

CHEMUNG FINANCIAL CORP  
Form 10-Q  
August 01, 2018

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

FORM 10-Q

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

For Quarterly period ended June 30, 2018  
Or

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

Commission File No.

000-13888

CHEMUNG FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

New York

16-1237038

(State or other jurisdiction of  
incorporation or organization)

I.R.S. Employer Identification No.

One Chemung Canal Plaza,  
Elmira, NY

14901

(Address of principal executive  
offices)

(Zip Code)

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

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES:  NO:

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

YES:  NO:

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

Large

~~accelerated~~ accelerated filer

filer

Accelerated  
 Smaller reporting company

filer

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

YES:  NO:

The number of shares of the registrant's common stock, \$.01 par value, outstanding on July 31, 2018 was 4,803,888.

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## 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
Basel III	The Third Basel Accord of the Basel Committee on Banking Supervision
Board of Directors	Board of Directors of Chemung Financial Corporation
CDARS	Certificate of Deposit Account Registry Service
CDO	Collateralized Debt Obligation
CECL	Current expected credit loss
CFS	CFS Group, Inc.
Corporation	Chemung Financial Corporation
CRM	Chemung Risk Management, Inc.
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act
EPS	Earnings per share
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FHLBNY	Federal Home Loan Bank of 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
IFRS	International Financial Reporting Standards
MD&A	Management’s Discussion and Analysis of Financial Condition and Results of Operations
NAICS	North American Industry Classification System
N/M	Not meaningful
OPEB	Other postemployment benefits
OREO	Other real estate owned
OTTI	Other-than-temporary impairment
PCI	Purchased credit impaired
ROA	Return on average assets
Regulatory Relief Act	Economic Growth, Regulatory Relief, and Consumer Protection Act
ROE	Return on average equity
RWA	Risk-weighted assets
SBA	Small Business Administration
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933
Tax Act	Tax Cuts and Jobs Act of 2017
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 designed to improve the regulation, supervision, and risk management within the banking sector. The reforms require banks to maintain proper leverage ratios and meet certain capital requirements.
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	Product 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.
Captive insurance company	A company that provides risk-mitigation services for its parent company.
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	Consists of the operations for Chemung Financial Corporation (parent only).
ICS	Product 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.
Long term lease obligation	An obligation extending beyond the current year, which is related to a long term capital lease that is considered to have the economic characteristics of asset ownership. A type of asset-backed security that is secured by a collection of mortgages.

Mortgage-backed securities

Municipal clients

N/A

N/M

Non-GAAP

Obligations of state and political subdivisions

A political unit, such as a city, town, or village, incorporated for local self-government.

Data is not applicable or available for the period presented.

Not meaningful.

A calculation not made according to GAAP.

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.
OREO	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, before income tax expense (benefit). 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.
Regulatory Relief Act	The Regulatory Relief Act was enacted on May 22, 2018 provides certain limited amendments to the Dodd-Frank Act, as well as certain targeted modifications to other post-financial crisis regulatory requirements. In addition, the legislation establishes new consumer protections and amends various securities- and investment company-related requirements.
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.
Tax Act	The Tax Act was enacted on December 22, 2017 and amended the Internal Revenue Code of 1986. The legislation reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent, with some related business deductions and credits being either reduced or eliminated.
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.
WMG	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.

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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

(in thousands, except share and per share data)	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
Cash and due from financial institutions	\$30,837	\$27,966
Interest-earning deposits in other financial institutions	3,978	2,763
Total cash and cash equivalents	34,815	30,729
Equity investments, at estimated fair value	2,112	2,337
Securities available for sale, at estimated fair value	265,157	293,091
Securities held to maturity, estimated fair value of \$3,790 at June 30, 2018 and \$3,776 at December 31, 2017	3,806	3,781
FHLBNY and FRBNY Stock, at cost	5,816	5,784
Loans, net of deferred loan fees	1,334,444	1,311,824
Allowance for loan losses	(19,645)	(21,161)
Loans, net	1,314,799	1,290,663
Loans held for sale	684	542
Premises and equipment, net	26,049	26,657
Goodwill	21,824	21,824
Other intangible assets, net	1,709	2,085
Bank-owned life insurance	3,014	2,982
Accrued interest receivable and other assets	30,381	27,145
Total assets	\$1,710,166	\$1,707,620
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Non-interest-bearing	\$462,233	\$467,610
Interest-bearing	1,016,676	999,836
Total deposits	1,478,909	1,467,446
FHLBNY overnight advances	58,950	57,700
Securities sold under agreements to repurchase	—	10,000
FHLBNY term advances	—	2,000
Long term capital lease obligation	4,411	4,517
Dividends payable	1,249	1,232
Accrued interest payable and other liabilities	14,867	14,912
Total liabilities	1,558,386	1,557,807
Shareholders' equity:		
Common stock, \$0.01 par value per share, 10,000,000 shares authorized; 5,310,076 issued at June 30, 2018 and December 31, 2017	53	53
Additional paid-in capital	45,873	45,967
Retained earnings	132,973	128,453

