CHEMUNG FINANCIAL CORP
Form 10-Q
November 17, 2014

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

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

For Quarterly period ended September 30, 2014
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, P.O. Box 1522, Elmira, NY	14902
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

The number of shares of the registrant's common stock, $.01 par value, outstanding on November 14, 2014 was 4,618,839.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES

INDEX

GLOSSARY OF TERMS AND ABBREVIATIONS

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

ASU	Accounting Standards Update
BANK	Chemung Canal Trust Company
CDO	Collateralized Debt Obligation
CORPORATION	Chemung Financial Corporation
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FHLBNY	Federal Home Loan Bank New York
FRB	Board of Governors of the Federal Reserve System
FRBNY	Federal Reserve Bank of New York
FREDDIE MAC	Federal Home Loan Mortgage Corporation
GAAP	United States Generally Accepted Accounting Principles
OTTI	Other-Than-Temporary Impairment
PCI	Purchased Credit Impaired
SEC	Securities and Exchange Commission
TDR	Troubled Debt Restructuring

PART I. FINANCIAL INFORMATION
Item 1: Financial Statements-Unaudited
CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
UNAUDITED

(dollars in thousands, except per share data)	September 30, 2014	December 31, 2013
ASSETS		
Cash and due from financial institutions	$31,957	$31,600
Interest-bearing deposits in other financial institutions	3,069	20,009
Total cash and cash equivalents	35,026	51,609
Trading assets, at fair value	483	366
Securities available for sale, at estimated fair value	288,097	346,016
Securities held to maturity, estimated fair value of $5,821 at September 30, 2014 and $6,930 at December 31, 2013	5,430	6,495
Federal Home Loan Bank and Federal Reserve Bank Stock, at cost	4,362	4,482
Loans, net of deferred origination fees and costs, and unearned income	1,114,182	995,866
Allowance for loan losses	(13,151)	(12,776)
Loans, net	1,101,031	983,090
Loans held for sale	1,167	695
Premises and equipment, net	32,431	30,039
Goodwill	21,824	21,824
Other intangible assets, net	5,384	6,377
Bank owned life insurance	2,744	2,796
Accrued interest and other assets	25,578	22,354
Total assets	$1,523,557	$1,476,143
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	$372,916	$351,222
Interest-bearing	938,083	915,034
Total deposits	1,310,999	1,266,256
Securities sold under agreements to repurchase	30,981	32,701
Federal Home Loan Bank term advances	24,086	25,243
Long term capital lease obligations	3,039	-
Dividends payable	1,201	1,195
Accrued interest payable and other liabilities	13,690	12,170
Total liabilities	1,383,996	1,337,565
Shareholders' equity:		
Common stock, $.01 par value per share, 10,000,000 shares authorized; 5,310,076 issued at September 30, 2014 and December 31, 2013	53	53
Additional-paid-in-capital	45,555	45,399
Retained earnings	111,105	111,031
Treasury stock, at cost (691,237 shares at September 30, 2014; 707,674 shares at December 31, 2013)	(17,640)	(18,060)
Accumulated other comprehensive income	488	155

Total shareholders' equity	139,561	138,578
Total liabilities and shareholders' equity	$1,523,557	$1,476,143

See accompanying notes to unaudited consolidated financial statements.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
UNAUDITED

(dollars in thousands, except per share data)	Nine months ended September 30, 2014	2013	Three months ended September 30, 2014	2013
Interest and dividend income:				
Loans, including fees	$34,590	$33,605	$11,973	$11,245
Taxable securities	3,889	3,120	1,122	1,003
Tax exempt securities	752	845	230	258
Interest-bearing deposits	59	21	16	3
Total interest and dividend income	39,290	37,591	13,341	12,509
Interest Expense:				
Deposits	1,550	1,791	511	571
Securities sold under agreements to repurchase	634	645	214	214
Borrowed funds	572	594	190	207
Total interest expense	2,756	3,030	915	992
Net interest income	36,534	34,561	12,426	11,517
Provision for loan losses	2,330	1,755	589	874
Net interest income after provision for loan losses	34,204	32,806	11,837	10,643
Other operating income:				
Wealth management group fee income	5,816	5,448	1,943	1,813
Service charges on deposit accounts	3,962	3,377	1,381	1,222
Net gain on security transactions	522	1	-	-
Net gain on sales of loans held for sale	209	425	84	134
Net (losses) gains on sales of other real estate owned	(40)	33	4	17
Income from bank owned life insurance	59	63	20	21
Other	4,828	3,500	1,554	1,144
Total other operating income	15,356	12,847	4,986	4,351
Other operating expense:				
Salaries and wages	15,653	14,138	5,344	4,721
Pension and other employee benefits	4,132	4,161	1,294	1,372
Net occupancy expenses	5,174	4,016	1,721	1,315
Furniture and equipment expenses	2,052	1,600	707	514
Data processing expense	4,383	3,433	1,488	1,192
Professional services	911	713	268	188
Legal settlement	4,250	-	4,250	-
Amortization of intangible assets	993	663	324	214
Marketing and advertising expenses	879	782	255	297
Other real estate owned expenses	154	138	22	75
FDIC insurance	814	625	271	206
Loan expense	564	538	269	217
Merger and acquisition related expenses	115	217	-	202
Other	4,611	3,904	1,550	1,300
Total operating expenses	44,685	34,928	17,763	11,813
Income (loss) before income tax expense	4,875	10,725	(940)	3,181
Income tax expense (benefit)	1,199	3,479	(621)	1,002

Net income (loss)	$3,676	$7,246	$(319)	$2,179
Weighted average shares outstanding	4,681	4,658	4,684	4,660
Basic and diluted earnings (loss) per share	$0.79	$1.56	$(0.07)	$0.47

See accompanying notes to unaudited consolidated financial statements.

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

(dollars in thousands)	Nine Months Ended September 30, 2014	2013	Three Months Ended September 30, 2014	2013
Net income (loss)	$3,676	$7,246	$(319)	$2,179
Other comprehensive income:				
Unrealized holding gains (losses) on securities available for sale	635	(1,901)	(1,380)	1,404
Reclassification adjustment gains realized in net income	(522)	(1)	-	-
Net unrealized gains (losses)	113	(1,902)	(1,380)	1,404
Tax effect	43	(731)	(531)	540
Net of tax amount	70	(1,171)	(849)	864
Change in funded status of defined benefit pension plan and other benefit plans:				
Net gain (loss) arising during the period	-	-	-	-
Reclassification adjustment for amortization of prior service costs	(66)	(63)	(22)	(21)
Reclassification adjustment for amortization of net actuarial loss	499	1,202	169	401
Total before tax effect	433	1,139	147	380
Tax effect	170	438	60	146
Net of tax amount	263	701	87	234
Total other comprehensive income (loss)	333	(470)	(762)	1,098
Comprehensive income (loss)	$4,009	$6,776	$(1,081)	$3,277

See accompanying notes to unaudited consolidated financial statements.

6

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

(dollars in thousands except share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balances at December 31, 2012	$ 53	$ 45,357	$ 107,078	$ (18,566)	$ (2,807)	$ 131,115
Net income	-	-	7,246	-	-	7,246
Other comprehensive loss	-	-	-	-	(470)	(470)
Restricted stock awards	-	106	-	-	-	106
Restricted stock units for directors' deferred compensation plan	-	74	-	-	-	74
Cash dividends declared ($.78 per share)	-	-	(3,584)	-	-	(3,584)
Distribution of 7,969 shares of treasury stock for directors' compensation	-	14	-	203	-	217
Distribution of 4,116 shares of treasury stock for employee compensation	-	7	-	105	-	112
Distribution of 3,356 shares of treasury stock for deferred directors' compensation	-	(75)	-	86	-	11
Purchase of 3,094 shares of treasury stock	-	-	-	(93)	-	(93)
Sale of 2,369 shares of treasury stock	-	11	-	60	-	71
Forfeit 1,797 shares of restricted stock awards	-	61	-	(61)	-	-
Balances at September 30, 2013	$ 53	$ 45,555	$ 110,740	$ (18,266)	$ (3,277)	$ 134,805
Balances at December 31, 2013	$ 53	$ 45,399	$ 111,031	$ (18,060)	$ 155	$ 138,578
Net income	-	-	3,676	-	-	3,676
Other comprehensive income	-	-	-	-	333	333
Restricted stock awards	-	112	-	-	-	112
Restricted stock units for directors' deferred compensation plan	-	71	-	-	-	71
Distribution of 990 shares of treasury stock granted for employee restricted stock awards, net	-	(26)	-	26	-	-
Cash dividends declared ($.78 per share)	-	-	(3,602)	-	-	(3,602)
Distribution of 8,385 shares of treasury stock for directors' compensation	-	59	-	214	-	273
Distribution of 3,467 shares of treasury stock for deferred directors' compensation	-	(85)	-	88	-	3
Distribution of 3,595 shares of treasury stock for employee compensation	-	25	-	92	-	117
Balances at September 30, 2014	$ 53	$ 45,555	$ 111,105	$ (17,640)	$ 488	$ 139,561

See accompanying notes to unaudited consolidated financial statements.

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

(dollars in thousands)	Nine Months Ended September 30,	
CASH FLOWS FROM OPERATING ACTIVITIES:	2014	2013
Net income	$3,676	$7,246
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	993	663
Provision for loan losses	2,330	1,755
Depreciation and amortization of fixed assets	2,765	2,233
Amortization of premiums on securities, net	1,808	1,693
Gains on sales of loans held for sale, net	(209)	(425)
Proceeds from sales of loans held for sale	9,447	15,383
Loans originated and held for sale	(9,710)	(14,767)
Net gains on trading assets	(32)	(27)
Net gains on securities transactions	(522)	(1)
Proceeds from sales of trading assets	7	112
Purchase of trading assets	(92)	(50)
Net loss (gain) on sales of other real estate owned	40	(33)
Increase in other assets	(475)	(1,344)
Decrease in prepaid FDIC assessment	-	1,970
Decrease in accrued interest payable	(61)	(114)
Expense related to restricted stock units for directors' deferred compensation plan	71	74
Expense related to employee stock compensation	117	112
Expense related to employee stock awards	112	106
Increase in other liabilities	2,077	398
Proceeds from bank owned life insurance	111	-
Income from bank owned life insurance	(59)	(63)
Net cash provided by operating activities	12,394	14,921
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and calls of securities available for sale	55,610	10,534
Proceeds from maturities and principal collected on securities available for sale	19,437	36,204
Proceeds from maturities and principal collected on securities held to maturity	3,022	5,379
Purchases of securities available for sale	(18,301)	(69,921)
Purchases of securities held to maturity	(1,957)	(6,174)
Purchase of FHLB and FRBNY stock	(1,103)	(8,915)
Redemption of FHLB and FRBNY stock	1,223	6,901
Purchases of premises and equipment	(2,118)	(1,835)
Proceeds from sales of other real estate owned	284	137
Net increase in loans	(123,345)	(74,553)
Net cash used by investing activities	(67,248)	(102,243)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, interest-bearing demand accounts, savings accounts, and insured money market accounts	77,980	58,463
Net decrease in time deposits	(33,237)	(14,752)
Net decrease in securities sold under agreements to repurchase	(1,720)	(2,211)
Increase of FHLB overnight advances	-	49,100
Repayments of FHLB long term advances	(1,157)	(1,179)
Purchase of treasury stock	-	(93)
Sale of treasury stock	-	71

