SPARTAN STORES INC
Form 424B3
October 15, 2013
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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-190730

MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

The boards of directors of each of Spartan Stores, Inc. (referred to as Spartan Stores) and Nash-Finch Company (referred to as Nash-Finch) have unanimously approved a business combination (referred to as the merger). Spartan Stores and Nash-Finch entered into an Agreement and Plan of Merger, dated as of July 21, 2013 (referred to as the merger agreement). Under the terms of the merger agreement, a wholly owned subsidiary of Spartan Stores will merge with and into Nash-Finch, with Nash-Finch surviving as a wholly owned subsidiary of Spartan Stores.

Upon completion of the merger, Nash-Finch stockholders will receive 1.20 shares of Spartan Stores common stock for each share of Nash-Finch common stock that they own (referred to as the exchange ratio). The exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to the closing of the merger. Based on the closing price of Spartan Stores common stock on the Nasdaq Stock Market (referred to as Nasdaq) on July 19, 2013, the last trading day before public announcement of the merger, the 1.20 exchange ratio represented approximately $25.44 in value for each share of Nash-Finch common stock. Spartan Stores shareholders will continue to own their existing Spartan Stores shares. Spartan Stores common stock and Nash-Finch common stock are currently traded on Nasdaq under the symbols SPTN and NAFC, respectively. We urge you to obtain current market quotations of Spartan Stores and Nash-Finch common stock.

We intend for the merger to qualify as a reorganization for U.S. federal income tax purposes. Accordingly, Nash-Finch stockholders are not expected to recognize any gain or loss for U.S. federal income tax purposes upon the exchange of shares of Nash-Finch common stock for shares of Spartan Stores common stock pursuant to the merger, except with respect to cash received in lieu of fractional shares of Spartan Stores common stock.

Based on the estimated number of shares of Spartan Stores and Nash-Finch common stock that will be outstanding immediately prior to the closing of the merger, we estimate that, upon the closing, former Spartan Stores shareholders will own approximately 57.7% of the combined company following the merger and former Nash-Finch stockholders will own approximately 42.3% of the combined company following the merger.

Spartan Stores and Nash-Finch will each hold special meetings of their respective shareholders in connection with the proposed merger. At the Spartan Stores special meeting, Spartan Stores shareholders will be asked to vote on the proposal to approve the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger and on the proposal to approve and adopt an amendment to Spartan Stores restated articles of incorporation to increase the number of authorized shares of Spartan Stores common stock. At the Nash-Finch special meeting, Nash-Finch stockholders will be asked to vote on the proposal to approve the merger agreement.

We cannot complete the merger unless the Spartan Stores shareholders approve the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger and the Nash-Finch stockholders approve the merger agreement, in each case as described above. Your vote is very important, regardless of the number of shares that you own. Whether or not you expect to attend your special meeting in person, please submit a proxy to vote your shares as promptly as possible so that your shares may be represented and voted at the Spartan Stores or Nash-Finch special meeting, as applicable.

The Spartan Stores board of directors unanimously recommends that the Spartan Stores shareholders vote FOR the proposal to approve the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger, FOR the proposal to approve an amendment to Spartan Stores restated articles of incorporation and FOR the proposal to approve the adjournment of the Spartan Stores special meeting, if necessary or appropriate, to permit further solicitation of proxies. The Nash-Finch board of directors unanimously recommends that the Nash-Finch stockholders vote FOR the proposal to approve the merger agreement, FOR the approval, on an advisory (non-binding) basis, of the compensation that may be paid or become payable to Nash-Finch s named executive officers that is based on or otherwise relates to the proposed transactions and FOR the proposal to approve the adjournment of the Nash-Finch special meeting, if necessary or appropriate, to permit further solicitation of proxies.

The obligations of Spartan Stores and Nash-Finch to complete the merger are subject to the satisfaction or waiver of several conditions. The accompanying joint proxy statement/prospectus contains detailed information about Spartan Stores, Nash-Finch, the special meetings, the merger agreement and the merger. You should read this joint proxy statement/prospectus carefully and in its entirety before voting, including the section entitled Risk Factors beginning on page 26.

We look forward to the successful combination of Spartan Stores and Nash-Finch.

Sincerely,

Dennis Eidson	Alec C. Covington
President and Chief Executive Officer	President and Chief Executive Officer
Spartan Stores, Inc.	Nash-Finch Company

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under this joint proxy statement/prospectus or determined if this joint proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This joint proxy statement/prospectus is dated October 15, 2013 and is first being mailed to Spartan Stores shareholders and Nash-Finch stockholders on or about October 17, 2013.

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Spartan Stores, Inc.

850 76th Street, S.W.

P.O. Box 8700

Grand Rapids, Michigan 49518-8700

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held On November 18, 2013

To the Shareholders of Spartan Stores, Inc.:

We are pleased to invite you to attend the special meeting of shareholders of Spartan Stores, Inc., a Michigan corporation (referred to as Spartan Stores), which will be held at the offices of Warner Norcross & Judd LLP, 111 Lyon Street NW, Grand Rapids, MI 49503, on Monday, November 18, 2013 at 10:00 a.m., local time, for the following purposes:

to vote on a proposal to approve the issuance of shares of Spartan Stores common stock, no par value per share, to stockholders of Nash-Finch Company (referred to as Nash-Finch) in connection with the merger contemplated by the Agreement and Plan of Merger, dated July 21, 2013, by and among Spartan Stores, Nash-Finch and SS Delaware, Inc., a wholly owned subsidiary of Spartan Stores, as it may be amended from time to time (referred to as the merger agreement), a copy of which is included as Annex A to the joint proxy statement/prospectus of which this notice is a part;

to vote on a proposal to approve an amendment to Spartan Stores restated articles of incorporation to increase the number of authorized shares of common stock from 50 million to 100 million, a copy of which amendment is included as Annex B to the joint proxy statement/prospectus of which this notice is a part; and

to vote on a proposal to approve the adjournment of the Spartan Stores special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies in the event there are not sufficient votes at the time of the special meeting to approve the first proposal listed above.

Spartan Stores will transact no other business at the special meeting except such business as may properly be brought before the special meeting or any adjournment or postponement thereof. Please refer to the joint proxy statement/prospectus of which this notice is a part for further information with respect to the business to be transacted at the Spartan Stores special meeting.

The Spartan Stores board of directors has fixed the close of business on October 15, 2013 as the record date for the Spartan Stores special meeting. Only Spartan Stores shareholders of record at that time are entitled to receive notice of, and to vote at, the Spartan Stores special meeting or any adjournment or postponement thereof.

Completion of the merger is conditioned on approval of the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger, but it is not conditioned on approval of the proposed amendment to Spartan Stores restated articles of incorporation. Approval of the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger requires the approval of a majority of the votes cast at the Spartan Stores special meeting, assuming a quorum. Approval of the proposed amendment to Spartan Stores restated articles of incorporation requires the affirmative vote of the holders of a majority of the shares of Spartan Stores common stock outstanding and entitled to vote at the special meeting. Approval of the adjournment of the Spartan Stores special meeting to a later date or dates, if necessary or appropriate, to permit further solicitation of proxies requires the approval of a majority of the votes cast at the Spartan Stores special meeting.

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The Spartan Stores board of directors has unanimously approved the merger and the merger agreement and unanimously recommends that Spartan Stores shareholders vote FOR the proposal to approve the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger, FOR the proposal to approve the amendment to Spartan Stores restated articles of incorporation and FOR the proposal to approve the adjournment of the Spartan Stores special meeting, if necessary or appropriate, to permit further solicitation of proxies.

Your vote is very important. Whether or not you expect to attend the Spartan Stores special meeting in person, to ensure your representation at the Spartan Stores special meeting, we urge you to submit a proxy to vote your shares as promptly as possible by (i) visiting the internet site listed on the Spartan Stores proxy card, (ii) calling the toll-free number listed on the Spartan Stores proxy card or (iii) submitting your Spartan Stores proxy card by mail by using the provided self-addressed, stamped envelope. Submitting a proxy will not prevent you from voting in person, but it will help to secure a quorum and avoid added solicitation costs. Any eligible holder of Spartan Stores stock who is present at the Spartan Stores special meeting may vote in person, thereby canceling any previous proxy. In any event, a proxy may be revoked in writing at any time before the Spartan Stores special meeting in the manner described in the accompanying document. If your shares are held in the name of a bank, broker or other nominee, please follow the instructions on the voting instruction card furnished by the bank, broker or other nominee.

The enclosed joint proxy statement/prospectus provides a detailed description of the merger and the merger agreement and the other matters to be considered at the Spartan Stores special meeting. We urge you to carefully read this joint proxy statement/prospectus, including any documents incorporated by reference, and the Annexes in their entirety. If you have any questions concerning the merger or this joint proxy statement/prospectus, would like additional copies or need help voting your shares of Spartan Stores common stock, please contact Spartan Stores proxy solicitor:

Eagle Rock Proxy Advisors, LLC

12 Commerce Drive

Cranford, New Jersey 07016

Toll-free: (877) 705-6168

Email: spartanstores@eaglerockproxy.com

www.eaglerockproxy.com

By Order of the Spartan Stores Board of Directors,

Alex J. DeYonker

Executive Vice President, General Counsel and Secretary

Grand Rapids, Michigan

October 15, 2013

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Nash-Finch Company

7600 France Avenue South

Edina, MN 55435

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS To Be Held On November 18, 2013

To the Stockholders of Nash-Finch Company:

We are pleased to invite you to attend the special meeting of stockholders of Nash-Finch Company, a Delaware corporation (referred to as Nash-Finch), which will be held at the Westin Edina Galleria, Room: Cahill B, 3201 Galleria, Edina, MN 55435, on Monday, November 18, 2013, at 9:00 a.m., local time, for the following purposes:

to vote on a proposal to adopt the Agreement and Plan of Merger, dated as of July 21, 2013, by and among Nash-Finch, Spartan Stores, Inc., a Michigan corporation (referred to as Spartan Stores), and SS Delaware, Inc., a Delaware corporation and a wholly owned subsidiary of Spartan Stores, as it may be amended from time to time (referred to as the merger agreement), a copy of which is included as Annex A to the joint proxy statement/prospectus of which this notice is a part;

to consider and cast an advisory (non-binding) vote on the compensation that may be paid or become payable to Nash-Finch s named executive officers that is based on or otherwise related to the proposed transactions; and

to vote on a proposal to approve the adjournment of the Nash-Finch special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies in the event there are not sufficient votes at the time of the special meeting to approve the first proposal listed above.

Nash-Finch will transact no other business at the special meeting except such business as may properly be brought before the special meeting or any adjournment or postponement thereof. Please refer to the joint proxy statement/prospectus of which this notice is a part for further information with respect to the business to be transacted at the Nash-Finch special meeting.

The Nash-Finch board of directors has fixed the close of business on October 2, 2013 as the record date for the Nash-Finch special meeting. Only Nash-Finch stockholders of record at that time are entitled to receive notice of, and to vote at, the Nash-Finch special meeting or any adjournment or postponement thereof. A complete list of such stockholders will be available for inspection by any Nash-Finch stockholder for any purpose germane to the special meeting during ordinary business hours for the ten days preceding the Nash-Finch special meeting at Nash-Finch s offices at 7600 France Avenue South, Edina, MN 55435. The eligible Nash-Finch stockholder list will also be available at the Nash-Finch special meeting for examination by any stockholder present at such meeting.

Completion of the merger is conditioned on approval and adoption of the merger agreement by the Nash-Finch stockholders, which requires the approval of a majority of the issued and outstanding shares of Nash-Finch common stock entitled to vote at the Nash-Finch special meeting.

The Nash-Finch board of directors has unanimously approved the merger and the merger agreement and unanimously recommends that Nash-Finch stockholders vote FOR the proposal to adopt the merger agreement, the merger and the other transactions contemplated by the merger agreement, FOR the approval, on an advisory (non-binding) basis, of the compensation that may be paid or become payable to

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Nash-Finch s named executive officers that is based on or otherwise relates to the proposed transactions and FOR the proposal to approve the adjournment of the Nash-Finch special meeting, if necessary or appropriate, to permit further solicitation of proxies.

Your vote is very important, regardless of the number of shares that you own. Whether or not you expect to attend the Nash-Finch special meeting in person, to ensure your representation at the Nash-Finch special meeting, we urge you to submit a proxy to vote your shares as promptly as possible by (i) accessing the internet site listed on the Nash-Finch proxy card, (ii) calling the toll-free number listed on the Nash-Finch proxy card or (iii) submitting your Nash-Finch proxy card by mail by using the provided self-addressed, stamped envelope. Submitting a proxy will not prevent you from voting in person, but it will help to secure a quorum and avoid added solicitation costs. Any eligible holder of Nash-Finch stock who is present at the Nash-Finch special meeting may vote in person, thereby canceling any previous proxy. In any event, a proxy may be revoked in writing at any time before the Nash-Finch special meeting in the manner described in the accompanying document. If your shares are held in the name of a bank, broker or other nominee, please follow the instructions on the voting instruction card furnished by such bank, broker or other nominee.

The enclosed joint proxy statement/prospectus provides a detailed description of the merger and the merger agreement and the other matters to be considered at the Nash-Finch special meeting. We urge you to carefully read the joint proxy statement/prospectus, including any documents incorporated by reference, and the Annexes in their entirety. If you have any questions concerning the merger or the joint proxy statement/prospectus, would like additional copies or need help voting your shares of Nash-Finch common stock, please contact Nash-Finch s proxy solicitor:

Morrow & Co., LLC

470 West Avenue

Stamford, CT 06902

203-658-9400

Toll-free: 800-662-5200

www.morrowco.com

info@morrowco.com

By Order of the Nash-Finch Board of Directors,

Kathleen M. Mahoney

Executive Vice President, General Counsel and Secretary

Edina, Minnesota

October 15, 2013

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ADDITIONAL INFORMATION

This joint proxy statement/prospectus incorporates important business and financial information about Spartan Stores and Nash-Finch from other documents that are not included in or delivered with this joint proxy statement/prospectus. This information is available to you without charge upon your request. You can obtain the documents incorporated by reference into this joint proxy statement/prospectus free of charge by requesting them in writing or by telephone from the appropriate company at the following addresses and telephone numbers:

If you are a Spartan Stores shareholder:	If you are a Nash-Finch stockholder:
Eagle Rock Proxy Advisors, LLC 12 Commerce Drive Cranford, New Jersey 07016	Morrow & Co., LLC 470 West Avenue Stamford, CT 06902
	203-658-9400
Toll-free: (877) 705-6168	Toll-free: 800-662-5200
www.eaglerockproxy.com	www.morrowco.com
spartanstores@eaglerockproxy.com	info@morrowco.com

Investors may also consult Spartan Stores or Nash-Finch s website for more information about Spartan Stores or Nash-Finch, respectively. Spartan Stores website is www.spartanstores.com. Nash-Finch s website is www.nashfinch.com. Information included on these websites is not incorporated by reference into this joint proxy statement/prospectus.

If you would like to request any documents, please do so by November 8, 2013 in order to receive them before the special meetings.

For a more detailed description of the information incorporated by reference in this joint proxy statement/prospectus and how you may obtain it, see Where You Can Find More Information beginning on page 160.

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ABOUT THIS JOINT PROXY STATEMENT/PROSPECTUS

This joint proxy statement/prospectus, which forms part of a registration statement on Form S-4 filed with the U.S. Securities and Exchange Commission (referred to as the SEC) by Spartan Stores, constitutes a prospectus of Spartan Stores under Section 5 of the Securities Act of 1933, as amended (referred to as the Securities Act), with respect to the shares of Spartan Stores common stock to be issued to Nash-Finch stockholders in connection with the merger. This joint proxy statement/prospectus also constitutes a joint proxy statement for both Spartan Stores and Nash-Finch under Section 14(a) of the Securities Exchange Act of 1934, as amended (referred to as the Exchange Act). It also constitutes a notice of meeting with respect to the special meeting of Spartan Stores shareholders and a notice of meeting with respect to the special meeting of Nash-Finch stockholders.

You should rely only on the information contained in or incorporated by reference into this joint proxy statement/prospectus. No one has been authorized to provide you with information that is different from that contained in, or incorporated by reference into, this joint proxy statement/prospectus. This joint proxy statement/prospectus is dated October 15, 2013. You should not assume that the information contained in this joint proxy statement/prospectus is accurate as of any date other than that date. You should not assume that the information incorporated by reference into this joint proxy statement/prospectus is accurate as of any date other than the date of the incorporated document. Neither our mailing of this joint proxy statement/prospectus to Spartan Stores shareholders or Nash-Finch stockholders nor the issuance by Spartan Stores of shares of common stock pursuant to the merger will create any implication to the contrary.

This joint proxy statement/prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation. Information contained in this joint proxy statement/prospectus regarding Spartan Stores has been provided by Spartan Stores and information contained in this joint proxy statement/prospectus regarding Nash-Finch has been provided by Nash-Finch.

All references in this joint proxy statement/prospectus to Spartan Stores refer to Spartan Stores, Inc., a Michigan corporation; all references in this joint proxy statement/prospectus to Merger Sub refer to SS Delaware, Inc., a Delaware corporation and wholly owned subsidiary of Spartan Stores formed for the sole purpose of effecting the merger; all references in this joint proxy statement/prospectus to Nash-Finch refer to Nash-Finch Company, a Delaware corporation; unless otherwise indicated or as the context requires, all references in this joint proxy statement/prospectus to we, our and us refer to Spartan Stores and Nash-Finch collectively, unless otherwise indicated or as the context requires; and all references to the merger or merger agreement refer to the Agreement and Plan of Merger, dated as of July 21, 2013, by and among Spartan Stores, Inc., SS Delaware, Inc. and Nash-Finch Company, a copy of which is included as Annex A to this joint proxy statement/prospectus. Spartan Stores and Nash-Finch, subject to and following completion of the merger, are sometimes referred to in this joint proxy statement/prospectus as the combined company.

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QUESTIONS AND ANSWERS

The following are some questions that you, as a Spartan Stores shareholder or a Nash-Finch stockholder, may have regarding the merger and the other matters being considered at the special meetings and the answers to those questions. Spartan Stores and Nash-Finch urge you to carefully read the remainder of this joint proxy statement/prospectus, including any documents incorporated by reference, and the Annexes in their entirety because the information in this section does not provide all of the information that might be important to you with respect to the merger and the other matters being considered at the special meetings.

Q: Why am I receiving this joint proxy statement/prospectus?

A: Spartan Stores and Nash-Finch have agreed to a business combination pursuant to the terms of the merger agreement that is described in this joint proxy statement/prospectus. A copy of the merger agreement is included in this joint proxy statement/prospectus as Annex A. In order to complete the merger, among other things, Spartan Stores shareholders must approve the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger, and Nash-Finch stockholders must approve the merger agreement. In addition, while not a condition to the closing of the transactions contemplated by the merger agreement, Spartan Stores shareholders will vote on a proposal to approve an amendment to Spartan Stores restated articles of incorporation to increase the number of authorized of shares of capital stock of Spartan Stores.

Spartan Stores and Nash-Finch will hold separate special meetings of their stockholders to obtain these approvals. This joint proxy statement/prospectus, including its Annexes, contains and incorporates by reference important information about Spartan Stores and Nash-Finch, the merger and the stockholder meetings of Spartan Stores and Nash-Finch. You should read all of the available information carefully and in its entirety.

Q: What will I receive in the merger?

A: Spartan Stores shareholders: Whether or not the merger is completed, Spartan Stores shareholders will retain the Spartan Stores common stock that they currently own. They will not receive any merger consideration, and they will not receive any additional shares of Spartan Stores common stock in the merger.

Nash-Finch stockholders: If the merger is completed, Nash-Finch stockholders will receive 1.20 shares of Spartan Stores common stock for each share of Nash-Finch common stock that they hold at the effective time of the merger. Nash-Finch stockholders will not receive any fractional shares of Spartan Stores common stock in the merger. Instead, Spartan Stores will pay cash in lieu of any fractional shares of Spartan Stores common stock that a Nash-Finch stockholder would otherwise have been entitled to receive. Nash-Finch stockholders will also be entitled to any dividends declared and paid by Spartan Stores with a record date after the effective time of the merger after they have surrendered their certificates representing Nash-Finch common stock.

Q: What is the value of the merger consideration?

A: Because Spartan Stores will issue 1.20 shares of Spartan Stores common stock in exchange for each share of Nash-Finch common stock, the value of the merger consideration that Nash-Finch stockholders receive will depend on the price per share of Spartan Stores common stock at the effective time of the merger. That price will not be known at the time of the special meetings and may be less than the current price or the price at the time of the special meetings. We urge you to obtain current market quotations of Spartan Stores common stock and Nash-Finch common stock. See Risk Factors.

Q: When and where will the special meetings be held?

A: Spartan Stores shareholders: The special meeting of Spartan Stores shareholders will be held at the offices of Warner Norcross & Judd LLP, 111 Lyon Street NW, Grand Rapids, MI 49503, on Monday, November 18, 2013, at 10:00 a.m. local time.

Nash-Finch stockholders: The special meeting of Nash-Finch stockholders will be held at the Westin Edina Galleria, Room: Cahill B, 3201 Galleria, Edina, MN 55435, on Monday, November 18, 2013, at 9:00 a.m. local time.

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Q: Who is entitled to vote at the special meetings?

A: Spartan Stores shareholders: The record date for the Spartan Stores special meeting is October 15, 2013. Only record holders of shares of Spartan Stores common stock at the close of business on such date are entitled to notice of, and to vote at, the Spartan Stores special meeting or any adjournment or postponement thereof.

Nash-Finch stockholders: The record date for the Nash-Finch special meeting is October 2, 2013. Only record holders of shares of Nash-Finch common stock at the close of business on such date are entitled to notice of, and to vote at, the Nash-Finch special meeting or any adjournment or postponement thereof.

Q: What constitutes a quorum at the special meetings?

A: Spartan Stores shareholders: Shareholders who hold shares representing at least a majority of the shares entitled to vote at the Spartan Stores special meeting must be present in person or represented by proxy to constitute a quorum. All shares of Spartan Stores common stock represented at the Spartan Stores special meeting, including shares that are represented but that vote to abstain, will be treated as present for purposes of determining the presence or absence of a quorum. Broker non-votes will not be treated as present for purposes of determining the presence or absence of a quorum.

No business may be transacted at the Spartan Stores special meeting unless a quorum is present. If a quorum is not present, or if fewer shares are voted in favor of the proposal to approve the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger than is required, if necessary or appropriate to allow additional time for obtaining additional proxies, the special meeting may be adjourned if the approval of a majority of the votes cast at the special meeting is obtained. No notice of an adjourned meeting need be given unless:

- the adjournment is for more than 30 days; or
- if after the adjournment, a new record date is fixed for the adjourned meeting, in which case a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

At any adjourned meeting, all proxies will be voted in the same manner as they would have been voted at the original convening of the special meeting, except for any proxies that have been effectively revoked or withdrawn prior to the adjourned meeting.

Nash-Finch stockholders: Stockholders who hold shares representing at least a majority of the voting power of all issued and outstanding shares of capital stock entitled to vote at the Nash-Finch special meeting must be present in person or represented by proxy to constitute a quorum. All shares of Nash-Finch common stock represented at the Nash-Finch special meeting, either person or by proxy, including shares that are represented but that vote to abstain, will be treated as present for purposes of determining the presence or absence of a quorum. Broker non-votes will have no effect on determining the presence or absence of a quorum at the Nash-Finch special meeting.

No business may be transacted at the Nash-Finch special meeting unless a quorum is present. If a quorum is not present, the special meeting may be adjourned to allow additional time for obtaining additional proxies if the approval to adjourn the meeting of at least a majority of the stockholders present or represented by proxy is obtained. No notice of an adjourned meeting need be given unless:

- the adjournment is for more than 30 days, in which case a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting; or
- a new record date for determination of stockholders entitled to vote is fixed for the adjourned meeting, in which case the board of directors shall fix as the record date for determining stockholders entitled to notice of such adjourned meeting the same or an earlier date as that fixed for determination of stockholders entitled to vote at the adjourned meeting, and shall give notice of the adjourned meeting to each stockholder of record as of such record date.

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At any adjourned meeting, all proxies will be voted in the same manner as they would have been voted at the original convening of the special meeting, except for any proxies that have been effectively revoked or withdrawn prior to the adjourned meeting.

Q: How do I vote if I am a stockholder of record?

A: Spartan Stores shareholders: If you were a record holder of Spartan Stores stock at the close of business on the record date for the Spartan Stores special meeting, you may vote in person by attending the Spartan Stores special meeting or, to ensure that your shares are represented at the Spartan Stores special meeting, you may authorize a proxy to vote by:

- visiting the internet site listed on the Spartan Stores proxy card and following the instructions provided on that site anytime up to 1:00 a.m. Eastern time, on November 18, 2013;
- calling the toll-free number listed on the Spartan Stores proxy card and following the instructions provided in the recorded message anytime up to 1:00 a.m. Eastern time, on November 18, 2013; or
- submitting your Spartan Stores proxy card by mail by using the provided self-addressed, stamped envelope.

If you hold shares of Spartan Stores common stock in street name through a stock brokerage account or through a bank or other nominee, please follow the voting instructions provided by your broker, bank or other nominee to ensure that your shares are represented at the Spartan Stores special meeting.

Nash-Finch stockholders. If you were a record holder of Nash-Finch stock at the close of business on the record date for the Nash-Finch special meeting, you may vote in person by attending the Nash-Finch special meeting or, to ensure that your shares are represented at the Nash-Finch special meeting, you may authorize a proxy to vote by:

- visiting the internet site listed on the Nash-Finch proxy card and following the instructions provided on that site anytime up to 11:59 p.m. Eastern time, on November 17, 2013;
- calling the toll-free number listed on the Nash-Finch proxy card and following the instructions provided in the recorded message anytime up to 11:59 p.m. Eastern time, on November 17, 2013; or
- submitting your Nash-Finch proxy card by mail by using the provided self-addressed, stamped envelope.

If you hold shares of Nash-Finch common stock in street name through a stock brokerage account or through a bank or other nominee, please follow the voting instructions provided by your broker, bank or other nominee to ensure that your shares are represented at the Nash-Finch special meeting.

Q: How many votes do I have?

A: Spartan Stores shareholders: With respect to each proposal to be presented at the Spartan Stores special meeting, holders of Spartan Stores common stock are entitled to one vote for each share of Spartan Stores common stock owned at the close of business on the Spartan Stores record date. At the close of business on the Spartan Stores record date, there were 21,874,509 shares of Spartan Stores common stock outstanding and entitled to vote at the Spartan Stores special meeting.

Nash-Finch stockholders: With respect to each proposal to be presented at the Nash-Finch special meeting, holders of Nash-Finch common stock are entitled to one vote for each share of Nash-Finch common stock owned at the close of business on the Nash-Finch record date. At the close of business on the Nash-Finch record date, there were 12,315,543 shares of Nash-Finch common stock outstanding and entitled to vote at the Nash-Finch special meeting.

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Q: What vote is required to approve each proposal?

A: Spartan Stores shareholders: The approval of the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger requires the approval of a majority of the votes cast at the Spartan Stores special meeting, assuming a quorum. Failures to vote, broker non-votes and abstentions will have no effect on the vote for this proposal.

The approval of the proposed amendment to Spartan Stores restated articles of incorporation requires the approval of a majority of the outstanding shares of Spartan Stores common stock entitled to vote at the Spartan Stores special meeting. Failures to vote, broker non-votes and abstentions will have the same effect as a vote AGAINST this proposal.

The adjournment of the Spartan Stores special meeting, if necessary or appropriate, to solicit additional proxies requires the approval of a majority of the votes cast at the Spartan Stores special meeting, regardless of whether there is a quorum. Failures to vote, broker non-votes and abstentions will have no effect on the vote.

Nash-Finch stockholders: The adoption of the merger agreement, the merger and the other transactions contemplated by the merger agreement requires the affirmative vote of a majority of the issued and outstanding shares of Nash-Finch common stock entitled to vote at the special meeting. Failures to vote, broker non-votes and abstentions will have the same effect as a vote AGAINST this proposal.

The approval, on an advisory (non-binding) basis, of the compensation that may be paid or become payable to Nash-Finch s named executive officers that is based on or otherwise related to the proposed transactions requires the affirmative vote of a majority of the issued and outstanding shares of Nash-Finch common stock that are present in person or represented by proxy and entitled to vote at the special meeting, assuming a quorum. Failures to vote and broker non-votes will have no effect on the vote for this proposal; however, abstentions will have the same effect as a vote AGAINST the approval of such proposal.

The adjournment of the Nash-Finch special meeting, if necessary or appropriate, to solicit additional proxies requires the affirmative vote of a majority of the issued and outstanding shares of Nash-Finch common stock that are present in person or represented by proxy and entitled to vote at the special meeting, regardless of whether or not there is a quorum. Failures to vote and broker non-votes will have no effect on the vote for this proposal; however, abstentions will have the same effect as a vote AGAINST the approval of such proposal.

Q: How does the Spartan Stores board of directors recommend that Spartan Stores shareholders vote?

A: The Spartan Stores board of directors has unanimously determined that the merger and the other transactions contemplated by the merger agreement (including the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger) and the approval of a proposed amendment to Spartan Stores restated articles of incorporation are in the best interests of Spartan Stores and its shareholders. Accordingly, the Spartan Stores board of directors unanimously recommends that Spartan Stores shareholders vote FOR the proposal to approve the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger, FOR the proposal to approve an amendment to Spartan Stores restated articles of incorporation and FOR the proposal to approve the adjournment of the Spartan Stores special meeting, if necessary or appropriate, to permit further solicitation of proxies.

Q: How does the Nash-Finch board of directors recommend that Nash-Finch stockholders vote?

A: The Nash-Finch board of directors has unanimously adopted the merger agreement and determined that the merger agreement is in the best interests of Nash-Finch and its shareholders. Accordingly, the Nash-Finch board of directors unanimously recommends that Nash-Finch stockholders vote FOR the proposal to adopt the merger agreement, the merger and the other transactions contemplated by the merger agreement, FOR the proposal to approve on an advisory (non-binding) basis, the compensation that may be paid or become payable to Nash-Finch s named executive officers that is based on or otherwise related to the proposed transactions and FOR the proposal to approve the adjournment of the Nash-Finch special meeting, if necessary or appropriate, to permit further solicitation of proxies.

Q: My shares are held in street name by my broker, bank or other nominee. Will my broker, bank or other nominee automatically vote my shares for me?

A: No. If your shares are held through a stock brokerage account or a bank or other nominee, you are considered the beneficial holder of the shares held for you in what is known as street name. The record holder of such shares is your broker, bank or other nominee, and not you. If this is the case, this joint proxy statement/prospectus has been forwarded to you by your broker, bank or other nominee. You must provide the record holder of your shares with instructions on how to vote your shares. Otherwise, your broker, bank or other nominee may not vote your shares on any of the proposals to be considered at the Spartan Stores special meeting or the Nash-Finch special meeting, as applicable, and a broker non-vote will result. In connection with the Spartan Stores special meeting, broker non-votes will have (i) no effect on the proposal to approve the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger (assuming a quorum is present), (ii) the same effect as a vote AGAINST the proposal to approve an amendment to Spartan Stores restated articles of incorporation and (iii) no effect on the proposal to approve the adjournment of the Spartan Stores special meeting, if necessary or appropriate, to permit further solicitation of proxies. In connection with the Nash-Finch special meeting, broker non-votes will have (i) the same effect as a vote AGAINST the proposal to approve the adoption of the merger agreement, the merger and the other transactions contemplated by the merger agreement, (ii) no effect on the proposal to approve, on an advisory (non-binding) basis, the compensation that may be paid or become payable to Nash-Finch s named executive officers that is based on or otherwise related to the proposed transactions and (iii) no effect on the proposal to approve the adjournment of the Nash-Finch special meeting, if necessary or appropriate, to permit further solicitation of proxies.

Please follow the voting instructions provided by your broker, bank or other nominee so that it may vote your shares on your behalf. Please note that you may not vote shares held in street name by returning a proxy card directly to Spartan Stores or Nash-Finch or by voting in person at the special meeting unless you first obtain a legal proxy from your broker, bank or other nominee.

Q: What will happen if I fail to vote?

A: Spartan Stores shareholders: If you fail to vote, it will have (i) no effect on the proposal to approve the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger (assuming a quorum), (ii) the same effect as a vote AGAINST the proposal to approve an amendment to Spartan Stores restated articles of incorporation and (iii) no effect on the proposal to approve the adjournment of the Spartan Stores special meeting, if necessary or appropriate, to permit further solicitation of proxies.

Nash-Finch stockholders: If you fail to vote, it will have (i) the same effect as a vote AGAINST the proposal to approve the adoption of the merger agreement, the merger and the other transactions contemplated by the merger agreement, (ii) no effect on the proposal to approve, on an advisory (non-binding) basis, the compensation that may be paid or become payable to Nash-Finch s named executive officers that is based on or otherwise related to the proposed transactions and (iii) no effect on the proposal to approve the adjournment of the Nash-Finch special meeting, if necessary or appropriate, to permit further solicitation of proxies.

Q: What will happen if I mark my proxy or voting instructions to abstain from voting?

A: Spartan Stores shareholders: If you mark your proxy or voting instructions to abstain, it will have (i) no effect on the proposal to approve the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger (assuming a quorum), (ii) the same effect as a vote AGAINST the proposal to approve an amendment to Spartan Stores restated articles of incorporation and (iii) no effect on the proposal to approve the adjournment of the Spartan Stores special meeting, if necessary or appropriate, to permit further solicitation of proxies.

Nash-Finch stockholders: If you mark your proxy or voting instructions to abstain, it will have (i) the same effect as a vote AGAINST the proposal to approve the adoption of the merger agreement, the merger and the other transactions contemplated by the merger agreement, (ii) the same effect as a vote AGAINST the proposal to approve, on an advisory (non-binding) basis, the compensation that may be paid or become payable to Nash-Finch s named executive officers that is based on or otherwise related to the proposed transactions and (iii) the same effect as a vote AGAINST the proposal to approve the adjournment of the Nash-Finch special meeting, if necessary or appropriate, to permit further solicitation of proxies.

Q: What will happen if I return my proxy card without indicating how to vote?

A: Spartan Stores shareholders: If you properly complete and sign your proxy card but do not indicate how your shares of Spartan Stores common stock should be voted on a proposal, the shares of Spartan Stores common stock represented by your proxy will be voted as the Spartan Stores board of directors recommends and, therefore, FOR the proposal to approve the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger, FOR the proposal to approve an amendment to Spartan Stores restated articles of incorporation and FOR the proposal to approve the adjournment of the Spartan Stores special meeting, if necessary or appropriate, to permit further solicitation of proxies.

Nash-Finch stockholders: If you properly complete and sign your proxy card but do not indicate how your shares of Nash-Finch common stock should be voted on a proposal, the shares of Nash-Finch common stock represented by your proxy will be voted as the Nash-Finch board of directors recommends and, therefore, FOR the proposal to adopt the merger agreement, the merger and the other transactions contemplated by the merger agreement, FOR the proposal to approve on an advisory (non-binding) basis, the compensation that may be paid or become payable to Nash-Finch s named executive officers that is based on or otherwise related to the proposed transactions, and FOR the proposal to approve the adjournment of the Nash-Finch special meeting, if necessary or appropriate, to permit further solicitation of proxies.

Q: Can I change my vote or revoke my proxy after I have returned a proxy or voting instruction card?

A: Yes. If you are the record holder of either Spartan Stores or Nash-Finch stock: You can change your vote or revoke your proxy at any time before your proxy is voted at the applicable special meeting. You can do this by:

- timely delivering a signed written notice of revocation;
- timely delivering a new, valid proxy bearing a later date (including by telephone or through the internet); or
- attending the special meeting and voting in person, which will automatically cancel any proxy previously given, or revoking your proxy in person. Simply attending the Spartan Stores special meeting or the Nash-Finch special meeting without voting will not revoke any proxy that you have previously given or change your vote.

If you choose either of the first two methods, your notice of revocation or your new proxy must be received by the Secretary of Spartan Stores or Nash-Finch, as applicable, no later than the beginning of the applicable special meeting.

Regardless of the method used to deliver your previous proxy, you may revoke your proxy by any of the above methods.

If you hold shares of either Spartan Stores or Nash-Finch in street name, you must contact your broker, bank or other nominee to change your vote.

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Q: What are the material U.S. federal income tax consequences of the merger to U.S. holders of Nash-Finch common stock?

A: The merger is intended to be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (referred to as the Code). Assuming the merger qualifies as a reorganization, a holder of Nash-Finch common stock generally will not recognize any gain or loss for U.S. federal income tax purposes upon the exchange of the holder s shares of Nash-Finch common stock for shares of Spartan Stores common stock in connection with the merger, except with respect to cash received in lieu of fractional shares. For further information, see Material U.S. Federal Income Tax Consequences beginning on page 118.

The U.S. federal income tax consequences described above may not apply to all holders of Nash-Finch common stock. Your tax consequences will depend on your individual situation. Accordingly, we strongly urge you to consult your independent tax advisor for a full understanding of the particular tax consequences of the merger to you.

Q: When do you expect the merger to be completed?

A: Spartan Stores and Nash-Finch hope to complete the merger as soon as reasonably possible and expect the closing of the merger to occur in the fourth quarter of calendar 2013. However, the merger is subject to various regulatory clearances and the satisfaction or waiver of other conditions, and it is possible that factors outside the control of Spartan Stores and Nash-Finch could result in the merger being completed at an earlier time, a later time or not at all. There may be a substantial amount of time between the Spartan Stores and Nash-Finch special meetings and the completion of the merger.

Q: Do I need to do anything with my shares of common stock other than voting for the proposals at the special meeting?

A: Spartan Stores shareholders: If you are a Spartan Stores shareholder, after the merger is completed, you are not required to take any action with respect to your shares of Spartan Stores common stock.

Nash-Finch stockholders: If you are a Nash-Finch stockholder, after the merger is completed, each share of Nash-Finch common stock that you hold will be converted automatically into the right to receive 1.20 shares of Spartan Stores common stock, together with cash in lieu of any fractional shares, as applicable. You will receive instructions at that time regarding exchanging your shares for shares of Spartan Stores common stock. You do not need to take any action at this time. Please do not send your Nash-Finch stock certificates with your proxy card.

Q: Are stockholders entitled to appraisal rights?

A: No. Neither the stockholders of Nash-Finch nor the shareholders of Spartan Stores are entitled to appraisal rights in connection with the merger under Delaware law or Michigan law or under the governing documents of either company.

Q: What happens if I sell my shares of Nash-Finch common stock before the Nash-Finch special meeting?

A: The record date for the Nash-Finch special meeting is earlier than the date of the Nash-Finch special meeting and the date that the merger is expected to be completed. If you transfer your Nash-Finch shares after the Nash-Finch record date but before the Nash-Finch special meeting, you will retain your right to vote at the Nash-Finch special meeting, but will have transferred the right to receive the merger consideration in the merger. In order to receive the merger consideration, you must hold your shares through the effective date of the merger.

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Q: What if I hold shares in both Spartan Stores and Nash-Finch?

A: If you are both a Spartan Stores shareholder and a Nash-Finch stockholder, you will receive two separate packages of proxy materials. A vote cast as a Spartan Stores shareholder will not count as a vote cast as a Nash-Finch stockholder, and a vote cast as a Nash-Finch stockholder will not count as a vote cast as a Spartan Stores shareholder. Therefore, please separately submit a proxy for each of your Spartan Stores and Nash-Finch shares.

Q: Who can help answer my questions?

A: Spartan Stores shareholders or Nash-Finch stockholders who have questions about the merger, the other matters to be voted on at the special meetings, or how to submit a proxy or who desire additional copies of this joint proxy statement/prospectus or additional proxy cards should contact:

If you are a Spartan Stores shareholder:	**If you are a Nash-Finch stockholder:**
Eagle Rock Proxy Advisors, LLC	Morrow & Co., LLC
12 Commerce Drive	470 West Avenue
Cranford, New Jersey 07016	Stamford, CT 06902
	203-658-9400
Toll-free: (877) 705-6168	Toll-free: 800-662-5200
www.eaglerockproxy.com	www.morrowco.com
spartanstores@eaglerockproxy.com	info@morrowco.com

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SUMMARY

This summary highlights information contained elsewhere in this joint proxy statement/prospectus and may not contain all the information that is important to you with respect to the merger and the other matters being considered at the Spartan Stores and Nash-Finch special meetings. Spartan Stores and Nash-Finch urge you to read the remainder of this joint proxy statement/prospectus carefully, including the attached Annexes, and the other documents to which we have referred you. See also the section entitled Where You Can Find More Information beginning on page 160. We have included page references in this summary to direct you to a more complete description of the topics presented below.

The Companies

Spartan Stores, Inc.

Spartan Stores is a leading regional grocery distributor and grocery retailer, operating principally in Michigan and Indiana. Spartan Stores operates two reportable business segments: Distribution and Retail. Spartan Stores Distribution segment provides a full line of grocery, general merchandise, health and beauty care, frozen and perishable items to approximately 390 independently owned grocery locations and Spartan Stores 102 corporate owned stores. Spartan Stores retail segment operates 102 retail supermarkets in Michigan including D&W Fresh Markets, Family Fare Supermarkets, Glen s Markets, VG s Food and Pharmacy and Valu Land. In addition, Spartan Stores Retail segment operates 30 fuel centers/convenience stores, generally adjacent to our supermarket locations. Spartan Stores supermarkets have a neighborhood market focus to distinguish them from supercenters.

Spartan Stores common stock trades on the Nasdaq Stock Market under the symbol SPTN.

The principal executive offices of Spartan Stores are located at 850 76th Street, S.W., Grand Rapids, Michigan, and Spartan Stores telephone number is (616) 878-2000. Additional information about Spartan Stores and its subsidiaries is included in documents incorporated by reference into this joint proxy statement/prospectus. See Where You Can Find More Information on page 160.

Nash-Finch Company

Nash-Finch is a Fortune 500 company and the largest food distributor serving military commissaries and exchanges in the United States, in terms of revenue. Nash-Finch s core businesses include distributing food to military commissaries and exchanges and independent grocery retailers located in 41 states, the District of Columbia, Europe, Cuba, Puerto Rico, the Azores, Bahrain and Egypt. Nash-Finch also owns and operates a base of 76 retail stores, primarily supermarkets under the Family Fresh Market®, Econofoods®, Family Thrift Center®, No Frills®, Bag n Save®, Supermercado Nuestra Familia®, and Sun Mart® trade names. Nash-Finch was originally established in 1885 and incorporated in 1921.

Nash-Finch common stock trades on the Nasdaq Stock Market under the symbol NAFC.

The principal executive offices of Nash-Finch are located at 7600 France Avenue South, Minneapolis, Minnesota, and Nash-Finch s telephone number is (952) 832-0534. Additional information about Nash-Finch and its subsidiaries is included in documents incorporated by reference into this joint proxy statement/prospectus. See Where You Can Find More Information on page 160.

SS Delaware, Inc.

SS Delaware, Inc., a wholly owned subsidiary of Spartan Stores, Inc., is a Delaware corporation that was formed on July 18, 2013 for the sole purpose of effecting the merger. In the merger, SS Delaware, Inc. will be merged with and into Nash-Finch, with Nash-Finch surviving as a wholly owned subsidiary of Spartan Stores.

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The Merger

A copy of the merger agreement is attached as Annex A to this joint proxy statement/prospectus. Spartan Stores and Nash-Finch encourage you to read the entire merger agreement carefully because it is the principal document governing the merger. For more information on the merger agreement, see the section entitled The Merger Agreement beginning on page 97.

Form of the Merger (see page 97)

Subject to the terms and conditions of the merger agreement, at the effective time of the merger, Merger Sub, a wholly owned subsidiary of Spartan Stores formed for the sole purpose of effecting the merger, will be merged with and into Nash-Finch. Nash-Finch will survive the merger as a wholly owned subsidiary of Spartan Stores. The combined company may pursue an internal restructuring of certain legal entities after completing the merger. The internal restructuring of the combined company would be subject to, among other things, the continuing evaluation of such restructuring and the approval of the board of directors of the combined company after the merger.

Merger Consideration (see page 98)

Nash-Finch stockholders will have the right to receive 1.20 shares of Spartan Stores common stock for each share of Nash-Finch common stock they hold at the effective time of the merger (referred to as the exchange ratio). The exchange ratio is fixed and will not be adjusted for changes in the market value of the common stock of Nash-Finch or Spartan Stores. As a result, the implied value of the consideration to Nash-Finch stockholders will fluctuate between the date of this joint proxy statement/prospectus and the effective date of the merger. Based on the closing price of Spartan Stores common stock on the Nasdaq Stock Market (referred to as the Nasdaq) on July 19, 2013, the last trading day before public announcement of the merger, the exchange ratio represented approximately $25.44 in value for each share of Nash-Finch common stock. Based on the closing price of Spartan Stores common stock on Nasdaq on October 14, 2013, the latest trading day before the date of this joint proxy statement/prospectus, the exchange ratio represented approximately $27.23 in value for each share of Nash-Finch common stock.

Material U.S. Federal Income Tax Consequences of the Merger (see page 118)

The merger is intended to be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. Assuming the merger qualifies as a reorganization, a holder of Nash-Finch common stock will not recognize any gain or loss for U.S. federal income tax purposes upon the exchange of the holder s shares of Nash-Finch common stock for shares of Spartan Stores common stock pursuant to the merger, except with respect to cash received in lieu of fractional shares of Spartan Stores common stock.

As a condition to the completion of the merger, Spartan Stores and Nash-Finch will have received an opinion, dated as of the closing date of the merger, that the merger will be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code.

The tax opinions regarding the merger will not address any state, local or foreign tax consequences of the merger. The opinions will be based on certain assumptions and representations as to factual matters from Spartan Stores and Nash-Finch, as well as certain covenants and undertakings by Spartan Stores and Nash-Finch. If any of the assumptions, representations, covenants or undertakings is incorrect, incomplete, inaccurate or is violated in any material respect, the validity of the conclusions reached by counsel in their opinions would be jeopardized and the tax consequences of the merger could differ from those described in this joint proxy statement/prospectus. Neither Spartan Stores nor Nash-Finch is currently aware of any facts or circumstances that would cause the assumptions, representations, covenants and undertakings to be incorrect, incomplete, inaccurate or violated in any material respect.

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An opinion of counsel represents such counsel s best legal judgment but is not binding on the Internal Revenue Service (referred to as the IRS) or any court, so there can be no certainty that the IRS will not challenge the conclusions reflected in the opinion or that a court would not sustain such a challenge.

You are urged to consult your own tax advisor regarding the particular consequences to you of the merger.

Recommendation of the Board of Directors of Spartan Stores (see page 59)

After careful consideration, the Spartan Stores board of directors unanimously determined that the merger and the other transactions contemplated by the merger agreement are in the best interests of Spartan Stores and its shareholders, approved the merger and the merger agreement and recommended to Spartan Stores shareholders the approval of the issuance of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger. The Spartan Stores board of directors approved and declared advisable the proposed amendment to Spartan Stores restated articles of incorporation which increases the number of authorized shares of capital stock under its articles of incorporation at the effective time of the merger, and recommends the approval of the amendment to Spartan Stores restated articles of incorporation to the holders of Spartan Stores common stock. For more information regarding the factors considered by the Spartan Stores board of directors in reaching its decisions relating to its recommendations, see the section entitled The Merger Spartan Stores Reasons for the Merger; Recommendation of the Spartan Stores Board of Directors. **The Spartan Stores board of directors unanimously recommends that Spartan Stores shareholders vote FOR the proposal to approve the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger, FOR the proposal to approve an amendment to Spartan Stores restated articles of incorporation and FOR the proposal to approve the adjournment of the Spartan Stores special meeting to a later date or dates, if necessary or appropriate to solicit additional proxies in the event there are not sufficient votes at the time of the special meeting to approve the issuance of shares of Spartan Stores common stock.**

Recommendation of the Board of Directors of Nash-Finch (see page 72)

After careful consideration, the Nash-Finch board of directors unanimously adopted the merger agreement, determined that the merger agreement and the transactions contemplated thereby, including the merger, are in the best interests of Nash-Finch s stockholders, and recommended that the merger agreement be approved by Nash-Finch s shareholders. For more information regarding the factors considered by the Nash-Finch board of directors in reaching its decision to recommend the adoption of the merger agreement, see the section entitled The Merger Nash-Finch s Reasons for the Merger; Recommendation of the Nash-Finch Board of Directors. **The Nash-Finch board of directors unanimously recommends that Nash-Finch stockholders vote FOR the proposal to adopt the merger agreement, the merger and the other transactions contemplated by the merger agreement, FOR the proposal to approve on an advisory (non-binding) basis, the compensation that may be paid or become payable to Nash-Finch s named executive officers that is based on or otherwise related to the proposed transactions and FOR the proposal to approve the adjournment of the Nash-Finch special meeting to a later date or dates, if necessary or appropriate to solicit additional proxies in the event there are not sufficient votes at the time of the special meeting to approve the merger agreement.**

Opinion of Spartan Stores Financial Advisor (see page 61)

In connection with the merger, Spartan Stores board of directors received a written opinion, dated July 21, 2013, from Spartan Stores financial advisor, Moelis & Company LLC, referred to as Moelis , as to the fairness to Spartan Stores, from a financial point of view and as of the date of such opinion, of the exchange ratio. **The full text of Moelis written opinion dated July 21, 2013, which sets forth the assumptions made, procedures**

followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex C to this proxy statement/prospectus and is incorporated herein by reference. Shareholders are urged to read Moelis written opinion carefully and in its entirety. Moelis opinion was provided for the use and benefit of Spartan Stores board of directors (in its capacity as such) in its evaluation of the merger. Moelis opinion is limited solely to the fairness to Spartan Stores, from a financial point of view, of the exchange ratio and does not address Spartan Stores underlying business decision to effect the merger or the relative merits of the merger as compared to any alternative business strategies or transactions that might be available with respect to Spartan Stores. Moelis opinion does not constitute a recommendation to any shareholder of Spartan Stores as to how such shareholder should vote or act with respect to the merger or any other matter.

Opinion of Nash-Finch s Financial Advisor (see page 75)

Nash-Finch retained J.P. Morgan Securities LLC (referred to as J.P. Morgan) to act as its financial advisor in connection with the merger. At the meeting of Nash-Finch s board of directors on July 21, 2013, J.P. Morgan rendered its oral opinion to the board of directors of Nash-Finch that, as of such date and based upon and subject to the factors and assumptions set forth in its opinion, the exchange ratio in the proposed merger was fair, from a financial point of view, to the holders of Nash-Finch common stock. The oral opinion was subsequently confirmed in writing by delivery of J.P. Morgan s written opinion dated the same date. **The full text of the written opinion of J.P. Morgan, dated July 21, 2013, which sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken in rendering its opinion, is attached as Annex D to this proxy statement/prospectus and is incorporated herein by reference. The Nash-Finch stockholders are urged to read the opinion in its entirety. J.P. Morgan s written opinion is addressed to the board of directors of Nash-Finch, is directed only to the fairness from a financial point of view of the exchange ratio in the proposed merger as of the date of the opinion and does not constitute a recommendation to any stockholder of Nash-Finch as to how such stockholder should vote at the Nash-Finch special meeting.**

Interests of Spartan Stores Directors and Executive Officers in the Merger (see page 84)

Certain of Spartan Stores directors and executive officers have financial interests in the merger that may be different from, or in addition to, the interests of Spartan Stores shareholders generally.

As detailed below under The Merger Board of Directors and Management Following the Merger, the merger agreement provides that upon consummation of the merger, the board of directors of Spartan Stores will consist of up to twelve directors, which will include seven directors chosen by the current Spartan Stores directors (at least five of whom will be independent for purposes of the Nasdaq rules) and four of the five current Nash-Finch directors who are independent for purposes of the Nasdaq rules. In addition, Nash-Finch has the right to designate a fifth independent director selected by its board of directors, subject to approval by Spartan Stores (which approval shall not be unreasonably withheld), prior to the consummation of the merger. If such additional independent director is not selected prior to the consummation of the merger, such independent director may be selected by the board of directors of the combined company.

It is anticipated that no payments or benefits will be triggered as a result of the merger under the employment agreements, executive severance agreements, or other benefit plans that Spartan Stores has entered into with its executive officers, or under any Spartan Stores equity incentive plan.

As of October 15, 2013, the record date for the Spartan Stores special meeting, the directors and executive officers of Spartan Stores and their affiliates beneficially owned and were entitled to vote 854,001 shares of Spartan Stores common stock, collectively representing approximately 3.9% of the shares of Spartan Stores common stock outstanding and entitled to vote.

The Spartan Stores board of directors was aware of these interests and considered them, among other matters, in evaluating the merger and in making its recommendations to Spartan Stores shareholders.

Interests of Nash-Finch Directors and Executive Officers in the Merger (see page 84)

Certain of Nash-Finch s directors and executive officers have financial interests in the merger that may be different from, or in addition to, the interests of Nash-Finch s stockholders generally.

As detailed below under The Merger Board of Directors and Management Following the Merger, the merger agreement provides that upon consummation of the merger, the board of directors of Spartan Stores will consist of up to twelve directors, which will include seven directors chosen by the current Spartan Stores directors (at least five of whom will be independent for purposes of the Nasdaq rules) and four of the five current Nash-Finch directors (who are independent for purposes of the Nasdaq rules). In addition, Nash-Finch has the right to designate a fifth independent director selected by its board of directors, subject to approval by Spartan Stores (which approval shall not be unreasonably withheld), prior to the consummation of the merger. If such additional independent director is not selected prior to the consummation of the merger, such independent director may be selected by the board of directors of the combined company. Alec Covington, the current President and Chief Executive Officer of Nash-Finch, will serve as an advisor to the combined company on an as needed basis to help ensure a smooth transition. Edward Brunot, who currently serves as President of Nash-Finch s military business, will continue to lead that business in the combined companies. Each of Mr. Covington, Robert B. Dimond, Nash-Finch s Executive Vice President, Chief Financial Officer and Treasurer, Kevin Elliott, Nash-Finch s Executive Vice President, President and Chief Operating Officer, Nash-Finch Wholesale/Retail and Calvin S. Sihilling, Nash-Finch s Executive Vice President and Chief Information Officer, has been notified that his respective employment by the combined company will be terminated following the consummation of the merger. Other executive officers of Nash-Finch may also become employees or otherwise provide services to Spartan Stores or the combined company following the consummation of the merger. Current and former directors and officers of Nash-Finch will also be entitled to continued indemnification. Please see Interests of Nash-Finch Directors and Executive Officers in the Merger.

Also as described in Interests of Nash-Finch Directors and Executive Officers in the Merger, the merger will result in the acceleration of certain cash bonus awards and accelerated vesting and payout of certain benefits, including restricted stock units, performance units and deferred compensation account balances, payable to directors and executive officers. Upon a termination of employment of an executive officer by the combined company not-for-cause or by the executive officer for good reason following the merger, including the termination of employment of Messrs. Covington, Dimond, Elliott and Sihilling described above. The executive officer would be entitled to additional compensation.

As of October 2, 2013, the record date for the Nash-Finch special meeting, the directors and executive officers of Nash-Finch and their affiliates beneficially owned 767,812 shares of Nash-Finch common stock (including shares that such persons were entitled to receive pursuant to currently vested equity awards) and were entitled to vote 62,914 shares of Nash-Finch common stock (excluding shares that such persons may be entitled to receive pursuant to currently vested equity awards or upon the vesting of certain equity awards immediately prior to the effective time of the merger), collectively representing approximately 5.9% and 0.5%, respectively of the shares of Nash-Finch common stock outstanding and entitled to vote.

The Nash-Finch board of directors was aware of these interests and considered them, among other matters, in evaluating the merger and in making its recommendations to Nash-Finch stockholders.

Board of Directors and Management Following the Merger (see page 92)

Immediately following the effective time of the merger, the board of directors of the combined company will consist of up to twelve members, including: (i) seven directors chosen by the current Spartan Stores directors (at least five of whom will be independent for purposes of the Nasdaq rules), and (ii) four of the five current directors of Nash-Finch who are independent for purposes of the Nasdaq rules. In addition, Nash-Finch has the right to designate a fifth independent director selected by its board of directors, subject to approval by Spartan Stores (which approval shall not be unreasonably withheld), prior to the consummation of the merger. If such additional independent director is not selected prior to the consummation of the merger, such independent director may be selected by the board of directors of the combined company. The fees and/or other remuneration to be provided to the non-employee directors of the combined company have not been determined.

The merger agreement provides that Craig C. Sturken will continue to serve as Spartan Stores Chairman of the board, and that Dennis Eidson will continue to serve as President and Chief Executive Officer. Alec Covington, the current President and Chief Executive Officer of Nash-Finch, will serve as an advisor to the combined company to help ensure a smooth transition.

Treatment of Nash-Finch Stock Options and Other Equity-Based Awards (see page 94)

Upon completion of the merger, each right of any kind to receive Nash-Finch common stock or benefits measured by the value of a number of shares of Nash-Finch common stock granted under the Nash-Finch stock plans will be converted into an award with respect to a number of shares of Spartan common stock equal to the product of (i) the aggregate number of shares of Nash-Finch common stock subject to such award, multiplied by (ii) 1.20 (the exchange ratio in the merger). Such converted awards shall otherwise continue to have, and be subject to, the same terms and conditions set forth in the applicable Nash-Finch stock plan (or any other agreement to which such converted award was subject immediately prior to the effective time of the merger). The exercise or strike price (if any) per share of Spartan common stock applicable to any such converted award shall be equal to (i) the per share exercise price of such converted award immediately prior to the effective time of the merger divided by (ii) 1.20 (the exchange ratio in the merger).

Regulatory Clearances Required for the Merger (see page 93)

Spartan Stores and Nash-Finch have each agreed to take actions in order to obtain regulatory clearance required to consummate the merger. Regulatory clearance includes expiration or termination of the required waiting period under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended, and the rules and regulations promulgated thereunder (referred to as the HSR Act), following required notifications with and review by the Federal Trade Commission and the Antitrust Division of the U.S. Department of Justice. On July 30, 2013, each of Spartan Stores and Nash-Finch filed its notification under the HSR Act. On August 29, 2013, the pre-merger waiting period under the HSR Act expired without action by the Federal Trade Commission or the Department of Justice.

While Spartan Stores and Nash-Finch expect to obtain all required regulatory clearances, we cannot assure you that these regulatory clearances will be obtained or that the granting of these regulatory clearances will not involve the imposition of additional conditions on the completion of the merger, including the requirement to divest assets, or require changes to the terms of the merger agreement. These conditions or changes could result in the conditions to the merger not being satisfied.

Amendment to the Restated Articles of Incorporation of Spartan Stores (see page 72)

The Spartan Stores board of directors has approved, subject to Spartan Stores shareholder approval, an amendment to the Spartan Stores restated articles of incorporation which increases the number of authorized shares of common stock from 50 million to 100 million. The form of amendment to Spartan Stores restated articles of incorporation is included in this joint proxy statement/prospectus as Annex B. The approval of the amendment by the Spartan Stores shareholders is not a condition precedent to the closing of the merger. In the event this proposal is approved by Spartan Stores shareholders, but the merger is not completed, the amendment will not become effective.

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Expected Timing of the Merger

Spartan Stores and Nash-Finch currently expect the closing of the merger to occur in the fourth calendar quarter of 2013. However, the merger is subject to various regulatory clearances and the satisfaction or waiver of other conditions as described in the merger agreement, and it is possible that factors outside the control of Spartan Stores and Nash-Finch could result in the merger being completed at an earlier time, a later time or not at all.

Conditions to Completion of the Merger (see page 109)

The obligations of Spartan Stores and Nash-Finch to complete the merger are subject to the satisfaction of the following conditions:

- The adoption of the merger agreement by the holders of a majority of the outstanding shares of Nash-Finch common stock;
- approval of the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger by the affirmative vote of holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Spartan Stores special meeting, assuming a quorum;
- the expiration or earlier termination of the waiting period (and any extension thereof) applicable to the merger under the HSR Act;
- absence of any injunction, decree, order, statute, rule or regulation by a court or other governmental entity that makes unlawful or prohibits the consummation of the merger;
- effectiveness of the registration statement of which this joint proxy statement/prospectus forms a part and the absence of a stop order or proceedings threatened or initiated by the SEC for that purpose;
- authorization for the listing on Nasdaq of the shares of Spartan Stores common stock to be issued in connection with the merger and upon conversion of the Nash-Finch restricted stock and the shares of Spartan Stores common stock reserved for issuance pursuant to Spartan Stores stock options, subject to official notice of issuance; and
- the combined company s financing sources shall not have failed to enter into the credit facility and make the initial loans under the new credit facility due to the occurrence of a material adverse effect or the failure of a condition to the new credit facility relating to minimum opening excess availability.

In addition, each of Spartan Stores and Nash-Finch s obligations to effect the merger is subject to the satisfaction or waiver of the following additional conditions:

- the representations and warranties of the other party, other than the representations related to the ownership of subsidiaries, capitalization, and authorization of the merger (i) to the extent qualified by material adverse effect, will be true and correct, and (ii) to the extent not qualified by material adverse effect, will be true and correct except where the failure to be true and correct, individually or in the aggregate, has not had, and would not reasonably be expected to have, a material adverse effect on such party as of the date of the merger agreement and as of the closing date (other than those representations and warranties that were made only as of a specified date, which need only be true and correct as of such specified date);

the representations and warranties of the other party relating to the ownership of subsidiaries and capitalization will be true and correct in all respects (other than de minimis inaccuracies) as of the date of the merger agreement and as of the closing date (except to the extent such representations or warranties were made only as of a specified date, in which case, as of such specified date);

- the representations and warranties of the other party relating to the authorization of the merger will be true and correct in all respects;

- the other party having performed, in all material respects, its covenants and agreements under the merger agreement required to be performed on or prior to the closing date;

- receipt of a certificate executed by the other party s chief executive officer or chief financial officer as to the satisfaction of the conditions described in the preceding four bullets;

- there shall not have occurred a material adverse effect with respect to the other party; and

- receipt of a tax opinion from the party s tax counsel as described in the section titled The Merger Agreement Conditions to Completion of the Merger, including an opinion that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code.

No Solicitation of Alternative Proposals (see page 104)

The merger agreement precludes Spartan Stores and Nash-Finch from soliciting or engaging in discussions or negotiations with a third party with respect to a proposal for an acquisition proposal. However, if Spartan Stores or Nash-Finch receives an unsolicited acquisition proposal from a third party, and Spartan Stores or Nash-Finch s board of directors, as applicable, among other things, determines in good faith (after consultation with its legal and financial advisors) that such unsolicited proposal is, or is reasonably expected to lead to, a superior proposal to the merger, then Spartan Stores or Nash-Finch, as applicable, may furnish non-public information to and enter into discussions with, and only with, that third party regarding such acquisition proposal.

Termination of the Merger Agreement (see page 111)

Spartan Stores and Nash-Finch may mutually agree to terminate the merger agreement at any time, notwithstanding adoption of the merger agreement by stockholders. Either company may also terminate the merger agreement if the merger is not consummated by January 21, 2014, subject to certain exceptions. In addition, either company may terminate the agreement to enter into a definitive agreement with respect to a superior proposal, subject to certain conditions and the payment of a termination fee. See the section entitled The Merger Agreement Termination of the Merger Agreement for a discussion of these and other rights of each of Spartan Stores and Nash-Finch to terminate the merger agreement.

Termination Fees and Expenses (see page 113)

Generally, all fees and expenses incurred in connection with the merger agreement and the transactions contemplated by the merger agreement will be paid by the party incurring those expenses, subject to the specific exceptions discussed in this joint proxy statement/prospectus where Spartan Stores or Nash-Finch, as the case may be, may be required to pay a termination fee of $12 million or expense reimbursement up to $10 million. See the section entitled The Merger Agreement Expenses and Termination Fees; Liability for Breach for a discussion of the circumstances under which such termination fee will be required to be paid.

Accounting Treatment (see page 121)

Spartan Stores and Nash-Finch each prepares its respective financial statements in accordance with accounting principles generally accepted in the United States of America, which is referred to as GAAP . The merger will be accounted for using the acquisition method of accounting. Spartan Stores will be treated as the acquirer for accounting purposes.

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No Appraisal Rights (see page 156)

Neither the holders of shares of Spartan Stores common stock nor the holders of shares of Nash-Finch common stock are entitled to appraisal rights in connection with the merger in accordance with Michigan or Delaware law, respectively. Neither the restated articles of incorporation of Spartan Stores or its bylaws, nor the fifth amended and restated certificate of incorporation of Nash-Finch or its bylaws, confers such appraisal rights.

Comparison of Stockholder Rights and Corporate Governance Matters (see page 138)

Nash-Finch stockholders receiving merger consideration will have different rights once they become stockholders of the combined company due to differences between the governing corporate documents of Nash-Finch and the governing corporate documents of the combined company. These differences are described in detail under the section entitled Comparison of Rights of Spartan Stores Shareholders and Nash-Finch Stockholders.

Listing of Shares of Spartan Stores Common Stock; Delisting and Deregistration of Shares of Nash-Finch Common Stock (see page 95)

It is a condition to the completion of the merger that the shares of Spartan Stores common stock to be issued to Nash-Finch stockholders pursuant to the merger (including those shares of Spartan Stores common stock to be issued upon conversion of the Nash-Finch stock options, restricted stock, and restricted stock units) be authorized for listing on Nasdaq at the effective time of the merger, subject to official notice of issuance. Upon completion of the merger, shares of Nash-Finch common stock currently listed on Nasdaq will cease to be listed on Nasdaq and will be subsequently deregistered under the Exchange Act.

