CHEMUNG FINANCIAL CORP
Form 10-Q
August 07, 2015
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 June 30, 2015
Or

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

Commission File No. 0-13888

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

New York	16-1237038
(State or other 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	[ ]	Non-accelerated filer	[ ]
Accelerated filer	[X]	Smaller reporting company	[ ]

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

The number of shares of the registrant's common stock, $.01 par value, outstanding on August 6, 2015 was 4,656,052.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES

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GLOSSARY OF ABBREVIATIONS AND TERMS

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

Abbreviations

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

Terms

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

	Refers to the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for OPEB plans.
Capital Bank	Division of Chemung Canal Trust Company located in the “Capital Region” of New York State and includes the counties of Albany and Saratoga.
CDARS	Program involving a network of financial institutions that exchange certificates of deposits among members in order to ensure FDIC insurance coverage on customer deposits above the single institution limit. Using a sophisticated matching system, funds are exchanged on a dollar-for-dollar basis, so that the equivalent of an original deposit comes back to the originating institution.

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

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

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
UNAUDITED

(in thousands, except share and per share data)	June 30, 2015	December 31, 2014
ASSETS		
Cash and due from financial institutions	$28,014	$28,130
Interest-bearing deposits in other financial institutions	1,650	1,033
Total cash and cash equivalents	29,664	29,163
Trading assets, at fair value	635	549
Securities available for sale, at estimated fair value	290,571	280,507
Securities held to maturity, estimated fair value of $6,351 at June 30, 2015 and $6,197 at December 31, 2014	6,045	5,831
FHLBNY and FRBNY Stock, at cost	4,873	5,535
Loans, net of deferred loan fees	1,150,406	1,121,574
Allowance for loan losses	(14,028)	(13,686)
Loans, net	1,136,378	1,107,888
Loans held for sale	668	665
Premises and equipment, net	30,874	32,287
Goodwill	21,824	21,824
Other intangible assets, net	4,478	5,067
Bank owned life insurance	2,801	2,764
Accrued interest receivable and other assets	24,822	32,459
Total assets	$1,553,633	$1,524,539
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	$385,467	$366,298
Interest-bearing	946,510	913,716
Total deposits	1,331,977	1,280,014
FHLBNY overnight advances	15,600	30,830
Securities sold under agreements to repurchase	31,882	29,652
FHLBNY term advances	19,256	19,310
Long term capital lease obligation	2,945	2,976
Dividends payable	1,210	1,204
Accrued interest payable and other liabilities	14,243	26,925
Total liabilities	1,417,113	1,390,911
Shareholders' equity:		
Common stock, $0.01 par value per share, 10,000,000 shares authorized; 5,310,076 issued at June 30, 2015 and December 31, 2014	53	53
Additional-paid-in-capital	45,468	45,355
Retained earnings	116,817	114,383

Treasury stock, at cost (654,560 shares at June 30, 2015; 680,948 shares at December 31, 2014)	(16,704)	(17,378)
Accumulated other comprehensive loss	(9,114)	(8,785)
Total shareholders' equity	136,520	133,628
Total liabilities and shareholders' equity	$1,553,633	$1,524,539

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2015	2014	2015	2014
Interest and dividend income:				
Loans, including fees	$12,096	$11,449	$23,999	$22,617
Taxable securities	1,164	1,264	2,253	2,768
Tax exempt securities	239	258	458	522
Interest-bearing deposits	20	25	43	43
Total interest and dividend income	13,519	12,996	26,753	25,950
Interest expense				
Deposits	492	517	978	1,040
Securities sold under agreements to repurchase	212	212	421	420
Borrowed funds	168	192	365	382
Total interest expense	872	921	1,764	1,842
Net interest income	12,647	12,075	24,989	24,108
Provision for loan losses	259	1,103	649	1,741
Net interest income after provision for loan losses	12,388	10,972	24,340	22,367
Non-interest income:				
WMG fee income	2,198	1,989	4,324	3,872
Service charges on deposit accounts	1,224	1,350	2,362	2,582
Net gains on securities transactions	252	522	302	522
Net gains on sales of loans held for sale	98	83	150	125
Net gains (losses) on sales of other real estate owned	42	(14)	120	(44)
Income from bank owned life insurance	19	19	37	39
Other	1,493	1,457	3,217	3,274
Total non-interest income	5,326	5,406	10,512	10,370
Non-interest expense:				
Salaries and wages	5,188	5,156	10,288	10,309
Pension and other employee benefits	1,557	1,479	3,286	2,838
Net occupancy expenses	1,757	1,659	3,607	3,452
Furniture and equipment expenses	789	715	1,522	1,345
Data processing expense	1,552	1,414	3,113	2,895
Professional services	420	421	689	643
Amortization of intangible assets	285	324	589	669
Marketing and advertising expenses	271	332	506	625
Other real estate owned expenses	224	45	308	132
FDIC insurance	280	274	566	543
Loan expense	175	146	315	295
Merger and acquisition related expenses	-	29	-	115
Other	1,325	1,585	2,770	3,062
Total non-interest expenses	13,823	13,579	27,559	26,923
Income before income tax expense	3,891	2,799	7,293	5,814
Income tax expense	1,314	869	2,440	1,820
Net income	$2,577	$1,930	$4,853	$3,994

Weighted average shares outstanding	4,717	4,681	4,712	4,679
Basic and diluted earnings per share	$0.55	$0.41	$1.03	$0.85

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2015	2014	2015	2014
Net income	$2,577	$1,930	$4,853	$3,994
Other comprehensive income (loss):				
Unrealized holding gains (losses) on securities available for sale	(2,229)	1,131	(964)	2,015
Reclassification adjustment for gains realized in net income	(252)	(522)	(302)	(522)
Net unrealized gains (losses)	(2,481)	609	(1,266)	1,493
Tax effect	(931)	234	(490)	574
Net of tax amount	(1,550)	375	(776)	919
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	(21)	(22)	(43)	(44)
Reclassification adjustment for amortization of net actuarial loss	384	165	767	330
Total before tax effect	363	143	724	286
Tax effect	140	55	277	110
Net of tax amount	223	88	447	176
Total other comprehensive income (loss)	(1,327)	463	(329)	1,095
Comprehensive income	$1,250	$2,393	$4,524	$5,089

See accompanying notes to unaudited consolidated financial statements.

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

(in thousands, except share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balances at January 1, 2014	$ 53	$ 45,399	$ 111,031	$ (18,060)	$ 155	$ 138,578
Net income	-	-	3,994	-	-	3,994
Other comprehensive income	-	-	-	-	1,095	1,095
Restricted stock awards	-	74	-	-	-	74
Restricted stock units for directors' deferred compensation plan	-	48	-	-	-	48
Cash dividends declared ($0.52 per share)	-	-	(2,401)	-	-	(2,401)
Distribution of 8,385 shares of treasury stock for directors' compensation	-	59	-	214	-	273
Distribution of 990 shares of treasury stock for employee restricted stock awards, net	-	(26)	-	26	-	-
Distribution of 3,595 shares of treasury stock for employee stock compensation	-	25	-	92	-	117
Distribution of 3,467 shares of treasury stock for deferred directors’ compensation	-	(85)	-	88	-	3
Balances at June 30, 2014	$ 53	$ 45,494	$ 112,624	$ (17,640)	$ 1,250	$ 141,781
Balances at January 1, 2015	$ 53	$ 45,355	$ 114,383	$ (17,378)	$ (8,785)	$ 133,628
Net income	-	-	4,853	-	-	4,853
Other comprehensive loss	-	-	-	-	(329)	(329)
Restricted stock awards	-	104	-	-	-	104
Restricted stock units for directors' deferred compensation plan	-	49	-	-	-	49
Cash dividends declared ($0.52 per share)	-	-	(2,419)	-	-	(2,419)
Distribution of 9,673 shares of treasury stock for directors' compensation	-	24	-	247	-	271
Distribution of 3,303 shares of treasury stock for employee stock compensation	-	8	-	85	-	93
Sale of 9,814 shares of treasury stock	-	17	-	250	-	267
Distribution of 3,598 shares of treasury stock for deferred directors’ compensation	-	(89)	-	92	-	3
Balances at June 30, 2015	$ 53	$ 45,468	$ 116,817	$ (16,704)	$ (9,114)	$ 136,520

See accompanying notes to unaudited consolidated financial statements.