Cash dividends paid	(3,595)	(2,389)
Net cash provided by financing activities	38,271	87,010
Net decrease in cash and cash equivalents	(16,583)	(312)
Cash and cash equivalents, beginning of period	51,609	40,241
Cash and cash equivalents, end of period	$35,026	$39,929

Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$2,817	$3,143
Income taxes	$1,846	$4,310
Supplemental disclosure of non-cash activity:		
Transfer of loans to other real estate owned	$3,074	$103
Dividends declared, not yet paid	$1,201	$1,195
Assets acquired through long term capital lease obligations	$3,039	$-

See accompanying notes to unaudited consolidated financial statements.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with GAAP and include the accounts of the Corporation and its subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation. Amounts in the prior periods' consolidated financial statements are reclassified whenever necessary to conform with the current period's presentation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and disclosures provided, and actual results could differ. The allowance for loan losses, fair value of financial instruments, other-than-temporary impairment of investment securities and goodwill and other intangibles are particularly subject to change.

Subsequent Events

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

Recent Accounting Pronouncements

In January 2014 the FASB issued ASU 2014-04, an amendment to Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40), Reclassification of Residential Real Estate and Collateralized Consumer Mortgage Loans upon Foreclosure. The objective of this ASU is to improve reporting by clarifying when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable is derecognized and the real estate property recognized. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Corporation will adopt all provisions of this ASU as of January 1, 2015. The adoption of this guidance is not expected to have a material impact on the Corporation's consolidated financial statements.

In May 2014 the FASB issued ASU 2014-09, an amendment to Revenue from Contracts with Customers (Topic 606). The objective of the ASU is to align the recognition of revenue with the transfer of promised goods or services provided to customers in an amount that reflects the consideration which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. The Corporation will adopt all provisions of this ASU as of January 1, 2017. We are currently evaluating the potential impact on our consolidated financial statements.

In June 2014 the FASB issued ASU 2014-11, an amendment to Transfers and Servicing (Topic 860): Repurchase-to Maturity Transactions, Repurchase Financings, and Disclosures. The objective of this ASU is to improve consistency in reporting repurchase transactions as secured borrowings and providing additional information of the collateral pledged. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Corporation will adopt all provisions of this ASU as of January 1, 2015.

In August 2014 the FASB issued ASU 2014-15, an amendment to Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The objective of this ASU is to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The amendments in this ASU are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. The Corporation will adopt all provisions of this ASU as of the December 31, 2015 annual period and interim periods beginning in 2016.

NOTE 2 EARNINGS (LOSS) PER COMMON SHARE (shares in thousands)

Basic earnings (loss) per share is net income (loss) 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 (loss) per share. All outstanding unvested share based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Restricted stock awards are grants of participating securities and are considered outstanding at grant date. Earnings (loss) per share information is adjusted to present comparative results for stock splits and stock dividends that occur. Earnings (loss) per share were computed by dividing net income (loss) by 4,681 and 4,658 weighted average shares outstanding for the nine-month periods ended September 30, 2014 and 2013, respectively. Earnings (loss) per share were computed by dividing net income (loss) by 4,684 and 4,660 weighted average shares outstanding for the three-month periods ended September 30, 2014 and 2013, respectively. There were no dilutive common stock equivalents during the three or nine-month periods ended September 30, 2014 or 2013.

NOTE 3 SECURITIES

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

	September 30, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government and U.S. Government sponsored enterprises	$175,960	$ 1,499	$ 244	$177,215
Mortgage-backed securities, residential	63,858	793	80	64,571
Collateralized mortgage obligations	457	7	-	464
Obligations of states and political subdivisions	32,710	982	12	33,680
Corporate bonds and notes	1,505	38	4	1,539
SBA loan pools	1,340	12	3	1,349
Trust preferred securities	1,904	121	-	2,025
Corporate stocks	433	6,823	2	7,254
Total	$278,167	$ 10,275	$ 345	$288,097

	December 31, 2013			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value

Obligations of U.S. Government and U.S. Government sponsored enterprises	$187,098	$ 1,915	$ 907	$188,106
Mortgage-backed securities, residential	104,069	1,036	749	104,356
Collateralized mortgage obligations	1,001	14	-	1,015
Obligations of states and political subdivisions	37,339	1,059	22	38,376
Corporate bonds and notes	2,879	76	9	2,946
SBA loan pools	1,471	17	-	1,488
Trust preferred securities	1,898	136	-	2,034
Corporate stocks	444	7,253	2	7,695
Total	$336,199	$ 11,506	$ 1,689	$346,016

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

	September 30, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of states and political subdivisions	$4,774	$ 382	$ -	$ 5,156
Time deposits with other financial institutions	656	9	-	665
Total	$5,430	$ 391	$ -	$ 5,821

	December 31, 2013			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of states and political subdivisions	$5,472	$ 419	$ -	$ 5,891
Time deposits with other financial institutions	1,023	16	-	1,039
Total	$6,495	$ 435	$ -	$ 6,930

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

	September 30, 2014			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within One Year	$26,690	$27,044	$1,931	$1,960
After One, But Within Five Years	178,884	180,813	2,347	2,547
After Five, But Within Ten Years	6,505	6,602	1,152	1,314
	212,079	214,459	5,430	5,821
Mortgage-backed securities, residential	63,858	64,571	-	-
Collateralized mortgage obligations	457	464	-	-
SBA loan pools	1,340	1,349	-	-
Total	$277,734	$280,843	$5,430	$5,821

The proceeds from sales and calls of securities resulting in gains or losses at September 30, 2014 and September 30, 2013 are listed below (dollars in thousands):

	2014	2013
Proceeds	$55,610	$10,534
Gross gains	$522	$1
Gross losses	$-	$-
Tax expense	$201	$-

The following tables summarize the investment securities available for sale with unrealized losses at September 30, 2014 and December 31, 2013 by aggregated major security type and length of time in a continuous unrealized loss position (dollars in thousands):

	Less than 12 months		12 months or longer		Total	
September 30, 2014	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government and U.S. Government sponsored enterprises	$45,511	$ 159	$15,698	$ 85	$61,209	$ 244
Mortgage-backed securities, residential	22,875	80	-	-	22,875	80
Obligations of states and political subdivisions	3,608	11	326	-	3,934	11
Corporate bonds and notes	-	-	242	5	242	5
SBA loan pools	605	3	-	-	605	3
Corporate stocks	-	-	2	2	2	2
Total temporarily impaired securities	$72,599	$ 253	$16,268	$ 92	$88,867	$ 345

	Less than 12 months		12 months or longer		Total	
December 31, 2013	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government and U.S. Government sponsored enterprises	$83,840	$ 867	$1,978	$ 39	$85,818	$ 906
Mortgage-backed securities, residential	63,115	750	-	-	63,115	750
Obligations of states and political subdivisions	4,589	22	-	-	4,589	22
Corporate bonds and notes	238	9	-	-	238	9
Corporate stocks	-	-	2	2	2	2
Total temporarily impaired securities	$151,782	$ 1,648	$1,980	$ 41	$153,762	$ 1,689

Other-Than-Temporary Impairment

As of September 30, 2014, the majority of the Corporation's unrealized losses in the investment securities portfolio related to obligations of U.S. Government and U.S. Government sponsored enterprises and mortgage-backed securities. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Corporation does not have the intent to sell these securities and it is not likely that it will be required to sell these securities before their anticipated recovery, the Corporation does not consider these securities to be other-than-temporarily impaired at September 30, 2014.

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

The tables below present a roll forward of the cumulative credit losses recognized in earnings for the three and nine-month periods ending September 30, 2014 and 2013 (dollars in thousands):

	2014	2013
Beginning balance, January 1,	$1,939	$3,506
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	-	-
Reductions for previous credit losses realized in securities liquidated during the period	(1,939)	-
Increases to the amount related to the credit loss for which other-than-temporary impairment was previously recognized	-	-
Ending balance, September 30,	$-	$3,506

	2014	2013
Beginning balance, July 1,	$ -	$3,506
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	-	-
Reductions for previous credit losses realized in securities liquidated during the period	-	-
Increases to the amount related to the credit loss for which other-than-temporary impairment was previously recognized	-	-
Ending balance, September 30,	$ -	$3,506

13

NOTE 4 LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	September 30, 2014	December 31, 2013
Commercial and agricultural:		
Commercial and industrial	$164,984	$144,787
Agricultural	868	576
Commercial mortgages:		
Construction	46,981	27,440
Commercial mortgages	388,185	345,707
Residential mortgages	192,870	195,997
Consumer loans:		
Credit cards	1,621	1,756
Home equity lines and loans	100,991	95,905
Indirect consumer loans	196,603	164,846
Direct consumer loans	21,079	18,852
Total loans, net of deferred origination fees and costs, and unearned income	$1,114,182	$995,866
Interest receivable on loans	2,512	2,597
Total recorded investment in loans	$1,116,694	$998,463

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

The following tables present the activity in the allowance for loan losses by portfolio segment for the three and nine-month periods ending September 30, 2014 and 2013 (dollars in thousands):

	Nine Months Ended September 30, 2014					
Allowance for loan losses	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total
Beginning balance:	$1,979	$ 6,243	$ 1,517	$ 3,037	$ -	$12,776
Charge Offs:	(415)	(1,236)	(97)	(1,191)	-	(2,939)
Recoveries:	331	118	28	507	-	984
Net recoveries (charge offs)	(84)	(1,118)	(69)	(684)	-	(1,955)
Provision	(183)	1,200	(16)	1,329	-	2,330
Ending balance	$1,712	$ 6,325	$ 1,432	$ 3,682	$ -	$13,151

	Nine Months Ended September 30, 2013					
Allowance for loan losses	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total

Beginning balance:	$1,708	$ 4,428	$ 1,565	$ 2,706	$ 26	$10,433
Charge Offs:	(186)	(44)	(53)	(910)	-	(1,193)
Recoveries:	454	53	65	289	-	861
Net recoveries (charge offs)	268	9	12	(621)	-	(332)
Provision	82	976	(25)	748	(26)	1,755
Ending balance	$2,058	$ 5,413	$ 1,552	$ 2,833	$ -	$11,856

14

Allowance for loan losses	Three Months Ended September 30, 2014 Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total
Beginning balance:	$1,749	$ 6,912	$ 1,498	$ 3,473	$ -	$13,632
Charge Offs:	(60)	(878)	(90)	(415)	-	(1,443)
Recoveries:	138	35	-	200	-	373
Net recoveries (charge offs)	78	(843)	(90)	(215)	-	(1,070)
Provision	(115)	256	24	424	-	589
Ending balance	$1,712	$ 6,325	$ 1,432	$ 3,682	$ -	$13,151

Allowance for loan losses	Three Months Ended September 30, 2013 Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total
Beginning balance:	$1,879	$ 5,134	$ 1,515	$ 2,792	$ -	$11,320
Charge Offs:	(167)	(44)	-	(512)	-	(723)
Recoveries:	158	34	27	166	-	385
Net recoveries (charge-offs)	(9)	(10)	27	(346)	-	(338)
Provision	188	289	10	387	-	874
Ending balance	$2,058	$ 5,413	$ 1,552	$ 2,833	$ -	$11,856