The Meetings

The Spartan Stores Special Meeting (see page 37)

The special meeting of Spartan Stores shareholders will be held at the offices of Warner Norcross & Judd LLP, 111 Lyon Street NW, Grand Rapids, MI 49503, on Monday, November 18, 2013, at 10:00 a.m., local time. The special meeting of Spartan Stores shareholders is being held to consider and vote on:

- a proposal to approve the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger;
- a proposal to approve an amendment to Spartan Stores restated articles of incorporation to increase the number of authorized shares of Spartan Stores common stock; and
- a proposal to approve the adjournment of the Spartan Stores special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies in the event there are not sufficient votes at the time of the special meeting to approve the first proposal listed above.

Completion of the merger is conditioned on approval of the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger, however it is not conditioned on the approval of the amendment to Spartan Stores restated articles of incorporation to increase the number of authorized shares of Spartan Stores common stock.

With respect to each Spartan Stores proposal listed above, Spartan Stores shareholders may cast one vote for each share of Spartan Stores common stock that they own. The proposal to approve the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger requires the approval of a majority of the votes cast at the Spartan Stores special meeting, assuming a quorum. The proposal to approve an amendment to Spartan Stores restated articles of incorporation requires the approval of a majority of the outstanding shares of Spartan Stores common stock entitled to vote at the Spartan Stores special meeting. No

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business may be transacted at the Spartan Stores special meeting unless a quorum is present. If a quorum is not present, or if fewer shares are voted in favor of the proposal to approve the issuance of shares of Spartan Stores common stock to Nash-Finch stockholders in connection with the merger than is required, to allow additional time for obtaining additional proxies, the special meeting may be adjourned if the approval of a majority of the votes cast at the special meeting is obtained. No notice of an adjourned meeting need be given unless the adjournment is for more than 30 days or, if after the adjournment, a new record date is fixed for the adjourned meeting, in which case a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

The Nash-Finch Special Meeting (see page 42)

The special meeting of Nash-Finch stockholders will be held at the Westin Edina Galleria, Room: Cahill B, 3201 Galleria, Edina, MN 55435, on Monday, November 18, 2013, at 9:00 a.m., local time. The special meeting of Nash-Finch stockholders is being held to consider and vote on:

- a proposal to adopt the merger agreement, the merger and the other transactions contemplated by the merger agreement, which is further described in the sections titled The Merger and The Merger Agreement, beginning on pages 47 and 97, respectively;
- an advisory (non-binding) proposal to approve the compensation that may be paid or become payable to Nash-Finch s named executive officers that is based on or otherwise related to the proposed transactions; and
- a proposal to approve the adjournment of the Nash-Finch special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies in the event there are not sufficient votes at the time of the special meeting to approve the first proposal listed above.

Completion of the merger is conditioned on the adoption of the merger agreement, the merger and the other transactions contemplated by the merger agreement.

With respect to each Nash-Finch proposal listed above, Nash-Finch stockholders may cast one vote for each share of Nash-Finch common stock that they own. The proposal to adopt the merger agreement, the merger and the other transactions contemplated by the merger agreement requires the affirmative vote of a majority of the issued and outstanding shares of Nash-Finch common stock entitled to vote at the Nash-Finch special meeting. The proposal to approve, on an advisory (non-binding) basis, the compensation that may be paid or become payable to Nash-Finch s named executive officers that is based on or otherwise related to the proposed transactions the affirmative vote of a majority of the issued and outstanding shares of Nash-Finch common stock that are present in person or represented by proxy and entitled to vote at the special meeting, assuming a quorum. No business may be transacted at the Nash-Finch special meeting unless a quorum is present. If a quorum is not present, or if fewer shares are voted in favor of the proposal to adopt the merger agreement, the merger and the other transactions contemplated by the merger agreement than is required, to allow additional time for obtaining additional proxies, the special meeting may be adjourned upon the affirmative vote of a majority of the issued and outstanding shares of Nash-Finch common stock that are present in person or represented by proxy and entitled to vote at the special meeting. No notice of an adjourned meeting need be given unless the adjournment is for more than 30 days or a new record date for determination of stockholders entitled to vote is fixed for the adjourned meeting.

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Summary Historical Consolidated Financial Data

Summary Historices New Roman', Times, serif; COLOR: #000000">-

Shareholders' equity

133,628

138,578

131,115

125,929

97,409

SUMMARIZED EARNINGS DATA FOR THE YEARS ENDED DECEMBER 31, (in thousands)	2014	2013	2012	2011	2010
Net interest income	$49,568	$46,631	$46,842	$43,915	$34,530
Provision for loan losses	3,981	2,755	828	958	1,125
Net interest income after provision for loan losses	45,587	43,876	46,014	42,957	33,405
Wealth management group fee income	7,747	7,344	6,827	6,710	10,497
Service charges on deposit accounts	5,281	4,706	4,241	4,282	4,552
Securities gains (losses), net	6,869	(13)	301	1,108	451
Other income	6,859	6,040	5,819	5,364	4,145
Total non-interest income	26,756	18,077	17,188	17,464	19,645
Legal settlements	4,250	-	-	-	-
Merger and acquisition related expenses	115	1,387	30	2,255	482
Other operating expenses	56,112	48,013	46,765	42,595	37,361
Total non-interest expense	60,477	49,400	46,795	44,850	37,843
Income before income tax expense	11,866	12,553	16,407	15,571	15,207
Income tax expense	3,709	3,822	5,385	5,033	5,105
Net income	$8,157	$8,731	$11,022	$10,538	$10,102

SELECTED PER SHARE DATA ON SHARES OF COMMON STOCK AT OR FOR THE YEARS ENDED DECEMBER 31,	2014	2013	2012	2011	2010	2009	% Change 2013 To 2014	Compounded Annual Growth 5 Years
Earnings per share (1)	$1.74	$1.87	$2.38	$2.40	$2.80	$1.45	(7.0 %)	3.7 %
Dividends declared	1.04	1.04	1.00	1.00	1.00	1.00	- %	0.8 %
Tangible book value (2)	22.71	23.63	22.40	21.07	22.90	20.74	(3.9 %)	1.8 %
Book Value	28.44	29.67	28.20	27.14	26.92	24.97	(4.1 %)	2.6 %

Market price at 12/31	27.66	34.17	29.89	22.75	22.30	21.25	(19.1	%)	5.4	%
Common shares outstanding at period end (in thousands) (3)	4,699	4,671	4,649	4,641	3,619	3,608	0.6	%	5.4	%
Weighted average shares outstanding (in thousands)	4,683	4,660	4,641	4,383	3,607	3,603	0.5	%	5.4	%

(1) Earnings per share is computed by dividing net income by the weighted average number of common shares outstanding. There is no difference between basic and diluted earnings per share.

(2) Tangible book value is total shareholders' equity less goodwill and other intangible assets divided by common shares outstanding.

(3) All issuable shares including those related to directors' restricted stock units and directors' stock compensation.

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SELECTED RATIOS AT OR FOR THE YEARS ENDED DECEMBER 31,	2014	2013	2012	2011	2010
Return on average assets	0.54 %	0.67 %	0.88 %	0.90 %	1.02 %
Return on average equity	5.74 %	6.50 %	8.41 %	8.77 %	10.64 %
Dividend yield at year end	3.76 %	3.08 %	4.20 %	4.40 %	4.48 %
Dividend payout	58.80 %	41.04 %	51.84 %	38.50 %	34.84 %
Total capital to risk adjusted assets	11.84 %	12.10 %	13.10 %	13.28 %	14.54 %
Tier I capital to risk adjusted assets	10.59 %	10.57 %	11.68 %	11.84 %	12.92 %
Tier I leverage ratio	7.78 %	8.08 %	8.74 %	8.27 %	8.72 %
Average equity to average assets	9.43 %	10.28 %	10.46 %	10.23 %	9.60 %
Year-end equity to year-end assets ratio	8.77 %	9.39 %	10.50 %	10.35 %	10.16 %
Loans to deposits	87.62 %	78.65 %	85.30 %	79.61 %	77.83 %
Allowance for loan losses to total loans	1.22 %	1.28 %	1.17 %	1.21 %	1.55 %
Allowance for loan losses to non-performing loans	175.96 %	150.11 %	172.96 %	70.97 %	89.62 %
Non-performing assets to total assets	0.71 %	0.61 %	0.53 %	1.19 %	1.18 %
Net interest rate spread	3.48 %	3.78 %	3.96 %	3.92 %	3.60 %
Net interest margin	3.59 %	3.91 %	4.14 %	4.13 %	3.88 %
Efficiency ratio (1)	78.75 %	72.49 %	70.92 %	68.11 %	67.37 %

(1) Efficiency ratio is non-interest expense less merger and acquisition related 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 gain on securities transactions less gain from bargain purchase less gain on liquidation of trust preferred securities.

The following tables summarize the Corporation's unaudited net income and basic earnings per share at each quarter end for the years 2014 and 2013 (amounts in thousands, except per share data):

	2014 Quarter Ended			
UNAUDITED QUARTERLY DATA	Mar. 31	June 30	Sept. 30	Dec. 31
Interest and dividend income	$12,954	$12,996	$13,341	$13,922
Interest expense	921	921	915	888
Net interest income	12,033	12,075	12,426	13,034
Provision for loan losses	639	1,103	589	1,650
Net interest income after provision for loan losses	11,394	10,972	11,837	11,384
Total other operating income	4,964	5,406	4,986	11,400
Total other operating expenses	13,343	13,579	17,763	15,792
Income (loss) before income tax expense (benefit)	3,015	2,799	(940)	6,992
Income tax expense (benefit)	951	869	(621)	2,510
Net income (loss)	$2,064	$1,930	$(319)	$4,482
Basic and diluted earnings (loss) per share	$0.44	$0.41	$(0.07)	$0.96

	2013 Quarter Ended			
UNAUDITED QUARTERLY DATA	Mar. 31	June 30	Sept. 30	Dec. 31
Interest and dividend income	$12,748	$12,333	$12,509	$13,073
Interest expense	1,031	1,005	993	1,003
Net interest income	11,717	11,328	11,516	12,070
Provision for loan losses	431	450	874	1,000
Net interest income after provision for loan losses	11,286	10,878	10,642	11,070

Total other operating income	4,022	4,475	4,351	5,229
Total other operating expenses	11,725	11,392	11,812	14,471
Income before income tax expense	3,583	3,961	3,181	1,828
Income tax expense	1,171	1,306	1,002	343
Net Income	$2,412	$2,655	$2,179	$1,485
Basic and diluted earnings per share	$0.52	$0.57	$0.46	$0.32

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

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

ASU: Accounting Standards Update
Bank: Chemung Canal Trust Company
CDO: Collateralized Debt Obligation
Corporation: Chemung Financial Corporation
FASB: Financial Accounting Standards Board
FDIC: Federal Deposit Insurance Corporation
FHLBNY: Federal Home Loan Bank 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
OTTI: Other-than-temporary impairment
PCI: Purchased credit impaired
SEC: Securities and Exchange Commission
TDRs: Troubled debt restructurings

The purpose of this discussion is to focus on information about the financial condition and results of operations of the Corporation. Reference should be made to the accompanying consolidated financial statements and footnotes, and the selected financial data appearing elsewhere in this report for an understanding of the following discussion and analysis.

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 this 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.

Use of Non-GAAP Financial Measures

The SEC has adopted Regulation G, which applies to all public disclosures, including earnings releases, made by registered companies that contain "non-GAAP financial measures." Under Regulation G, companies making public disclosures containing non-GAAP financial measures must also disclose, along with each non-GAAP financial measure, certain additional information, including a reconciliation of the non-GAAP financial measure to the closest comparable GAAP financial measure and a statement of the Corporation's reasons for utilizing the non-GAAP financial measure as part of its financial disclosures. The SEC has exempted from the definition of "non-GAAP financial measures" certain commonly used financial measures that are not based on GAAP. When these exempted measures are included in public disclosures, supplemental information is not required. The following measures used in this Report, which are commonly utilized by financial institutions, have not been specifically exempted by the SEC and may constitute "non-GAAP financial measures" within the meaning of the SEC's new rules, although we are unable to state with certainty that the SEC would so regard them.

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Tax-Equivalent Net Interest Income and Net Interest Margin

Net interest income is commonly presented on a tax-equivalent basis. That is, to the extent that some component of the institution's net interest income, which is presented on a before-tax basis, is exempt from taxation (e.g., is received by the institution as a result of its holdings of state or municipal obligations), an amount equal to the tax benefit derived from that component is added to the actual before-tax net interest income total. This adjustment is considered helpful in comparing one financial institution's net interest income to that of other institutions or in analyzing any institution's net interest income trend line over time, to correct any analytical distortion that might otherwise arise from the fact that financial institutions vary widely in the proportions of their portfolios that are invested in tax-exempt securities, and that even a single institution may significantly alter over time the proportion of its own portfolio that is invested in tax-exempt obligations. Moreover, net interest income is itself a component of a second financial measure commonly used by financial institutions, net interest margin, which is the ratio of net interest income to average interest-earning assets. For purposes of this measure as well, fully taxable equivalent net interest income is generally used by financial institutions, as opposed to actual net interest income, again to provide a better basis of comparison from institution to institution and to better demonstrate a single institution's performance over time. The Corporation follows these practices.

Tangible Book Value per Share

Tangible equity is total shareholders' equity less intangible assets. Tangible book value per share is tangible equity divided by total shares issued and outstanding. Tangible book value per share is often regarded as a more meaningful comparative ratio than book value per share as calculated under GAAP, that is, total shareholders' equity including intangible assets divided by total shares issued and outstanding. Intangible assets include goodwill and other intangible assets resulting from business combinations.

Adjustments for Certain Items of Income or Expense

In addition to disclosures of certain GAAP financial measures, including net income, earnings per share ("EPS"), return on average assets ("ROA"), and return on average equity ("ROE"), we may also provide comparative disclosures that adjust these GAAP financial measures for a particular period by removing from the calculation thereof the impact of certain transactions or other material items of income or expense occurring during the period, including certain nonrecurring items. The Corporation believes that the resulting non-GAAP financial measures may improve an understanding of its results of operations by separating out any such transactions or items that may have had a disproportionate positive or negative impact on the Corporation's financial results during the particular period in question. In the Corporation's presentation of any such non-GAAP (adjusted) financial measures not specifically discussed in the preceding paragraphs, the Corporation supplies the supplemental financial information and explanations required under Regulation G.

The Corporation believes that the non-GAAP financial measures disclosed by it from time-to-time are useful in evaluating the Corporation's performance and that such information should be considered as supplemental in nature and not as a substitute for or superior to the related financial information prepared in accordance with GAAP. The Corporation's non-GAAP financial measures may differ from similar measures presented by other companies.

Overview

The Corporation has been a financial holding company since 2000, and the Bank was established in 1833 and CFS Group, Inc. in 2001. Through the Bank and CFS Group, Inc., 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, securities and insurance 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, Wealth Management Group 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.

Highlights

Below are highlights of the Corporation’s operations for the year ended December 31, 2014:

- Net income for 2014 was $8.2 million, or $1.74 per share, compared with $8.7 million, or $1.87 per share, for 2013, a decrease of $0.5 million, or 6.6%.
- Returns on average assets and average equity for 2014 were 0.54% and 5.74%, respectively, compared with 0.67% and 6.50%, respectively, for 2013.
- Net interest margin (fully taxable equivalent) for 2014 was 3.59%, down from 3.91% for 2013.
- The non-performing assets to total assets ratio was 0.71% at December 31, 2014 compared with 0.61% at December 31, 2013.
- Book value per share was $28.44 at December 31, 2014 compared with $29.67 at December 31, 2013, a decrease of $1.23, or 4.1%. Tangible book value per share was $22.71 at December 31, 2014 compared with $23.63 at December 31, 2013, a decrease of $0.92 or 3.9%.
- Tangible equity to tangible assets ratio decreased to 7.13% at December 31, 2014 compared with 7.62% at December 31, 2013.
- The Corporation’s January 29, 2015 earnings release did not reflect an additional provision for loan losses of $0.7 million due to the impairment of a commercial loan, as we were unable to reasonably estimate the provision as of the date of the earnings release. The additional provision changed the previously reported full year net income of $8.6 million to $8.2 million, income tax expense of $4.0 million to $3.7 million, provision for loan losses of $3.3 million to $4.0 million, basic and diluted earnings per share of $1.83 to $1.74 and total shareholders’ equity of $134.0 million to $133.6 million. The Corporation’s earnings release also did not include a $7.9 million gross-up of the accrual for legal settlement, which had no income statement impact, to reflect the receivable for insurance proceeds. The provision for loan loss and the gross-up of the accrual for legal settlement adjustments changed the previously reported total assets of $1.517 billion to $1.524 billion and total liabilities of $1.383 billion to $1.391 billion.

Critical Accounting Policies, Estimates and Risks and Uncertainties

Critical accounting policies include the areas where the Corporation has made what it considers to be particularly difficult, subjective or complex judgments concerning estimates, and where these estimates can significantly affect the Corporation's financial results under different assumptions and conditions. The Corporation prepares its financial statements in conformity with GAAP. As a result, the Corporation is required to make certain estimates, judgments and assumptions that it believes are reasonable based upon the information available at that time. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. Actual results could be different from these estimates.

Management considers the accounting policy relating to the allowance for loan losses to be a critical accounting policy given the uncertainty in evaluating the level of the allowance required to cover probable incurred credit losses inherent in the loan portfolio, and the material effect that such judgments can have on the Corporation's results of operations. While management's current evaluation of the allowance for loan losses indicates that the allowance is adequate, under adversely different conditions or assumptions the allowance would need to be increased. For example, if historical loan loss experience significantly worsened or if current economic conditions significantly deteriorated, additional provisions for loan losses would be required to increase the allowance. In addition, the assumptions and estimates used in the internal reviews of the Corporation's non-performing loans and potential problem loans, and the associated evaluation of the related collateral coverage for these loans, has a significant impact on the overall analysis of the adequacy of the allowance for loan losses. Real estate values in the Corporation's market area did not increase dramatically in the prior several years, and, as a result, any declines in real estate values have been modest. While management has concluded that the current evaluation of collateral values is reasonable under the circumstances, if collateral evaluations were significantly lowered, the Corporation's allowance for loan losses policy would also require additional provisions for loan losses.

Management also considers the accounting policy relating to the valuation of goodwill and other intangible assets to be a critical accounting policy. The initial carrying value of goodwill and other intangible assets is determined using estimated fair values developed from various sources and other generally accepted valuation techniques. Estimates are based upon financial, economic, market and other conditions as they existed as of the date of a particular acquisition. These estimates of fair value are the results of judgments made by the Corporation based upon estimates that are inherently uncertain and changes in the assumptions upon which the estimates were based may have a significant impact on the resulting estimates. In addition to the initial determination of the carrying value, on an ongoing basis management must assess whether there is any impairment of goodwill and other intangible assets that would require an adjustment in carrying value and recognition of a loss in the consolidated statement of income.

Financial Condition

Summary

Consolidated assets at December 31, 2014 totaled $1.525 billion, an increase of $48.4 million or 3.3% since December 31, 2013. The growth was due primarily to increases of $125.7 million, in total portfolio loans. The increase in portfolio loans was due to strong growth of $100.5 million in commercial loans and $19.9 million in indirect consumer loans.

Total shareholders' equity was $133.6 million at December 31, 2014, a decrease of $5.0 million from December 31, 2013, due primarily to the Corporation's $8.9 million reduction in accumulated other comprehensive income, declared dividends of $4.8 million and partially offset by net income of $8.2 million and a reduction of $0.7 million in treasury stock.

The market value of total assets under management or administration in the Corporation's Wealth Management Group was $1.956 billion at December 31, 2014 compared with $1.888 billion at December 31, 2013, an increase of $68.0 million, or 3.6%.

Balance Sheet Comparisons

Table 1 contains selected average balance sheet information for each year in the six-year period ended December 31, 2014 (amounts in millions):

TABLE 1. SELECTED AVERAGE BALANCE SHEET INFORMATION

Average Balance Sheet	2014	2013	2012	2011	2010	2009	% Change 2013 to 2014	Compounded Annual Growth 5 Years
Total Assets	$1,506.3	$1,306.4	$1,253.7	$1,175.0	$988.6	$928.8	15.3 %	10.2 %
Earning Assets (1)	1,399.3	1,209.7	1,150.4	1,078.4	905.5	852.4	15.7 %	10.4 %
Loans (2)	1,066.4	942.9	844.2	741.0	590.6	586.7	13.1 %	12.7 %
Investments (3)	332.9	266.8	306.2	337.4	314.9	265.7	24.8 %	4.6 %
Deposits	1,297.4	1,092.8	1,045.0	967.1	819.1	753.9	18.7 %	11.5 %
Borrowings (4)	56.7	69.5	70.7	81.3	68.4	79.2	(18.4)%	(6.5)%
Shareholders' Equity	142.0	134.3	131.1	120.2	94.9	85.4	5.7 %	10.7 %

(1) Average earning assets include securities available for sale and securities held to maturity based on amortized cost, loans and loans held for sale net of deferred loan fees, interest-bearing deposits, FHLBNY stock, FRBNY stock and federal funds sold.
(2) Average loans and loans held for sale, net of deferred loan fees.

(3) Average balances for investments include securities available for sale and securities held to maturity, based on amortized cost, FHLBNY stock, FRBNY stock, federal funds sold and interest-bearing deposits.
(4) Average borrowings include FHLBNY advances, securities sold under agreements to repurchase and capitalized lease obligations.

Table 2 contains selected period-end balance sheet information for each year in the six-year period ended December 31, 2014 (amounts in millions):

TABLE 2. SELECTED PERIOD-END BALANCE SHEET INFORMATION

Ending Balance Sheet	2014	2013	2012	2011	2010	2009	% Change 2013 to 2014		Compounded Annual Growth 5 Years	
Total Assets	$1,524.5	$1,476.1	$1,248.2	$1,216.3	$958.3	$975.6	3.3	%	9.3	%
Earning Assets (1)	1,415.1	1,373.6	1,155.7	1,116.3	892.4	900.9	3.0	%	9.5	%
Loans (2)	1,121.5	995.9	893.5	796.9	613.7	595.9	12.6	%	13.5	%
Allowance for loan losses	13.7	12.8	10.4	9.7	9.5	10.0	7.2	%	6.6	%
Investments (3)	292.9	377.0	261.2	319.4	278.7	305.0	(22.3	)%	(0.8	)%
Deposits	1,280.0	1,266.3	1,047.5	1,001.1	788.5	803.1	1.1	%	9.8	%
Borrowings (4)	79.8	57.9	59.9	80.5	64.8	74.3	37.8	%	1.4	%
Shareholders' Equity	133.6	138.6	131.1	125.9	97.4	90.1	(3.6	)%	8.2	%

(1) Earning assets include securities available for sale, at estimated fair value and securities held to maturity based on amortized cost, loans and loans held for sale net of deferred loan fees, interest-bearing deposits, FHLBNY stock, FRBNY stock and federal funds sold.
(2) Loans and loans held for sale, net of deferred loan fees.
(3) Investments include securities available for sale, at estimated fair value, securities held to maturity, at amortized cost, FHLBNY stock, FRBNY stock, federal funds sold and interest-bearing deposits.
(4) Borrowings include FHLBNY advances, securities sold under agreements to repurchase and capitalized lease obligations.

Cash and Cash Equivalents

Total cash and cash equivalents decreased $22.4 million since December 31, 2013, due primarily to decreases of $19.0 million in interest-bearing deposits in other financial institutions and $3.4 million in cash and due from financial institutions.

Securities

The Corporation's Funds Management Policy includes an investment policy that in general, requires debt securities purchased for the bond portfolio to carry a minimum agency rating of "A". After an independent credit analysis is performed, the policy also allows the Corporation to purchase local municipal obligations that are not rated. The Corporation intends to maintain a reasonable level of securities to provide adequate liquidity and in order to have securities available to pledge to secure public deposits, repurchase agreements and other types of transactions. Fluctuations in the fair value of the Corporation's securities relate primarily to changes in interest rates.

Marketable securities are classified as Available for Sale, while investments in local municipal obligations are generally classified as Held to Maturity. The composition of the available for sale segment of the securities portfolio is summarized in Table 3 as follows (amounts in thousands):

TABLE 3. SECURITIES AVAILABLE FOR SALE

	2014			2013		
Securities Available for Sale	Amortized Cost	Estimated Fair Value	Unrealized Gains (Losses)	Amortized Cost	Estimated Fair Value	Unrealized Gains (Losses)

Obligations of U.S. Government and U.S Government sponsored enterprises	$180,535	$181,673	$ 1,138	$187,098	$188,106	$ 1,008
Mortgage-backed securities, residential	60,787	61,660	873	104,069	104,356	287
Collateralized mortgage obligations	335	338	3	1,001	1,015	14
Obligations of states and political subdivisions	30,677	31,451	774	37,339	38,376	1,037
Corporate bonds and notes	1,502	1,533	31	2,879	2,946	67
SBA loan pools	1,296	1,304	8	1,471	1,488	17
Trust preferred securities	1,906	2,028	122	1,898	2,034	136
Corporate stocks	285	520	235	444	7,695	7,251
Totals	$277,323	$280,507	$ 3,184	$336,199	$346,016	$ 9,817

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The available for sale segment of the securities portfolio totaled $280.5 million at December 31, 2014, a decrease of $65.5 million, or 18.9%, from $346.0 million at December 31, 2013. The decrease resulted primarily from sales and calls of $62.7 million, and maturities and principal collected of $24.2 million, partially offset by purchases of $23.6 million. The proceeds from the sales, calls, maturities and principal collected of securities were used to help fund the growth of the loan portfolio.

The held to maturity segment of the securities portfolio consists of obligations of political subdivisions in the Corporation's market areas. These securities totaled $5.8 million at December 31, 2014, a decrease of $0.7 million, or 10.2%, from $6.5 million at December 31, 2013. The decrease was due primarily to maturities and principal collected of $3.2 million, partially offset by purchases of $2.5 million.

Non-marketable equity securities at December 31, 2014 include shares of FRBNY stock and FHLBNY stock, carried at their cost of $1.7 million and $3.8 million, respectively. The fair value of these securities is assumed to approximate their cost. The investment in these stocks is regulated by regulatory policies of the respective institutions.

Table 4 sets forth the carrying amounts and maturities of available for sale and held to maturity debt securities at December 31, 2014 and the weighted average yields of such securities (all yields are calculated on the basis of the amortized cost and weighted for the scheduled maturity of each security, except mortgage-backed securities which are based on the average life at the projected prepayment speed of each security). Federal tax equivalent adjustments have been made in calculating yields on municipal obligations (amounts in thousands):

TABLE 4. MATURIES AND YIELDS OF AVAILABLE FOR SALE AND HELD TO MATURITY SECURITIES

	Maturing							
	Within One Year		After One, But Within Five Years		After Five, But Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Obligations of U.S. Government and U.S. Government sponsored enterprises	$26,813	2.02 %	$149,504	1.27 %	$5,356	2.66 %	$-	-
Mortgage-backed securities, residential	116	4.81 %	60,015	2.05 %	1,419	2.01 %	110	3.49 %
Collateralized mortgage obligations	246	3.49 %	92	4.71 %	-	-	-	-
Obligations of states and political subdivisions	9,912	2.85 %	25,711	3.94 %	1,003	6.05 %	-	-
Corporate bonds and notes	772	3.98 %	518	4.13 %	243	3.25 %	-	-
SBA loan pools	-	-	712	1.79 %	592	1.74 %	-	-
Trust preferred securities	2,028	8.94 %	-	-	-	-	-	-
Time deposits with other financial institutions	656	2.07 %	-	-	-	-	-	-
Total	$40,543	2.58 %	$236,552	1.76 %	$8,613	2.91 %	$110	3.49 %

Management evaluates securities for OTTI on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For the year ended December 31, 2014, the Corporation had no OTTI charges. For the year ended December 31, 2013, the Corporation had less than $0.1 million in OTTI charges. During the fourth quarter of 2013, the Corporation sold one CDO consisting of a pool of trust preferred securities that had an amortized cost of $0.6 million. The CDO was sold for $0.6 million, resulting in a slight loss. The CDO was sold in light of the uncertainty surrounding the recently released rules contained in the "Volcker Rule" provision of the Dodd-Frank Act regarding the ability of banks to hold these types of securities and based on current market conditions. In addition to the CDO that was sold in the fourth quarter of 2013, the remaining CDO was liquidated and the Corporation recorded $0.5 million in other income during the first quarter of 2014. The Corporation does not own any other CDOs in its investment securities portfolio. For more detailed information on OTTI, see Footnote (3), "Securities" in the Notes to Consolidated Financial Statements.

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Loans

The Corporation has reporting systems to monitor: (i) loan originations and concentrations, (ii) delinquent loans, (iii) non-performing assets, including non-performing loans, troubled debt restructurings, other real estate owned, (iv) impaired loans, and (v) potential problem loans. Management reviews these systems on a regular basis.

Table 5 shows the Corporation's loan composition by segment and percentage of total loans at the end of each of the last five years (amounts in thousands):

TABLE 5. LOANS

	December 31,									
	2014	%	2013	%	2012	%	2011	%	2010	%
Commercial and agricultural	$166,406	14.8	$145,363	14.6	$133,851	15.0	$142,209	17.8	$114,697	18.7
Commercial mortgages	452,593	40.4	373,147	37.5	320,198	35.9	264,589	33.2	133,070	21.7
Residential mortgages	196,809	17.5	195,997	19.7	200,475	22.4	193,600	24.3	173,468	28.3
Indirect consumer loans	184,763	16.5	164,846	16.5	130,573	14.6	97,165	12.2	98,941	16.1
Consumer loans	121,003	10.8	116,513	11.7	108,420	12.1	99,352	12.5	93,508	15.2
Total	$1,121,574	100.0	$995,866	100.0	$893,517	100.0	$796,915	100.0	$613,684	100.0

Portfolio loans totaled $1.122 billion at December 31, 2014, an increase of $125.7 million, or 12.6%, from $995.9 million at December 31, 2013. The increase in portfolio loans was due to strong growth of $100.5 million, or 19.4%, in commercial loans and $19.9 million, or 12.1%, in indirect consumer loans. The growth in commercial loans was due primarily to an increase in commercial loans in the Capital Bank division in the Albany, New York region. The growth in indirect consumer loans was a result of the Corporation’s extension into the first nine months of 2014 its loan program with reduced pricing on high quality indirect auto loans.

Residential mortgage loans totaled $196.8 million at December 31, 2014, an increase of $0.8 million, or 0.4%, from December 31, 2013. In addition, during 2014, $13.6 million of residential mortgages were sold in the secondary market to Freddie Mac, with an additional $0.1 million of residential mortgages sold to the State of New York Mortgage Agency.

The Corporation anticipates that future growth in portfolio loans will continue to be in the commercial mortgage and commercial and agricultural loan segments.

Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other conditions. The Corporation’s concentration policy limits the volume of commercial loans to any one specific industry. Specific industries are identified using the North American Industry Classification System (“NAICS”) codes. The volume of commercial loans, with the exception of commercial mortgages, to any one specific industry is limited to Tier 1 capital plus the allowance for loan losses. The volume of commercial mortgages is limited to three times the total of Tier 1 capital plus the allowance for loan losses. The Corporation is in compliance with the concentration policy limits.

The Corporation also monitors specific NAICS industry classifications of commercial loans to identify concentrations greater than 10.0% of total loans. At December 31, 2014 and 2013, commercial loans to borrowers involved in the real estate, and real estate rental and lending businesses were 36.1% and 31.1% of total loans, respectively. No other concentration of loans existed in the commercial loan portfolio in excess of 10.0% of total loans as of December 31, 2014 and 2013.

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Table 6 shows the maturity of only commercial and agricultural loans and commercial mortgages outstanding as of December 31, 2014. Also provided are the amounts due after one year, classified according to the sensitivity to changes in interest rates (amounts in thousands):

	TABLE 6. LOAN AMOUNTS CONTRACTUALLY DUE AFTER DECEMBER 31, 2014			
	Within One Year	After One But Within Five Years	After Five Years	Total
Commercial and agricultural and commercial mortgages	$73,671	$131,105	$414,223	$618,999
Loans maturing after one year with:				
Fixed interest rates	$25,686	$91,608	$104,137	$221,431
Variable interest rates	47,985	39,497	310,086	397,568
Total	$73,671	$131,105	$414,223	$618,999

Non-Performing Assets

Non-performing assets consist of non-accrual loans, non-accrual troubled debt restructurings and other real estate owned that has been acquired in partial or full satisfaction of loan obligations or upon foreclosure.

