

CHEMUNG FINANCIAL CORP
Form 10-Q
May 08, 2015
UNITED STATES SECURITIES
AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

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

For Quarterly period ended March
31, 2015

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

Commission File No. 0-13888

CHEMUNG FINANCIAL
CORPORATION

(Exact name of registrant as
specified in its charter)

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

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

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

Indicate by check mark whether the
registrant (1) has filed all reports
required to be filed by Section 13 or
15(d) of the Securities Exchange Act
of 1934 during the preceding 12

months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES: X NO: _____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES: X NO: _____

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

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

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

YES: NO: X

The number of shares of the registrant's common stock, \$.01 par value, outstanding on May 7, 2015 was 4,650,073.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIESINDEX

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GLOSSARY OF ABBREVIATIONS AND TERMS

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

Abbreviations

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

Terms

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

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

Capital Bank

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

CDARS

Program involving a network of financial institutions that exchange certificates of deposits among members in order to ensure FDIC insurance coverage on customer deposits above the single institution limit. Using a sophisticated matching system, funds are exchanged on a dollar-for-dollar basis, so that the equivalent of an original deposit comes back to the originating institution.

Collateralized debt obligation	A structured financial product that pools together cash flow-generating assets, such as mortgages, bonds, and loans.
Collateralized mortgage obligations	A type of mortgage-backed security with principal repayments organized according to their maturities and into different classes based on risk. The mortgages serve as collateral and are organized into classes based on their risk profile.
Dodd-Frank Act	The Dodd-Frank Act was enacted on July 21, 2010 and significantly changed the bank regulatory landscape and has impacted and will continue to impact the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare various studies and reports for Congress.
Fully taxable equivalent basis	Represents revenue from investments that receive tax credits and tax-exempt securities are presented on a basis comparable to taxable investments and securities; the corresponding income tax impact related to tax-exempt items is recorded within income tax expense.
GAAP Holding company and other	Accounting principles generally accepted in the United States of America.
ICS	Consists of the operations for Chemung Financial Corporation (parent only) and CFS. Program involving a network of financial institutions that exchange interest-bearing money market deposits among members in order to ensure FDIC insurance coverage on customer deposits above the single institution limit. Using a sophisticated matching system, funds are exchanged on a dollar-for-dollar basis, so that the equivalent of an original deposit comes back to the originating institution.
Loans held for sale	Residential real estate originated for sale on the secondary market with maturities from 15-30 years.
Mortgage-backed securities	A type of asset-backed security that is secured by a collection of mortgages.
Municipal clients	A political unit, such as a city, town, or village, incorporated for local self-government.
N/A	Data is not applicable or available for the period presented.
N/M	Not meaningful.
Non-GAAP	A calculation not made according to GAAP.
Obligations of state and political subdivisions	An obligation that is guaranteed by the full faith and credit of a state or political subdivision that has the power to tax.
Obligations of U.S. Government	A federally guaranteed obligation backed by the full power of the U.S. government, including Treasury bills, treasury notes and treasury bonds.
Obligations of U.S. Government sponsored enterprise obligations	Obligations of agencies originally established or chartered by the U.S. government to serve public purposes as specified by the U.S. Congress; these obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.
Other real estate owned	Represents real property owned by the Corporation, which is not directly related to its business and is most frequently the result of a foreclosure on real property.
OTTI	Impairment charge taken on a security whose fair value has fallen below the carrying value on the balance sheet and whose value is not expected to recover through the holding period of the security.
PCI loans	Represents loans that were acquired in the Fort Orange Financial Corp. transaction and deemed to be credit-impaired on the acquisition date in accordance with the guidance of FASB.

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

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
UNAUDITED

(in thousands, except share and per share data)	March 31, 2015	December 31, 2014
ASSETS		
Cash and due from financial institutions	\$29,643	\$28,130
Interest-bearing deposits in other financial institutions	55,230	1,033
Total cash and cash equivalents	84,873	29,163
Trading assets, at fair value	601	549
Securities available for sale, at estimated fair value	266,307	280,507
Securities held to maturity, estimated fair value of \$6,076 at March 31, 2015 and \$6,197 at December 31, 2014	5,693	5,831
FHLB NY and FRB NY Stock, at cost	4,148	5,535
Loans, net of deferred loan fees	1,143,572	1,121,574
Allowance for loan losses	(13,892)	(13,686)
Loans, net	1,129,680	1,107,888
Loans held for sale	628	665
Premises and equipment, net	31,548	32,287
Goodwill	21,824	21,824
Other intangible assets, net	4,763	5,067
Bank owned life insurance	2,782	2,764
Accrued interest receivable and other assets	31,925	32,459
Total assets	\$1,584,772	\$1,524,539
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	\$376,773	\$366,298
Interest-bearing	991,357	913,716
Total deposits	1,368,130	1,280,014
FHLB NY overnight advances	-	30,830
Securities sold under agreements to repurchase	31,084	29,652
FHLB NY term advances	19,283	19,310
Long term capital lease obligation	2,976	2,976
Dividends payable	1,209	1,204
Accrued interest payable and other liabilities	25,797	26,925
Total liabilities	1,448,479	1,390,911
Shareholders' equity:		
Common stock, \$0.01 par value per share, 10,000,000 shares authorized; 5,310,076 issued at March 31, 2015 and December 31, 2014	53	53
Additional-paid-in-capital	45,477	45,355
Retained earnings	115,450	114,383

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Treasury stock, at cost (662,244 shares at March 31, 2015; 680,948 shares at December 31, 2014)	(16,900)	(17,378)
Accumulated other comprehensive loss	(7,787)	(8,785)
Total shareholders' equity	136,293	133,628
Total liabilities and shareholders' equity	\$1,584,772	\$1,524,539

See accompanying notes to unaudited consolidated financial statements.

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

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

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

See accompanying notes to unaudited consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to unaudited consolidated financial statements.

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

(in thousands)	THREE MONTHS ENDED MARCH 31,	
CASH FLOWS FROM OPERATING ACTIVITIES:	2015	2014
Net income	\$2,276	\$2,064
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	304	344
Provision for loan losses	390	639
Gain on disposal of fixed assets	(9)	(7)
Depreciation and amortization of fixed assets	1,024	886
Amortization of premiums on securities, net	549	614
Gains on sales of loans held for sale, net	(52)	(41)
Proceeds from sales of loans held for sale	2,341	1,804
Loans originated and held for sale	(2,252)	(1,143)
Net gains on trading assets	(10)	(12)
Net gains on securities transactions	(50)	-
Net (gains) losses on sales of other real estate owned	(78)	30
Purchase of trading assets	(42)	(35)
(Increase) decrease in other assets	(25)	1,354
Decrease in accrued interest payable	(12)	(46)
Expense related to restricted stock units for directors' deferred compensation plan	25	23
Expense related to employee stock compensation	93	117
Expense related to employee stock awards	52	36
Decrease in other liabilities	(1,062)	(4,021)
Income from bank owned life insurance	(18)	(19)
Net cash provided by operating activities	3,444	2,587

CASH FLOWS FROM INVESTING ACTIVITIES: