

CHEMUNG FINANCIAL CORP

Form 10-Q

November 13, 2012

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 September 30, 2012

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 jurisdiction of I.R.S. Employer Identification No.
incorporation or organization)

One Chemung Canal Plaza, P.O. 14902
Box 1522, Elmira, NY
(Address of principal executive (Zip Code)
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: 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 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	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>
Accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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

YES: NO:

The number of shares of the registrant's common stock, \$.01 par value, outstanding on November 12, 2012 was 4,572,875.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES

INDEX

PART I.	FINANCIAL INFORMATION	PAGE
Item 1:	Financial Statements – Unaudited	
	Consolidated Balance Sheet	3
	Consolidated Statements of Income	4
	Consolidated Statements of Comprehensive Income	5
	Consolidated Statements of Shareholders' Equity	6
	Consolidated Statements of Cash Flows	7
	Notes to Unaudited Consolidated Financial Statements	9
Item 2:	Management's Discussion and Analysis of Financial Condition and Results of Operations	40
Item 3:	Quantitative and Qualitative Disclosures About Market Risk	56
Item 4:	Controls and Procedures	56
PART II.	OTHER INFORMATION	57
Item 1A:	Risk Factors	57
Item 2:	Unregistered Sales of Equity Securities and Use of Proceeds	57
Item 6:	Exhibits	58
SIGNATURES		59
INDEX TO EXHIBITS		

PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	SEPTEMBER 30, 2012	DECEMBER 31, 2011
ASSETS		
Cash and due from financial institutions	\$ 35,323,663	\$ 28,204,699
Interest-bearing deposits in other financial institutions	45,908,073	24,697,154
Total cash and cash equivalents	81,231,736	52,901,853
Trading assets, at fair value	274,995	294,381
Securities available for sale, at estimated fair value	253,668,954	280,869,810
Securities held to maturity, estimated fair value of \$6,881,172 at September 30, 2012 and \$9,175,956 at December 31, 2011	6,162,503	8,311,921
Federal Home Loan Bank and Federal Reserve Bank Stock, at cost	4,760,500	5,509,350
Loans, net of deferred origination fees and costs, and unearned income	876,358,135	796,915,177
Allowance for loan losses	(10,827,971)	(9,659,320)
Loans, net	865,530,164	787,255,857
Loans held for sale	1,164,750	395,427
Premises and equipment, net	24,862,825	24,762,405
Goodwill	21,824,443	21,983,617
Other intangible assets, net	5,382,282	6,190,540
Bank owned life insurance	2,689,944	2,625,104
Other assets	19,426,761	25,159,322
Total assets	\$ 1,286,979,857	\$ 1,216,259,587
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	\$ 302,508,720	\$ 258,835,961
Interest-bearing	780,666,800	739,656,878
Total deposits	1,083,175,520	998,492,839

Securities sold under agreements to repurchase	32,917,656	37,106,842
Federal Home Loan Bank term advances	28,045,741	43,343,918
Accrued interest payable	462,902	800,148
Dividends payable	1,143,770	1,141,081
Other liabilities	8,354,161	9,445,319
Total liabilities	1,154,099,750	1,090,330,147

Shareholders' equity:

Common stock, \$.01 par value per share, 10,000,000 shares authorized; 5,310,076 issued at September 30, 2012 and December 31, 2011	53,101	53,101
Additional-paid-in capital	45,537,843	45,582,861
Retained earnings	106,091,543	100,628,900
Treasury stock, at cost (734,997 shares at September 30, 2012; 741,003 shares at December 31, 2011)	(18,730,525)	(18,894,044)
Accumulated other comprehensive income (loss)	(71,855)	(1,441,378)
Total shareholders' equity	132,880,107	125,929,440
Total liabilities and shareholders' equity	\$ 1,286,979,857	\$ 1,216,259,587

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended		Three Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2012	2011	2012	2011
Interest and dividend income:				
Loans, including fees	\$34,078,132	\$31,456,406	\$11,373,583	\$11,673,216
Taxable securities	4,142,224	4,347,409	1,306,484	1,504,393
Tax exempt securities	976,622	1,035,068	300,374	350,557
Interest-bearing deposits	122,693	166,955	34,573	65,139
Total interest and dividend income	39,319,671	37,005,838	13,015,014	13,593,305
Interest expense:				
Deposits	2,532,630	3,325,900	774,741	1,138,130
Borrowed funds	868,131	783,022	234,155	285,084
Securities sold under agreements to repurchase	763,343	1,056,095	231,043	326,542
Total interest expense	4,164,104	5,165,017	1,239,939	1,749,756
Net interest income	35,155,567	31,840,821	11,775,075	11,843,549
Provision for loan losses	753,897	833,333	225,000	583,333
Net interest income after provision for loan losses	34,401,670	31,007,488	11,550,075	11,260,216
Other operating income:				
Wealth management group fee income	5,170,016	5,131,119	1,667,628	1,746,958
Service charges on deposit accounts	3,143,061	3,180,733	1,110,897	1,130,824
Net gain on securities transactions	300,516	1,108,091	597	428,882
Other-than-temporary loss on investment securities:				
Total impairment losses	-	(67,400)	-	(67,400)
Loss recognized in other comprehensive income	-	-	-	-
Net impairment loss recognized in earnings	-	(67,400)	-	(67,400)
	270,265	132,902	125,885	53,571

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Net gain on sales of loans held for sale				
Casualty gains	790,248	-	9,813	-
Gains on sales of other real estate owned	20,426	89,404	-	442
Income from bank owned life insurance	64,840	65,932	21,571	22,321
Other	3,328,329	3,779,231	1,123,830	1,012,865
Total other operating income	13,087,701	13,420,012	4,060,221	4,328,463
Other operating expenses:				
Salaries and wages	13,710,584	12,534,215	4,661,858	4,272,613
Pension and other employee benefits	4,137,878	3,296,814	1,381,401	1,172,044
Net occupancy expenses	3,849,173	3,663,005	1,269,165	1,230,490
Furniture and equipment expenses	1,599,842	1,549,048	503,995	486,518
Data processing expense	3,279,379	2,881,150	971,601	976,050
Amortization of intangible assets	808,258	753,192	260,069	288,001
Marketing and advertising expense	915,632	790,797	270,567	307,986
Losses on sales of other real estate owned	92,430	1,671	67,503	-
Other real estate owned expenses	286,137	86,040	154,238	37,549
FDIC insurance	615,360	737,281	205,317	294,897
Merger related expenses	30,145	2,243,919	21,600	20,500
Other	4,874,856	4,724,854	1,625,686	1,530,740
Total other operating expenses	34,199,674	33,261,986	11,393,000	10,617,388
Income before income tax expense	13,289,697	11,165,514	4,217,296	4,971,291
Income tax expense	4,397,279	3,589,455	1,383,451	1,680,351
Net income	\$ 8,892,418	\$ 7,576,059	\$ 2,833,845	\$ 3,290,940
Weighted average shares outstanding	4,639,985	4,297,777	4,641,547	4,637,392
Basic and diluted earnings per share	\$ 1.92	\$ 1.76	\$ 0.61	\$ 0.71

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30		Three Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$ 8,892,418	\$ 7,576,059	\$2,833,845	\$3,290,940
Other comprehensive income				
Unrealized holding gains on securities available for sale	1,633,195	5,448,351	959,668	294,210
Change in unrealized gains (losses) on securities available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings, net of reclassification	-	27,725	-	(9,425)
Reclassification adjustment gains realized in net income	(300,516)	(1,108,091)	(597)	(428,882)
Net unrealized gains (losses)	1,332,679	4,367,985	959,071	(144,097)
Less: Tax effect	544,460	1,689,798	368,668	(55,746)
Net of tax amount	788,219	2,678,187	590,403	(88,351)
Change in funded status of defined benefit pension plan and other benefit plans	944,286	464,097	314,762	154,699
Less: Tax effect	362,982	179,541	120,994	59,847
Net of tax amount	581,304	284,556	193,768	94,852
Total other comprehensive income	1,369,523	2,962,743	784,171	6,501
Comprehensive income	\$10,261,941	\$10,538,802	\$3,618,016	\$3,297,441

See accompanying notes to unaudited consolidated financial statements.