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

(in thousands)	Six Months Ended June 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$4,853	$3,994
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	589	669
Provision for loan losses	649	1,741
Gains on disposal of fixed assets	(9)	(7)
Depreciation and amortization of fixed assets	2,062	1,808
Amortization of premiums on securities, net	1,014	1,223
Gains on sales of loans held for sale, net	(150)	(125)
Proceeds from sales of loans held for sale	7,004	5,477
Loans originated and held for sale	(6,857)	(5,571)
Net gains on trading assets	(12)	(30)
Proceeds from sales of trading assets	-	7
Net gains on securities transactions	(302)	(522)
Net (gains) losses on sales of other real estate owned	(120)	44
Purchase of trading assets	(74)	(61)
Decrease in other assets	7,068	1,672
Decrease in accrued interest payable	(19)	(46)
Expense related to restricted stock units for directors' deferred compensation plan	49	48
Expense related to employee stock compensation	93	117
Expense related to restricted stock awards	104	74
Decrease in other liabilities	(11,452)	(3,041)
Proceeds from bank owned life insurance	-	110
Income from bank owned life insurance	(37)	(39)
Net cash provided by operating activities	4,453	7,542
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and calls of securities available for sale	54,319	49,765
Proceeds from maturities and principal collected on securities available for sale	17,546	13,272
Proceeds from maturities and principal collected on securities held to maturity	1,184	1,813
Purchases of securities available for sale	(83,907)	(2,627)
Purchases of securities held to maturity	(1,398)	(592)
Purchase of FHLBNY and FRBNY stock	(5,852)	(293)
Redemption of FHLBNY and FRBNY stock	6,514	45
Proceeds from sale of equipment	9	7
Purchases of premises and equipment	(649)	(1,707)
Proceeds from sales of other real estate owned	699	298
Net increase in loans	(29,149)	(89,949)
Net cash used by investing activities	(40,684)	(29,968)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, interest-bearing demand accounts, savings accounts, and insured money market accounts	83,081	61,148
Net decrease in time deposits	(31,118)	(18,976)
Net increase (decrease) in securities sold under agreements to repurchase	2,230	(1,955)
Repayments of FHLBNY overnight advances, net	(15,230)	-

Repayments of FHLBNY long term advances	(54)	(1,107)
Increase in capital lease obligation	-	384
Payments made on capital lease	(31)	-
Sale of treasury stock	267	-
Cash dividends paid	(2,413)	(2,395)
Net cash provided by financing activities	36,732	37,099
Net increase in cash and cash equivalents	501	14,673
Cash and cash equivalents, beginning of period	29,163	51,609
Cash and cash equivalents, end of period	$29,664	$66,282

(continued)

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

	Six Months Ended June 30,	
(in thousands)		
Supplemental disclosure of cash flow information:	2015	2014
Cash paid for:		
Interest	$1,783	$1,888
Income taxes	$4,651	$1,246
Supplemental disclosure of non-cash activity:		
Transfer of loans to other real estate owned	$10	$578
Dividends declared, not yet paid	$1,210	$1,201

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, 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 for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. These financial statements include the accounts of the Corporation and its subsidiaries, and all significant intercompany balances and transactions are eliminated in consolidation. Amounts in the prior periods' consolidated financial statements are reclassified whenever necessary to conform to 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. In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures necessary for the fair presentation of the accompanying consolidated financial statements have been included.

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 Collateralized Mortgage Loans upon a Troubled Debt Restructuring. The objective of this ASU is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, such that all or a portion of the loan should be derecognized and the real estate property recognized. The main provisions would also require additional disclosures regarding the amount of foreclosed residential real estate property held by the creditor and the recorded investments of consumer mortgage loans that are in the process of foreclosure at each interim and annual reporting period. This ASU became effective for the Corporation in fiscal years and interim periods within those years, beginning after December 15, 2014. The Corporation has adopted this guidance for the reporting periods after December 15, 2014 and did not have a material impact on its 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 annual reported period beginning after December 15, 2017, including interim periods within that reporting period. The standard allows an entity to apply the amendments in the ASU using either the retrospective or cumulative effect transition method. The Corporation is evaluating the potential impact on the Corporation's financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. Under ASU 2015-03 the Corporation will present debt issuance costs in the balance sheet as a reduction from the related debt liability rather than as an asset. Amortization of such costs will continue to be reported as interest expense. ASU 2015-03 will be effective for the Corporation beginning January 1, 2016, though early adoption is permitted. Retrospective adoption is required. The Corporation is evaluating the potential impact on the Corporation's financial statements.

Effective April 2015, the Corporation adopted ASU No. 2014-11, Transfers and Servicing (Topic 860) - Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in ASU 2014-11 change the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. Additionally, ASU 2014-11 requires certain disclosures for repurchase agreements that are accounted for as secured borrowings. The Corporation has historically used repurchase agreements as part of its treasury management offering and accounts for these transactions as secured borrowings. The required disclosures under ASU 2014-11 are included in Note 7. Adoption of ASU 2014-11 did not otherwise have a material impact on the Corporation's financial statements.

NOTE 2 EARNING PER COMMON SHARE (shares in thousands)

Basic earnings per share is net income divided by the weighted average number of common shares outstanding during the period. Issuable shares, including those related to directors' restricted stock units and directors' stock compensation, are considered outstanding and are included in the computation of basic earnings per share. All outstanding unvested share based payment awards that contain rights to 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 per share information is adjusted to present comparative results for stock splits and stock dividends that occur. Earnings per share were computed by dividing net income by 4,717 and 4,681 weighted average shares outstanding for the three month periods ended June 30, 2015 and 2014, respectively. Earnings per share were computed by dividing net income by 4,712 and 4,679 weighted average shares outstanding for the six month periods ended June 30, 2015 and 2014, respectively. There were no dilutive common stock equivalents during the three or six month periods ended June 30, 2015 or 2014.

NOTE 3 SECURITIES

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

	June 30, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government and U.S. Government sponsored enterprises	$130,736	$ 1,160	$ 2	$131,894
Mortgage-backed securities, residential	115,727	672	723	115,676
Collateralized mortgage obligations	139	2	-	141
Obligations of states and political subdivisions	39,379	671	83	39,967
Corporate bonds and notes	1,249	13	2	1,260
SBA loan pools	1,138	10	2	1,146
Corporate stocks	285	202	-	487
Total	$288,653	$ 2,730	$ 812	$290,571

	December 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government and U.S. Government sponsored enterprises	$180,535	$ 1,300	$ 162	$181,673

Mortgage-backed securities, residential	60,787	892	19	61,660
Collateralized mortgage obligations	335	3	-	338
Obligations of states and political subdivisions	30,677	802	28	31,451
Corporate bonds and notes	1,502	35	4	1,533
SBA loan pools	1,296	11	3	1,304
Trust preferred securities	1,906	122	-	2,028
Corporate stocks	285	235	-	520
Total	$277,323	$ 3,400	$ 216	$280,507

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

	June 30, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of states and political subdivisions	$5,605	$ 304	$ -	$ 5,909
Time deposits with other financial institutions	440	2	-	442
Total	$6,045	$ 306	$ -	$ 6,351

	December 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of states and political subdivisions	$5,175	$ 360	$ -	$ 5,535
Time deposits with other financial institutions	656	6	-	662
Total	$5,831	$ 366	$ -	$ 6,197

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 (in thousands):

	June 30, 2015			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$40,628	$41,060	$3,397	$3,430
After one, but within five years	110,547	111,777	2,431	2,674
After five, but within ten years	20,189	20,284	217	247
After ten years	-	-	-	-
	171,364	173,121	6,045	6,351
Mortgage-backed securities, residential	115,727	115,676	-	-
Collateralized mortgage obligations	139	141	-	-
SBA loan pools	1,138	1,146	-	-
Total	$288,368	$290,084	$6,045	$6,351

The proceeds from sales and calls of securities resulting in gains or losses for the three months ended June 30, 2015 and 2014 are listed below (in thousands):

	2015	2014
Proceeds	$54,268	$49,765
Gross gains	$252	$522
Tax expense	$97	$201

The proceeds from sales and calls of securities resulting in gains or losses for the six months ended June 30, 2015 and 2014 are listed below (in thousands):

	2015	2014

Proceeds	$54,319	$49,765
Gross gains	$302	$522
Tax expense	$116	$201

The following tables summarize the investment securities available for sale with unrealized losses at June 30, 2015 and December 31, 2014 by aggregated major security type and length of time in a continuous unrealized loss position (in thousands):

June 30, 2015	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or longer Fair Value	12 months or longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
Obligations of U.S. Government and U.S. Government sponsored enterprises	$4,997	$ 2	$-	$ -	$4,997	$ 2
Mortgage-backed securities, residential	80,393	723	-	-	80,393	723
Obligations of states and political subdivisions	12,857	80	737	3	13,594	83
Corporate bonds and notes	245	2	-	-	245	2
SBA loan pools	-	-	506	2	506	2
Total temporarily impaired securities	$98,492	$ 807	$1,243	$ 5	$99,735	$ 812

December 31, 2014	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or longer Fair Value	12 months or longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
Obligations of U.S. Government and U.S. Government sponsored enterprises	$57,512	$ 108	$4,945	$ 54	$62,457	$ 162
Mortgage-backed securities, residential	11,051	19	-	-	11,051	19
Obligations of states and political subdivisions	4,625	22	1,056	6	5,681	28
Corporate bonds and notes	-	-	243	4	243	4
Corporate stocks	276	1	316	2	592	3
Total temporarily impaired securities	$73,464	$ 150	$6,560	$ 66	$80,024	$ 216

Other-Than-Temporary Impairment

As of June 30, 2015, the majority of the Corporation's unrealized losses in the investment securities portfolio related to mortgage backed securities. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because it is not likely that the Corporation 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 June 30, 2015.

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.

There were no cumulative credit losses recognized in earnings for the three month periods ended June 30, 2015 and 2014. The table below presents a roll forward of the cumulative credit losses recognized in earnings for the six month periods ended June 30, 2015 and 2014 (in thousands):

	2015	2014
Beginning balance, January 1,	$ -	$1,939
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 Corporation intends to sell or that it will be more likely than not that the Corporation 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, June 30,	$ -	$-

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 (in thousands):

	June 30, 2015	December 31, 2014
Commercial and agricultural:		
Commercial and industrial	$179,880	$165,385
Agricultural	1,832	1,021
Commercial mortgages:		
Construction	37,557	54,831
Commercial mortgages, other	446,034	397,762
Residential mortgages	198,469	196,809
Consumer loans:		
Credit cards	1,521	1,654
Home equity lines and loans	100,701	99,354
Indirect consumer loans	164,890	184,763
Direct consumer loans	19,522	19,995
Total loans, net of deferred loan fees	$1,150,406	$1,121,574
Interest receivable on loans	2,693	2,780
Total recorded investment in loans	$1,153,099	$1,124,354

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 six month periods ended June 30, 2015 and 2014 (in thousands):

Three Months Ended June 30, 2015					
Allowance for loan losses	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Beginning balance:	$1,671	$ 6,530	$ 1,594	$ 4,097	$13,892
Charge-offs:	-	(28)	(10)	(245)	(283)
Recoveries:	23	17	-	120	160
Net recoveries (charge-offs)	23	(11)	(10)	(125)	(123)
Provision	131	106	(39)	61	259
Ending balance	$1,825	$ 6,625	$ 1,545	$ 4,033	$14,028

Three Months Ended June 30, 2014					
Allowance for loan losses	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Beginning balance:	$1,945	$ 6,484	$ 1,552	$ 3,174	$13,155
Charge-offs:	(300)	(315)	-	(308)	(923)
Recoveries:	100	45	28	124	297
Net recoveries (charge-offs)	(200)	(270)	28	(184)	(626)
Provision	4	698	(82)	483	1,103
Ending balance	$1,749	$ 6,912	$ 1,498	$ 3,473	$13,632

Six Months Ended June 30, 2015					
Allowance for loan losses	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Beginning balance:	$1,460	$ 6,326	$ 1,572	$ 4,328	$13,686
Charge-offs:	-	(28)	(32)	(613)	(673)
Recoveries:	38	84	-	244	366
Net recoveries (charge-offs)	38	56	(32)	(369)	(307)
Provision	327	243	5	74	649
Ending balance	$1,825	$ 6,625	$ 1,545	$ 4,033	$14,028

Six Months Ended June 30, 2014					
Allowance for loan losses	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Beginning balance:	$1,979	$ 6,243	$ 1,517	$ 3,037	$12,776
Charge-offs:	(355)	(358)	(7)	(776)	(1,496)

Recoveries:	193	83	28	307	611
Net recoveries (charge-offs)	(162)	(275)	21	(469)	(885)
Provision	(68)	944	(40)	905	1,741
Ending balance	$1,749	$ 6,912	$ 1,498	$ 3,473	$13,632

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2015 and December 31, 2014 (in thousands):

	June 30, 2015				
Allowance for loan losses:	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$244	$ 1,289	$ -	$ -	$1,533
Collectively evaluated for impairment	1,581	5,278	1,514	4,033	12,406
Loans acquired with deteriorated credit quality	-	58	31	-	89
Total ending allowance balance	$1,825	$ 6,625	$ 1,545	$ 4,033	$14,028

	December 31, 2014				
Allowance for loan losses:	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$89	$ 1,145	$ -	$ 1	$1,235
Collectively evaluated for impairment	1,335	5,145	1,550	4,327	12,357
Loans acquired with deteriorated credit quality	36	36	22	-	94
Total ending allowance balance	$1,460	$ 6,326	$ 1,572	$ 4,328	$13,686

	June 30, 2015				
Loans:	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Loans individually evaluated for impairment	$1,508	$ 13,071	$ 243	$481	$15,303
Loans collectively evaluated for impairment	180,627	469,759	198,457	286,809	1,135,652
Loans acquired with deteriorated credit quality	-	1,883	261	-	2,144
Total ending loans balance	$182,135	$ 484,713	$ 198,961	$287,290	$1,153,099

	December 31, 2014				
Loans:	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Loans individually evaluated for impairment	$1,452	$ 13,712	$ 254	$486	$15,904
Loans collectively evaluated for impairment	164,748	438,246	196,783	306,042	1,105,819
Loans acquired with deteriorated credit quality	620	1,761	250	-	2,631
Total ending loans balance	$166,820	$ 453,719	$ 197,287	$306,528	$1,124,354

The following tables present loans individually evaluated for impairment recognized by class of loans as of June 30, 2015 and December 31, 2014, the average recorded investment and interest income recognized by class of loans as of the three and six month periods ended June 30, 2015 and 2014 (in thousands):

	June 30, 2015			December 31, 2014		
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	$1,260	$ 1,263	$ -	$1,359	$ 1,364	$ -
Commercial mortgages:						
Construction	445	446	-	1,927	1,910	-
Commercial mortgages, other	7,766	7,679	-	7,803	7,708	-
Residential mortgages	243	243	-	253	253	-
Consumer loans:						
Home equity lines and loans	478	481	-	429	432	-
With an allowance recorded:						
Commercial and agricultural:						
Commercial and industrial	244	245	244	89	89	89
Commercial mortgages:						
Commercial mortgages, other	4,995	4,946	1,289	4,210	4,094	1,145
Consumer loans:						
Home equity lines and loans	-	-	-	54	54	1
Total	$15,431	$ 15,303	$ 1,533	$16,124	$ 15,904	$ 1,235

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With no related allowance recorded:	Three Months Ended June 30, 2015 Average Recorded Investment	Three Months Ended June 30, 2015 Interest Income Recognized (1)	Three Months Ended June 30, 2014 Average Recorded Investment	Three Months Ended June 30, 2014 Interest Income Recognized (1)	Six Months Ended June 30, 2015 Average Recorded Investment	Six Months Ended June 30, 2015 Interest Income Recognized (1)	Six Months Ended June 30, 2014 Average Recorded Investment	Six Months Ended June 30, 2014 Interest Income Recognized (1)
Commercial and agricultural:								
Commercial and industrial	$1,467	$ 17	$1,386	$ 16	$1,433	$ 32	$1,566	$ 30
Commercial mortgages:								
Construction	1,172	4	2,101	25	1,418	29	2,231	51
Commercial mortgages, other	7,636	63	6,489	66	7,660	126	6,806	129
Residential mortgages	246	1	112	-	249	2	114	-
Consumer loans:								
Home equity lines & loans	482	6	71	1	465	12	72	1
With an allowance recorded:								
Commercial and agricultural:								
Commercial and industrial	274	-	512	-	212	3	784	-
Commercial mortgages:								
Commercial mortgages, other	4,611	24	1,010	-	4,438	47	912	-
Consumer loans:								
Home equity lines and loans	-	-	57	1	18	-	58	2
Total	$15,888	$ 115	$11,738	$ 109	$15,893	$ 136	$12,543	$ 213

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

The following tables present the recorded investment in past due and non-accrual status by class of loans as of June 30, 2015 and December 31, 2014 (in thousands):

June 30, 2015	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	$179,913	$120	$ 11	$ -	$ 254	$180,298
Agricultural	1,837	-	-	-	-	1,837
Commercial mortgages:						
Construction	37,498	-	-	-	146	37,644
Commercial mortgages, other	434,106	3,313	-	1,883	7,767	447,069
Residential mortgages	193,301	1,857	-	261	3,542	198,961
Consumer loans:						
Credit cards	1,472	33	16	-	-	1,521
Home equity lines and loans	99,974	124	-	-	840	100,938
Indirect consumer loans	163,789	1,164	-	-	292	165,245
Direct consumer loans	19,500	65	-	-	21	19,586
Total	$1,131,390	$6,676	$ 27	$ 2,144	$ 12,862	$1,153,099

(1) Includes all loans on non-accrual status regardless of the number of days such loans were delinquent as of June 30, 2015.

December 31, 2014	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Loans acquired with deteriorated credit quality	Non-Accrual (1)	Total
Commercial and agricultural:						
Commercial and industrial	$164,109	$756	$ -	$ 620	$ 312	$165,797
Agricultural	1,023	-	-	-	-	1,023
Commercial mortgages:						
Construction	53,371	-	1,446	-	150	54,967
Commercial mortgages, other	391,096	3,064	-	1,761	2,831	398,752
Residential mortgages	191,089	2,333	-	250	3,615	197,287
Consumer loans:						
Credit cards	1,641	5	8	-	-	1,654
Home equity lines and loans	98,340	736	-	-	515	99,591
Indirect consumer loans	183,103	1,789	-	-	325	185,217
Direct consumer loans	19,988	48	-	-	30	20,066
Total	$1,103,760	$8,731	$ 1,454	$ 2,631	$ 7,778	$1,124,354

(1) Includes all loans on non-accrual status regardless of the number of days such loans were delinquent as of December 31, 2014.

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 June 30, 2015 and December 31, 2014, the Corporation has a recorded investment in TDRs of $9.6 million and $9.7 million, respectively. There were specific reserves of $0.4 million and $0.3 million allocated for TDRs at June 30, 2015 and December 31, 2014, respectively. As of June 30, 2015, TDRs totaling $7.0 million were accruing interest under the modified terms and $2.6 million were on non-accrual status. As of December 31, 2014, TDRs totaling $8.7 million were accruing interest under the modified terms and $1.0 million were on non-accrual status. The Corporation had committed additional amounts up to $0.4 million as of June 30, 2015 and less than $0.1 million as of December 31, 2014, to customers with outstanding loans that are classified as TDRs.

During the three and six months ended June 30, 2015 and 2014, the terms of certain loans were modified as TDRs. The modification of the terms of such loans included one or a combination of the following: reduced scheduled payments for greater than three months or an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk.

The following table presents loans by class modified as TDRs that occurred during the three months ended June 30, 2015 (in thousands):

June 30, 2015	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial mortgages:			
Commercial mortgages	1	110	110
Total	1	$ 110	$ 110

There were no loans modified as TDRs during the three months ended June 30, 2014.

The following table presents loans by class modified as TDRs that occurred during the six months ended June 30, 2015 and 2014 (in thousands):

June 30, 2015	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial and agricultural:			
Commercial and industrial	1	$ 477	$ 477
Commercial mortgages:			
Commercial mortgages	1	110	110
Total	2	$ 587	$ 587

June 30, 2014	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial and agricultural:			
Commercial and industrial	1	$ 503	$ 503
Commercial mortgages:			
Commercial mortgages	2	367	323
Total	3	$ 870	$ 826

The TDRs described above increased the allowance for loan losses by less than $0.1 million and resulted in no charge-offs during the six months ended June 30, 2015. The TDRs described above did not increase the allowance for loan losses and resulted in less than $0.1 million in charge-offs during the six months ended June 30, 2014.

There were no payment defaults on any loans previously modified as TDRs during the three and six months ended June 30, 2015 or 2014, 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 June 30, 2015 and December 31, 2014, the risk category of the recorded investment of loans by class of loans is as follows (in thousands):

	June 30, 2015						
	Not Rated	Pass	Loans acquired with deteriorated credit quality	Special Mention	Substandard	Doubtful	Total
Commercial and agricultural:							
Commercial and industrial	$-	$174,500	$ -	$3,696	$ 1,938	$ 164	$180,298
Agricultural	-	1,837	-	-	-	-	1,837
Commercial mortgages:							
Construction	-	37,198	-	300	146	-	37,644
Commercial mortgages	-	415,280	1,883	12,486	13,296	4,124	447,069
Residential mortgages	194,926	-	261	-	3,774	-	198,961
Consumer loans:							
Credit cards	1,521	-	-	-	-	-	1,521
Home equity lines and loans	100,093	-	-	-	845	-	100,938
Indirect consumer loans	164,946	-	-	-	299	-	165,245
Direct consumer loans	19,565	-	-	-	21	-	19,586
Total	$481,051	$628,815	$ 2,144	$16,482	$ 20,319	$ 4,288	$1,153,099

	December 31, 2014						
	Not Rated	Pass	Loans acquired with deteriorated credit quality	Special Mention	Substandard	Doubtful	Total
Commercial and agricultural:							
Commercial and industrial	$-	$158,140	$ 620	$3,695	$ 3,306	$ 36	$165,797
Agricultural	-	1,023	-	-	-	-	1,023
Commercial mortgages:							
Construction	-	51,525	-	3,292	150	-	54,967
Commercial mortgages	-	365,448	1,761	20,871	10,266	406	398,752
Residential mortgages	193,422	-	250	-	3,615	-	197,287
Consumer loans:							
Credit cards	1,654	-	-	-	-	-	1,654
Home equity lines and loans	99,076	-	-	-	515	-	99,591
Indirect consumer loans	184,940	-	-	-	277	-	185,217
Direct consumer loans	20,045	-	-	-	21	-	20,066
Total	$499,137	$576,136	$ 2,631	$27,858	$ 18,150	$ 442	$1,124,354

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 June 30, 2015 and December 31, 2014 (in thousands):

June 30, 2015		Consumer Loans			
	Residential Mortgages	Credit Card	Home Equity Lines and Loans	Indirect Consumer Loans	Other Direct Consumer Loans
Performing	$195,419	$1,521	$100,098	$164,953	$19,565
Non-Performing	3,542	-	840	292	21
	$198,961	$1,521	$100,938	$165,245	$19,586

December 31, 2014		Consumer Loans			
	Residential Mortgages	Credit Card	Home Equity Lines and Loans	Indirect Consumer Loans	Other Direct Consumer Loans
Performing	$193,672	$1,654	$99,076	$184,892	$20,036
Non-Performing	3,615	-	515	325	30
	$197,287	$1,654	$99,591	$185,217	$20,066

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 April 1, 2015 to June 30, 2015 and January 1, 2015 to June 30, 2015 (in thousands):

Three months ended June 30, 2015	Balance at March 31, 2015	Income Accretion	All Other Adjustments	Balance at June 30, 2015
Contractually required principal and interest	$2,945	$ -	$ 91	$3,036
Contractual cash flows not expected to be collected (nonaccretable discount)	(595)	-	27	(568)
Cash flows expected to be collected	2,350	-	118	2,468
Interest component of expected cash flows (accretable yield)	(333)	36	(27)	(324)
Fair value of loans acquired with deteriorating credit quality	$2,017	$ 36	$ 91	$2,144

Six months ended June 30, 2015	Balance at December 31, 2014	Income Accretion	All Other Adjustments	Balance at June 30, 2015
Contractually required principal and interest	$ 3,621	$ -	$ (585)	$ 3,036
Contractual cash flows not expected to be collected (nonaccretable discount)	(570)	-	2	(568)
Cash flows expected to be collected	3,051	-	(583)	2,468
Interest component of expected cash flows (accretable yield)	(420)	99	(3)	(324)
Fair value of loans acquired with deteriorating credit quality	$ 2,631	$ 99	$ (586)	$ 2,144

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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.

OREO: Assets acquired through or instead of loan foreclosures are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent impaired loans and OREO are performed by certified general appraisers (commercial properties) or certified residential appraisers (residential properties) whose qualifications and licenses have been reviewed and verified by the Corporation. Once received, appraisals are reviewed for reasonableness of assumptions, approaches utilized, Uniform Standards of Professional Appraisal Practice and other regulatory compliance, as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. Appraisals are generally completed within the previous 12 month period prior to a property being placed into OREO. On impaired loans, appraisal values are adjusted based on the age of the appraisal, the position of the lien, the type of the property and its condition.

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

		Fair Value Measurement at June 30, 2015 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	$131,894	$14,578	$ 117,316	$ -
Mortgage-backed securities, residential	115,676	-	115,676	-
Collateralized mortgage obligations	141	-	141	-
Obligations of states and political subdivisions	39,967	-	39,967	-
Corporate bonds and notes	1,260	-	1,260	-
SBA loan pools	1,146	-	1,146	-
Corporate stocks	487	60	427	-
Total available for sale securities	$290,571	$14,638	$ 275,933	$ -
Trading assets	$635	$635	$ -	$ -

		Fair Value Measurement at December 31, 2014 Using		
Financial Assets:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of U.S. Government and U.S. Government sponsored enterprises	$181,673	$31,115	$ 150,558	$ -
Mortgage-backed securities, residential	61,660	-	61,660	-
Collateralized mortgage obligations	338	-	338	-
Obligations of states and political subdivisions	31,451	-	31,451	-
Corporate bonds and notes	1,533	-	1,533	-
SBA loan pools	1,304	-	1,304	-
Trust Preferred securities	2,028	-	2,028	-
Corporate stocks	520	104	416	-
Total available for sale securities	$280,507	$31,219	$ 249,288	$ -
Trading assets	$549	$549	$ -	$ -

There were no transfers between Level 1 and Level 2 during the six month period ended June 30, 2015 or the year ended December 31, 2014.

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

		Fair Value Measurement at June 30, 2015 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	$3,657	$-	$ -	$ 3,657
Total impaired loans	$3,657	$-	$ -	$ 3,657
Other real estate owned:				
Commercial mortgages:				
Commercial mortgages	$2,376	$-	$ -	$ 2,376
Total other real estate owned, net	$2,376	$-	$ -	$ 2,376

		Fair Value Measurement at December 31, 2014 Using		
Financial Assets:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans:				
Commercial mortgages:				
Commercial mortgages	$3,593	$-	$ -	$ 3,593
Consumer loans:				
Home equity lines and loans	52	-	-	52
Total impaired loans	$3,645	$-	$ -	$ 3,645
Other real estate owned:				
Commercial mortgages:				
Commercial mortgages	$3,063	$-	$ -	$ 3,063
Consumer loans:				
Home equity lines and loans	2	-	-	2
Total other real estate owned, net	$3,065	$-	$ -	$ 3,065

The following tables presents information related to Level 3 non-recurring fair value measurement at June 30, 2015 and December 31, 2014 (in thousands):

Description	Fair Value at June 30, 2015	Valuation Technique	Unobservable Inputs	Unobservable Inputs Value or Range
Impaired loans	$3,657	Third party appraisals	Appraisal adjustments by management for qualitative factors such as market conditions and collateral characteristics	0% - 100% discount
Other real estate owned	$2,376	Third party appraisals	Appraisal adjustments by management for qualitative factors such as market conditions and estimated liquidation expenses	31% discount

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Description	Fair Value at December 31, 2014	Valuation Technique	Unobservable Inputs	Unobservable Inputs Value or Range
Impaired loans	$ 3,645	Third party appraisals	Appraisal adjustments by management for qualitative factors such as market conditions and collateral characteristics	0% - 100% discount
Other real estate owned	$ 3,065	Third party appraisals	Appraisal adjustments by management for qualitative factors such as market conditions and estimated liquidation expenses	7% - 27% discount

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $5.2 million with a valuation allowance of $1.5 million as of June 30, 2015, resulting in $53 thousand decrease and $254 thousand increase in the provision for loan losses for the three and six month periods ended June 30, 2015. Impaired loans had a principal balance of $4.9 million, with a valuation allowance of $1.2 million as of December 31, 2014, resulting in an increase of $232 thousand in the provision for loan losses for the year ended December 31, 2014.

OREO, which is measured by the lower of cost or fair value less costs to sell had an outstanding balance of $2.5 million, before a valuation allowance of $120 thousand at June 30, 2015. Expense associated with the valuation allowance of properties held as of June 30, 2015 was $120 thousand for the three and six month periods ended June 30, 2015. OREO had an outstanding balance of $3.1 million, before a valuation allowance of $2 thousand at December 31, 2014. For properties held as of December 31, 2014, there was no expense associated with the valuation allowance recognized during the year.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash, Due From and Interest-Bearing Deposits in Other Financial Institutions

For those short-term instruments that generally mature in 90 days or less, the carrying value approximates fair value of which non-interest-bearing deposits are classified as Level 1 and interest-bearing deposits with the FHLBNY and FRBNY are classified as Level 1.