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of September 30, 2014 and December 31, 2013 (dollars in thousands):

Allowance for loan losses	September 30, 2014 Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$68	$ 188	$ -	$ 1	$ -	$257
Collectively evaluated for impairment	1,644	5,199	1,419	3,681	-	11,943
Loans acquired with deteriorated credit quality	-	938	13	-	-	951
Total ending allowance balance	$1,712	$ 6,325	$ 1,432	$ 3,682	$ -	$13,151

Allowance for loan losses	December 31, 2013 Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total
Ending allowance balance						

attributable to loans:						
Individually evaluated for impairment	$576	$ 466	$ -	$ 4	$ -	$1,046
Collectively evaluated for impairment	1,403	4,407	1,497	3,033	-	10,340
Loans acquired with deteriorated credit quality	-	1,370	20	-	-	1,390
Total ending allowance balance	$1,979	$ 6,243	$ 1,517	$ 3,037	$ -	$12,776

15

Loans:	September 30, 2014 Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Loans individually evaluated for impairment	$ 1,318	$ 12,477	$ 108	$ 124	$ 14,027
Loans collectively evaluated for impairment	164,288	418,721	193,020	320,868	1,096,897
Loans acquired with deteriorated credit quality	607	4,917	246	-	5,770
Total ending loans balance	$ 166,213	$ 436,115	$ 193,374	$ 320,992	$ 1,116,694

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

The following tables present loans individually evaluated for impairment recognized by class of loans as of September 30, 2014 and December 31, 2013, the average recorded investment and interest income recognized by class of loans as of the three and nine-month periods ended September 30, 2014 and 2013 (dollars in thousands):

	September 30, 2014			December 31, 2013		
With no related allowance recorded:	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
Commercial and agricultural:						
Commercial and industrial	$1,247	$ 1,250	$ -	$1,906	$ 1,909	$ -
Commercial mortgages:						
Construction	1,936	1,919	-	2,329	2,319	-
Commercial mortgages	9,437	9,331	-	7,406	7,439	-
Residential mortgages	108	108	-	117	117	-
Consumer loans:						
Home equity lines and loans	67	69	-	71	73	-
With an allowance recorded:						
Commercial and agricultural:						
Commercial and industrial	68	68	68	1,037	1,037	576
Commercial mortgages:						
Commercial mortgages	1,237	1,227	188	951	945	466
Consumer loans:						
Home equity lines and loans	55	55	1	58	58	4
Total	$14,155	$ 14,027	$ 257	$13,875	$ 13,897	$ 1,046

	Nine Months Ended September 30, 2014		Nine Months Ended September 30, 2013		Three Months Ended September 30, 2014		Three Months Ended September 30, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:								
Commercial and agricultural:								
Commercial and industrial	$1,566	$ 26	$1,529	$ 52	$1,309	$ 11	$1,599	$ 17
Commercial mortgages:								
Construction	2,231	76	3,626	64	1,924	26	2,576	22
Commercial mortgages	6,806	211	5,629	184	7,909	82	5,564	66
Residential mortgages	114	-	127	-	110	-	124	-
Consumer loans:								
Home equity lines and loans	72	2	41	2	69	1	60	1
With an allowance recorded:								
Commercial and agricultural:								
Commercial and industrial	784	-	640	-	144	-	819	-
Commercial mortgages:								
Commercial mortgages	912	-	847	-	1,233	-	1,333	-
Consumer loans:								
Home equity lines and loans	58	3	43	2	56	1	58	1
Direct consumer loans	-	-	4	-	-	-	-	-
Total	$12,543	$ 318	$12,486	$ 304	$12,754	$ 121	$12,133	$ 107

Cash basis interest income approximates interest income recognized.

The following tables present the recorded investment in past due and non-accrual status by class of loans as of September 30, 2014 and December 31, 2013 (dollars in thousands):

September 30, 2014	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Loans acquired with deteriorated credit quality	Non-Accrual (1)	Total
Commercial and agricultural:						
Commercial and industrial	$164,207	$206	$ -	$ 607	$ 324	$165,344
Agricultural	869	-	-	-	-	869
Commercial mortgages:						
Construction	44,710	-	1,447	774	152	47,083
Commercial mortgages	378,459	2,542	1,077	4,143	2,811	389,032
Residential mortgages	187,777	2,219	-	246	3,132	193,374
Consumer loans:						
Credit cards	1,601	17	3	-	-	1,621
Home equity lines and loans	100,153	608	-	-	465	101,226
Indirect consumer loans	195,291	1,426	-	-	286	197,003
Direct consumer loans	21,042	61	-	-	39	21,142
Total	$1,094,109	$7,079	$ 2,527	$ 5,770	$ 7,209	$1,116,694

(1) Includes all loans on non-accrual status regardless of the number of days such loans were delinquent as of September 30, 2014.

December 31, 2013	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Loans acquired with deteriorated credit quality	Non-Accrual (1)	Total
Commercial and agricultural:						
Commercial and industrial	$143,100	$29	$ -	$ 678	$ 1,348	$145,155
Agricultural	577	-	-	-	-	577
Commercial mortgages:						
Construction	24,742	-	1,454	774	540	27,510
Commercial mortgages	335,123	1,138	-	7,983	2,342	346,586
Residential mortgages	187,448	5,458	-	261	3,358	196,525
Consumer loans:						
Credit cards	1,729	9	19	-	-	1,757
Home equity lines and loans	95,349	150	-	-	635	96,134
Indirect consumer loans	163,810	1,235	-	-	249	165,294
Direct consumer loans	18,830	50	-	-	45	18,925
Total	$970,708	$8,069	$ 1,473	$ 9,696	$ 8,517	$998,463

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

Troubled Debt Restructurings:

A modification of a loan may result in classification as a TDR when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Corporation offers various types of modifications which may involve a change in the schedule of payments, a reduction in the interest rate, an extension of the maturity date, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, requesting additional collateral, releasing collateral for consideration, substituting or adding a new borrower or guarantor, a permanent reduction of the recorded investment in the loan or a permanent reduction of the interest on the loan.