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
Balances at December 31, 2010	\$ 43,001	\$ 22,022,122	\$ 94,407,620	\$ (19,166,655)	\$ 102,475	\$ 97,408,563
Net income	-	-	7,576,059	-	-	7,576,059
Other comprehensive income	-	-	-	-	2,962,743	2,962,743
Restricted stock awards	-	21,226	-	-	-	21,226
Restricted stock units for directors' deferred compensation plan	-	61,129	-	-	-	61,129
Cash dividends declared (\$.75 per share)	-	-	(3,175,394)	-	-	(3,175,394)
Distribution of 10,378 shares of treasury stock for directors' compensation	-	(33,831)	-	265,262	-	231,431
Distribution of 2,392 shares of treasury stock for employee compensation	-	(6,140)	-	61,140	-	55,000
Distribution of 286 shares of treasury stock for deferred directors' compensation	-	(7,364)	-	7,310	-	(54)
Distribution of 4,387 shares of treasury stock for employee restricted stock awards	-	(60,800)	-	112,090	-	51,290
Purchase of 13,981 shares of	-	-	-	(327,413)	-	(327,413)

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treasury stock						
Sale of 3,900 shares of treasury stock	-	(10,101)	-	99,606	-	89,505
Issuance of 1,009,942 shares related to FOFC Merger	10,100	23,723,538	-	-	-	23,733,638
Balances at September 30, 2011	\$ 53,101	\$ 45,709,779	\$ 98,808,285	\$ (18,948,660)	\$ 3,065,218	\$ 128,687,723
Balances at December 31, 2011	\$ 53,101	\$ 45,582,861	\$ 100,628,900	\$ (18,894,044)	\$ (1,441,378)	\$ 125,929,440
Net income	-	-	8,892,418	-	-	8,892,418
Other comprehensive income	-	-	-	-	1,369,523	1,369,523
Restricted stock awards	-	61,062	-	-	-	61,062
Restricted stock units for directors' deferred compensation plan	-	65,151	-	-	-	65,151
Cash dividends declared (\$.75 per share)	-	-	(3,429,775)	-	-	(3,429,775)
Distribution of 10,238 shares of treasury stock for directors' compensation	-	(28,121)	-	261,069	-	232,948
Distribution of 3,453 shares of treasury stock for employee compensation	-	(8,052)	-	88,052	-	80,000
Distribution of 3,240 shares of treasury stock for deferred directors' compensation	-	(81,747)	-	82,588	-	841
Distribution of 2,095 shares of treasury stock for employee	-	(53,412)	-	53,412	-	-

restricted stock awards						
Purchase of 23,120 shares of treasury stock	-	-	-	(579,051)	-	(579,051)
Sale of 10,100 shares of treasury stock	-	101	-	257,449	-	257,550
Balances at September 30, 2012	\$ 53,101	\$ 45,537,843	\$ 106,091,543	\$ (18,730,525)	\$ (71,855)	\$ 132,880,107
See accompanying notes to unaudited consolidated financial statements.						

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

Nine Months Ended
September 30,

CASH FLOWS FROM

OPERATING ACTIVITIES:

	2012	2011
Net income	\$ 8,892,418	\$ 7,576,059
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	808,258	753,192
Provision for loan losses	753,897	833,333
Depreciation and amortization of fixed assets	2,187,234	2,129,738
Amortization of premiums on securities, net	1,343,743	960,973
Gains on sales of loans held for sale, net	(270,265)	(132,902)
Proceeds from sales of loans held for sale	8,992,854	5,523,214
Loans originated and held for sale	(9,491,912)	(4,977,727)
Net losses (gains) on sale of other real estate owned	72,004	(87,733)
Net (gains) losses on trading assets	(28,261)	14,966
Net gains on securities transactions	(300,516)	(1,108,091)
Net impairment loss recognized on investment securities	-	67,400
Proceeds from sales of trading assets	96,498	-
Purchase of trading assets	(48,851)	(264,244)
Decrease in other assets	4,294,238	3,001,325
Decrease (increase) in prepaid FDIC assessment	559,406	(49,464)
Decrease in accrued interest payable	(337,246)	(265,000)
Expense related to restricted stock units for directors' deferred compensation plan	65,151	61,129
Expense related to employee stock compensation	80,000	55,000
Expense related to employee stock awards	61,062	21,226
Decrease in other liabilities	(820,424)	(2,243,010)
Income from bank owned life insurance	(64,840)	(65,932)
Net cash provided by operating activities	16,844,448	11,803,452

CASH FLOWS FROM

INVESTING ACTIVITIES:

	70,370,086	67,741,210
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Proceeds from sales and calls of securities available for sale		
Proceeds from maturities and principal collected on securities available for sale	21,396,640	23,608,123
Proceeds from maturities and principal collected on securities held to maturity	3,731,924	3,448,732
Purchases of securities available for sale	(64,276,418)	(95,911,022)
Purchases of securities held to maturity	(1,582,507)	(3,319,281)
Purchase of Federal Home Loan Bank and Federal Reserve Bank stock	(26,250)	(1,002,500)
Redemption of Federal Home Loan Bank and Federal Reserve Bank stock	775,100	237,250
Purchases of premises and equipment	(2,287,654)	(1,307,723)
Cash paid Fort Orange Financial Corporation acquisition	-	(8,137,816)
Cash received Fort Orange Financial Corporation acquisition	-	33,284,995
Proceeds from sales of other real estate owned	294,229	356,207
Net increase in loans	(78,356,344)	(10,967,168)
Net cash (used) provided by investing activities	(49,961,194)	8,031,007

CASH FLOWS FROM FINANCING ACTIVITIES:

Net increase in demand deposits, NOW accounts, savings accounts, and insured money market accounts	112,724,881	70,452,474
Net decrease in time deposits and individual retirement accounts	(28,042,200)	(15,073,756)
Net decrease in securities sold under agreements to repurchase	(4,189,186)	(13,889,730)
Repayments of Federal Home Loan Bank long term advances	(15,298,177)	(317,990)
Purchase of treasury stock	(579,051)	(327,413)
Sale of treasury stock	257,449	89,505
Cash dividends paid	(3,427,087)	(2,914,582)
Net cash provided by financing activities	61,446,629	38,018,508
Net increase in cash and cash equivalents	28,329,883	57,852,967
Cash and cash equivalents, beginning of period	52,901,853	60,619,777

Cash and cash equivalents, end of period	\$ 81,231,736	\$118,472,744
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7

(continued)

Supplemental disclosure of cash flow
information:

Cash paid during the year for:

Interest	\$4,501,350	\$5,126,397
Income Taxes	\$ 3,500	\$3,340,847

Supplemental disclosure of non-cash activity:

Transfer of loans to other real estate owned	\$ 512,686	\$ 308,976
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See accompanying notes to unaudited
consolidated financial statements.

8

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Chemung Financial Corporation (the "Corporation"), through its wholly owned subsidiaries, Chemung Canal Trust Company (the "Bank") and CFS Group, Inc., a financial services company, provides a wide range of banking, financing, fiduciary and other financial services to its local market area. The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. All material intercompany accounts and transactions are eliminated in consolidation.

The data in the consolidated balance sheet as of December 31, 2011 was derived from the audited consolidated financial statements in the Corporation's 2011 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 28, 2012. That data, along with the other interim financial information presented in the consolidated balance sheets, statements of income, comprehensive income and shareholders' equity, and cash flows should be read in conjunction with the audited consolidated financial statements, including the notes thereto, contained in the 2011 Annual Report on Form 10-K. Amounts in prior periods' consolidated interim financial statements are reclassified whenever necessary to conform to the current period's presentation.

The consolidated financial statements included herein reflect all adjustments which are, in the opinion of management, of a normal recurring nature and necessary to present fairly the Corporation's financial position as of September 30, 2012 and December 31, 2011, and results of operations for the three and nine-month periods ended September 30, 2012 and 2011, and changes in shareholders' equity and cash flows for the nine-month periods ended September 30, 2012 and 2011. Subsequent events were evaluated for any required recognition or disclosure. The results for the periods presented are not necessarily indicative of results to be expected for the entire fiscal year or any other interim period.