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 June 30, 2015 and December 31, 2014.

Accrued Interest Receivable and Payable

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

The carrying amounts and estimated fair values of other financial instruments, at June 30, 2015 and December 31, 2014, are as follows (in thousands):

	Fair Value Measurements at June 30, 2015 Using				
Financial assets:	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Estimated Fair Value (1)
Cash and due from financial institutions	$28,014	$28,014	$ -	$ -	$28,014
Interest-bearing deposits in other financial institutions	1,650	1,650	-	-	1,650
Trading assets	635	635	-	-	635
Securities available for sale	290,571	14,638	275,933	-	290,571
Securities held to maturity	6,045	-	6,351	-	6,351
FHLBNY and FRBNY stock	4,873	-	-	-	N/A
Loans, net	1,136,378	-	-	1,160,285	1,160,285
Loans held for sale	668	-	668	-	668
Accrued interest receivable	3,764	38	1,067	2,659	3,764
Financial liabilities:					
Deposits:					
Demand, savings, and insured money market accounts	$1,151,252	$1,151,252	$ -	$ -	$1,151,252

Time deposits	180,725	-	181,167	-	181,167
Securities sold under agreements to repurchase	31,882	-	32,814	-	32,814
FHLBNY overnight advances	15,600	-	15,601		15,601
FHLBNY term advances	19,256	-	19,940	-	19,940
Accrued interest payable	218	14	204	-	218

(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, 2014 Using				
Financial assets:	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Estimated Fair Value (1)
Cash and due from financial institutions	$28,130	$28,130	$ -	$ -	$28,130
Interest-bearing deposits in other financial institutions	1,033	1,033	-	-	1,033
Trading assets	549	549	-	-	549
Securities available for sale	280,507	31,219	249,288	-	280,507
Securities held to maturity	5,831	-	6,197	-	6,197
FHLBNY and FRBNY stock	5,535	-	-	-	N/A
Loans, net	1,107,888	-	-	1,135,590	1,135,590
Loans held for sale	665	-	665	-	665
Accrued interest receivable	4,185	145	1,295	2,745	4,185
Financial liabilities:					
Deposits:					
Demand, savings, and insured money market accounts	$1,068,171	$1,068,171	$ -	$ -	$1,068,171
Time deposits	211,843	-	212,397	-	212,397
Securities sold under agreements to repurchase	29,652	-	30,853	-	30,853
FHLBNY overnight advances	30,830	-	30,832	-	30,832
FHLBNY term advances	19,310	-	20,235	-	20,235
Accrued interest payable	237	15	222	-	237

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

NOTE 6 GOODWILL AND INTANGIBLE ASSETS

The changes in goodwill included in the core banking segment during the periods ended June 30, 2015 and 2014 were as follows (in thousands):

	2015	2014
Beginning of year	$21,824	$21,824
Acquired goodwill	-	-
End balance June 30,	$21,824	$21,824

Acquired intangible assets were as follows at June 30, 2015 and December 31, 2014 (in thousands):

	At June 30, 2015		At December 31, 2014	
	Balance Acquired	Accumulated Amortization	Balance Acquired	Accumulated Amortization
Core deposit intangibles	$5,975	$ 3,686	$5,975	$ 3,279

Other customer relationship intangibles	5,633	3,444	5,633	3,262
Total	$11,608	$ 7,130	$11,608	$ 6,541

Aggregate amortization expense was $0.3 million for the three month periods ended June 30, 2015 and 2014. Aggregate amortization expense was $0.6 million and $0.7 million for the six month periods ended June 30, 2015 and 2014, respectively.

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The remaining estimated aggregate amortization expense at June 30, 2015 is listed below (in thousands):

Year	Estimated Expense
2015	$ 548
2016	986
2017	859
2018	734
2019	609
2020 and thereafter	742
Total	$ 4,478

NOTE 7 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

A summary of securities sold under agreements to repurchase as of June 30, 2015 and December 31, 2014 is as follows (in thousands):

	June 30, 2015				
	Overnight and Continuous	Up to 1 Year	1 - 3 Years	3+ Years	Total
Obligations of U.S. Government and U.S. Government sponsored enterprises	$12,420	$ -	$15,614	$ -	$28,034
Mortgage-backed securities, residential	8,709	-	6,607	-	15,316
Total	$21,129	$ -	$22,221	$ -	43,350
Excess collateral held					(11,468)
Gross amount of recognized liabilities for repurchase agreements					$31,882

	December 31, 2014				
	Overnight and Continuous	Up to 1 Year	1 - 3 Years	3+ Years	Total
Obligations of U.S. Government and U.S. Government sponsored enterprises	$21,056	$ -	$6,990	$8,595	$36,641
Mortgage-backed securities, residential	669	-	3,507	4,174	8,350
Collateralized mortgage obligations	-	-	48	-	48
Total	21,725	$ -	$10,545	$12,769	45,039
Excess collateral held					(15,387)
Gross amount of recognized liabilities for repurchase agreements					$29,652

The Corporation enters into sales of securities under agreements to repurchase and the amounts received under these agreements represent borrowings and are reflected as a liability in the consolidated balance sheets. The securities underlying these agreements are included in investment securities in the consolidated balance sheets.

The Corporation has no control over the market value of the securities which fluctuate due to market conditions, however, the Corporation is obligated to promptly transfer additional securities if the market value of the securities falls below the repurchase agreement price. The Corporation manages this risk by utilizing highly marketable and easily priced securities, monitoring these securities for significant changes in market valuation routinely, and maintaining an unpledged securities portfolio believed to be sufficient to cover a decline in the market value of the securities sold under agreements to repurchase.

NOTE 8 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 (in thousands):

	Unrealized Gains and Losses on Securities Available for Sale	Defined Benefit and Other Benefit Plans	Total
Balance at March 31, 2015	$ 2,734	$(10,521)	$(7,787)
Other comprehensive income before reclassification	(1,394)	-	(1,394)
Amounts reclassified from accumulated other comprehensive income	(156)	223	67
Net current period other comprehensive gain	(1,550)	223	(1,327)
Balance at June 30, 2015	$ 1,184	$(10,298)	$(9,114)

	Unrealized Gains and Losses on Securities Available for Sale	Defined Benefit and Other Benefit Plans	Total
Balance at January 1, 2015	$ 1,960	$(10,745)	$(8,785)
Other comprehensive income before reclassification	(589)	-	(589)
Amounts reclassified from accumulated other comprehensive income	(187)	447	260
Net current period other comprehensive gain	(776)	447	(329)
Balance at June 30, 2015	$ 1,184	$(10,298)	$(9,114)

	Unrealized Gains and Losses on Securities Available for Sale	Defined Benefit and Other Benefit Plans	Total
Balance at March 31, 2014	$ 6,587	$(5,800)	$787
Other comprehensive income before reclassification	696	-	696
Amounts reclassified from accumulated other comprehensive income	(321)	88	(233)
Net current period other comprehensive gain	375	88	463
Balance at June 30, 2014	$ 6,962	$(5,712)	$1,250

	Unrealized Gains and Losses on Securities Available for Sale	Defined Benefit and Other Benefit Plans	Total
Balance at January 1, 2014	$ 6,043	$(5,888)	$155
Other comprehensive income before reclassification	1,240	-	1,240
Amounts reclassified from accumulated other comprehensive income	(321)	176	(145)
Net current period other comprehensive gain	919	176	1,095
Balance at June 30, 2014	$ 6,962	$(5,712)	$1,250

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

Details about Accumulated Other Comprehensive Income Components	Three Months Ended June 30, 2015	2014	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on securities available for sale:			
Realized gains on securities available for sale	$(252)	$(522)	Net gains on securities transactions
Tax effect	96	201	Income tax expense
Net of tax	(156)	(321)	
Amortization of defined pension plan and other benefit plan items:			
Prior service costs (a)	(21)	(22)	Pension and other employee benefits
Actuarial losses (a)	384	165	Pension and other employee benefits
Tax effect	(140)	(55)	Income tax expense
Net of tax	223	88	
Total reclassification for the period, net of tax	$67	$(233)	

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension and other benefit plan costs (see Note 9 for additional information).

Details about Accumulated Other Comprehensive Income Components	Six Months Ended June 30, 2015	2014	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on securities available for sale:			
Realized gains on securities available for sale	$(302)	$(522)	Net gains on securities transactions
Tax effect	115	201	Income tax expense
Net of tax	(187)	(321)	
Amortization of defined pension plan and other benefit plan items:			
Prior service costs (a)	(43)	(44)	Pension and other employee benefits
Actuarial losses (a)	767	330	Pension and other employee benefits
Tax effect	(277)	(110)	Income tax expense
Net of tax	447	176	
Total reclassification for the period, net of tax	$260	$(145)	

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension and other benefit plan costs (see Note 9 for additional information).

NOTE 9 COMMITMENTS AND CONTINGENCIES

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

The following table lists the contractual amounts of financial instruments with off-balance sheet risk at June 30, 2015 and December 31, 2014 (in thousands):

	June 30, 2015		December 31, 2014	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$30,088	$30,092	$23,756	$11,082
Unused lines of credit	$1,657	$187,940	$812	$185,235
Standby letters of credit	$-	$14,121	$-	$16,747

On March 26, 2015, the New York Surrogate’s Court for Chemung County entered an order approving two stipulations that discontinued litigation against the WMG of the Bank and approved settlements of the litigations. Under the terms of the settlements, the Bank agreed to pay the two parties $12.1 million, in total. Payments for the two settlements, offset by $7.9 million of insurance proceeds, occurred during the second quarter of 2015.