As of September 30, 2014 and December 31, 2013, the Corporation has a recorded investment in troubled debt restructurings of $8.7 million and $7.9 million, respectively. There were specific reserves of less than $0.1 million and $0.3 million allocated for troubled debt restructurings at September 30, 2014 and December 31, 2013, respectively. As of September 30, 2014, troubled debt restructurings totaling $8.1 million were accruing interest under the modified terms and $0.6 million were on non-accrual status. As of December 31, 2013, troubled debt restructurings totaling $6.8 million were accruing interest under the modified terms and $1.1 million were on non-accrual status. The Corporation has committed to lend additional amounts totaling up to less than $0.1 million and $0.2 million as of September 30, 2014 and December 31, 2013, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

During the nine months ended September 30, 2014 and 2013, the terms of certain loans were modified as troubled debt restructurings. The modification of terms of such loans included one or a combination of the following: a change in the schedule of payments, a reduction in the interest rate, an extension of the maturity date, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk or a permanent reduction of the recorded investment in the loan.

The following table presents loans by class modified as troubled debt restructurings that occurred during the nine months ended September 30, 2014 and September 30, 2013 (dollars in thousands):

Nine months ended September 30, 2014	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial and agricultural:			
Commercial and industrial	3	$ 908	$ 908
Commercial mortgages:			
Commercial mortgages	3	2,236	2,192
Total	6	$ 3,144	$ 3,100

Nine months ended September 30, 2013			
Troubled debt restructurings:			
Commercial and agricultural:			
Commercial and industrial	4	$841	$841
Commercial mortgages:			
Commercial mortgages	1	133	133
Consumer loans:			
Home equity lines and loans	3	134	134
Total	8	$1,108	$1,108

The troubled debt restructurings described above did not increase the allowance for loan losses and resulted in less than $0.1 million in charge offs during the nine months ended September 30, 2014. The troubled debt restructurings described above increased the allowance for loan losses by less than $0.1 million and resulted in no charge offs during the nine months ended September 30, 2013.

There were no payment defaults on any loans previously modified as troubled debt restructurings during the nine months ending September 30, 2014 or September 30, 2013, 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.

The following table presents loans by class modified as troubled debt restructurings that occurred during the three months ended September 30, 2014 and September 30, 2013 (dollars in thousands):

Three months ended September 30, 2014	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial and agricultural:			
Commercial and industrial	2	$ 405	$ 405
Commercial mortgages:			
Commercial mortgages	1	1,869	1,869
Total	3	$ 2,274	$ 2,274

Three months ended September 30, 2013			
Troubled debt restructurings:			
Consumer loans:			
Home equity lines and loans	1	$31	$31
Total	1	$31	$31

The troubled debt restructurings described above did not increase the allowance for loan losses and resulted in no charge offs during the three months ended September 30, 2014. The troubled debt restructurings described above increased the allowance for loan losses by less than $0.1 million and resulted in no charge offs during the three months ended September 30, 2013.

There were no payment defaults on any loans previously modified as troubled debt restructurings during the three months ending September 30, 2014 or September 30, 2013, within twelve months following the modification. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

Credit Quality Indicators

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

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

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

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are included in groups of homogeneous loans. Based on the analyses performed as of September 30, 2014 and December 31, 2013, the risk category of the recorded investment of loans by class of loans is as follows (dollars in thousands):

	September 30, 2014						
	Not Rated	Pass	Loans acquired with deteriorated credit quality	Special Mention	Substandard	Doubtful	Total
Commercial and agricultural:							
Commercial and industrial	$ -	$ 154,618	$ 607	$ 6,671	$ 3,380	$ 68	$ 165,344
Agricultural	-	869	-	-	-	-	869
Commercial mortgages:							
Construction	-	42,829	774	3,328	152	-	47,083
Commercial mortgages	-	362,160	4,143	12,088	10,491	150	389,032
Residential mortgages	189,739	-	246	-	3,389	-	193,374
Consumer loans:							
Credit cards	1,621	-	-	-	-	-	1,621
Home equity lines and loans	100,761	-	-	-	465	-	101,226
Indirect consumer loans	196,717	-	-	-	286	-	197,003
Direct consumer loans	21,103	-	-	-	39		21,142
Total	$ 509,941	$ 560,476	$ 5,770	$ 22,087	$ 18,202	$ 218	$ 1,116,694

	December 31, 2013						
	Not Rated	Pass	Loans acquired with deteriorated credit quality	Special Mention	Substandard	Doubtful	Total
Commercial and agricultural:							
Commercial and industrial	$ -	$ 133,615	$ 678	$ 5,117	$ 4,724	$ 1,021	$ 145,155
Agricultural	-	577	-	-	-	-	577
Commercial mortgages:							
Construction	-	23,087	774	2,783	866	-	27,510
Commercial mortgages	-	313,956	7,983	13,611	11,036	-	346,586
Residential mortgages	192,995	-	261	-	3,269	-	196,525
Consumer loans							
Credit cards	1,757	-	-	-	-	-	1,757
Home equity lines and loans	95,422	-	-	-	712	-	96,134

Indirect consumer loans	165,045	-	-	-	249	-	165,294
Direct consumer loans	18,880	-	-	-	45	-	18,925
Total	$474,099	$471,235	$ 9,696	$21,511	$ 20,901	$ 1,021	$998,463