2. 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. 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. Earnings per share were computed by dividing net income by 4,639,985 and 4,297,777 weighted average shares outstanding for the nine-month periods ended September 30, 2012 and 2011, respectively and 4,641,547 and 4,637,392 weighted average shares outstanding for the three-month periods ended September 30, 2012 and 2011, respectively. There were no dilutive common stock equivalents during the three and nine-month periods ended September 30, 2012 or 2011.

3. Adoption of New Accounting Standards

In May, 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and international accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this guidance are effective for interim and annual reporting periods beginning after December 15, 2011. The effect of adopting this standard did not have a material effect on the Corporation's operating results or financial condition, but the additional disclosures are included in Note 4.

In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. The amendments in this guidance are effective as of the beginning of a fiscal reporting year, and interim periods within that year, that begins after December 15, 2011. In connection with the adoption of this amendment, the Corporation changed the presentation of the statement of comprehensive income for the Corporation to two consecutive statements instead of presenting it as part of the consolidated statements of shareholders' equity.

4. Fair Value

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

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

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

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

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

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

The Corporation's investment in collateralized debt obligations consisting of pooled trust preferred securities which are issued by financial institutions were historically priced using Level 2 inputs. The lack of observable inputs and market activity in this class of investments has been significant and resulted in unreliable external pricing. Broker pricing and bid/ask spreads, when available, have varied widely. The once active market has become comparatively inactive. As a result, these investments are now priced using Level 3 inputs.

The Corporation utilizes an external model for pricing these securities. This is the same model used in determining other-than-temporary impairment (“OTTI”) as further described in Note 8. Information such as historical and current performance of the underlying collateral, deferral/default rates, collateral coverage ratios, break in yield calculations, cash flow projections, liquidity and credit premiums required by a market participant, and financial trend analysis with respect to the individual issuing financial institutions, are utilized in determining individual security valuations. Discount rates were utilized along with the cash flow projections in order to calculate an appropriate fair value. These discount rates were calculated based on industry index rates and adjusted for various credit and liquidity factors. Due to current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility.

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: 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 other real estate owned (“OREO”) are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for 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:

Financial Assets:	Fair Value	Fair Value Measurement at September 30, 2012 Using		
		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	\$ 146,650,654	\$ 37,917,000	\$ 108,733,654	\$ -
Mortgage-backed securities, residential	36,285,767	-	36,285,767	-
Obligations of states and political subdivisions	41,609,614	-	41,609,614	-
Collateralized mortgage obligations	4,727,378	-	4,727,378	-
Corporate bonds and notes	13,764,840	-	13,764,840	-
SBA loan pools	1,783,390	-	1,783,390	-
Trust Preferred securities	2,462,006	-	2,016,406	445,600
Corporate stocks	6,385,305	5,731,308	653,997	-
Total available for sale securities	\$ 253,668,954	\$ 43,648,308	\$ 209,575,046	\$ 445,600
Trading assets	\$ 274,995	\$ 274,995	\$ -	\$ -

Financial Assets:	Fair Value	Fair Value Measurement at December 31, 2011 Using		
		Quoted Prices	Significant Other	Significant Unobservable

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		in Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)
Obligations of U.S. Government and U.S. Government sponsored enterprises	\$ 152,079,770	\$ 35,950,000	\$ 116,129,770	\$ -
Mortgage-backed securities, residential	50,766,604	-	50,766,604	-
Obligations of states and political subdivisions	46,512,971	-	46,512,971	-
Trust Preferred securities	2,310,066	-	2,015,156	294,910
Corporate bonds and notes	13,684,199	-	13,684,199	-
Collateralized mortgage obligations	7,536,753	-	7,536,753	-
SBA loan pools	1,949,606	-	1,949,606	-
Corporate stocks	6,029,841	5,339,839	690,002	-
Total available for sale securities	\$ 280,869,810	\$ 41,289,839	\$ 239,285,061	\$ 294,910
Trading assets	\$ 294,381	\$ 294,381	\$ -	\$ -

There were no transfers between Level 1 and Level 2 during the three or nine-month periods ending September 30, 2012 or the year ending December, 31, 2011.

The significant unobservable inputs used in the fair value measurement of the Corporation's collateralized debt 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 three and nine-month periods ending September 30, 2012 and 2011:

	Fair Value Measurement for Nine-Months Ended September 30, 2012 Using Significant Unobservable Inputs (Level 3)	Fair Value Measurement for Nine-Months Ended September 30, 2011 Using Significant Unobservable Inputs (Level 3)
Trust Preferred Securities Available for Sale		
Beginning balance	\$ 294,910	\$ 334,585
Total gains/losses (realized/unrealized):		
Included in earnings:		
Income on securities	-	-
Impairment charge on investment securities	-	(67,400)
Included in other comprehensive income	150,690	27,725
Transfers in and/or out of Level 3	-	-
Ending balance September 30	\$ 445,600	\$ 294,910

Fair Value Measurement for Three-Months Ended September 30, 2012 Using	Fair Value Measurement for Three-Months Ended September 30, 2011 Using
--	--

	Significant Unobservable Inputs (Level 3)	Significant Unobservable Inputs (Level 3)
Trust Preferred Securities Available for Sale		
Beginning balance	\$ 343,035	\$ 371,735
Total gains/losses (realized/unrealized):		
Included in earnings:		
Income on securities	-	-
Impairment charge on investment securities	-	(67,400)
Included in other comprehensive income	102,565	(9,425)
Transfers in and/or out of Level 3	-	-
Ending balance September 30	\$ 445,600	\$ 294,910

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

		Fair Value Measurement at September 30, 2012 Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:				
Impaired Loans:				
Commercial, financial and agricultural:				
Commercial and industrial	\$ 1,324,350	\$ -	\$ -	\$ 1,324,350
Commercial mortgages:				
Other	423,036	-	-	423,036
Total Impaired Loans	\$ 1,747,386	\$ -	\$ -	\$ 1,747,386
Other real estate owned:				
Commercial, financial and agricultural:				
Commercial and industrial	\$ 101,200	\$ -	\$ -	\$ 101,200
Commercial mortgages:				
Other	400,755	-	-	400,755
Residential mortgages	427,871	-	-	427,871
Consumer loans:				
Home equity lines & loans	4,000	-	-	4,000
Total Other real estate owned, net	\$ 933,826	\$ -	\$ -	\$ 933,826

		Fair Value Measurement at December 31, 2011 Using		
	Fair Value	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs (Level 3)
Financial Assets:				

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		for Identical Assets (Level 1)	(Level 2)	
Impaired Loans:				
Commercial, financial and agricultural:				
Commercial and industrial	\$ 831,601	\$ -	\$ -	\$ 831,601
Commercial mortgages:				
Other	3,321,838	-	-	3,321,838
Total Impaired Loans	\$ 4,153,439	\$ -	\$ -	\$ 4,153,439
Other real estate owned:				
Commercial, financial and agricultural:				
Commercial and industrial	\$ 218,040	\$ -	\$ -	\$ 218,040
Commercial mortgages:				
Other	366,760	-	-	366,760
Residential mortgages	276,355	-	-	276,355
Consumer loans:				
Home equity lines & loans	36,600	-	-	36,600
Total Other real estate owned, net	\$ 897,755	\$ -	\$ -	\$ 897,755

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of \$2,790,932 with a valuation allowance of \$1,043,546 as of September 30, 2012, resulting in no additional provision for loan losses for the three and nine-month periods ending September 30, 2012. Impaired loans had a principal balance of \$6,095,645, with a valuation allowance of \$1,942,206 as of December 31, 2011, resulting in a \$958,333 provision for loan losses for the year ending December 31, 2011.

OREO, which is measured by the lower of carrying or fair value less costs to sell, had a net carrying amount of \$933,826 at September 30, 2012. The net carrying amount reflects the outstanding balance of \$1,126,193 net of a valuation allowance of \$192,367 at September 30, 2012, which resulted in a write down of \$96,600 and \$116,840 for the three and nine-month periods ending September 30, 2012.

OREO had a net carrying amount of \$897,755 at December 31, 2011. The net carrying amount reflects the outstanding balance of \$1,009,162 net of a valuation allowance of \$111,407 at December 31, 2011, which resulted in write downs of \$12,120 for the year ending December 31, 2011.

