

CHEMUNG FINANCIAL CORP
Form 10-Q
August 07, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-Q

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

For Quarterly period ended JUNE 30, 2009

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 incorporation or organization)

I.R.S. Employer Identification No.

One Chemung Canal Plaza, Elmira, NY

14901

(Address of principal executive offices)

(Zip Code)

(607) 737-3711 or (800) 836-3711

(Registrant's telephone number, including area code)

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

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 (Section 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 checked="" type="checkbox"/>	Smaller reporting company	<input 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 July 30, 2009 was 3,523,836.

END OF PAGE

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES

INDEX

PART I.	FINANCIAL INFORMATION	<u>PAGE</u>
Item 1:	Financial Statements - Unaudited	

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

	<u>Consolidated Balance Sheets</u>	1
	<u>Consolidated Statements of Income</u>	2
	<u>Consolidated Statements of Shareholders' Equity and Comprehensive Income</u>	3
	<u>Consolidated Statements of Cash Flows</u>	4
	<u>Notes to Unaudited Consolidated Financial Statements</u>	5
Item 2:	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3:	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
Item 4:	<u>Controls and Procedures</u>	29
PART II.	OTHER INFORMATION	29
Item 1A.	Risk Factors	29
Item 2:	Unregistered Sales of Equity Securities and Use of Proceeds	29
Item 4:	Submission of Matters to a Vote of Security Holders	30
Item 6:	Exhibits	30
SIGNATURES		31

END OF PAGE

PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	JUNE 30, 2009	DECEMBER 31, 2008
	-----	-----
ASSETS		
Cash and due from financial institutions	\$ 24,615,854	\$ 21,246,599
Interest-bearing deposits in other financial institutions	43,619,527	2,404,781
	-----	-----
Total cash and cash equivalents	68,235,381	23,651,380
	-----	-----
Securities available for sale, at estimated fair value	199,044,324	191,254,900
Securities held to maturity, estimated fair value of \$12,626,215 at June 30, 2009 and \$9,214,787 at December 31, 2008	12,056,800	8,438,835
Federal Home Loan Bank and Federal Reserve Bank Stock, at cost	3,071,200	3,154,950
Loans, net of deferred origination fees and costs, and unearned income	615,026,233	565,185,154
Allowance for loan losses	(9,131,012)	(9,105,517)
	-----	-----
Loans, net	605,895,221	556,079,637
	-----	-----

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

Loans held for sale	72,750	80,413
Premises and equipment, net	25,640,464	24,937,808
Goodwill	10,062,773	8,806,796
Other intangible assets, net	5,659,552	6,204,494
Other assets	20,993,435	15,708,894

	-----	-----
Total assets	\$950,731,900	\$838,318,107

=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits:

Non-interest-bearing	\$173,714,950	\$157,690,737
Interest-bearing	606,007,063	499,218,612

	-----	-----
Total deposits	779,722,013	656,909,349

	-----	-----
Securities sold under agreements to repurchase	55,159,986	63,412,514

Federal Home Loan Bank term advances	20,000,000	20,000,000
--------------------------------------	------------	------------

Accrued interest payable	1,366,257	1,266,903
--------------------------	-----------	-----------

Dividends payable	880,959	875,438
-------------------	---------	---------

Other liabilities	9,762,934	12,846,758
-------------------	-----------	------------

	-----	-----
Total liabilities	866,892,149	755,310,962

Shareholders' equity:

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

Common stock, \$.01 par value per share, 10,000,000 shares authorized; 4,300,134 issued at June 30, 2009 and December 31, 2008	43,001	43,001
Additional-paid-in capital	22,753,821	22,881,937
Retained earnings	86,783,115	85,868,637
Treasury stock, at cost (776,298 shares at June 30, 2009; 798,384 shares at December 31, 2008)	(19,952,880)	(20,547,419)
Accumulated other comprehensive loss	(5,787,306)	(5,239,011)
	-----	-----
Total shareholders' equity	83,839,751	83,007,145
	-----	-----
Total liabilities and shareholders' equity	\$950,731,900	\$838,318,107
	=====	=====

See accompanying notes to unaudited consolidated financial statements.

1

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

	Six Months Ended		Three Months Ended	
	-----		-----	
	June 30,		June 30,	
	-----		-----	
	2009	2008	2009	2008
INTEREST				
AND DIVIDEND INCOME				
	-----	-----	-----	-----

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

Loans, including fees	\$17,533,088	\$18,341,845	\$ 9,004,067	\$9,137,962
Taxable securities	3,716,674	3,660,379	1,843,877	2,001,623
Tax exempt securities	514,787	365,454	285,480	194,630
Federal funds sold	1,232	67,367	-	30,874
Interest-bearing deposits	48,568	16,037	25,821	12,538
	-----	-----	-----	-----
Total interest and dividend income	21,814,349	22,451,082	11,159,245	11,377,627
	-----	-----	-----	-----
INTEREST EXPENSE				
Deposits	4,340,963	6,320,460	2,143,817	3,049,265
Borrowed funds	471,683	712,062	237,233	297,341
Securities sold under agreements to repurchase	1,020,230	826,031	489,182	473,469
	-----	-----	-----	-----
Total interest expense	5,832,876	7,858,553	2,870,232	3,820,075
	-----	-----	-----	-----
Net interest income	15,981,473	14,592,529	8,289,013	7,557,552
Provision for loan losses	800,000	425,000	375,000	225,000
	-----	-----	-----	-----
Net interest income after provision for loan losses	15,181,473	14,167,529	7,914,013	7,332,552
	-----	-----	-----	-----
Other operating income:				
Trust & investment services income	3,885,343	3,495,017	2,114,193	1,712,559
Service charges on deposit accounts	2,400,665	2,436,923	1,283,412	1,299,775
Net gain on securities transactions	556,348	589,456	9,130	2,900
Other-than-temporary loss on investment				

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

securities

Total impairment losses	(1,632,246)	-	(1,476,486)	-
Loss recognized in other comprehensive income	680,370	-	680,370	-
	-----	-----	-----	-----
Net impairment loss recognized in earnings	(951,876)	-	(796,116)	-
Net gain on sales of loans held for sale	124,966	57,551	37,039	40,355
Credit card merchant earnings	78,888	748,942	41,193	377,050
Gains on sales of other real estate	2,879	-	-	-
Other	1,737,920	1,744,565	925,846	912,439
	-----	-----	-----	-----
Total other operating income	7,835,133	9,072,454	3,614,697	4,345,078
	-----	-----	-----	-----
Other operating expenses:				
Salaries and wages	6,960,176	6,482,883	3,485,922	3,302,231
Pension and other employee benefits	2,531,965	1,188,157	1,378,063	625,038
Net occupancy expenses	2,142,725	2,021,613	1,029,525	980,539
Furniture and equipment expenses	1,045,815	1,008,363	536,468	514,107
Data processing expense	2,325,430	2,052,172	1,625,693	1,019,000
Amortization of intangible assets	544,942	673,761	252,039	248,123
Losses on sales of other real estate	26,393	2,497	-	2,497
FDIC insurance	919,821	33,665	684,330	16,087
Other	3,244,511	3,227,068	1,764,404	1,626,218
	-----	-----	-----	-----
Total other operating expenses	19,741,778	16,690,179	10,756,444	8,333,840
	-----	-----	-----	-----

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

Income before income tax expense	3,274,828	6,549,804	772,266	3,343,790
Income tax expense	846,005	2,135,971	77,434	1,072,287
	-----	-----	-----	-----
	\$ 2,428,823	\$ 4,413,833	\$ 694,832	\$2,271,503
Net income	=====	=====	=====	=====
Weighted average shares outstanding	3,599,799	3,598,284	3,602,908	3,599,889
	=====	=====	=====	=====
Basic and diluted earnings per share	\$ 0.67	\$1.23	\$0.19	\$0.63
	=====	=====	=====	=====

See accompanying notes to unaudited consolidated financial statements.

2

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

	Common Stock	Additional paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
	-----	-----	-----	-----	-----	-----
Balances at December 31, 2007	\$ 43,001	\$22,801,241	\$81,029,531	\$(20,138,214)	\$ 4,379,391	\$88,114,900
Comprehensive Income:						
Net income	-	-	4,413,833	-	-	4,413,833
Change in unrealized gain on securities AFS, net	-	-	-	-	(3,534,921)	(3,534,921)
Change in funded status of Employers' Accounting for Defined Benefit Pension and Other	-	-	-	-	(1,546)	(1,546)

Benefit Plans, net

Total comprehensive
incomeRestricted stock units
for directors' deferred
compensation planCash dividends
declared (\$.50 per
share)Distribution of 8,227
shares of treasury
stock
for directors'
compensationDistribution of 1,321
shares of treasury
stock
for employee
compensationDistribution of 1,273
shares of treasury
stock
for directors' deferred
compensationSale of 5,000 shares
of treasury stockPurchase of 10,813
shares of treasury
stockBalances at June 30,
2008Balances at
December 31, 2008Cumulative effect of
change in accounting
principle,

						877,3
	-	51,345	-	-	-	51,3
	-	-	(1,761,886)	-	-	(1,761,886)
	-	12,180	-	212,011	-	224,1
	-	958	-	34,042	-	35,0
	-	(30,818)	-	32,817	-	1,9
	-	6,100	-	128,900	-	135,0
	-	-	-	(286,082)	-	(286,082)
	-----	-----	-----	-----	-----	-----
	\$ 43,001	\$22,841,006	\$83,681,478	\$(20,016,526)	\$ 842,924	\$87,391,8
	=====	=====	=====	=====	=====	=====
	\$ 43,001	\$22,881,937	\$85,868,637	\$(20,547,419)	\$(5,239,011)	\$83,007,1
	-	-	246,544	-	(246,544)	

adoption of FSB FAS
115-2 and 124-2, net

Comprehensive
Income:

Net income	-	-	2,428,823	-	-	2,428,823
Change in unrealized losses on securities AFS, net	-	-	-	-	(672,154)	(672,154)
Change in unrealized gains (losses) on securities AFS for which a portion of an other-than-temporary impairment has been recognized in earnings, net	-	-	-	-	(10,736)	(10,736)
Change in funded status of Employers' Accounting for Defined Benefit Pension and Other Benefit Plans, net	-	-	-	-	381,139	381,139
Total comprehensive income						2,127,072
Restricted stock units for directors' deferred compensation plan	-	51,921	-	-	-	51,921
Cash dividends declared (\$.50 per share)	-	-	(1,760,889)	-	-	(1,760,889)
Distribution of 1,333 shares of treasury stock for directors' deferred compensation	-	(36,617)		34,271		(2,346)
Distribution of 10,867 shares of treasury stock for directors' compensation	-	(58,026)	-	279,716	-	221,690

Distribution of 2,381 shares of treasury stock for employee compensation	-	(11,287)	-	61,287	-	50,0
Sale of 11,800 shares of treasury stock	-	(74,107)	-	303,627	-	229,5
Purchase of 4,295 shares of treasury stock	-	-	-	(84,362)	-	(84,3
	-----	-----	-----	-----	-----	-----
Balances at June 30, 2009	\$ 43,001	\$22,753,821	\$86,783,115	\$(19,952,880)	\$(5,787,306)	\$83,839,7

=====
 See accompanying notes to unaudited consolidated financial statements.

3

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS

	(UNAUDITED)	
	Six Months Ended	
	June 30,	
CASH FLOWS FROM OPERATING ACTIVITIES:	2009	2008
	-----	-----
Net income	\$ 2,428,823	\$ 4,413,833
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	544,942	673,761
Provision for loan losses	800,000	425,000
Depreciation and amortization of fixed assets	1,445,763	1,332,095
Amortization of premiums on securities, net	82,608	1,801
Gains on sales of loans held for sale, net	(124,966)	(57,551)
Proceeds from sales of loans held for sale	8,382,289	2,234,831
Loans originated and held for sale	(8,249,660)	(2,276,590)

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

Net loss (gain) on sale of other real estate owned	23,514	2,497
Net gain on securities transactions	(556,348)	(589,456)
Net impairment loss recognized on investment securities	951,876	-
Increase in other assets	(2,691,887)	(443,780)
Increase in accrued interest payable	99,354	155,487
Expense related to restricted stock units for directors' deferred compensation plan	51,921	51,345
Expense related to employee stock compensation	50,000	35,000
Decrease in other liabilities	(2,449,448)	(2,191,786)
Origination of student loans	-	(3,444,843)
Proceeds from sales of student loans	-	1,331,829
	-----	-----
Net cash provided by operating activities	788,781	1,653,473
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available for sale	5,620,693	-
Proceeds from maturities of and principal collected on securities available for sale	59,749,590	52,200,455
Proceeds from maturities of and principal collected on securities held to maturity	3,383,466	825,600
Purchases of securities available for sale	(69,444,150)	(94,826,153)
Purchases of securities held to maturity	(7,001,431)	(3,056,219)
Purchase of Federal Home Loan Bank and Federal Reserve Bank stock	(234,250)	(11,855,900)
Redemption of Federal Home Loan Bank and Federal Reserve Bank stock	535,500	12,892,500
Purchases of premises and equipment	(1,259,387)	(1,345,477)
Net cash received in branch acquisition	-	43,542,640
Net cash received in Bank of Canton Acquisition	2,876,462	-

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

Proceeds from sale of other real estate owned	225,547	22,823
Net decrease (increase) in loans	8,796,071	(18,530,162)
	-----	-----
Net cash provided (used) by investing activities	3,248,111	(20,129,893)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, NOW accounts, savings accounts, and insured money market accounts	42,555,680	19,586,363
Net increase (decrease) in time deposits and individual retirement accounts	7,854,166	(837,502)
Net (decrease) increase in securities sold under agreements to repurchase	(8,252,528)	33,487,801
Proceeds from other borrowings	-	38,000,000
Repayments of Federal Home Loan Bank overnight advances	-	(62,400,000)
Purchase of treasury stock	(84,362)	(286,082)
Sale of treasury stock	229,520	135,000
Cash dividends paid	(1,755,367)	(1,760,529)
	-----	-----
Net cash provided by financing activities	40,547,109	25,925,051
	-----	-----
Net increase in cash and cash equivalents	44,584,001	7,448,631
Cash and cash equivalents, beginning of period	23,651,380	29,378,335
	-----	-----
Cash and cash equivalents, end of period	\$68,235,381	\$36,826,966
	=====	=====

Supplemental disclosure of cash flow information:

Cash paid during the year for:

Interest	\$ 5,733,520	\$ 7,703,066
	=====	=====
Income Taxes	\$ 4,398,898	\$ 3,320,850
	=====	=====
Supplemental disclosure of non-cash activity:		
Transfer of loans to other real estate owned	\$ 264,828	\$ 144,520
	=====	=====

See accompanying notes to unaudited consolidated financial statements.

4

**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, 2008 was derived from the audited consolidated financial statements in the Corporation's 2008 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 13, 2009. That data, along with the other interim financial information presented in the consolidated balance sheets, statements of income, shareholders' equity and comprehensive income, and cash flows should be read in conjunction with the audited consolidated financial statements, including the notes thereto, contained in the 2008 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 June 30, 2009 and December 31, 2008, and results of operations for the three-month and six-month periods ended June 30, 2009 and 2008, and changes in shareholders' equity and cash flows for the six-month periods ended June 30, 2009 and 2008. 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 Share

Earnings per share were computed by dividing net income by 3,599,799 and 3,598,284 weighted average shares outstanding for the six-month periods ended June 30, 2009 and 2008, respectively and 3,602,908 and 3,599,889 weighted average shares outstanding for the three-month periods ended June 30, 2009 and 2008, respectively. Issuable shares (such as those related to directors' restricted stock units and directors' stock compensation) are considered outstanding and are included in the computation of basic earnings per share as they are earned. There were no dilutive common stock equivalents during the six-month periods ended June 30, 2009 or 2008.

3.

Recent Accounting Pronouncements

In December 2007, the FASB issued FAS No. 141 (revised 2007), Business Combinations ("FAS 141(R)"), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. FAS No. 141 (R) is effective for fiscal years beginning on or after December 15, 2008. The new standard was applied to the Canton acquisition, resulting in the recognition of acquisition costs of \$1.238 million through the period ended June 30, 2009.

In April 2009, the FASB issued Staff Position (FSP) No. 115-2 and No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which amends existing guidance for determining whether impairment is other-than-temporary (OTTI) for debt securities. The FSP requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in earnings. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income. Additionally, the FSP expands and increases the

5

frequency of existing disclosures about other-than-temporary impairments for debt and equity securities. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Through the period ended March 31, 2009, the Corporation recognized cumulative other-than-temporary pre-tax impairment charges reported in 2008 and the first quarter of 2009 totaling \$959 thousand for various securities. The Corporation adopted the FSP effective April 1, 2009 and reversed pre-tax \$402 thousand for the non-credit portion of the cumulative OTTI charge. The adoption was recognized as a cumulative effect adjustment that increased retained earnings and decreased accumulated other comprehensive income \$247 thousand, net of tax of \$155 thousand, as of April 1, 2009. As a result of implementing the new standard, the amount of OTTI recognized in income for the three month period ending June 30, 2009 was \$488 thousand, net of tax. Had the standard not been issued, the amount of OTTI that would have been recognized in income for the period would have been \$905 thousand, net of tax.

In April 2009, the FASB issued Staff Position (FSP) No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset and Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants. The FSP provides a number of factors to consider when evaluating whether there has been a significant decrease in the volume and level of activity for an asset or liability in relation to normal market activity. In addition, when transactions or quoted prices are not considered orderly, adjustments to those prices based on the weight of available information may be needed to determine the appropriate fair value. The FSP also requires

increased disclosures. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. The adoption of this FSP at June 30, 2009 did not have a material impact on the results of operations or financial position.

In April 2009, the FASB issued FSP No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies that were previously only required in annual financial statements. This FSP is effective for interim reporting periods ending after June 15, 2009. The adoption of this FSP at June 30, 2009 did not have a material impact on the results of operations or financial position as it only required disclosures which are included in Note 4.

4. Fair Value

Statement 157 establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes 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 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 in the industry 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 decline in the level of observable inputs and market activity in this class of investments at the measurement date has been significant and resulted in unreliable external pricing. Broker pricing and bid/ask spreads, when available, has varied widely. The once active market has become comparatively inactive. As a result, these investments are now priced using Level 3 inputs.

The Corporation has developed an internal model for pricing these securities. 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

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

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.

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals and collateral evaluations. The 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 the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Assets and liabilities measured at fair value under SFAS No. 157 on a recurring basis are summarized below:

Fair Value Measurement at June 30, 2009 Using

Financial Assets:	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of U.S. Government and U.S. Government sponsored enterprises	\$52,795,604	\$ 2,539,843	\$ 50,255,761	\$ -
Mortgage-backed securities	99,257,333	-	99,257,333	-
Obligations of states and political subdivisions	27,878,417	-	27,878,417	-
Trust Preferred securities	2,624,150	-	1,300,000	1,324,150
Corporate bonds and notes	11,611,133	-	11,611,133	-
Corporate stocks	4,877,687	4,159,109	718,578	-
Total available for sale securities	\$199,044,324	\$ 6,698,952	\$191,021,222	\$1,324,150

Fair Value Measurement at December 31, 2008
Using

Financial Assets:	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of U.S. Government and U.S. Government sponsored enterprises	\$61,543,499	\$ 5,512,500	\$ 56,030,999	\$ -
Mortgage-backed securities	102,932,724	-	102,932,724	-
Obligations of states and political subdivisions	16,419,984	-	16,419,984	-
Trust Preferred securities	3,285,000	-	1,400,000	1,885,000
Corporate bonds and notes	1,750,000	-	1,750,000	-
Corporate stocks	5,323,693	4,610,114	713,579	-
Total available for sale securities	\$191,254,900	\$10,122,614	\$179,247,286	\$1,885,000

The table below summarizes changes in unrealized gains and losses recorded in earnings for the three and six month periods ending June 30, 2009 for Level 3 assets:

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

	Fair Value Measurement three-months ended June 30, 2009 Using Significant Unobservable Inputs (Level 3)	Fair Value Measurement six-months ended June 30, 2009 Using Significant Unobservable Inputs (Level 3)
Investment Securities Available for Sale	-----	-----
Beginning balance	\$1,526,040	\$1,885,000
Total gains/losses (realized/unrealized):		
Included in earnings:		
Income on securities	3,236	6,436
Impairment charge on investment securities	(796,116)	(951,876)
Included in other comprehensive income	590,990	384,590
Transfers in and/or out of Level 3	-	-
	-----	-----
Ending balance, June 30, 2009	\$1,324,150	\$1,324,150
	=====	=====

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

Fair Value Measurement at June 30, 2009 Using

	Carrying 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	\$ 2,062,756	\$ -	\$ -	\$ 2,062,756
	=====	=====	=====	=====

Fair Value Measurement at December 31, 2008 Using

Financial Assets:	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans	\$ 387,402	\$ -	\$ -	\$ 387,402

8

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$2,779,713, with a valuation allowance of \$716,957 as of June 30, 2009.

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$1,663,761, with a valuation allowance of \$1,276,359 as of December 31, 2008.

In accordance with FSP FAS 107-1, the carrying amounts and estimated fair values of financial instruments, at June 30, 2009 and December 31, 2008, are as follows:

	June 30, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value (1)	Carrying Amount	Estimated Fair Value (1)
Financial assets:				
Cash and due from financial institutions	\$ 24,616	\$ 24,616	\$ 21,247	\$ 21,247
Interest-bearing deposits in other financial institutions	43,620	43,620	2,405	2,405
Securities held to maturity	12,057	12,626	8,439	9,215
Federal Home Loan and Federal Reserve Bank stock	3,071	3,071	3,155	3,155

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

Net loans	605,895	611,502	556,080	564,724
Loans held for sale	73	73	80	80
Accrued interest receivable	3,341	3,341	3,385	3,385
Financial liabilities:				
Deposits:				
Demand, savings, and insured money market accounts	471,042	471,042	406,261	406,261
Time deposits	308,680	313,025	250,648	253,453
Securities sold under agreements to repurchase	55,160	57,186	63,413	65,009
Federal Home Loan Bank overnight advances	-	-	-	-
Federal Home Loan Bank advances	20,000	20,853	20,000	21,739
Accrued interest payable	1,366	1,366	1,267	1,267
Dividends payable	881	881	875	875

(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 judgement 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:

Carrying amount is the estimated fair value for cash and cash equivalents, interest bearing deposits, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. The methods for determining the fair values for securities were described previously. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. The fair value of off-balance-sheet items is not considered material.

5. Business Combinations

Acquisition of Canton Bancorp, Inc.

On May 29, 2009, Chemung Financial Corporation acquired 100 percent of the outstanding shares of Canton Bancorp, Inc. As a result of the acquisition, Chemung Financial expects to enhance its relationship with the residents of northeastern Pennsylvania through its extensive menu of products and services, combined with its high touch approach to quality customer service. The Corporation also looks at the acquisition as an opportunity to market additional products and services to new customers, including a full menu of Trust and Investment services.

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

Under the terms of the agreement, each shareholder of Canton Bancorp, Inc. received a cash payout of \$272 per share, totaling approximately \$7.7 million. The total purchase price resulted in approximately \$1.3 million in goodwill. Goodwill will not be amortized but instead evaluated periodically for impairment, consistent with current accounting standards. None of the goodwill recognized is expected to be

9

deductible for income tax purposes. Purchase accounting adjustments are subject to refinement as management finalizes their fair value measurements, including their analysis of indentifiable intangible assets. Any resulting goodwill after refinement of the purchase accounting adjustments will relate to the banking segment of the Corporation.

Net assets acquired at May 29, 2009 are shown in the table below (in thousands).

Cash and due from banks	\$ 10,528
Securities available for sale	5,525
Loans, net	59,002
Goodwill	1,256
Other assets	4,814

Total assets acquired	\$ 81,125
Deposits	\$ 71,687
Other liabilities	554

Total liabilities assumed	\$ 72,241
Net assets acquired	\$ 8,884
	=====

The gross contractual amount receivable of loans acquired, excluding those loans considered to be impaired, was \$57.8 million, all of which is expected to be collected.

Canton Bancorp, Inc.'s results of operations have been reflected in Chemung Financial Corporation's consolidated statements of income beginning as of the acquisition date. As we merged the acquiree

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

into the business operations of Chemung Canal Trust Company as of the acquisition date, it is not practicable to disclose the amount of revenue and earnings of the acquiree from the acquisition date through June 30, 2009 as the amounts cannot be readily determined. Pro forma condensed consolidated income statements for the six months ended June 30, 2009 and 2008 as if the merger occurred at the beginning of each period presented are as follows (in thousands):

	Six months Ended	
	June 30, 2009	June 30, 2008
	-----	-----
Interest and dividend income	\$ 23,556	\$ 24,924
Interest expense	6,593	9,210
	-----	-----
Net interest income	16,963	15,714
Provision for loan losses	850	485
	-----	-----
Net interest income after provision for loan losses	16,113	15,229
Non-interest income	7,976	9,263
Non-interest expense	21,332	17,932
	-----	-----
Income before income taxes	2,757	6,560
Income tax expense	670	2,140
	-----	-----
Net income	\$ 2,087	\$ 4,420
	=====	=====

Non-interest expense for the six month period ended June 30, 2009 includes \$1.6 million of combined one-time acquisition related expenses. Non-interest income for the six month period ended June 30, 2009 includes \$952 thousand of other-than-temporary impairment charges.

6. Intangible Assets

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

Acquired intangible assets were as follows at June 30, 2009 and December 31, 2008:

	At June 30, 2009		At December 31, 2008	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Core deposit intangibles	\$ 7,024,461	\$ 6,295,157	\$ 7,024,461	\$ 6,013,280
Other customer relationship intangibles	6,133,116	1,202,868	6,133,116	939,803
Carrying amount	\$ 13,157,577	\$ 7,498,025	\$ 13,157,577	\$ 6,953,083

10

Aggregate amortization expense for the six-month period ending June 30, 2009 was \$544,942.

The remaining estimated aggregate amortization expense is listed below:

Year	Estimated Expense
2009	\$ 371,505
2010	704,402
2011	658,075
2012	611,748
2013	507,089
2014 and thereafter	2,806,733
Total	\$ 5,659,552

7. Comprehensive Income

Comprehensive income or loss of the Corporation represents net income plus other comprehensive income or loss, which consists of the net change in unrealized holding gains or losses on securities available for sale and the change in the funded status of the Corporation's defined benefit pension plan and other benefit plans, net of the related tax effect. 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.

Comprehensive income for the three and six-month periods ended June 30, 2009 was \$1,179,993 and \$2,127,072, respectively. Comprehensive (loss) income for the three and six-month periods ended June 30, 2008 was \$(1,484,796) and \$877,366, respectively.

The following summarizes the components of other comprehensive (loss) income:

Other Comprehensive Income (Loss)	Three Months Ended		Six-Months Ended	
	June 30,		June 30,	
	-----		-----	
	2009	2008	2009	2008
	-----	-----	-----	-----
Change in unrealized gains (losses) on securities available for sale	\$ 468,093	\$(6,118,000)	\$ (557,412)	\$(5,756,078)
Reclassification adjustment net (gains) realized in net income	(9,130)	(2,900)	(556,348)	(9,200)
	-----	-----	-----	-----
Net unrealized gains (losses)	458,963	(6,120,900)	(1,113,760)	(5,765,278)
Tax effect	177,554	(2,367,933)	(430,870)	(2,230,357)
	-----	-----	-----	-----
Net of tax amount	\$ 281,409	\$(3,752,967)	\$ (682,890)	\$(3,534,921)
Change in funded status of defined benefit pension plan and other benefit plans	332,309	(5,435)	621,618	(2,522)
Tax effect	128,557	(2,103)	240,479	(976)
	-----	-----	-----	-----

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

Net of tax amount	203,752	(3,332)	381,139	(1,546)
	-----	-----	-----	-----
Total other comprehensive income (loss)	\$ 485,161	\$(3,756,299)	\$ (301,751)	\$(3,536,467)
	=====	=====	=====	=====

8. Commitments and Contingencies

In the normal course of operations, the Corporation engages in a variety of financial transactions that, in accordance with accounting principles generally

11

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

9. Securities

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

June 30, 2009

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	-----	-----	-----	-----
Obligations of U.S. Government and U.S. Government sponsored enterprises	\$ 52,628,028	\$ 267,081	\$ 99,505	\$ 52,795,604
Mortgage-backed securities	97,533,359	1,981,769	257,795	99,257,333
Obligations of states and political subdivisions	27,675,308	309,156	106,046	27,878,417
Trust Preferred securities	4,269,997	-	1,645,848	2,624,150
Corporate bonds and notes	11,756,045	255,088	400,000	11,611,133
Corporate stocks	825,755	4,076,136	24,204	4,877,687
	-----	-----	-----	-----
Total	\$194,688,492	\$ 6,889,230	\$ 2,533,398	\$199,044,324

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

December 31, 2008

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government and U.S. Government sponsored enterprises	\$ 60,190,338	\$ 1,353,160	\$ -	\$ 61,543,499
Mortgage-backed securities	100,791,511	2,302,649	161,436	102,932,724
Obligations of states and political subdivisions	16,264,746	239,458	84,220	16,419,984
Trust Preferred securities	4,809,523	-	1,524,523	3,285,000
Corporate bonds and notes	2,500,000	-	750,000	1,750,000
Corporate stocks	827,089	4,496,604	-	5,323,693
Total	\$185,383,207	\$ 8,391,871	\$2,520,179	\$191,254,900

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

June 30,

2009

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of states and political subdivisions	\$12,056,800	\$ 569,415	\$ -	\$12,626,215
Total	\$12,056,800	\$ 569,415	\$ -	\$12,626,215

December 31, 2008

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
	-----	-----	-----	-----
Obligations of states and political subdivisions	\$ 8,438,835	\$ 775,952	\$ -	\$ 9,214,787
	-----	-----	-----	-----
Total	\$ 8,438,835	\$ 775,952	\$ -	\$ 9,214,787
	=====	=====	=====	=====

12

The amortized cost and estimated fair value of the investment securities portfolio are shown by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties:

June 30, 2009

	Available for Sale		Held to Maturity	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
	-----	-----	-----	-----
Within One Year	\$ 47,258,822	\$ 47,560,582	\$ 7,135,692	\$ 7,268,119
After One, But Within Five Years	119,641,602	121,351,826	3,353,878	3,602,375
After Five, But Within Ten Years	21,512,329	21,456,599	1,367,230	1,507,888
After Ten Years	5,449,984	3,797,630	200,000	247,833
	-----	-----	-----	-----
Total	\$193,862,737	\$194,166,637	\$ 12,056,800	\$ 12,626,215
	=====	=====	=====	=====

Proceeds from sales and calls of securities available for sale that resulted in realized gains were \$5,620,693 and \$929,200 for the six months ended June 30, 2009 and 2008, respectively. Gross gains of \$556,348 and \$589,456 were realized on these sales and calls during 2009 and 2008, respectively. There were no gross losses on these transactions during the six-months ended June 30, 2009 and 2008.

Proceeds from sales and calls of securities available for sale that resulted in realized gains were \$112,880 and \$292,900 for the three months ended June 30, 2009 and 2008, respectively. Gross gains of \$9,130 and \$2,900 were realized on these sales and calls during 2009 and 2008, respectively. There were no gross losses on these transactions during the three-months ended June 30, 2009 and 2008.

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

The following table summarizes the investment securities available for sale and held to maturity with unrealized losses at June 30, 2009 and December 31, 2008 by aggregated major security type and length of time in a continues unrealized position:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>June 30, 2009</u>						
Obligations of U.S. Government and U.S. Government sponsored enterprises	\$23,203,890	\$ 99,505	\$ -	\$ -	\$23,203,890	\$ 99,505
Mortgage-backed securities	10,957,750	225,110	4,821,873	32,685	15,779,623	257,795
Obligations of states and political subdivisions	11,482,930	106,046	-	-	11,482,930	106,046
Corporate bonds and notes	-	-	2,100,000	400,000	2,100,000	400,000
Trust preferred securities	-	-	2,624,150	1,645,848	2,624,150	1,645,848
Corporate stocks	25,787	24,204	-	-	25,787	24,204
Total temporarily impaired securities	\$45,670,357	\$ 454,865	\$ 9,546,023	\$2,078,533	\$55,216,380	\$ 2,553,398

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>December 31, 2008</u>						
Obligations of U.S. Government and US						

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

Government sponsored enterprises	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mortgage-backed securities	2,178,309	29,993	6,445,524	131,442	8,623,833	161,435
Obligations of states and political subdivisions	5,018,240	84,221	-	-	5,018,240	84,221
Corporate bonds and notes	1,750,000	750,000	-	-	1,750,000	750,000
Trust preferred securities	2,525,000	1,524,523	-	-	2,525,000	1,524,523
Corporate stocks	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----
Total temporarily impaired securities	\$11,471,549	\$ 2,388,737	\$ 6,445,524	\$ 131,442	\$17,917,073	\$ 2,520,179
	=====	=====	=====	=====	=====	=====

13

Other-Than-

Temporary-Impairment

Management evaluates securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities classified as available for sale or held-to-maturity are generally evaluated for OTTI under Statement of Financial Accounting Standards ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Certain purchased beneficial interests, which could include non-agency mortgage-backed securities, asset-backed securities, and collateralized debt obligations, are evaluated using the model outlined in EITF Issue No.99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transfer in Securitized Financial Assets*.

In determining OTTI under the SFAS No. 115 model, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

The second segment of the portfolio uses the OTTI guidance provided by EITF 99-20 that is specific to purchased beneficial interests. Under the EITF 99-20 model, the Corporation compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

When OTTI occurs under either model, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it 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 it is more likely than not it 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 June 30, 2009, the majority of the Corporation's unrealized losses in the investment securities portfolio related to four trust preferred securities held. Two of these securities are single issue trust preferred securities, both of which continue to be rated Baa1, which is defined as lower medium credit quality by Moody's. The combined market value of these two securities was \$1.3 million with unrealized losses of \$563 thousand at June 30, 2009. The Corporation continues to monitor these securities and believes there is no OTTI and does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery.

The two other trust preferred securities held consist of investments in pooled trust preferred securities. The decline in fair value on these securities 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 these securities. This fact combined with the current illiquidity in the market makes it unlikely that the Corporation would be able to recover its investment in these securities if the securities were sold at this time.

Our analysis of these investments falls within the scope of EITF 99-20 and includes a total book value of \$2.4 million of collateralized debt obligations ("CDO's") consisting of pooled trust preferred securities. These securities were rated high quality at inception, but at June 30, 2009 Moody's rated these securities both 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 the 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. Assumptions used in the model

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

include expected future default rates and prepayments. We assume no recoveries on defaults and treat all interest payment deferrals as defaults. Upon completion of the June 30, 2009 analysis, our model indicated other-than-temporary impairment on both of these securities, since both experienced additional defaults or deferrals of underlying issuers during the period. For the quarter, OTTI losses recorded as expense totaled \$796 thousand. These two securities remained classified as available for sale and represented \$1.1 million of the unrealized losses reported at June 30, 2009. Both securities continue to accrue interest and payments continue to be made as agreed.

The table below presents a rollforward of the cumulative credit losses recognized in earnings for the three-month period ended June 30, 2009:

Beginning balance, April 1, 2009	\$ 556,882
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized	664,996
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 was previously recognized	131,120

Ending balance, June 30, 2009	\$1,352,998
	=====

10. Loans and Allowance for Loan Losses

The composition of the loan portfolio is summarized as follows:

	June 30, 2009	December 31, 2008
	-----	-----
Residential mortgages	\$ 167,480,632	\$ 156,633,166
Commercial mortgages	113,559,336	91,881,682
Commercial, financial and agricultural	132,686,553	123,596,986
Indirect consumer loans	98,822,363	101,076,153
Consumer loans	102,477,349	91,997,167

-----	-----
\$ 615,026,233	\$ 565,185,154
=====	=====

The following table summarizes the Corporation's non-performing assets:

	June 30, 2009	December 31, 2008
	-----	-----
Non-accrual loans	\$ 4,508,724	\$ 2,822,115
Troubled debt restructurings	6,697,585	745,926
Accruing loans past due 90 days or more	764,873	975,567
	-----	-----
Total non-performing loans	\$ 11,971,182	\$ 4,543,608
Other real estate owned	679,101	323,521
	-----	-----
Total non-performing assets	\$ 12,650,283	\$ 4,867,129
	=====	=====

15

Activity in the allowance for loan losses was as follows:

	Six Months Ended June 30,	
	2009	2008
	-----	-----
Balance at beginning of period	\$ 9,105,517	\$ 8,452,819
Provision charged to operations	800,000	425,000
Loans charged-off	(912,065)	(701,436)
Recoveries	137,560	291,974
	-----	-----
Balance at end of period	\$ 9,131,012	\$ 8,468,357
	=====	=====

At June 30, 2009 and December 31, 2008, the recorded investment in loans that are considered to be impaired totaled \$9,670,647 and \$2,690,174, respectively. Included in the June 30, 2009 amount are impaired loans of \$2,779,713 for which an impairment allowance has been recognized. The related impairment allowance was \$716,957. The December 31, 2008 amount includes \$1,663,761 of impaired loans with a related impairment allowance of \$1,276,359.

11. Components of Quarterly Net Periodic Benefit Cost

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	-----	-----	-----	-----
Qualified Pension				
Service cost, benefits earned during the period	\$ 235,250	\$ 151,931	\$ 439,000	\$ 303,862
Interest cost on projected benefit obligation	380,500	301,205	733,000	602,410
Expected return on plan assets	(456,250)	(597,937)	(915,000)	(1,195,874)
Amortization of unrecognized transition obligation	-	177	-	354
Amortization of unrecognized prior service cost	22,000	19,624	44,500	39,248
Amortization of unrecognized net loss	332,250	-	621,000	-
	-----	-----	-----	-----
Net periodic pension benefit	\$ 513,750	\$(125,000)	\$ 922,500	\$(250,000)
	=====	=====	=====	=====
Supplemental Pension				
Service cost, benefits earned during the period	\$ 6,693	\$ 3,716	\$ 13,386	\$ 7,433
Interest cost on projected benefit obligation	13,206	14,020	26,412	28,040
Expected return on plan assets	-	-	-	-
Amortization of unrecognized prior service cost	-	1	-	2
Amortization of unrecognized net loss	1,809	1,013	3,618	2,025
	-----	-----	-----	-----
Net periodic supplemental pension expense	\$ 21,708	\$ 18,750	\$ 43,416	\$ 37,500
	=====	=====	=====	=====
Postretirement, Medical and Life				
Service cost, benefits earned during the period	\$ 7,500	\$ 7,750	\$ 15,000	\$ 15,500

Edgar Filing: CHEMUNG FINANCIAL CORP - Form 10-Q

Interest cost on projected benefit obligation	18,750	18,500	37,500	37,000
Expected return on plan assets	-	-	-	-
Amortization of unrecognized prior service cost	(23,750)	(24,250)	(47,500)	(48,500)
Amortization of unrecognized net gain	-	(2,000)	-	-