Past due status on all loans is based on the contractual terms of the loan. It is generally the Corporation's policy that a loan 90 days past due be placed in non-accrual status unless factors exist that would eliminate the need to place a loan in this status. A loan may also be designated as non-accrual at any time if payment of principal or interest in full is not expected due to deterioration in the financial condition of the borrower. At the time loans are placed in non-accrual status, the accrual of interest is discontinued and previously accrued interest is reversed. All payments received on non-accrual loans are applied to principal. Loans are considered for return to accrual status when they become current as to principal and interest and remain current for a period of six consecutive months or when, in the opinion of management, the Corporation expects to receive all of its contractual principal and interest. In the case of non-accrual loans where a portion of the loan has been charged off, the remaining balance is kept in non-accrual status until the entire principal balance has been recovered.

Table 7 summarizes the Corporation's non-performing assets, excluding purchased credit impaired loans (amounts in thousands):

TABLE 7. NON-PERFORMING ASSETS

December 31,	2014	2013	2012	2011	2010
Non-accrual loans	$6,798	$7,456	$7,456	$9,554	$6,805
Non-accrual troubled debt restructurings	980	1,061	1,061	4,057	3,793
Total non-performing loans	7,778	8,517	8,517	13,611	10,598
Other real estate owned	3,065	538	538	898	741
Total non-performing assets	$10,843	$9,055	$9,055	$14,509	$11,339

Ratio of non-performing loans to total loans	0.69 %	0.86 %	0.68 %	1.71 %	1.73 %
Ratio of non-performing assets to total assets	0.71 %	0.61 %	0.53 %	1.19 %	1.18 %
Ratio of allowance for loan losses to non-performing loans	175.96%	150.01%	172.96%	70.97%	89.62%

Accruing loans past due 90 days or more (1)	$1,454	$1,473	$4,484	$7,304	$11
Accruing troubled debt restructurings (1)	$8,705	$6,831	$5,364	$-	$659

(1) These loans are not included in nonperforming assets above.

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Table 8 shows interest income on non-accrual and troubled debt restructured loans for the indicated years ended December 31 (amounts in thousands):

TABLE 8. INTEREST INCOME ON NON-ACCRUAL AND TROUBLED DEBT RESTRUCTURED LOANS

	2014	2013	2012
Interest income that would have been recorded under original terms	$463	$541	$666
Interest income recorded during the period	$367	$336	$12

Non-Performing Loans

The recorded investment in non-performing loans at December 31, 2014, totaled $7.8 million compared to $8.5 million at year-end 2013, a decrease of $0.7 million. The decrease in non-performing loans was due to decreases of $0.6 million in non-accrual loans and $0.1 million in non-accrual TDRs. Non-performing commercial loans decreased $0.9 million while non-performing residential mortgages increased $0.3 million.

The recorded investment in accruing loans 90 days or more past due totaled $1.5 million at December 31, 2014, level with the recorded investment at December, 31, 2013. At December 31, 2014, the recorded investment in accruing loans 90 days or more past due included $1.4 million in acquired construction loans not considered by management to be PCI loans, which for a variety of reasons are 90 days or more past their stated maturity dates. However, the borrowers continue to make required interest payments. Additionally, these loans carry third party credit enhancements, and based on the strength of those credit enhancements, the Corporation has not identified these loans as PCI loans and expects to incur no losses on these loans.

Not included in the non-performing loan totals are loans acquired in the April 2011 acquisition of Fort Orange Financial Corp. and its wholly-owned subsidiary, Capital Bank, which the Corporation had identified as PCI loans totaled $2.6 million and $9.7 million at December 31, 2014 and 2013, respectively. The PCI loans are accounted for under separate accounting guidance, Accounting Standards Codification (“ASC”) Subtopic 310-30, “Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality” as disclosed in Note 4 of the financial statements.

Troubled Debt Restructurings

The Corporation works closely with borrowers that have financial difficulties to identify viable solutions that minimize the potential for loss. In that regard, the Corporation has modified the terms of select loans to maximize their collectability. These modifications may be considered TDRs under current accounting guidance. 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 December 31, 2014, the Corporation had $1.0 million of non-accrual TDRs compared with $1.1 million as of December 31, 2013. The decrease in non-accrual TDRs was in the commercial loan segment of the loan portfolio. As of December 31, 2014, the Corporation had $8.7 million of accruing TDRs compared with $6.8 million as of December 31, 2013. The increase in accruing TDRs was primarily in the commercial loan segment of the loan portfolio.

Impaired Loans

A loan is classified as impaired when, based on current information and events, it is probable that the Corporation will be unable to collect both the principal and interest due under the contractual terms of the loan agreement. Impaired loans at December 31, 2014 totaled $15.9 million, including TDRs of $9.7 million, compared to $13.9 million at December 31, 2013, including TDRs of $7.9 million. The increase in impaired loans was in the commercial loan segment of the loan portfolio. Not included in the impaired loan totals are acquired loans which the Corporation has identified as PCI loans, as these loans are accounted for under ASC Subtopic 310-30 as noted under the above discussion of non-performing loans. Included in the impaired loan total at December 31, 2014, are loans totaling $4.9 million for which impairment allowances of $1.2 million have been specifically allocated to the allowance for loan losses. As of December 31, 2013, the impaired loan total included $2.0 million of loans for which specific impairment allowances of $1.0 million were allocated to the allowance for loan losses. The increase in the amount of impaired loans for which specific allowances were allocated to the allowance for loan losses was due to an increase of $3.1 million in impaired commercial mortgages, partially offset by a decrease of $0.9 million in commercial and industrial loans.

The majority of the Corporation's impaired loans are secured and measured for impairment based on collateral evaluations. It is the Corporation's policy to obtain updated appraisals, by independent third parties, on loans secured by real estate at the time a loan is determined to be impaired. An impairment measurement is performed based upon the most recent appraisal on file to determine the amount of any specific allocation or charge-off. In determining the amount of any specific allocation or charge-off, the Corporation will make adjustments to reflect the estimated costs to sell the property. Upon receipt and review of the updated appraisal, an additional measurement is performed to determine if any adjustments are necessary to reflect the proper provisioning or charge-off. Impaired loans are reviewed on a quarterly basis to determine if any changes in credit quality or market conditions would require any additional allocation or recognition of additional charge-offs. Real estate values in the Corporation's market area have been holding steady. Non-real estate collateral may be valued using (i) an appraisal, (ii) net book value of the collateral per the borrower’s financial statements, or (iii) accounts receivable aging reports, that may be adjusted based on management’s knowledge of the client and client’s business. If market conditions warrant, future appraisals are obtained for both real estate and non-real estate collateral.

Allowance for Loan Losses

The allowance is an amount that management believes will be adequate to absorb probable incurred losses on existing loans. The allowance is established based on management’s evaluation of the probable inherent losses in our portfolio in accordance with GAAP, and is comprised of both specific valuation allowances and general valuation allowances.

Specific valuation allowances are established based on management’s analyses of individually impaired loans. Factors considered by management in determining impairment include payment status, evaluations of the underlying collateral, expected cash flows, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. If a loan is determined to be impaired and is placed on nonaccrual status, all future payments received are applied to principal and a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan’s existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. Loans not impaired but classified as substandard and special mention use a historical loss factor on a rolling five year history of net losses. For all other unclassified loans, the historical loss experience is determined by portfolio class and is based on the actual loss history experienced by the Corporation over the most recent two years. This actual loss experience is supplemented with other qualitative factors based on the risks present for each portfolio class. These qualitative factors include consideration of the following: (1) lending policies and procedures, including underwriting standards and collection, charge-off and recovery policies, (2) national and local economic and business conditions and developments, including the condition of various market segments, (3) loan profiles and volume of the portfolio, (4) the experience, ability, and depth of lending management and staff, (5) the volume and severity of past due, classified and watch-list loans, non-accrual loans, troubled debt restructurings, and other modifications (6) the quality of the Bank's loan review system and the degree of oversight by the Bank's Board of Directors, (7) collateral related issues: secured vs. unsecured, type, declining valuation environment and trend of other related factors, (8) the existence and effect of any concentrations of credit, and changes in the level of such concentrations, (9) the effect of external factors, such as competition and legal and regulatory requirements, on the level of estimated credit losses in the Bank's current portfolio and (10) the impact of the global economy.

The allowance for loan losses is increased through a provision for loan losses charged to operations. Loans are charged against the allowance for loan losses when management believes that the collectability of all or a portion of the principal is unlikely. Management's evaluation of the adequacy of the allowance for loan losses is performed on a periodic basis and takes into consideration such factors as the credit risk grade assigned to the loan, historical loan loss experience and review of specific impaired loans. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses. Such agencies may require the Corporation to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Prior to December 31, 2012, the Corporation utilized the sum of all allowance amounts derived as described above, combined with a reasonable unallocated allowance, as the primary indicator of the appropriate level of allowance for loan losses. During the fourth quarter of 2012, the Corporation refined its allowance calculation whereby it "allocated" the portion of the allowance that was previously deemed to be unallocated allowance. This refined allowance calculation included specific allowance allocations for qualitative factors including (i) concentrations of credit, (ii) general economic and business conditions, (iii) trends that could affect collateral values and (iv) expectations regarding the current business cycle. The Corporation may also consider other qualitative factors in future periods for additional allowance allocations, including, among other factors, (1) credit quality trends (including trends in non-performing loans expected to result from existing conditions), (2) seasoning of the loan portfolio, (3) specific industry conditions affecting portfolio segments, (4) the Corporation's expansion into new markets and (5) the offering of new loan products.

Table 9 summarizes the Corporation's allocation of the allowance for loan losses and percent of loans by category to total loans for each year in the five-year period ended December 31, 2014 (amounts in thousands):

TABLE 9. ALLOCATION OF ALLOWANCE FOR LOAN LOSSES

Balance at end of period applicable to:	2014	%	2013	%	2012	%	2011	%	2010	%
Commercial and agricultural	$1,460	14.8	$1,979	14.6	$1,708	15.0	$3,143	17.8	$2,118	18.6
Commercial mortgages	6,326	40.4	6,243	37.5	4,428	35.9	2,570	33.2	2,575	21.7
Residential mortgages	1,572	17.5	1,517	19.7	1,565	22.4	1,310	24.3	1,302	28.3
Consumer loans	4,328	27.3	3,037	28.2	2,706	26.7	2,193	24.7	2,727	31.4

	13,686	100.0	12,776	100.0	10,407	100.0	9,216	100.0	8,722	100.0
Unallocated	-		-		26		443		776	
Total	$13,686		$12,776		$10,433		$9,659		$9,498	

Table 10 summarizes the Corporation's loan loss experience for each year in the five-year period ended December 31, 2014 (amounts in thousands, except ratio data):

TABLE 10. SUMMARY OF LOAN LOSS EXPERIENCE

	Years Ended December 31,				
	2014	2013	2012	2011	2010
Allowance for loan losses at beginning of year	$12,776	$10,433	$9,659	$9,498	$9,967
Reclassification of acquired loan discount			124	-	-
Charge-offs:					
Commercial and agricultural	444	186	181	686	817
Commercial mortgages	2,229	44	335	19	471
Residential mortgages	97	124	83	67	83
Consumer loans	1,508	1,139	674	726	840
Total	4,278	1,493	1,273	1,498	2,211
Recoveries:					
Commercial and agricultural	385	537	802	423	414
Commercial mortgages	156	98	55	41	15
Residential mortgages	32	65	-	45	-
Consumer loans	634	381	238	192	188
Total	1,207	1,081	1,095	701	617
Net charge-offs	3,071	412	178	797	1,594
Provision charged to operations	3,981	2,755	828	958	1,125
Allowance for loan losses at end of year	$13,686	$12,776	$10,433	$9,659	$9,498
Ratio of net charge-offs during year to average loans outstanding	0.29 %	0.04 %	0.02 %	0.11 %	0.27 %
Ratio of allowance for loan losses to total loans outstanding	1.22 %	1.28 %	1.17 %	1.21 %	1.55 %

Net charge-offs for 2014 were $3.1 million compared with $0.4 million for 2013. The ratio of net charge-offs to average loans outstanding was 0.29% for 2014 compared to 0.04% for 2013. The increase in net charge-offs was due primarily to increases of $2.1 million in commercial mortgage and $0.4 million in commercial and agricultural net charge-offs.

Other Real Estate Owned

At December 31, 2014, other real estate owned (“OREO”) totaled $3.1 million compared to $0.5 million at December 31, 2013. The increase in other real estate owned was due primarily to the transfer of two acquired PCI commercial loans.

Other Assets

The $10.1 million increase in other assets was due primarily to the recording of a receivable from the Corporation’s insurance carrier related to the settlement of the two legal proceedings involving its Wealth Management Group and the increase in other real estate owned.

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Deposits

Deposits totaled $1.280 billion at December 31, 2014, compared with $1.266 billion at December 31, 2013, an increase of $13.8 million, or 1.1%. At December 31, 2014, demand deposit and money market accounts comprised 68.0% of total deposits compared with 65.3% at December 31, 2013. Sorted by public, commercial, consumer and broker sources, the growth in deposits was due primarily to increases of $38.3 million in brokered and $5.7 million in commercial deposits, partially offset by decreases of $25.2 million in consumer and $5.0 million in public deposits accounts.

Brokered deposits include funds obtained through brokers, and the Bank’s participation in the Certificate of Deposit Account Registry Service (“CDARS”) and Insured Cash Sweep Service (“ICS”) programs. The CDARS and ICS programs involve a network of financial institutions that exchange funds 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. Deposits obtained through brokers were $2.3 million and $5.0 million as of December 31, 2014 and 2013, respectively. Deposits obtained through the CDARS and ICS programs were $76.7 million and $35.7 million as of December 31, 2014 and 2013, respectively. The increase in CDARS and ICS deposits was due to the Corporation offering the programs to local municipalities.

The Corporation’s deposit strategy is to fund the Bank with stable, low-cost deposits, primarily checking account deposits and other low interest-bearing deposit accounts. A checking account is the driver of a banking relationship and consumers consider the bank where they have their checking account as their primary bank. These customers will typically turn to their primary bank first when in need of other financial services. Strategies that have been developed and implemented to generate these deposits include: (i) acquire deposits by entering new markets through de novo branching, (ii) an annual checking account marketing campaign, (iii) training branch employees to identify and meet client financial needs with Bank products and services, (iv) link business and consumer loans to a primary checking account at the Bank, (v) aggressively promote direct deposit of client’s payroll checks or benefit checks and (vi) constantly monitor the Corporation’s pricing strategies to ensure competitive products and services.

The Corporation also considers brokered deposits to be an element of its deposit strategy and anticipates that it will continue using brokered deposits as a secondary source of funding to support growth.

Information regarding deposits is included in Note 7 to the consolidated financial statements appearing elsewhere in this report.

Borrowings

FHLBNY advances increased $24.9 million to $50.1 million at December 31, 2014 from $25.2 million at December 31, 2013. FHLBNY overnight advances increased $30.8 million during 2014 while FHLBNY term advances decreased $5.9 million.

For each of the three years ended December 31, 2014, 2013 and 2012, respectively, the average outstanding balance of borrowings that mature in one year or less did not exceed 30% of shareholders' equity.

Information regarding securities sold under agreements to repurchase and FHLBNY advances is included in notes 8 and 9 to the consolidated financial statements appearing elsewhere in this report.

Liquidity and Capital Resources

Liquidity management involves the ability to meet the cash flow requirements of deposit clients, borrowers, and the operating, investing and financing activities of the Corporation. The Corporation uses a variety of resources to meet its liquidity needs. These include short term investments, cash flow from lending and investing activities, core-deposit growth and non-core funding sources, such as time deposits of $100,000 or more, securities sold under agreements to repurchase and other borrowings.

The Corporation is a member of the FHLBNY which allows it to access borrowings which enhance management's ability to satisfy future liquidity needs. Based on available collateral and current advances outstanding, the Corporation was eligible to borrow up to a total of $86.0 million and $73.1 million at December 31, 2014 and 2013, respectively. The Corporation also had a total of $27.8 million of unsecured lines of credit with four different financial institutions, all of which was available at December 31, 2014 and 2013.

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During 2014, cash and cash equivalents decreased $22.4 million. The major sources of cash during 2014 included $18.4 million provided by operating activities, $90.2 million in proceeds from sales, maturities, calls and principal reductions on securities, $13.8 million in deposits and $24.9 million in FHLBNY advances. These proceeds were used primarily to fund purchases of securities totaling $27.2 million, a $131.9 million net increase in loans, payment of cash dividends in the amount of $4.8 million and purchases of fixed assets totaling $2.6 million.

During 2013, cash and cash equivalents increased $11.4 million. The major sources of cash during 2013 included $170.9 million received from the branch acquisition, $22.8 million provided by operating activities, $67.9 million in proceeds from sales, maturities, calls and principal reductions on securities and $40.9 million in organic deposit growth. These proceeds were used primarily to fund purchases of securities totaling $180.5 million, a $101.5 million net increase in loans, payment of cash dividends in the amount of $3.6 million and purchases of fixed assets totaling $3.7 million.