The carrying amounts and estimated fair values of other financial instruments, at September 30, 2012 and December 31, 2011, are as follows (dollars in thousands):

Financial assets:	Carrying Amount	Fair Value Measurements at September 30, 2012 Using				Estimated Fair Value (1)
		Quoted Prices in Active Significant Markets for Observable	Identical Assets (Level 1)	Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and due from financial institutions	\$ 35,324	\$ 35,324	\$ -		-\$	35,324
Interest-bearing deposits in other financial institutions	45,908	42,796	3,112		-	45,908
Trading assets	275	275	-		-	275
Securities available for sale	253,669	43,648	209,575		446	253,669
Securities held to maturity	6,163	-	6,881		-	6,881
Federal Home Loan and Federal Reserve Bank stock	4,761	-	-		-	N/A

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Net loans	865,530	-	-	899,909	899,909
Loans held for sale	1,165	-	1,165	-	1,165
Accrued interest receivable	4,411	333	1,634	2,444	4,411
Financial liabilities:					
Deposits:					
Demand, savings, and insured money market accounts					
	834,228	834,228	-	-	834,228
Time deposits	248,948	-	250,568	-	250,568
Securities sold under agreements to repurchase					
	32,918	-	35,671	-	35,671
Federal Home Loan Bank advances					
	28,046	-	30,740	-	30,740
Accrued interest payable	463	15	448	-	463
Dividends payable	1,144	1,144	-	-	1,144

	December 31, 2011	
	Carrying	Estimated
Financial assets:	Amount	Fair Value
		(1)
Cash and due from financial institutions	\$ 28,205	\$ 28,205
Interest-bearing deposits in other financial institutions	24,697	24,697
Trading assets	294	294
Securities available for sale	280,870	280,870
Securities held to maturity	8,312	9,176
Federal Home Loan and Federal Reserve Bank stock	5,509	N/A
Net loans	787,256	805,760
Loans held for sale	395	395
Accrued interest receivable	3,882	3,882

Financial liabilities:

Deposits:

Demand, savings, and insured money market accounts	721,503	721,503
Time deposits	276,990	279,441
Securities sold under agreements to repurchase	37,107	40,019
Federal Home Loan Bank advances	43,344	46,603
Accrued interest payable	800	800
Dividends payable	1,141	1,141

(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.

The methods and assumptions used to estimate fair value are described as follows:

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 Federal Home Loan Bank of New York (“FHLB”) and Federal Reserve Bank of New York (“FRB”) 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 FHLB and FRB stock due to restrictions placed on its transferability.

Loans Receivable

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

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.

Federal Home Loan Bank 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.

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.

5. Goodwill and Intangible Assets

The changes in goodwill included in the core banking segment during the periods ending September 30, 2012 and 2011 were as follows:

	2012	2011
Beginning of year	\$ 21,983,617	\$ 9,872,375
Acquired goodwill	-	12,284,838
Adjustment of Acquired goodwill (1)	(159,174)	-
September 30,	\$ 21,824,443	\$ 22,157,213

(1) Adjustment related to Fort Orange Financial Corp. acquisition.

Acquired intangible assets were as follows at September 30, 2012 and December 31, 2011:

At September 30, 2012		At December 31, 2011	
Balance	Accumulated	Balance	Accumulated
Acquired	Amortization	Acquired	Amortization

Core deposit				
intangibles	\$ 3,819,798	\$ 1,655,826	\$ 3,819,798	\$ 1,213,118
Other				
customer				
relationship				
intangibles	6,063,423	2,845,113	6,063,423	2,479,563
Total	\$ 9,883,221	\$ 4,500,939	\$ 9,883,221	\$ 3,692,681

Aggregate amortization expense was \$808,258 and \$753,192 for the nine-month periods ended September 30, 2012 and 2011, respectively.

The remaining estimated aggregate amortization expense at September 30, 2012 is listed below:

Year	Estimated Expense
2012	\$ 238,462
2013	876,524
2014	777,801
2015	681,176
2016	607,713
2017 and thereafter	2,200,606
Total	\$ 5,382,282

6. 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 accumulated other comprehensive income or loss balance, net of tax:

	Balance at December 31, 2011	Current Period Change	Balance at September 30, 2012
Unrealized gains on securities available for sale	\$ 7,987,055	\$ 788,219	\$ 8,775,274
Unrealized loss on pension plans and other benefit plans	(9,428,433)	581,304	(8,847,129)
Total	\$ (1,441,378)	\$ 1,369,523	\$ (71,855)

7. Commitments and Contingencies

The Corporation is a party to certain financial instruments with off-balance sheet risk such as commitments under standby letters of credit, unused portions of lines of credit, overdraft protection and commitments to fund new loans. In accordance with U.S. GAAP, these financial instruments are not recorded in the financial statements. The Corporation's policy is to record such instruments when funded. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are generally used by the Corporation to manage clients' requests for funding and other client needs.

On February 14, 2011 and April 14, 2011, the Bank received separate settlement demands from representatives of beneficiaries of certain trusts for which the Bank has acted as trustee. The settlement demands relate to alleged claims of, among other things, breach of the Bank's fiduciary duties as trustee, including the Bank's alleged failure to adequately diversify the relevant trust portfolios. The beneficiaries seek aggregate damages of up to approximately \$27.0 million. On September 16, 2011, the beneficiaries objected in the Surrogate's Court of the State of New York, County of Chemung (the "Surrogate's Court") to accountings with respect to the above-mentioned trusts provided by the Bank, based on allegations similar to those offered in the settlement demands. The matter remains pending at the Surrogate's Court. Although these matters are inherently unpredictable, management will defend against these claims vigorously. Management has concluded that it is reasonably possible, but not probable, that the financial position, results of operations or cash flows of the Corporation could be materially adversely affected in any particular period by the unfavorable resolution of these claims, notwithstanding any potential recovery under applicable insurance coverage. An amount of loss or range of loss cannot be reasonably estimated at this time.

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.

8. Securities

Amortized cost and estimated fair value of securities available for sale are as follows:

	Amortized Cost	September 30, 2012 Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government and U.S. Government sponsored enterprises	\$ 142,730,477	\$ 3,920,177	\$ -	\$ 146,650,654
Mortgage-backed securities, residential	33,801,646	2,484,121	-	36,285,767
Collateralized Mortgage obligations	4,653,401	74,909	931	4,727,379
Obligations of states and political subdivisions	39,800,910	1,810,542	1,838	41,609,614
	13,421,730	346,574	3,464	13,764,840

Corporate bonds and notes				
SBA loan pools	1,743,803	39,587	-	1,783,390
Trust Preferred securities	2,517,440	127,991	183,425	2,462,006
Corporate stocks	744,715	5,645,849	5,260	6,385,304
Total	\$ 239,414,122	\$ 14,449,750	\$ 194,918	\$ 253,668,954

	December 31, 2011			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government and U.S. Government sponsored enterprises	\$ 149,140,715	\$ 3,022,726	\$ 83,671	\$ 152,079,770
Mortgage-backed securities, residential	48,129,271	2,637,334	-	50,766,605
Collateralized mortgage obligations	7,412,471	135,603	11,321	7,536,753
Obligations of states and political subdivisions	44,561,789	1,954,265	3,083	46,512,971
Corporate bonds and notes	13,461,675	418,969	196,446	13,684,198
SBA loan pools	1,915,419	34,187	-	1,949,606
Trust preferred securities	2,538,285	132,516	360,735	2,310,066
Corporate stocks	788,030	5,246,655	4,844	6,029,841
Total	\$ 267,947,655	\$ 13,582,255	\$ 660,100	\$ 280,869,810

Amortized cost and estimated fair value of securities held to maturity are as follows:

	September 30, 2012			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of states and political subdivisions	\$ 6,162,503	\$ 718,669	\$ -	\$ 6,881,172

	December 31, 2011			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of states and political subdivisions	\$ 8,311,921	\$ 864,035	\$ -	\$ 9,175,956

The amortized cost and estimated fair value of debt securities are shown below by expected maturity.