The Corporation considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, the Corporation also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity as of September 30, 2014 and December 31, 2013 (dollars in thousands):

September 30, 2014		Consumer Loans			
	Residential Mortgages	Credit Card	Home Equity Lines and Loans	Indirect Consumer Loans	Other Direct Consumer Loans
Performing	$ 190,242	$ 1,621	$ 100,761	$ 196,717	$ 21,103
Non-Performing	3,132	-	465	286	39
Total	$ 193,374	$ 1,621	$ 101,226	$ 197,003	$ 21,142

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

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

The table below summarizes the changes in total contractually required principal and interest cash payments, management's estimate of expected total cash payments and carrying value of the PCI loans from January 1, 2014 to September 30, 2014 and July 1, 2014 to September 30, 2014 (dollars in thousands):

Nine months ended September 30, 2014	Balance at December 31, 2013	Income Accretion	All Other Adjustments	Balance at September 30, 2014
Contractually required principal and interest	$ 11,230	$ -	$ (4,359)	$ 6,871
Contractual cash flows not expected to be collected (non accretable discount)	(543)	-	(43)	(586)

Cash flows expected to be collected	10,687	-	(4,402)	6,285
Interest component of expected cash flows (accretable yield)	(991)	464	12	(515)
Fair value of loans acquired with deteriorating credit quality	$ 9,696	$ 464	$ (4,390)	$ 5,770

Three months ended September 30, 2014	Balance at June 30, 2014	Income Accretion	All Other Adjustments	Balance at September 30, 2014
Contractually required principal and interest	$ 10,057	$ -	$ (3,186)	$ 6,871
Contractual cash flows not expected to be collected (non accretable discount)	(486)	-	(100)	(586)
Cash flows expected to be collected	9,571	-	(3,286)	6,285
Interest component of expected cash flows (accretable yield)	(673)	120	38	(515)
Fair value of loans acquired with deteriorating credit quality	$ 8,898	$ 120	$ (3,248)	$ 5,770

NOTE 5 FAIR VALUE

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

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

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

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

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

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

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

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value have been partially charged-off or receive specific allocations as part of the allowance for loan loss accounting. For collateral dependent loans, fair value is commonly based on real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, typically resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

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 (dollars in thousands):

		Fair Value Measurement at September 30, 2014 Using		
Financial Assets:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of U.S. Government and U.S. Government sponsored enterprises	$177,215	$31,174	$ 146,041	$ -
Mortgage-backed securities, residential	64,571	-	64,571	-
Collateralized mortgage obligations	464	-	464	-
Obligations of states and political subdivisions	33,680	-	33,680	-
Corporate bonds and notes	1,539	-	1,539	-
SBA loan pools	1,349	-	1,349	-
Trust Preferred securities	2,025	-	2,025	-
Corporate stocks	7,254	6,838	416	-
Total available for sale securities	$288,097	$38,012	$ 250,085	$ -
Trading assets	$483	$483	$ -	$ -

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

Corporate stocks	7,695	7,279	416	-
Total available for sale securities	$346,016	$38,541	$ 307,475	$ -
Trading assets	$366	$366	$ -	$ -

There were no transfers between Level 1 and Level 2 during the nine-month period ending September 30, 2014 or the year ending December, 31, 2013.
24

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

		Fair Value Measurement at September 30, 2014 Using		
Financial Assets:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans:				
Commercial mortgages:				
Commercial mortgages	$1,049	$-	$ -	$ 1,049
Consumer loans:				
Home equity lines and loans	54	-	-	54
Total Impaired Loans	$1,103	$-	$ -	$ 1,103
Other real estate owned:				
Commercial mortgages:				
Commercial mortgages	$3,117	$-	$ -	$ 3,117
Consumer loans:				
Home equity lines and loans	2	-	-	2
Total Other Real Estate Owned, net	$3,119	$-	$ -	$ 3,119

		Fair Value Measurement at December 31, 2013 Using		
Financial Assets:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans:				
Commercial and agricultural:				
Commercial and industrial	$ 460	$-	$ -	$ 460
Commercial mortgages:				
Commercial mortgages	485	-	-	485
Consumer loans:				
Home equity lines and loans	54	-	-	54
Total Impaired Loans	$ 999	$-	$ -	$ 999

Other real estate owned:				
Commercial and agricultural:				
Commercial and industrial	$ 101	$ -	$ -	$ 101
Commercial mortgages:				
Commercial mortgages	266	-	-	266
Residential mortgages	106	-	-	106
Consumer loans:				
Home equity lines and loans	65	-	-	65
Total Other Real Estate Owned, net	$ 538	$ -	$ -	$ 538

25

The following table presents information related to Level 3 non-recurring fair value measurement at September 30, 2014 and December 31, 2013 (dollars in thousands):

Description	Fair Value at September 30, 2014	Technique		Unobservable Inputs
Impaired loans	$ 1,103	Third party appraisals	1	Management discount based on underlying collateral characteristics and market conditions
Other real estate owned	$ 3,119	Third party appraisals	1	Estimated holding period
			2	Estimated closing costs

Description	Fair Value at December 31, 2013	Technique		Unobservable Inputs
Impaired loans	$ 999	Third party appraisals	1	Management discount based on underlying collateral characteristics and market conditions
Other real estate owned	$ 538	Third party appraisals	1	Estimated holding period
			2	Estimated closing costs

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $1.4 million with a valuation allowance of $0.3 million as of September 30, 2014, resulting in $0.1 million and $0.8 million decrease in the provision for loan losses for the three and nine-month periods ended September 30, 2014. Impaired loans had a principal balance of $2.0 million, with a valuation allowance of $1.0 million as of December 31, 2013, resulting in an increase of $0.9 million in the provision for loan losses for the year ending December 31, 2013.