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

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NOTE 10 COMPONENTS OF QUARTERLY AND YEAR TO DATE NET PERIODIC BENEFIT COSTS

The components of net periodic expense for the Corporation's pension and other benefit plans for the periods indicated are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Qualified Pension Plan				
Service cost, benefits earned during the period	$353	$271	$707	$542
Interest cost on projected benefit obligation	457	435	914	870
Expected return on plan assets	(824)	(793)	(1,647)	(1,586)
Amortization of unrecognized transition obligation	-	-	-	-
Amortization of unrecognized prior service cost	3	2	5	4
Amortization of unrecognized net loss	369	160	737	320
Net periodic pension cost	$358	$75	$716	$150
Supplemental Pension Plan				
Service cost, benefits earned during the period	$11	$10	$22	$20
Interest cost on projected benefit obligation	12	13	24	26
Expected return on plan assets	-	-	-	-
Amortization of unrecognized prior service cost	-	-	-	-
Amortization of unrecognized net loss	13	5	26	10
Net periodic supplemental pension cost	$36	$28	$72	$56
Postretirement Plan, Medical and Life				
Service cost, benefits earned during the period	$12	$11	$24	$22
Interest cost on projected benefit obligation	16	18	32	36
Expected return on plan assets	-	-	-	-
Amortization of unrecognized prior service cost	(24)	(24)	(48)	(48)
Amortization of unrecognized net loss	2	-	4	-
Net periodic postretirement, medical and life cost	$6	$5	$12	$10

NOTE 11 SEGMENT REPORTING

The Corporation manages its operations through two primary business segments: core banking and WMG. The core banking segment provides revenues by attracting deposits from the general public and using such funds to originate consumer, commercial, commercial real estate, and residential mortgage loans, primarily in the Corporation's local markets and to invest in securities. The WMG services segment provides revenues by providing trust and investment advisory services to clients.

Accounting policies for the segments are the same as those described in Note 1. Summarized financial information concerning the Corporation's reportable segments and the reconciliation to the Corporation's consolidated results are shown in the following table. Income taxes are allocated based on the separate taxable income of each entity and indirect overhead expenses are allocated based on reasonable and equitable allocations applicable to the reportable segment. Holding company amounts are the primary differences between segment amounts and consolidated totals, and are reflected in the Holding Company and Other column below, along with amounts to eliminate transactions between segments (in thousands).

	Three Months Ended June 30, 2015			
	Core Banking	WMG	Holding Company And Other	Consolidated Totals
Net interest income	$12,647	$-	$ -	$ 12,647
Provision for loan losses	259	-	-	259
Net interest income after provision for loan losses	12,388	-	-	12,388
Other non-interest income	2,925	2,198	203	5,326
Other non-interest expenses	12,127	1,390	306	13,823
Income before income tax expense	3,186	808	(103)	3,891
Income tax expense (benefit)	1,048	321	(55)	1,314
Segment net income (loss)	$2,138	$487	$ (48)	$ 2,577

	Three Months Ended June 30, 2014			
	Core Banking	WMG	Holding Company And Other	Consolidated Totals
Net interest income	$12,073	$-	$ 2	$ 12,075
Provision for loan losses	1,103	-	-	1,103
Net interest income after provision for loan losses	10,970	-	2	10,972
Other non-interest income	3,190	1,989	227	5,406
Other non-interest expenses	11,969	1,371	239	13,579
Income before income tax expense	2,191	618	(10)	2,799
Income tax expense (benefit)	651	238	(20)	869
Segment net income	$1,540	$380	$ 10	$ 1,930

	Six Months Ended June 30, 2015			
	Core Banking	WMG	Holding Company And Other	Consolidated Totals
Net interest income	$24,986	$-	$ 3	$24,989
Provision for loan losses	649	-	-	649
Net interest income after provision for loan losses	24,337	-	3	24,340
Other non-interest income	5,639	4,324	549	10,512
Other non-interest expenses	24,275	2,694	590	27,559
Income before income tax expense	5,701	1,630	(38)	7,293
Income tax expense (benefit)	1,863	623	(46)	2,440
Segment net income	$3,838	$1,007	$ 8	$4,853
Segment assets	$1,547,854	$4,552	$ 1,227	$1,553,633

	Six Months Ended June 30, 2014			
	Core Banking	WMG	Holding Company And Other	Consolidated Totals
Net interest income	$24,101	$-	$ 7	$24,108
Provision for loan losses	1,741	-	-	1,741
Net interest income after provision for loan losses	22,360	-	7	22,367
Other non-interest income	6,079	3,872	419	10,370
Other non-interest expenses	23,782	2,689	452	26,923
Income before income tax expense	4,657	1,183	(26)	5,814
Income tax expense (benefit)	1,410	455	(45)	1,820
Segment net income	$3,247	$728	$ 19	$3,994
Segment assets	$1,509,539	$4,743	$ 1,599	$1,515,881

NOTE 12 STOCK COMPENSATION

Board of Director’s Stock Compensation

Members of the Board of Directors receive common shares of the Corporation equal in value to the amount of fees individually earned during the previous year for service as a director. The common shares are distributed to the Corporation's individual board members from treasury shares of the Corporation on or about January 15 following the calendar year of service.

Additionally, the President and Chief Executive Officer of the Corporation, who does not receive cash compensation as a member of the Board of Directors, is awarded common shares equal in value to the average of those awarded to board members not employed by the Corporation who have served for 12 months during the prior year.

During January 2015 and 2014, 9,673 and 8,385 shares, respectively, were re-issued from treasury to fund the stock component of directors' compensation. An expense of $67 thousand and $68 thousand related to this compensation was recognized during the three month periods ended June 30, 2015 and 2014, respectively. An expense of $136 thousand and $124 thousand related to this compensation was recognized during the six month periods ended June 30, 2015 and 2014, respectively. This expense is accrued as shares are earned.

Restricted Stock Plan

Pursuant to the Corporation’s Restricted Stock Plan, the Corporation may make discretionary grants of restricted stock to officers other than the Corporation's Chief Executive Officer. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at issue date.

A summary of restricted stock activity for the three month period ended June 30, 2015 is presented below:

	Shares	Weighted–Average Grant Date Fair Value
Nonvested at April 1, 2015	26,015	$ 27.94
Granted	-	$ -
Vested	-	$ -

Forfeited or cancelled	-	$	-
Nonvested at June 30, 2015	26,015	$	27.94

A summary of restricted stock activity for the six month period ended June 30, 2015 is presented below:

	Shares	Weighted–Average Grant Date Fair Value
Nonvested at January 1, 2015	26,428	$ 27.92
Granted	-	$ -
Vested	(413)	$ 26.61
Forfeited or cancelled	-	$ -
Nonvested at June 30, 2015	26,015	$ 27.94

As of June 30, 2015, there was $614 thousand of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 3.54 years. The total fair value of shares vested during the six month period ended June 30, 2015 was $11 thousand.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following is the MD&A of the Corporation in this Form 10-Q for the six months period ended June 30, 2015 and 2014. Reference should be made to the accompanying unaudited consolidated financial statements and footnotes, and the Corporation's 2014 Annual Report on Form 10-K, which was filed with the SEC on March 13, 2015, for an understanding of the following discussion and analysis. See the list of commonly used abbreviations and terms on pages 3–5.

The MD&A included in this Form 10-Q contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on the current beliefs and expectations of the Corporations' management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. For a discussion of those risks and uncertainties and the factors that could cause the Corporation's actual results to differ materially from those risks and uncertainties, see Forward-looking Statements below and Part I, Item 1A, Risk Factors, on pages 14–19 of the Corporation's 2014 Annual Report. For a discussion of use of non-GAAP financial measures, see page 62.

The Corporation has been a financial holding company since 2000, and the Bank was established in 1833 and CFS in 2001. Through the Bank and CFS, the Corporation provides a wide range of financial services, including demand, savings and time deposits, commercial, residential and consumer loans, letters of credit, wealth management services, employee benefit plans, insurance products, mutual funds and brokerage services. The Bank relies substantially on a foundation of locally generated deposits. The Corporation, on a stand-alone basis, has minimal results of operations. The Bank derives its income primarily from interest and fees on loans, interest on investment securities, WMG fee income and fees received in connection with deposit and other services. The Bank's operating expenses are interest expense paid on deposits and borrowings, salaries and employee benefit plans and general operating expenses.

Forward-looking Statements

This discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. The Corporation intends its forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these sections. All statements regarding the Corporation's expected financial position and operating results, the Corporation's business strategy, the Corporation's financial plans, forecasted demographic and economic trends relating to the Corporation's industry and similar matters are forward-looking statements. These statements can sometimes be identified by the Corporation's use of forward-looking words such as "may," "will," "anticipate," "estimate," "expect," or "intend." The Corporation cannot promise that its expectations in such forward-looking statements will turn out to be correct. The Corporation's actual results could be materially different from expectations because of various factors, including changes in economic conditions or interest rates, credit risk, difficulties in managing the Corporation's growth, competition, changes in law or the regulatory environment, including the Dodd-Frank Act, and changes in general business and economic trends. Information concerning these and other factors can be found in the Corporation's periodic filings with the SEC, including the discussion under the heading "Item 1A. Risk Factors" in the Corporation's 2014 Annual Report on Form 10-K. These filings are available publicly on the SEC's web site at http://www.sec.gov, on the Corporation's web site at http://www.chemungcanal.com or upon request from the Corporate Secretary at (607) 737-3746. Except as otherwise required by law, the Corporation undertakes no obligation to publicly update or revise its forward-looking statements, whether as a result of new information, future events or otherwise.