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Treasury stock, at cost; 507,471 shares at June 30, 2018 and 559,094 shares at December 31, 2017	(12,998	)	(14,320	)
Accumulated other comprehensive loss	(14,121	)	(10,340	)
Total shareholders' equity	151,780		149,813	
Total liabilities and shareholders' equity	\$1,710,166		\$1,707,620	

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2018	2017	2018	2017
Interest and dividend income:				
Loans, including fees	\$ 14,300	\$ 12,817	\$ 28,350	\$ 25,316
Taxable securities	1,264	1,398	2,553	2,820
Tax exempt securities	295	276	603	514
Interest-earning deposits	10	193	32	348
Total interest and dividend income	15,869	14,684	31,538	28,998
Interest expense:				
Deposits	608	549	1,109	1,087
Securities sold under agreements to repurchase	44	95	137	288
Borrowed funds	200	90	375	179
Total interest expense	852	734	1,621	1,554
Net interest income	15,017	13,950	29,917	27,444
Provision for loan losses	2,362	421	3,071	1,461
Net interest income after provision for loan losses	12,655	13,529	26,846	25,983
Non-interest income:				
WMG fee income	2,373	2,269	4,689	4,378
Service charges on deposit accounts	1,144	1,225	2,308	2,409
Interchange revenue from debit card transactions	996	964	2,031	1,884
Net gains (losses) on security transactions	—	12	—	12
Net gains on sales of loans held for sale	59	53	105	122
Net gains (losses) on sales of other real estate owned	(48)	(9)	(4)	8
Income from bank-owned life insurance	17	18	33	35
Other	784	490	1,638	1,021
Total non-interest income	5,325	5,022	10,800	9,869
Non-interest expenses:				
Salaries and wages	5,564	5,422	11,278	10,697
Pension and other employee benefits	1,518	1,540	3,176	3,091
Other components of net periodic pension and postretirement benefits	(408)	(333)	(816)	(666)
Net occupancy expenses	1,643	1,702	3,251	3,308
Furniture and equipment expenses	702	781	1,360	1,462
Data processing expense	1,764	1,587	3,506	3,191
Professional services	508	417	1,048	717
Legal accruals and settlements	989	850	989	850
Amortization of intangible assets	182	213	376	439
Marketing and advertising expenses	255	118	604	367
Other real estate owned expenses	100	11	238	31
FDIC insurance	301	309	618	634
Loan expense	184	166	353	282
Other	1,665	1,549	3,152	2,974
Total non-interest expenses	14,967	14,332	29,133	27,377

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Income before income tax expense	3,013	4,219	8,513	8,475
Income tax expense	486	1,263	1,547	2,540
Net income	\$2,527	\$2,956	6,966	\$5,935
Weighted average shares outstanding	4,828	4,797	4,825	4,793
Basic and diluted earnings per share	\$0.52	\$0.62	\$1.44	\$1.24

See accompanying notes to unaudited consolidated financial statements.

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

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$2,527	\$2,956	\$6,966	\$5,935
Other comprehensive income (loss):				
Unrealized holding gains (losses) on securities available for sale	(400 )	2,854	(4,839 )	6,020
Reclassification adjustment for gains realized in net income	—	(12 )	—	(12 )
Net unrealized gains (losses)	(400 )	2,842	(4,839 )	6,008
Tax effect	(101 )	1,078	(1,233 )	2,267
Net of tax amount	(299 )	1,764	(3,606 )	3,741
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	(55 )	(55 )	(110 )	(110 )
Reclassification adjustment for amortization of net actuarial loss	73	88	146	176
Total before tax effect	18	33	36	66
Tax effect	4	13	9	25
Net of tax amount	14	20	27	41
Total other comprehensive income (loss)	(285 )	1,784	(3,579 )	3,782