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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:

	September 30, 2012			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within One Year	\$ 58,024,142	\$ 58,383,376	\$ 1,606,365	\$ 1,633,074
After One, But Within Five Years	133,178,606	138,326,611	3,147,444	3,490,139
After Five, But Within Ten Years	6,638,784	7,331,527	1,408,694	1,757,959
After Ten Years	629,025	445,600	-	-
Mortgage-backed securities, residential	33,801,646	36,285,767	-	-
Collateralized mortgage obligations	4,653,401	4,727,379	-	-
SBA loan pools	1,743,803	1,783,390	-	-
Total	\$ 238,669,407	\$ 247,283,650	\$ 6,162,503	\$ 6,881,172

Proceeds from sales and calls of securities available for sale for the three and nine months ended September 30, 2012 were \$1,002,052 and \$70,370,086, respectively. Realized gross gains on these sales and calls were \$597 and \$300,516 during the three and nine month periods ended September 30, 2012, respectively. There were no sales or calls of securities available for sale that resulted in losses for the three or nine-months ended September 30, 2012.

Proceeds from sales and calls of securities available for sale for the three and nine months ended September 30, 2011, were \$11,085,156 and \$67,741,210, respectively. Realized gross gains on these sales and calls were \$428,882 and \$1,108,091 during the three and nine month periods ended September 30, 2011, respectively. There were no sales or calls of securities available for sale that resulted in losses for the three or nine-months ended September 30, 2011.

The following tables summarize the investment securities available for sale and held to maturity with unrealized losses at September 30, 2012 and December 31, 2011 by aggregated major security type and length of time in a continuous unrealized loss position:

September 30, 2012	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized mortgage obligations	\$ 22,087	70	\$ 178,729	\$ 861	\$ 200,816	\$ 931
Obligations of states and political subdivisions	430,847	1,838	-	-	430,847	1,838
Corporate bonds and notes	-	-	494,297	3,464	494,297	3,464
Trust preferred securities	-	-	445,600	183,425	445,600	183,425
Corporate stocks	-	-	48,370	5,260	48,370	5,260
Total temporarily impaired securities	\$ 452,934	\$ 1,908	\$ 1,166,996	\$ 193,010	\$ 1,619,930	\$ 194,918

December 31, 2011	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government and U.S.	\$27,365,920	\$ 83,671	\$ -	\$ -	\$27,365,920	\$ 83,671

Government sponsored enterprises						
Collateralized mortgage obligations	2,546,461	11,321	-	-	2,546,461	11,321
Obligations of states and political subdivisions	947,203	3,083	-	-	947,203	3,083
Corporate bonds and notes	5,261,074	196,446	-	-	5,261,074	196,446
Trust preferred securities	-	-	294,910	360,735	294,910	360,735
Corporate stocks	1,669	1,969	47,117	2,875	48,786	4,844
Total temporarily impaired securities	\$36,122,327	\$296,490	\$342,027	\$363,610	\$36,464,354	\$660,100

Other-Than-Temporary Impairment (“OTTI”)

When OTTI occurs, for either debt securities or purchased beneficial interests, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment’s amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

As of September 30, 2012, the majority of the Corporation's unrealized losses in the investment securities portfolio related to one pooled trust preferred security. The decline in fair value on this security is primarily attributable to the financial crisis and resulting credit deterioration and financial condition of the underlying issuers, all of which are financial institutions. This deterioration may affect the future receipt of both principal and interest payments on this security. This fact combined with the current illiquidity in the market makes it unlikely that the Corporation would be able to recover its investment in this security if it was sold at this time.

Our analysis of this investment includes a \$629,025 book value collateralized debt obligation ("CDO") which is a pooled trust preferred security. This security was rated high quality at inception, but at September 30, 2012 Moody's rated this security as Caa3, which is defined as substantial risk of default. The Corporation uses the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine if there are adverse changes in cash flows during each quarter. The OTTI model considers the structure and term of the CDO and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities.

Upon completion of the September 30, 2012 analysis, our model indicated no additional OTTI on this CDO. This security remained classified as available for sale and represented \$183,425 of the unrealized losses reported at September 30, 2012. Payments continue to be made as agreed on this security.

When conducting the September 30, 2012 analysis, the present value of expected future cash flows using a discount rate equal to the yield in effect at the time of purchase was compared to the previous quarters' analysis. The analysis indicated no further decline in value attributed to credit related factors stemming from further deterioration in the underlying collateral payment streams. Additionally, to estimate fair value the present value of the expected future cash flows was calculated using a current estimated discount rate that a willing market participant might use to value the security based on current market conditions and interest rates. This comparison indicated an increase in value during the quarter, based on factors other than credit, which resulted in a gain reported in other comprehensive income. Changes in credit quality may or may not correlate to changes in the overall fair value of the impaired securities as the change in credit quality is only one component in assessing the overall fair value of the impaired securities. Therefore, the recognition of additional credit related OTTI could result in a gain reported in other comprehensive income. Total OTTI recognized in accumulated other comprehensive income was \$111,329 and \$220,459 for securities available for sale at September 30, 2012 and December 31, 2011, respectively.

The tables below present a roll forward of the cumulative credit losses recognized in earnings for the three and nine-month periods ending September 30, 2012 and 2011:

	2012	2011
Beginning balance, January 1,	\$ 3,506,073	\$ 3,438,673
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized	-	-
Additions/Subtractions:		
Amounts realized for securities sold during the period	-	-
Amounts related to securities for which the 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	-	-
Increases to the amount related to the credit loss for which other-than-temporary impairment was previously recognized	-	67,400
Ending balance, September 30,	\$ 3,506,073	\$ 3,506,073

Beginning balance, July 1,	\$ 3,506,073	\$ 3,438,673
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized	-	-
Additions/Subtractions:		
Amounts realized for securities sold during the period	-	-
Amounts related to securities for which the 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	-	-
Increases to the amount related to the credit loss for which other-than-temporary impairment was previously recognized	-	67,400
Ending balance, September 30,	\$ 3,506,073	\$ 3,506,073

9. Loans and Allowance for Loan Losses

The composition of the loan portfolio is summarized as follows:

	September 30, 2012	December 31, 2011
Commercial, financial and agricultural	\$ 133,365,046	\$ 142,209,279
Commercial mortgages	311,126,130	264,589,013
Residential mortgages	193,049,212	193,599,853
Indirect consumer loans	130,969,296	97,165,447
Consumer loans	107,848,451	99,351,585
	\$ 876,358,135	\$ 796,915,177

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. The allowance is an amount that management believes will be adequate to absorb probable incurred losses on existing loans. 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 problem loans (including evaluations of the underlying collateral). Historical loss experience is adjusted by management based on their judgment as to the current impact of qualitative factors including changes in the composition and volume of the loan portfolio, overall portfolio quality, and current economic conditions that may affect the borrowers' ability to pay. Management believes that the allowance for loan losses is adequate to absorb probable incurred losses. 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.

Management, after considering current information and events regarding a borrower's ability to repay its obligations, classifies a loan as impaired when it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. If a loan is impaired, 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. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Corporation determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component of the allowance for loan losses 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 eight quarters. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio class. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: commercial, financial and agricultural; commercial mortgages; residential mortgages; and consumer loans.

Risk Characteristics

Commercial, financial 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, inferring 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.

The following tables present activity in the allowance for loan losses for the three and nine months ending September 30, 2012, by portfolio segment and by loans originated by the Corporation (referred to as "Legacy" loans) and loans acquired (referred to as "Acquired" loans) in the merger with Fort Orange Financial Corp. ("FOFC"), which was completed on April 8, 2011. The allowance for loan losses on Acquired loans represents any valuation allowances established after acquisition for decreases in cash flows expected to be collected on purchased credit impaired loans.

In addition, the following tables present activity in the allowance for loan losses for the three and nine months ending September 30, 2011, by portfolio segment for Legacy loans. The allowance for loan losses on Acquired loans was established during the quarter ending March 31, 2012, therefore, there was no activity for the three and nine months ending September 30, 2011.