OREO is measured by the lower of cost or fair value less costs to sell. The net carrying amount reflects the outstanding balance of $3.1 million with no valuation allowance at September 30, 2014, which resulted in no write downs during the three-month period ending September 30, 2014 and less than $0.1 million for the nine-month period ending September 30, 2014. OREO had a net carrying amount of $0.5 million at December 31, 2013. The net carrying amount reflects the outstanding balance of $0.7 million, net of a valuation allowance of $0.2 million, at December 31, 2013, which resulted in an immaterial write down for the year ending December 31, 2013.

The carrying amounts and estimated fair values of other financial instruments, at September 30, 2014 and December 31, 2013, are as follows (dollars in thousands):

	Fair Value Measurements at September 30, 2014 Using				
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Estimated Fair Value (1)
Financial assets:					
Cash and due from financial Institutions	$31,957	$31,957	$ -	$ -	$31,957
Interest-bearing deposits in other financial institutions	3,069	3,069	-	-	3,069
Trading assets	483	483	-	-	483
Securities available for sale	288,097	38,012	250,085	-	288,097
Securities held to maturity	5,430	-	5,821	-	5,821
FHLBNY and FRBNY stock	4,362	-	-	-	N/A
Loans, net	1,101,031	-	-	1,127,642	1,127,642
Loans held for sale	1,167	-	1,167	-	1,167
Accrued interest receivable	4,340	360	1,468	2,512	4,340
Financial liabilities:					
Deposits:					
Demand, savings, and insured money market accounts	$1,099,744	$1,099,744	$ -	$ -	$1,099,744
Time deposits	211,255	-	211,876	-	211,876
Securities sold under agreements to repurchase	30,981	-	32,144	-	32,144
FHLBNY term advances	24,086	-	24,994	-	24,994
Accrued interest payable	275	12	263	-	275

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

	Fair Value Measurements at December 31, 2013 Using				
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Estimated Fair Value (1)
Financial Assets:					
Cash and due from financial institutions	$31,600	$31,600	$ -	$ -	$31,600
Interest-bearing deposits in other financial institutions	20,009	20,009	-	-	20,009

Trading assets	366	366	-	-	366
Securities available for sale	346,016	38,541	307,475	-	346,016
Securities held to maturity	6,495	-	6,930	-	6,930
FHLBNY and FRBNY stock	4,482	-	-	-	N/A
Loans, net	983,090	-	-	1,008,826	1,008,826
Loans held for sale	695	-	695	-	695
Accrued interest receivable	4,166	145	1,468	2,553	4,166
Financial liabilities:					
Deposits:					
Demand, savings, and insured money market accounts	$1,021,764	$1,021,764	$ -	$ -	$1,021,764
Time deposits	244,492	-	245,482	-	245,482
Securities sold under agreements to repurchase	32,701	-	33,636	-	33,636
FHLBNY Advances	25,243	-	26,064	-	26,064
Accrued interest payable	336	15	321	-	336

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

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 FHLBNY and FRBNY are classified as Level 1.

FHLBNY and FRBNY Stock

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

Loans Receivable

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

Loans Held for Sale

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

Deposits

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

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

Securities Sold Under Agreements to Repurchase

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

FHLBNY Term Advances

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

Commitments to Extend Credit

The fair value of commitments to extend credit is based on fees currently charged to enter into similar agreements, the counter-party's credit standing and discounted cash flow analysis. The fair value of these commitments to extend credit approximates the recorded amounts of the related fees and is not material at September 30, 2014 and December 31, 2013.

Accrued Interest Receivable and Payable

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

NOTE 6 GOODWILL AND INTANGIBLE ASSETS

The changes in goodwill included in the core banking segment during the periods ending September 30, 2014 and 2013 were as follows (dollars in thousands):

	2014	2013
Beginning of year	$21,824	$21,824
Acquired goodwill	-	-
Ending balance September 30,	$21,824	$21,824

Acquired intangible assets were as follows at September 30, 2014 and December 31, 2013 (dollars in thousands):

	At September 30, 2014		At December 31, 2013	
	Balance Acquired	Accumulated Amortization	Balance Acquired	Accumulated Amortization
Core deposit intangibles	$5,975	$ 3,054	$5,975	$ 2,338
Other customer relationship intangibles	5,633	3,170	6,063	3,323
Total	$11,608	$ 6,224	$12,038	$ 5,661

Aggregate amortization expense was $1.0 million and $0.7 million for the nine-month periods ended September 30, 2014 and 2013, respectively.

The remaining estimated aggregate amortization expense at September 30, 2014 is listed below (dollars in thousands):

Year	Estimated Expense
2014	$ 318
2015	1,136
2016	986
2017	859
2018	734
2019 and thereafter	1,351
Total	$ 5,384

NOTE 7 ACCUMULATED OTHER COMPREHENSIVE INCOME OR LOSS

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

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

	Unrealized Gains and Losses on Securities Available for Sale	Defined Benefit and Other Benefit Plans	Total
Balance at December 31, 2013	$ 6,043	$(5,888)	$155
Other comprehensive income before reclassification	391	-	391
Amounts reclassified from accumulated other comprehensive income	(321)	263	(58)
Net current period other comprehensive income	70	263	333
Balance at September 30, 2014	$ 6,113	$(5,625)	$488

	Unrealized Gains and Losses on Securities Available for Sale	Defined Benefit and Other Benefit Plans	Total
Balance at June 30, 2014	$ 6,962	$(5,712)	$1,250
Other comprehensive (loss) before reclassification	(849)	-	(849)
Amounts reclassified from accumulated other comprehensive income	-	87	