Consolidated Financial Highlights

(in thousands, except share and per share data)	As of or for the Three Months Ended June 30, 2015	March 31, 2015	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	As of or for the Six Months Ended June 30, 2015	June 30, 2014
RESULTS OF OPERATIONS							
Interest income	$13,519	$13,234	$13,922	$13,341	$12,996	$26,753	$25,950
Interest expense	872	892	888	915	921	1,764	1,842
Net interest income	12,647	12,342	13,034	12,426	12,075	24,989	24,108
Provision for loan losses	259	390	1,650	589	1,103	649	1,741
Net interest income after provision for loan losses	12,388	11,952	11,384	11,837	10,972	24,340	22,367
Non-interest income	5,326	5,186	11,400	4,986	5,406	10,512	10,370
Non-interest expense	13,823	13,736	15,792	17,763	13,579	27,559	26,923
Income (loss) before income tax expense (benefit)	3,891	3,402	6,992	(940)	2,799	7,293	5,814
Income tax expense (benefit)	1,314	1,126	2,510	(621)	869	2,440	1,820
Net income (loss)	$2,577	$2,276	$4,482	$(319)	$1,930	$4,853	$3,994
Basic and diluted earnings (loss) per share	$0.55	$0.48	$0.96	$(0.07)	$0.41	$1.03	$0.85
Average basic and diluted shares outstanding	4,716,734	4,706,774	4,690,519	4,683,797	4,680,776	4,711,699	4,678,977
PERFORMANCE RATIOS							
Return on average assets	0.66%	0.59%	1.17%	(0.08)%	0.51%	0.63%	0.54%
Return on average equity	7.52%	6.79%	12.54%	(0.90)%	5.44%	7.16%	5.68%
Return on average tangible equity (a)	9.32%	8.45%	15.49%	(1.11)%	6.75%	8.89%	7.08%
Efficiency ratio (b)	75.83%	76.26%	85.10%	75.07%	77.21%	76.04%	77.25%
Non-interest expense to average assets (c)	3.55%	3.57%	4.11%	3.55%	3.62%	3.56%	3.63%

Loans to deposits	86.37	%	83.59	%	87.62	%	84.99	%	82.87	%	86.37	%	82.87	%
YIELDS / RATES - Fully Taxable Equivalent														
Yield on loans	4.26	%	4.28	%	4.49	%	4.33	%	4.40	%	4.27	%	4.45	%
Yield on investments	1.91	%	1.83	%	1.98	%	1.95	%	1.91	%	1.87	%	2.00	%
Yield on interest-earning assets	3.74	%	3.74	%	3.96	%	3.82	%	3.77	%	3.74	%	3.81	%
Cost of interest-bearing deposits	0.21	%	0.20	%	0.21	%	0.22	%	0.22	%	0.21	%	0.23	%
Cost of borrowings	2.64	%	2.74	%	2.65	%	2.85	%	2.93	%	2.69	%	2.92	%
Cost of interest-bearing liabilities	0.34	%	0.35	%	0.36	%	0.37	%	0.37	%	0.35	%	0.37	%
Interest rate spread	3.40	%	3.39	%	3.60	%	3.45	%	3.40	%	3.39	%	3.44	%
Net interest margin, fully taxable equivalent	3.50	%	3.49	%	3.71	%	3.55	%	3.51	%	3.50	%	3.55	%
CAPITAL														
Total equity to total assets at end of period	8.79	%	8.60	%	8.77	%	9.16	%	9.35	%	8.79	%	9.35	%
Tangible equity to tangible assets at end of period (a)	7.22	%	7.04	%	7.13	%	7.51	%	7.68	%	7.22	%	7.68	%
Book value per share	$28.92		$28.92		$28.44		$29.78		$30.28		$28.92		$30.28	
Tangible book value per share	23.35		23.28		22.71		23.98		24.40		23.35		24.40	
Period-end market value per share	26.48		28.30		27.66		28.09		29.54		26.48		29.54	
Dividends declared per share	0.26		0.26		0.26		0.26		0.26		0.52		0.52	
AVERAGE BALANCES														
Loans (d)	$1,141,412		$1,132,473		$1,112,297		$1,097,133		$1,047,181		$1,136,967		$1,027,408	
Earning assets	1,462,842		1,450,249		1,410,804		1,404,165		1,400,156		1,456,580		1,390,922	
Total assets	1,563,346		1,558,919		1,522,834		1,509,315		1,504,153		1,561,056		1,496,412	
Deposits	1,353,895		1,338,913		1,307,305		1,301,083		1,298,159		1,346,452		1,290,581	
Total equity	137,386		135,974		141,845		142,944		142,318		136,684		141,693	

Tangible equity (a)	110,945	109,219	114,786	115,553	114,603	110,087	113,804
ASSET QUALITY							
Net charge-offs (recoveries)	$123	$184	$1,116	$1,070	$625	$307	$885
Non-performing loans (e)	12,862	10,419	7,778	7,209	7,712	12,862	7,712
Non-performing assets (f)	15,238	12,925	10,843	10,328	8,345	15,238	8,345
Allowance for loan losses	14,028	13,892	13,686	13,151	13,632	14,028	13,632
Annualized net charge-offs to average loans	0.04 %	0.07 %	0.40 %	0.39 %	0.24 %	0.05 %	0.17 %
Non-performing loans to total loans	1.12 %	0.91 %	0.69 %	0.65 %	0.71 %	1.12 %	0.71 %
Non-performing assets to total assets	0.98 %	0.82 %	0.71 %	0.68 %	0.55 %	0.98 %	0.55 %
Allowance for loan losses to total loans	1.22 %	1.21 %	1.22 %	1.18 %	1.26 %	1.22 %	1.26 %
Allowance for loan losses to non-performing loans	109.07 %	133.33 %	175.96 %	182.42 %	176.76 %	109.07 %	176.76 %

(a) See the GAAP to Non-GAAP reconciliations.
(b) Efficiency ratio is non-interest expense less merger and acquisition expenses less amortization of intangible assets less legal settlement divided by the total of fully taxable equivalent net interest income plus non-interest income less net gains on securities transactions less gain from bargain purchase less gain on liquidation of trust preferred securities.
(c) For the non-interest expense to average assets ratio, non-interest expense does not include legal settlement expense. See footnote 9 for further discussion.
(d) Loans include loans held for sale. Loans do not reflect the allowance for loan losses.
(e) Non-performing loans include non-accrual loans only.
(f) Non-performing assets include non-performing loans plus other real estate owned.
N/M - Not meaningful.
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Executive Summary

This executive summary of the MD&A includes selected information and may not contain all of the information that is important to readers of this Form 10-Q. For a complete description of the trends and uncertainties, as well as the risks and critical accounting estimates affecting the Corporation, this Form 10-Q should be read in its entirety.

The following table presents selected financial information for the periods indicated, and the dollar and percent change (in thousands, except per share and ratio data):

	Three Months Ended June 30,			
	2015	2014	Change	Percentage Change
Net interest income	$12,647	$12,075	$ 572	4.7 %
Non-interest income	5,326	5,406	(80)	(1.5)%
Non-interest expense	13,823	13,579	244	1.8 %
Pre-provision income	4,150	3,902	248	6.4 %
Provision for loan losses	259	1,103	(844)	(76.5)%
Income tax expense	1,314	869	445	51.2 %
Net income	$2,577	$1,930	$ 647	33.5 %
Basic and diluted earnings per share	$0.55	$0.41	$ 0.14	34.1 %
Selected financial ratios				
Return on average assets	0.66 %	0.51 %		
Return on average equity	7.52 %	5.44 %		
Net interest margin, fully taxable equivalent	3.50 %	3.51 %		
Efficiency ratio	75.83 %	77.21 %		
Non-interest expense to average assets	3.55 %	3.62 %		

Net income for the second quarter of 2015 was $2.6 million, or $0.55 per share, compared with $1.9 million, or $0.41 per share, for the prior year quarter. Return on equity for the quarter was 7.52%, compared with 5.44% for the prior year quarter. The increase in net income from the prior year quarter was driven by higher net interest income and a reduction in the provision for loan losses, partially offset by a reduction in non-interest income and increases in non-interest expense and income tax expense.

Net interest income
Net interest income increased $0.6 million, or 4.7%, compared with the prior year quarter. The increase was due primarily to interest income from the commercial loan portfolio, offset by a decrease in interest and dividends from taxable securities.

Non-interest income
Non-interest income decreased $0.1 million, or 1.5%, compared to the prior year quarter. The decrease was due primarily to decreases in net gains on security transactions and services charges on deposit accounts, offset by an increase in WMG fee income.

Non-interest expense
Non-interest expense increased $0.2 million, or 1.8%, compared to the prior year quarter. The increase was due primarily to increases in other real estate owned expenses, net occupancy, pension and other employee benefits, data

processing, and furniture and equipment. These increases were offset by a decrease in other non-interest expense.

Provision for loan losses

The provision for loan losses decreased $0.8 million, or 76.5%, compared to the prior year quarter. The decrease was the result of lower specific allocations for PCI loans and lower net charge-offs during the current quarter. Net charge-offs were $0.1 million, compared with $0.6 million for the prior year quarter.