Legacy Loans	Nine Months Ended September 30, 2012					
	Commercial, Financial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total
Allowance for loan losses						
Beginning balance:	\$ 3,143,373	\$ 2,570,149	\$ 1,309,649	\$ 2,192,729	\$ 443,420	\$ 9,659,320
Charge						
Offs:	(5,792)	(39,314)	(82,442)	(342,867)	-	(470,415)
Recoveries:	591,497	43,031	-	176,139	-	810,667
Net recoveries (charge offs)	585,705	3,717	(82,442)	(166,728)	-	340,252
Provision	(1,300,269)	682,991	232,793	884,943	32,542	533,000
Ending balance	\$ 2,428,809	\$ 3,256,857	\$ 1,460,000	\$ 2,910,944	\$ 475,962	\$ 10,532,572

Acquired Loans	Nine Months Ended September 30, 2012					
	Commercial, Financial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total
Allowance for loan losses						
Beginning balance:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Reclassification of acquired loan discount	73,228	50,331	-	-	-	123,559
Charge Offs:	-	(49,057)	-	-	-	(49,057)
Recoveries:	-	-	-	-	-	-
Net recoveries	73,228	1,274	-	-	-	74,502

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Provision	134,427	86,470	-	-	-	220,897
Ending balance	\$ 207,655	\$ 87,744	\$ -	\$ -	\$ -	\$ 295,399

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Legacy Loans		Three Months Ended September 30, 2012					
Allowance for loan losses	Commercial, Financial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total	
Beginning balance:	\$ 2,796,556	\$ 2,987,968	\$ 1,424,816	\$ 2,474,185	\$ 413,648	\$ 10,097,173	
Charge Offs:	-	(31,019)	(9,829)	(69,439)	-	(110,287)	
Recoveries:	239,735	12,535	-	68,416	-	320,686	
Net recoveries (charge offs)	239,735	(18,484)	(9,829)	(1,023)	-	210,399	
Provision	(607,482)	287,373	45,013	437,782	62,314	225,000	
Ending balance	\$ 2,428,809	\$ 3,256,857	\$ 1,460,000	\$ 2,910,944	\$ 475,962	\$ 10,532,572	

Acquired Loans		Three Months Ended September 30, 2012					
Allowance for loan losses	Commercial, Financial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total	
Beginning balance:	\$ 207,655	\$ 87,744	\$ -	\$ -	\$ -	\$ 295,399	
Reclassification of acquired loan discount	-	-	-	-	-	-	
Charge Offs:	-	-	-	-	-	-	
Recoveries:	-	-	-	-	-	-	
Net charge offs	-	-	-	-	-	-	
Provision	-	-	-	-	-	-	
Ending balance	\$ 207,655	\$ 87,744	\$ -	\$ -	\$ -	\$ 295,399	

Legacy Loans		Nine Months Ended September 30, 2011					
Allowance for loan losses	Commercial, Financial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total	
Beginning balance:	\$ 2,118,299	\$ 2,575,058	\$ 1,301,780	\$ 2,727,022	\$ 775,972	\$ 9,498,131	
Charge Offs:	(593,995)	(3,764)	(39,312)	(542,621)	-	(1,179,692)	

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Recoveries:	314,797	33,304	30,324	146,726	-	525,151
Net recoveries (charge offs)	(279,198)	29,540	(8,988)	(395,895)	-	(654,541)
Provision	1,444,245	(69,375)	(61,068)	(184,348)	(296,121)	833,333
Ending balance	\$ 3,283,346	\$ 2,535,223	\$ 1,231,724	\$ 2,146,779	\$ 479,851	\$ 9,676,923

Legacy Loans

Three Months Ended September 30, 2011

	Commercial, Financial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total
Beginning balance:	\$ 3,081,433	\$ 2,612,655	\$ 1,246,880	\$ 2,297,459	\$ 517,245	\$ 9,755,672
Charge Offs:	(590,992)	-	(39,312)	(201,966)	-	(832,270)
Recoveries:	109,391	7,201	-	53,596	-	170,188
Net recoveries (charge offs)	(481,601)	7,201	(39,312)	(148,370)	-	(662,082)
Provision	683,514	(84,633)	24,156	(2,310)	(37,394)	583,333
Ending balance	\$ 3,283,346	\$ 2,535,223	\$ 1,231,724	\$ 2,146,779	\$ 479,851	\$ 9,676,923

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method as of September 30, 2012 and December 31, 2011. The recorded investment excludes Acquired loans except for those loans acquired with deteriorated credit quality:

September 30, 2012

Allowance for loan losses	Commercial, Financial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	\$ 946,255	\$ 97,291	\$ -	\$ -	\$ -	\$ 1,043,546
Collectively evaluated for impairment	1,482,554	3,159,566	1,460,000	2,910,944	475,962	9,489,026
Acquired with deteriorated credit quality	207,655	87,744	-	-	-	295,399
Total ending allowance balance	\$ 2,636,464	\$ 3,344,601	\$ 1,460,000	\$ 2,910,944	\$ 475,962	\$ 10,827,971

December 31, 2011

Allowance for loan losses	Commercial, Financial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	\$ 1,528,651	\$ 413,555	\$ -	\$ -	\$ -	\$ 1,942,206
Collectively evaluated for impairment	1,614,722	2,156,594	1,309,649	2,192,729	443,420	7,717,114
Total ending allowance balance	\$ 3,143,373	\$ 2,570,149	\$ 1,309,649	\$ 2,192,729	\$ 443,420	\$ 9,659,320

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September 30, 2012

Loans:	Commercial, Financial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Loans individually evaluated for impairment	\$ 2,445,154	\$ 1,777,782	\$ 136,844	\$ -	\$ 4,359,780
Loans collectively evaluated for impairment	112,741,589	234,567,883	179,469,401	233,911,200	760,690,073
Acquired with deteriorated credit quality	1,152,448	11,400,980	239,911	-	12,793,339
Total ending loans balance	\$ 116,339,191	\$ 247,746,645	\$ 179,846,156	\$ 233,911,200	\$ 777,843,192

December 31, 2011

Loans:	Commercial, Financial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Loans individually evaluated for impairment	\$ 5,275,043	\$ 4,603,563	\$ 179,337	\$ -	\$ 10,057,943
Loans collectively evaluated for impairment	111,532,413	169,658,759	175,405,950	190,904,630	647,501,752
Total ending loans balance	\$ 116,807,456	\$ 174,262,322	\$ 175,585,287	\$ 190,904,630	\$ 657,559,695

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The following tables present loans individually evaluated for impairment recognized by class of loans as of September 30, 2012 and December 31, 2011, the average recorded investment and interest income recognized by class of loans as of the three and nine-month periods ending September 30, 2012 and 2011:

	September 30, 2012			December 31, 2011			
	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, financial and agricultural:							
Commercial & industrial	\$ 372,788	\$ 174,129	\$ -	\$ 3,512,860	\$ 2,914,776	\$ -	
Commercial mortgages:							
Construction	10,454	10,454	-	10,454	10,454	-	
Other	1,854,966	1,246,775	-	1,091,026	860,648	-	
Residential mortgages	136,844	136,844	-	178,925	179,337	-	
With an allowance recorded:							
Commercial, financial and agricultural:							
Commercial & industrial	2,670,391	2,271,025	946,255	2,360,252	2,360,267	1,528,651	
Commercial mortgages:							
Construction	-	-	-	8,295	8,295	8,295	
Other	520,327	520,553	97,291	4,098,627	3,724,166	405,260	
Total	\$ 5,565,770	\$ 4,359,780	\$ 1,043,546	\$ 11,260,439	\$ 10,057,943	\$ 1,942,206	
				Three Months Ended			
	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011		September 30, 2012	Three Months Ended September 30, 2011	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized	Average Recorded Investment
With no related allowance recorded:							
Commercial, financial and							

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agricultural:

Commercial & industrial	\$ 843,910	\$ -	\$ 3,100,655	\$ 25,049	\$ 177,457	\$ -	\$ 3,032,483	\$ 6,290
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Commercial

mortgages:

Construction	10,454	-	24,490	-	10,454	-	20,602	-
Other	932,358	-	3,447,948	-	1,081,307	-	3,397,079	-

Residential

mortgages	117,737	-	307,997	-	74,441	-	257,799	-
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Consumer

loans:

Home equity lines & loans	14,892	2,289	-	-	-	-	-	-
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With an

allowance

recorded:

Commercial,

financial and

agricultural:

Commercial & industrial	2,328,728	-	1,953,474	82,548	2,295,003	-	2,918,444	82,548
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Commercial

mortgages:

Construction	4,148	-	27,351	-	-	-	15,557	-
Other	1,712,578	-	821,994	17,070	830,049	-	823,995	17,070

