Required To Be Well Capitalized	
As of December 31, 2014	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk Weighted Assets):						
Consolidated	$129,211	11.84 %	$87,271	8.00 %	N/A	N/A
Bank	$123,685	11.35 %	$87,178	8.00 %	$108,972	10.00 %
Tier 1 Capital (to Risk Weighted Assets):						
Consolidated	$115,483	10.59 %	$43,636	4.00 %	N/A	N/A
Bank	$110,014	10.10 %	$43,589	4.00 %	$65,383	6.00 %
Tier 1 Capital (to Average Assets):						
Consolidated	$115,483	7.78 %	$44,556	3.00 %	N/A	N/A
Bank	$110,014	7.41 %	$44,512	3.00 %	$74,187	5.00 %
As of December 31, 2013						
Total Capital (to Risk Weighted Assets):						
Consolidated	$126,299	12.10 %	$83,484	8.00 %	N/A	N/A

Bank	$121,222	11.63 %	$83,369	8.00 %	$104,211	10.00 %
Tier 1 Capital (to Risk Weighted Assets):						
Consolidated	$110,260	10.57 %	$41,742	4.00 %	N/A	N/A
Bank	$105,239	10.10 %	$41,684	4.00 %	$62,527	6.00 %
Tier 1 Capital (to Average Assets):						
Consolidated	$110,260	8.08 %	$40,940	3.00 %	N/A	N/A
Bank	$105,239	7.72 %	$40,900	3.00 %	$68,167	5.00 %

(18) 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 (amounts in thousands):

	Unrealized Gains and Losses on Securities Available for Sale	Defined Benefit and Other Benefit Plans	Total
Balance at December 31, 2013	$ 6,043	$(5,888)	$155
Other comprehensive income (loss) before reclassification	146	(5,221)	(5,075)
Amounts reclassified from accumulated other comprehensive income (loss)	(4,229)	364	(3,865)
Net current period other comprehensive loss	(4,083)	(4,857)	(8,940)
Balance at December 31, 2014	$ 1,960	$(10,745)	$(8,785)

	Unrealized Gains and Losses on Securities Available for Sale	Defined Benefit and Other Benefit Plans	Total
Balance at December 31, 2012	$ 8,023	$(10,830)	$(2,807)
Other comprehensive income (loss) before reclassification	(1,988)	3,994	2,006
Amounts reclassified from accumulated other comprehensive income (loss)	8	948	956
Net current period other comprehensive loss	(1,980)	4,942	2,962
Balance at December 31, 2013	$ 6,043	$(5,888)	$155

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

Details about Accumulated Other Comprehensive Income (Loss) Components	Year Ended December 31, 2014	2013	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 losses realized in income	$-	$9	Total impairment losses
Realized gains on securities available for sale	(6,869)	(16)	Net gains on securities transactions
Tax effect	2,640	(5)	Income tax benefit (expense)

Net of tax	(4,229)	8	
Amortization of defined pension plan and other benefit plan items:			
Prior service costs (a)	(90)	(83)	Pension and other employee benefits
Actuarial losses (a)	681	1,624	Pension and other employee benefits
Tax effect	(227)	(593)	Income tax benefit
Net of tax	364	948	
Total reclassification for the period, net of tax	$(3,865)	$956	

(a) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension and other benefit plan costs (see Note 11 for additional information).

(19) SEGMENT REPORTING

The Corporation manages its operations through two primary business segments: core banking and wealth management services. 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 wealth management 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 (amounts in thousands):

Year ended December 31, 2014	Core Banking	Wealth Management Group	Holding Company and Other	Consolidated Totals
Net interest income	$ 49,556	$ -	$ 12	$ 49,568
Provision for loan losses	3,981	-	-	3,981
Net interest income after provision for loan losses	45,575	-	12	45,587
Other operating income	18,186	7,746	824	26,756
Legal settlements	-	4,250	-	4,250
Other operating expenses	49,997	5,355	875	56,227
Income (loss) before income tax expense	13,764	(1,859)	(39)	11,866
Income tax expense (benefit)	4,507	(715		