The following table presents selected financial information for the periods indicated, and the dollar and percent change (in thousands, except per share and ratio data):

	Six Months Ended June 30,			
	2015	2014	Change	Percentage Change
Net interest income	$24,989	$24,108	$881	3.7 %
Non-interest income	10,512	10,370	142	1.4 %
Non-interest expense	27,559	26,923	636	2.4 %
Pre-provision income	7,942	7,555	387	5.1 %
Provision for loan losses	649	1,741	(1,092)	(62.7)%
Income tax expense	2,440	1,820	620	34.1 %
Net income	$4,853	$3,994	$859	21.5 %
Basic and diluted earnings per share	$1.03	$0.85	$0.18	21.2 %
Selected financial ratios				
Return on average assets	0.63 %	0.54 %		
Return on average equity	7.16 %	5.68 %		
Net interest margin, fully taxable equivalent	3.50 %	3.55 %		
Efficiency ratio	76.04 %	77.25 %		
Non-interest expense to average assets	3.56 %	3.63 %		

Net income for the six months ended 2015 was $4.9 million, or $1.03 per share, compared with $4.0 million, or $0.85 per share, for the same period in the prior year. Return on equity for the quarter was 7.16%, compared with 5.68% for the same period in the prior year. The increase in net income from the same period in the prior year was driven by higher net interest income, non-interest income, and a reduction in the provision for loan losses, partially offset by increases in non-interest expense and income tax expense.

Net interest income
Net interest income increased $0.9 million, or 3.7%, compared with the same period in the prior year. The increase was due primarily to interest income from the commercial loan portfolio, offset by a decrease in interest and dividends from taxable securities.

Non-interest income
Non-interest income increased $0.1 million, or 1.4%, compared to the same period in the prior year. The increase was due primarily to increases in WMG fee income and sales of other real estate owned, offset by decreases in service charges on deposit accounts and net gains on securities.

Non-interest expense
Non-interest expense increased $0.6 million, or 2.4%, compared to the same period in the prior year. The increase was due primarily to increases in pension and other employee benefits, data processing, furniture and equipment, other real estate owned expenses, and net occupancy. These increases were offset by decreases in other non-interest expense, marketing and advertising, and merger and acquisition expenses.

Provision for loan losses
The provision for loan losses decreased $1.1 million, or 62.7%, compared to the same period in the prior year. The decrease was the result of lower specific allocations for PCI loans and lower net charge-offs during the current year. Net charge-offs were $0.3 million, compared with $0.9 million for the same period in the prior year.

Consolidated Results of Operations

The following section of the MD&A provides a comparative discussion of the Corporation's Consolidated Results of Operations on a reported basis for the three and six months ended June 30, 2015 and 2014. For a discussion of the Critical Accounting Policies, Estimates and Risks and Uncertainties that affect the Consolidated Results of Operations, see page 62 of this Form 10-Q and pages 28-29 of the Corporation's 2014 Annual Report.

Net Interest Income

The following table presents net interest income for the periods indicated, and the dollar and percent change (in thousands):

	Three Months Ended June 30,			
	2015	2014	Change	Percentage Change
Interest and dividend income	$13,519	$12,996	$ 523	4.0 %
Interest expense	872	921	(49)	(5.3)%
Net interest income	$12,647	$12,075	$ 572	4.7 %

Net interest income, which is the difference between the interest income earned on interest-earning assets, such as loans and securities and the interest expense accrued on interest-bearing liabilities, such as deposits and borrowings, is the largest contributor to the Corporation's earnings.

Net interest income for the three months ended June 30, 2015 totaled $13.5 million, an increase of $0.5 million, or 4.0%, compared with $13.0 million for the same period in the prior year. Fully taxable equivalent net interest margin was 3.50% for the three months ended June 30, 2015 compared with 3.51% for the same period in the prior year. The increase in net interest income was due primarily to an increase of $62.7 million in interest-earning assets. The yield on average interest-earning assets and cost of interest-bearing liabilities both decreased three basis points, respectively. The decrease in yield on average interest-earning assets was attributable to a 14 basis point decrease in yield on loans, a result of loans continuing to reprice at current historically low market rates.

The following table presents net interest income for the periods indicated, and the dollar and percent change (in thousands):

	Six Months Ended June 30,			
	2015	2014	Change	Percentage Change
Interest and dividend income	$26,753	$25,950	$ 803	3.1 %
Interest expense	1,764	1,842	(78)	(4.2)%
Net interest income	$24,989	$24,108	$ 881	3.7 %

Net interest income for the six months ended June 30, 2015 totaled $26.8 million, an increase of $0.8 million, or 3.1%, compared with $26.0 million for the same period in the prior year. Fully taxable equivalent net interest margin was 3.50% for the six months ended June 30, 2015 compared with 3.55% for the same period in the prior year. The increase in net interest income was due primarily to an increase of $65.7 million in interest-earning assets. The decline in net interest margin was due in part to a seven basis point decline in the yield on interest-earning assets, partially offset by a two basis point decline in the cost of average interest-bearing liabilities. The decrease in yield on average interest-earning assets was attributable to an 18 basis point decrease in yield on loans, a result of loans continuing to reprice at current historically low market rates.

Average Consolidated Balance Sheet and Interest Analysis

The following tables present certain information related to the Corporation's average consolidated balance sheets and its consolidated statements of income for the three and six months periods ended June 30, 2015 and 2014. It also reflects the average yield on interest-earning assets and average cost of interest-bearing liabilities for the three and six months periods ended June 30, 2015 and 2014. For the purpose of the table below, non-accruing loans are included in the daily average loan amounts outstanding. Daily balances were used for average balance computations. Investment securities are stated at amortized cost. Tax equivalent adjustments have been made in calculating yields on obligations of states and political subdivisions, tax-free commercial loans and dividends on equity investments.

AVERAGE CONSOLIDATED BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS

(in thousands)	Three Months Ended June 30, 2015			Three Months Ended June 30, 2014		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest-earning assets:						
Commercial loans	$654,226	$7,507	4.60 %	$555,277	$6,768	4.89 %
Mortgage loans	199,322	2,050	4.13 %	195,548	2,055	4.22 %
Consumer loans	287,864	2,570	3.58 %	296,356	2,657	3.60 %
Taxable securities	246,784	1,166	1.90 %	270,849	1,284	1.90 %
Tax-exempt securities	43,019	339	3.16 %	42,392	377	3.57 %
Interest-bearing deposits	31,627	20	0.25 %	39,734	25	0.25 %
Total interest-earning assets	1,462,842	13,652	3.74 %	1,400,156	13,166	3.77 %
Non-earning assets:						
Cash and due from banks	27,066			25,454		
Premises and equipment, net	31,387			29,569		
Other assets	52,157			50,643		
Allowance for loan losses	(14,135)			(13,109)		
AFS valuation allowance	4,029			11,440		
Total assets	$1,563,346			$1,504,153		
Interest-bearing liabilities:						
Interest-bearing demand deposits	$124,568	$25	0.08 %	$123,249	$24	0.08 %
Savings and insured money market deposits	664,867	293	0.18 %	589,909	246	0.17 %
Time deposits	184,303	174	0.38 %	231,157	247	0.43 %
FHLBNY advances, securities sold under agreements to repurchase, and other debt	57,627	380	2.64 %	55,179	404	2.93 %
Total interest-bearing liabilities	1,031,365	872	0.34 %	999,494	921	0.37 %
Non-interest-bearing liabilities:						
Demand deposits	380,157			353,844		
Other liabilities	14,438			8,497		
Total liabilities	1,425,960			1,361,835		
Shareholders' equity	137,386			142,318		
Total liabilities and shareholders’ equity	$1,563,346			$1,504,153		
Fully taxable equivalent net interest income		12,780			12,245	
Net interest rate spread (1)			3.40 %			3.40 %
Net interest margin, fully taxable equivalent (2)			3.50 %			3.51 %
Taxable equivalent adjustment		(133)			(170)	
Net interest income		$12,647			$12,075	

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

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

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AVERAGE CONSOLIDATED BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS

(in thousands)	Six Months Ended June 30, 2015			Six Months Ended June 30, 2014		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest-earning assets:						
Commercial loans	$644,873	$14,805	4.63 %	$541,671	$13,285	4.95 %
Mortgage loans	198,426	4,064	4.13 %	195,686	4,073	4.20 %
Consumer loans	293,668	5,192	3.57 %	290,051	5,321	3.70 %
Taxable securities	245,906	2,256	1.85 %	285,579	2,810	1.98 %
Tax-exempt securities	39,376	662	3.39 %	42,623	764	3.61 %
Interest-bearing deposits	34,331	43	0.25 %	35,312	43	0.25 %
Total interest-earning assets	1,456,580	27,022	3.74 %	1,390,922	26,296	3.81 %
Non-earning assets:						
Cash and due from banks	27,256			26,398		
Premises and equipment, net	31,705			29,674		
Other assets	55,432			51,175		
Allowance for loan losses	(13,991)			(12,995)		
AFS valuation allowance	4,074			11,238		
Total assets	$1,561,056			$1,496,412		
Interest-bearing liabilities:						
Interest-bearing demand deposits	$126,140	$49	0.08 %	$124,866	$49	0.08 %
Savings and insured money market deposits	651,940	569	0.18 %	579,763	475	0.17 %
Time deposits	191,875	360	0.38 %	234,994	516	0.44 %
FHLBNY advances, securities sold under agreements to repurchase, and other debt	58,873	786	2.69 %	55,394	802	2.92 %
Total interest-bearing liabilities	1,028,828	1,764	0.35 %	995,017	1,842	0.37 %