Residential

mortgages	32,001	-	-	-	64,003	-	-	-
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Total	\$ 5,996,806	\$ 2,289	\$ 9,683,909	\$ 124,667	\$ 4,532,714	\$ -	\$ 10,465,959	\$ 105,908
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The following table presents the recorded investment in non accrual and loans past due over 90 days still on accrual by class of loans as of the periods ending September 30, 2012 and December 31, 2011. This table includes Acquired loans except for those loans with evidence of credit deterioration at the time of the FOFC merger:

	September 30, 2012		December 31, 2011	
	Non-Accrual	Loans Past Due Over 90 Days Still Accruing	Non-Accrual	Loans Past Due Over 90 Days Still Accruing
Commercial, financial and agricultural:				
Commercial & industrial	\$ 2,806,183	\$ 17,281	\$ 5,611,805	\$ -
Commercial mortgages:				
Construction	434,338	4,565,392	18,749	7,295,104
Other	2,054,326	-	4,778,384	-
Residential mortgages	2,363,170	-	2,611,096	-
Consumer loans				
Credit cards	-	11,921	-	9,053
Home equity lines & loans	473,981	-	455,418	-
Indirect consumer loans	501,745	-	113,349	-
Other direct consumer loans	31,316	-	22,287	-
Total	\$ 8,665,059	\$ 4,594,594	\$ 13,611,088	\$ 7,304,157

The commercial mortgages included in loans past due over 90 days still accruing at September 30, 2012 and December 31, 2011, were construction loans acquired in the FOFC acquisition, 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 upon the strength of those credit enhancements, the Corporation has not identified these loans as purchased credit impaired loans and expects to incur no losses on these loans.

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The following tables present the aging of the recorded investment in loans past due (including non-accrual loans) by class of loans as of September 30, 2012 and December 31, 2011 and by Legacy loans and Acquired loans:

	September 30, 2012						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Acquired with deteriorated credit quality	Loans Not Past Due	Total
Legacy Loans:							
Commercial, financial and agricultural:							
Commercial & industrial	\$ 7,353	\$ -	\$ 189,912	\$ 197,265	\$ -	\$ 114,455,637	\$ 114,652,902
Agricultural	-	-	-	-	-	533,841	533,841
Commercial mortgages:							
Construction	-	-	10,454	10,454	-	30,653,785	30,664,239
Other	59,389	73,584	305,495	438,468	-	205,242,958	205,681,426
Residential mortgages	1,571,579	428,641	622,623	2,622,843	-	176,983,403	179,606,246
Consumer loans:							
Credit cards	10,399	3,629	11,921	25,949	-	1,753,893	1,779,842
Home equity lines & loans	196,670	272,940	198,814	668,424	-	79,586,618	80,255,042
Indirect consumer loans	656,927	127,026	414,905	1,198,858	-	130,130,094	131,328,952
Other direct consumer loans	19,295	14,865	23,221	57,381	-	20,489,982	20,547,363
Total	\$2,521,612	\$920,685	\$1,777,345	\$5,219,642	\$ -	\$759,830,211	\$765,049,853

	September 30, 2012						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Acquired with deteriorated credit quality	Loans Not Past Due	Total
Acquired Loans:							
Commercial, financial and agricultural:							
Commercial & industrial	\$ 95,799	\$ 4,994	\$ 361,159	\$ 461,952	\$ 1,152,448	\$ 18,760,978	\$ 20,375,378
Commercial mortgages:							
Construction	-	-	4,989,277	4,989,277	1,179,177	1,728,428	7,896,882

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Other	547,737	-	286,997	834,734	10,221,803	54,897,378	65,953,915
Residential mortgages	614,844	-	201,442	816,286	239,911	12,923,490	13,979,687
Consumer loans:							
Home equity lines & loans	-	-	-	-	-	5,470,998	5,470,998
Other direct consumer loans	-	-	-	-	-	92,309	92,309
Total	\$1,258,380	\$4,994	\$5,838,875	\$7,102,249	\$12,793,339	\$93,873,581	\$113,769,169

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	December 31, 2011						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Acquired with deteriorated credit quality	Loans Not Past Due	Total
Legacy Loans: Commercial, financial and agricultural:							
Commercial & industrial	\$ 4,571	\$ 10,940	\$ 2,920,906	\$ 2,936,417	\$ -	\$ 113,612,941	\$ 116,549,358
Agricultural	-	-	-	-	-	258,098	258,098
Commercial mortgages:							
Construction	-	-	-	-	-	7,383,731	7,383,731
Other	82,986	-	2,977,010	3,059,996	-	163,818,595	166,878,591
Residential mortgages	1,418,234	293,337	1,221,056	2,932,627	-	172,652,660	175,585,287
Consumer loans:							
Credit cards	3,660	8,031	9,053	20,744	-	1,934,471	1,955,215
Home equity lines & loans	368,556	27,717	212,573	608,846	-	76,280,502	76,889,348
Indirect consumer loans	597,180	75,817	85,763	758,760	-	96,781,480	97,540,240
Other direct consumer loans	21,876	10,243	9,644	41,763	-	14,478,064	14,519,827
Total	\$2,497,063	\$426,085	\$7,436,005	\$10,359,153	\$ -	\$647,200,542	\$657,559,695

	December 31, 2011						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Acquired with deteriorated credit quality	Loans Not Past Due	Total
Acquired Loans: Commercial, financial and agricultural:							
Commercial & industrial	\$275,121	\$ 82,677	\$ 195,687	\$ 553,485	\$ 1,499,141	\$ 25,335,874	\$ 27,388,500
Commercial mortgages:							
Construction	-	418,518	7,295,104	7,713,622	2,022,149	2,715,270	12,451,041

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Other	-	-	193,570	193,570	11,063,483	65,836,938	77,093,991
Residential mortgages	405,087	62,017	84,083	551,187	226,937	17,753,898	18,532,022
Consumer loans:							
Home equity lines & loans	-	-	-	-	-	6,168,831	6,168,831
Other direct consumer loans	171	-	-	171	-	147,439	147,610
Total	\$680,379	\$563,212	\$7,768,444	\$9,012,035	\$ 14,811,710	\$117,958,250	\$ 141,781,995

Troubled Debt Restructurings:

The Corporation has no allocated specific reserves to customers whose loan terms have been modified in troubled debt restructurings included in non-accrual loans as of September 30, 2012. The Corporation had \$217,866 allocated specific reserves to customers whose loan terms have been modified in troubled debt restructurings which are included in non-accrual loans as of December 31, 2011. The Corporation has not committed to lend any additional amounts as of September 30, 2012 or December 31, 2011 to customers with outstanding loans that are classified as trouble debt restructurings.

During the nine months ended September 30, 2012, two loans in the aggregate amount of \$133,661 were modified as troubled debt restructurings by the Corporation. One of these loans totaling \$58,823 was paid off during the second quarter of 2012. The modifications of the terms of these loans included an extension of a maturity date and the postponement of scheduled amortized payments for greater than a three month period. During the three months ended September 30, 2012, one loan with a principal balance of \$74,838 was modified as a troubled debt restructuring by the Corporation. Additionally, there were no payment defaults on any loans previously modified as troubled debt restructurings 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 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 lines of credit, installment, mortgage, and home equity loans, 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.

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Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be not rated loans. Based on the analysis's performed as of September 30, 2012 and December 31, 2011, the risk category of the recorded investment of loans by class of loans is as follows:

Legacy Loans: Commercial, financial and agricultural:	September 30, 2012				
	Not Rated	Pass	Special Mention	Substandard	Doubtful
Commercial & industrial	\$ -	\$ 102,309,471	\$ 7,723,549	\$ 2,348,857	\$ 2,271,025
Agricultural	-	533,841	-	-	-
Commercial mortgages:					
Construction	-	29,708,671	198,373	757,195	-
Other	-	189,704,790	10,730,594	4,887,276	358,766
Residential mortgages	177,499,107	-	-	2,107,139	-
Consumer loans:					
Credit cards	1,779,842	-	-	-	-
Home equity lines & loans	79,780,903	-	-	474,139	-
Indirect consumer loans	130,827,207	-	-	501,745	-
Other direct consumer loans	20,516,047	-	-	31,316	-
Total	\$ 410,403,106	\$ 322,256,773	\$ 18,652,516	\$ 11,107,667	\$ 2,629,791

Acquired Loans: Commercial, financial and agricultural:	September 30, 2012					
	Not Rated	Pass	Loans Acquired with deteriorated credit quality	Special Mention	Substandard	Doubtful
Commercial & industrial	\$ -	\$ 18,341,646	\$ 1,152,448	\$ 520,125	\$ 278,788	\$ 82,371
Commercial mortgages:						
Construction	-	251,220	1,179,177	5,044,630	1,421,855	-
Other	-	52,881,017	10,221,803	1,329,016	1,328,509	193,570
Residential mortgages	13,483,746	-	239,911	-	256,030	-

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Consumer loans						
Home equity lines & loans	5,470,998	-	-	-	-	-
Other direct consumer loans	92,309	-	-	-	-	-
Total	\$19,047,053	\$71,473,883	\$12,793,339	\$6,893,771	\$3,285,182	\$275,941

	December 31, 2011					
Legacy Loans: Commercial, financial and agricultural:	Not Rated	Pass	Special Mention	Substandard	Doubtful	
Commercial & industrial	\$ -	\$ 93,923,356	\$ 14,957,683	\$ 4,139,413	\$ 3,528,906	
Agricultural	-	258,098	-	-	-	
Commercial mortgages:						
Construction	-	6,391,614	208,360	783,757	-	
Other	-	152,435,884	6,503,087	7,423,514	516,106	
Residential mortgages	173,120,292	-	-	2,464,995	-	
Consumer loans:						
Credit cards	1,955,215	-	-	-	-	
Home equity lines & loans	76,432,196	-	-	457,152	-	
Indirect consumer loans	97,426,891	-	-	113,349	-	
Other direct consumer loans	14,497,795	-	-	22,032	-	
Total	\$363,432,389	\$253,008,952	\$21,669,130	\$15,404,212	\$4,045,012	

		December 31, 2011				
		Loans Acquired with deteriorated credit quality				
Acquired Loans:	Not Rated	Pass	Special Mention	Substandard	Doubtful	
Commercial, financial and agricultural:						
Commercial & industrial	\$ -	\$ 25,164,742	\$ 1,499,141	\$ 602,006	\$ 24,635	\$ 97,976
Commercial mortgages:						
Construction	-	1,790,731	2,022,149	7,447,661	1,190,500	-
Other	-	62,684,708	11,063,483	475,036	2,677,194	193,570
Residential mortgages	18,158,984	-	226,937	-	146,101	-
Consumer loans						
Home equity lines & loans	6,168,831	-	-	-	-	-
Other direct consumer loans	147,610	-	-	-	-	-
Total	\$ 24,475,425	\$ 89,640,181	\$ 14,811,710	\$ 8,524,703	\$ 4,038,430	\$ 291,546

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 tables present the recorded investment in residential and consumer loans based on payment activity as of September 30, 2012 and December 31, 2011:

		September 30, 2012			
		Consumer Loans			
	Residential Mortgages	Credit Card	Home Equity Lines & Loans	Indirect Consumer Loans	Other Direct Consumer Loans
Legacy Loans:					
Performing	\$ 177,499,107	\$ 1,767,921	\$ 79,781,061	\$ 130,827,207	\$ 20,516,047
Non-Performing	2,107,139	11,921	473,981	501,745	31,316
	\$ 179,606,246	\$ 1,779,842	\$ 80,255,042	\$ 131,328,952	\$ 20,547,363
Acquired Loans:					
Performing	\$ 13,723,657	\$ -	\$ 5,470,998	\$ -	\$ 92,309
Non-Performing	256,030	-	-	-	-
Total	\$ 13,979,687	\$ -	\$ 5,470,998	\$ -	\$ 92,309

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December 31, 2011

Consumer Loans

	Residential		Home Equity	Indirect	Other Direct
Legacy Loans:	Mortgages	Credit Card	Lines &	Consumer	Consumer
			Loans	Loans	Loans
Performing	\$ 173,120,292	\$ 1,946,162	\$ 76,432,196	\$ 97,426,891	\$ 14,497,878
Non-Performing	2,464,995	9,053	457,152	113,349	21,949
Total	\$ 175,585,287	\$ 1,955,215	\$ 76,889,348	\$ 97,540,240	\$ 14,519,827

Acquired Loans:

Performing	\$ 18,385,921	\$ -	\$ 6,168,831	\$ -	\$ 147,610
Non-Performing	146,101	-	-	-	-
Total	\$ 18,532,022	\$ -	\$ 6,168,831	\$ -	\$ 147,610

Acquired loans include loans acquired with deteriorated credit quality. The Corporation adjusted its estimates of future expected losses, cash flows, and renewal assumptions 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 tables below summarize the changes in total contractually required principal and interest cash payments, management's estimate of expected total cash payments and carrying value of the loans from January 1, 2012 to September 30, 2012 and from July 1, 2012 to September 30, 2012:

Nine Months Ended September 30, 2012	Balance at December 31, 2011	Income Accretion	All Other Adjustments	Balance at September 30, 2012
Contractually required principal and interest	\$21,260,381	\$ -	\$(1,811,021)	\$19,449,360
Contractual cash flows not expected to be collected (nonaccretable discount)	(4,662,346)	-	776,839	(3,885,507)
Cash flows expected to be collected	16,598,035	-	(1,034,182)	15,563,853
Interest component of expected cash flows (accretable yield)	(1,843,603)	1,481,515	(2,391,636)	(2,753,724)
Fair value of loans acquired with deteriorating credit quality	\$14,754,432	\$1,481,515	\$(3,425,818)	\$12,810,129

Three Months Ended September 30, 2012	Balance at June 30, 2012	Income Accretion	All Other Adjustments	Balance at September 30, 2012
Contractually required principal and interest	\$19,834,397	\$ -	\$(385,037)	\$19,449,360
Contractual cash flows not expected to be collected (nonaccretable discount)	(3,978,427)	-	92,920	(3,885,507)
Cash flows expected to be collected	15,855,970	-	(292,117)	15,563,853
Interest component of expected cash flows	(2,971,148)	310,344	(92,920)	(2,753,724)

(accretable yield)

Fair value of loans acquired with deteriorating credit quality	\$ 12,884,822	\$ 310,344	\$ (385,037)	\$ 12,810,129
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10. Components of Quarterly and Year-to-Date Net Periodic Benefit Costs

	Nine Months Ended		Three Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Qualified Pension				
Service cost, benefits earned during the period	\$ 970,053	\$ 777,402	\$ 323,351	\$ 259,134
Interest cost on projected benefit obligation	1,218,330	1,178,868	406,110	392,956
Expected return on plan assets	(1,990,479)	(1,757,019)	(663,493)	(585,673)
Amortization of unrecognized transition obligation	-	-	-	-
Amortization of unrecognized prior service cost	10,392	22,410	3,464	7,470
Amortization of unrecognized net loss	991,704	507,339	330,568	169,113
Net periodic pension expense	\$ 1,200,000	\$ 729,000	\$ 400,000	\$ 243,000
Supplemental Pension				
Service cost, benefits earned during the period	\$ 26,076	\$ 22,968	\$ 8,692	\$ 7,656
Interest cost on projected benefit obligation	38,320	40,330	12,773	13,443
Expected return on plan assets	-	-	-	-
Amortization of unrecognized prior service cost	-	-	-	-
Amortization of unrecognized net loss	14,940	7,098	4,980	2,366
Net periodic supplemental pension expense	\$ 79,336	\$ 70,396	\$ 26,445	\$ 23,465
Postretirement, Medical and Life				
Service cost, benefits earned during the period	\$ 26,250	\$ 24,750	\$ 8,750	\$ 8,250

Interest cost on projected benefit obligation	54,000	56,250	18,000	18,750
Expected return on plan assets	-	-	-	-
Amortization of unrecognized prior service cost	(72,750)	(72,750)	(24,250)	(24,250)
Amortization of unrecognized net gain	-	-	-	-
Net periodic postretirement, medical and life expense	\$ 7,500	\$ 8,250	\$ 2,500	\$ 2,750

11. Segment Reporting

The Corporation manages its operations through two primary business segments: core banking and wealth management group 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 group services segment provides revenues by providing trust and investment advisory services to clients.

Summarized financial information concerning the Corporation's reportable segments and the reconciliation to the Corporation's consolidated results is shown in the following table. Income taxes are allocated based on the separate taxable income of each segment 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 (dollars in thousands):

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Core Banking		