Shareholders’ Equity

Total shareholders’ equity was $133.6 million at December 31, 2014, compared with $138.6 million at December 31, 2013, a decrease of $5.0 million, or 3.6%. The decrease was due primarily to an $8.9 million decrease in accumulated other comprehensive income and declared dividends of $4.8 million, partially offset by net income of $8.2 million and a reduction of $0.7 million in treasury stock. The total shareholders’ equity to total assets ratio was 8.77% at December 31, 2014 compared with 9.39% at December 31, 2013. Tangible equity to tangible assets ratio decreased to 7.13% at December 31, 2014, from 7.62% at December 31, 2013.

The Corporation and the Bank are subject to capital adequacy guidelines of the Federal Reserve which establish a framework for the classification of financial holding companies and financial institutions into five categories: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. As of December 31, 2014, both the Corporation’s and the Bank’s capital ratios were in excess of those required to be considered well-capitalized under regulatory capital guidelines. A comparison of the Corporation’s and the Bank’s actual capital ratios to the ratios required to be adequately or well-capitalized at December 31, 2014 and 2013, is included in note 17 to the consolidated financial statements appearing elsewhere in this report. For more information regarding current capital regulations see Part I-“Business-Supervision and Regulation-Regulatory Capital.”

Cash dividends declared during 2014 totaled $4.8 million or $1.04 per share compared to $4.8 million or $1.04 per share in 2013 and $4.6 million or $1.00 per share in 2012. Dividends declared during 2014 amounted to 58.8% of net income compared to 54.7% and 41.5% of net income for 2013 and 2012, respectively. Management seeks to continue generating sufficient capital internally, while continuing to pay adequate dividends to the Corporation’s shareholders.

When shares of the Corporation become available in the market, the Corporation may purchase them after careful consideration of the Corporation’s liquidity and capital positions. Purchases may be made from time to time on the open market or in privately negotiated transactions at the discretion of management. On December 19, 2012, the Board of Directors approved a new stock repurchase plan under which the Corporation may repurchase up to 125,000 shares. No shares were purchased under the new plan in 2014. During 2013, the Corporation purchased 3,094 shares at a total cost of $93 thousand under the new plan. Under the previous plan, the Corporation purchased 68,564 shares.

Off-Balance Sheet Arrangements

In the normal course of operations, the Corporation engages in a variety of financial transactions that, in accordance with GAAP are not recorded in the financial statements. The Corporation is also a party to certain financial instruments with off balance sheet risk such as commitments under standby letters of credit, unused portions of lines of credit and commitments to fund new loans. The Corporation's policy is to record such instruments when funded.

These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are generally used by the Corporation to manage clients' requests for funding and other client needs.

Table 11 shows the Corporation's off-balance sheet arrangements as of December 31, 2014 (amounts in thousands):

TABLE 12. COMMITMENT MATURITY BY PERIOD

	Total	2015	2016 - 2017	2018 - 2019	2020 and thereafter
Standby letters of credit	$16,747	$15,653	$656	$438	$ -
Unused portions of lines of credit (1)	126,460	126,460	-	-	-
Commitments to fund new loans	34,838	34,838	-	-	-
Total	$178,044	$176,951	$656	$437	$ -

(1) Not included in this total are unused portions of home equity lines of credit, credit card lines and consumer overdraft protection lines of credit, since no contractual maturity dates exist for these types of loans. Commitments to outside parties under these lines of credit were $41,261, $13,405 and $4,921, respectively, at December 31, 2014.

Contractual Obligations

Table 13 shows the Corporation's contractual obligations under long-term agreements as of December 31, 2014 (amounts in thousands). Note references are to the Notes of the Consolidated Financial Statements:

TABLE 13. CONTRACTUAL OBLIGATIONS

	Payments Due by Period				
	Total	2015	2016 - 2017	2018 - 2019	2020 and thereafter
Time Deposits (Note 7)	$211,843	$155,295	$44,289	$10,626	$ 1,633
Federal Home Loan Bank advances (Note 9)	50,140	30,830	17,241	2,069	-
Securities sold under agreements to repurchase (Note 8)	29,652	9,652	20,000	-	-
Operating leases (Note 5)	9,873	1,429	2,309	1,981	4,154
Capital leases (Note 5)	3,814	234	468	468	2,644
Data processing services and other	5,203	1,518	2,183	1,455	47
Total (1)	$310,520	$208,953	$78,559	$14,530	$ 8,478

(1) Not included in the above total is the Corporation's obligation regarding the Pension Plan and Other Benefit Plans. Please refer to Part IV Item 15 Note 11 for information regarding these obligations at December 31, 2014.

Results of Operations 2014 vs. 2013

Net Income

Net income for 2014 was $8.2 million, a decrease of $0.5 million, or 6.6%, compared with $8.7 million for 2013. Earnings per share for 2014 was $1.74 compared with $1.87 for 2013. Return on average assets and return on average equity for 2014 were 0.54% and 5.74%, respectively, compared with 0.67% and 6.50%, respectively, for 2013.

The decline in 2014 earnings was due primarily to increases of $11.1 million in non-interest expense and $1.2 million in the provision for loan losses, partially offset by increases of $8.7 million in non-interest income and $2.9 million in net interest income. The increase in non-interest expense was due to a $4.3 million accrual for legal settlement regarding two legal proceedings involving the Bank's Wealth Management Group, along with increases of $2.0 million in salaries and wages, $1.6 million in net occupancy expense, $1.6 million in data processing expense, $0.7 million in professional services, $0.6 million in furniture and equipment expense and $0.4 million in amortization of intangible assets. A portion of the increase in non-interest expense was due to operating expenses directly related to the branch offices acquired in the fourth quarter of 2013, along with upgrades for ATMs and software. The increase in non-interest income was due primarily to $6.9 million in net gains on security transactions, along with increases of $0.4 million in Wealth Management Group fee income and $0.6 million in service charges on deposit accounts.

Net Interest Income

Net interest income, which is the difference between the income we receive on interest-earning assets, such as loans and securities and the interest we pay on interest-bearing liabilities, such as deposits and borrowings, is the largest contributor to our earnings.

For 2014, net interest income totaled $49.6 million, an increase of $3.0 million, or 6.3%, compared with $46.6 for 2013, and the net interest margin was 3.59% for 2014 compared with 3.91% for 2013. The decline in net interest income was due primarily to margin compression evidenced by a 40 basis point decrease in the yield on interest-earning assets, partially offset by a 10 basis point decline in the cost of funds and an increase of $189.6 million in average interest-earning assets. The decline in net interest margin was due primarily to yields on interest-earning assets decreasing at a faster rate than the cost of interest-bearing liabilities. The decrease in yield on interest-earning assets was attributable to lower loan yields as loans continue to adjust to current market rates and the investment of cash from the acquired branch offices into investment securities.

For 2014, total average funding liabilities, including non-interest-bearing demand deposits, increased $191.7 million, or 16.5%, to $1.354 billion. The growth was primarily due to increases of $120.7 million in average savings and money market deposits, $59.3 million in non-interest-bearing demand deposits and $30.2 million in interest-bearing demand deposits. These items were partially offset by decreases of $12.9 million in borrowings and $5.6 million in time deposits. While average interest-bearing liabilities increased $132.4 million, or 15.4%, interest expense decreased $0.4 million, or 9.6%, as the average cost of interest-bearing liabilities decreased 10 basis points to 0.37%.

Provision for Loan Losses

For 2014 the provision for loan loss expense totaled $4.0 million compared to $2.8 million for 2013. The increase was due primarily to additional impairments on commercial loans and growth in the loan portfolio.

Non-Interest Income

Non-interest income for 2014 was $26.8 million compared with $18.1 million for 2013, an increase of $8.7 million, or 48.0%. The increase was due primarily to $6.9 million in net gains on security transactions, and increases of $0.4 million in Wealth Management Group fee income and $0.6 million in service charges on deposit accounts.

Current assets under management or administration of the Corporation’s Wealth Management Group include investment, trust and retirement-related business lines. The market value of total assets under management or administration in the Wealth Management Group were $1.956 billion at December 31, 2014, compared with $1.888 billion at December 31, 2013, an increase of $68.0 million, or 3.6%. As a result, Wealth Management Group fee income increased for 2014. Wealth Management Group’s efforts in 2014 were focused on programs that include a private banking program with financial planning capabilities to serve the financial needs of high net worth individuals and an enhanced retirement services program to increase the number of plans under management and fee income.

Non-Interest Expense

Non-interest expense for 2014 was $60.5 million compared with $49.4 million for 2013, an increase of $11.1 million, or 22.4%. Excluding a $4.3 million pre-tax legal settlement from 2014, non-interest expense increased $6.8 million, or 13.8%, for 2014. The accrual for legal settlement was the result of two legal proceedings involving the Bank’s Wealth Management Group. The $6.8 million increase in non-interest expense, excluding the accrual for legal settlement, was due primarily to increases of $2.0 million in salaries and wages, $1.6 million in net occupancy expense, $0.6 million in furniture and equipment expense, $1.6 million in data processing costs, $0.7 million in professional fees, $0.4 million in amortization of intangible assets and $1.0 million in other non-interest expenses. These items were partially offset by a decrease of $1.3 million in merger and acquisition expense. A portion of the increase in non-interest expense was due to operating expenses directly related to the branch offices acquired in the fourth quarter of 2013, along with upgrades for ATMs and software.

Income Taxes

Income tax expense for 2014 was $3.7 million compared with $3.8 million for 2013, a decrease of $0.1 million, or 3.0%. Income tax expense reflects an effective tax rate of 31.3% for 2014 compared with 30.4% for 2013, due primarily to a decrease in the relative percentage of tax exempt income to pre-tax income.

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Results of Operations 2013 vs. 2012

Net Income

Net income for 2013 was $8.7 million, a decrease of $2.3 million, or 20.8%, compared with $11.0 million for 2012. Earnings per share for 2013 was $1.87 compared with $2.38 for 2012. Return on average assets and return on average equity for 2013 were 0.67% and 6.50%, respectively, compared with 0.88% and 8.41%, respectively, for 2012.

The decline in 2013 earnings was due primarily to increases of $1.9 million in the provision for loan losses and $2.6 million in non-interest expense, which included $1.4 million in pre-tax branch acquisition costs. Net interest income decreased $0.2 million in 2013. These items were partially offset by a reduction of $1.6 million in income taxes and an increase of $0.9 million in non-interest income. The increase in non-interest income was due primarily to increases of $0.5 million in Wealth Management Group fee income, $0.5 million in services charges on deposit accounts and a gain of $0.5 million from the branch acquisition. These items were offset by the 2012 pre-tax casualty gain of $0.8 million from insurance reimbursements related to the September 2011 flooding of the Owego and Tioga offices.

Net Interest Income

Net interest income, which is the difference between the income we receive on interest-earning assets, such as loans and securities and the interest we pay on interest-bearing liabilities, such as deposits and borrowings, is the largest contributor to our earnings.

For 2013, net interest income totaled $46.6 million, a slight decrease of $0.2 million, or 0.5%, compared with $46.8 for 2012, and the net interest margin was 3.85% for 2013 compared with 4.07% for 2012. The decline in net interest income was due primarily to margin compression evidenced by a 34 basis point decrease in the yield on interest-earning assets, partially offset by a 16 basis point decline in the cost of funds and an increase of $59.3 million in average earning assets. The decline in net interest margin was due primarily to yields on interest-earning assets decreasing at a faster rate than the cost of interest-bearing liabilities. The decrease in yield on interest-earning assets was attributable to lower loan yields as loans continue to reprice at current market rates. In addition, the Corporation anticipated a decline in the yield on interest-earning assets due in part to its investment of cash from the branch acquisition into investment securities.

For 2013, total average funding liabilities, including non-interest-bearing demand deposits, increased $46.5 million, or 4.2%, to $1.160 billion compared to 2012. The growth was primarily due to increases of $49.6 million in average savings and money market deposits and $18.4 million in demand deposits, partially offset by a decrease of $26.9 million in time deposits. While average interest-bearing liabilities increased $28.1 million, or 3.4%, interest expense decreased $1.2 million, or 22.9%, as the average cost of interest-bearing liabilities decreased 16 basis points to 0.47%.

Provision for Loan Losses

For 2013 the provision for loan loss expense totaled $2.8 million compared to $0.8 million for 2012. The increase was due principally to the establishment of $0.9 million in additional specific reserves on three commercial loans, loan portfolio growth and net charge-offs.

Non-Interest Income

Non-interest income for 2013 was $18.1 million compared with $17.2 million for 2012, an increase of $0.9 million, or 5.2%. The increase was due primarily to a gain of $0.5 million from the branch acquisition and increases of $0.5 million in Wealth Management Group fee income and $0.5 million in service charges on deposit accounts. These items were partially offset by reductions of $0.8 million in casualty gains from insurance reimbursements related to the September 2011 flooding of the Owego and Tioga offices and $0.3 million in net gain on securities transactions.

Current assets under management or administration of the Corporation's Wealth Management Group include investment, trust and retirement-related business lines. The market value of total assets under management or administration in the Wealth Management Group were $1.888 billion at December 31, 2013, compared with $1.735 billion at December 31, 2012, an increase of $153.0 million, or 8.8%. As a result, Wealth Management Group fee income increased for 2013, as the Wealth Management Group's efforts were focused on programs that include a private banking program with financial planning capabilities, to serve the financial needs of high net worth individuals, and an enhanced retirement services program to increase the number of plans under management and fee income.

Non-Interest Expense

Non-interest expense for 2013 was $49.4 million compared with $46.8 million for 2012, an increase of $2.6 million, or 5.6%. Excluding $1.4 million in pre-tax branch acquisition costs from 2013, non-interest expense increased $1.2 million, or 2.7% for 2013. This increase was due primarily to increases of $0.4 million in salaries and wages, $0.3 million in pension and other employee benefits, $0.3 million in net occupancy expense and $0.3 million in data processing costs. These items were partially offset by a decrease of $0.5 million in professional services related to consultant fees.

Included in the increase in salaries and wages was $0.1 million related to the branch acquisition, and the remainder to compensation expense related to merit increases and incentive compensation. The increase in pension and other employee benefits was primarily due to higher pension and retirement costs. The increase in net occupancy was due primarily to higher depreciation and rent expense, both related to the Bank of America branch acquisition. The increase in data processing expenses was primarily due to higher software maintenance fees and telephone data lines related to the branch acquisition.

Income Taxes

Income tax expense for 2013 was $3.8 million compared with $5.4 million for 2012, a decrease of $1.6 million, or 29.0%. Income tax expense reflects an effective tax rate of 30.4% for 2013 compared with 32.8% for 2012, due primarily to lower pre-tax income and an increase in the relative percentage of tax exempt income to pre-tax income.

Table 14 sets forth certain information related to the Corporation's average consolidated balance sheets and its consolidated statements of income for the years indicated and reflects the average yield on assets and average cost of liabilities for the years indicated. 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 securities.

TABLE 14. AVERAGE BALANCES AND YIELDS

Distribution of Assets, Liabilities and Shareholders' Equity, Interest Rates and Interest Differential Year Ended December 31,

(Amounts in thousands)	2014			2013			2012		
Assets	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Earning assets:									
Commercial, agricultural and commercial mortgage loans	$568,448	$28,181	4.96%	$486,364	$26,146	5.38%	$429,966	$25,649	5.97%
Mortgage loans	195,266	8,134	4.17%	198,903	8,638	4.34%	194,643	9,425	4.84%
Consumer loans	302,665	10,947	3.62%	257,641	10,484	4.07%	219,646	10,322	4.70%
Taxable securities	267,117	5,122	1.92%	209,676	4,468	2.13%	214,616	5,424	2.53%
Tax-exempt securities	39,890	1,415	3.55%	42,253	1,605	3.80%	48,653	1,834	3.77%
Interest-bearing deposits	25,899	64	0.25%	14,836	36	0.24%	42,884	153	0.36%
Total earning assets	1,399,285	53,863	3.85%	1,209,673	51,377	4.25%	1,150,408	52,807	4.59%
Non-earning assets:									
Cash and due from banks	26,653			23,739			24,369		
Premises and equipment, net	30,447			25,606			24,806		
Other assets	52,014			46,752			50,854		
Allowance for loan losses	(13,082)			(11,212)			(10,425)		
AFS adjustment to fair value	11,007			11,809			13,713		
Total	$1,506,324			$1,306,367			$1,253,725		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
Now deposits	$126,593	101	0.08%	$96,392	91	0.09%	$89,759	95	0.11%
Savings and insured money market deposits	585,616	988	0.17%	464,976	833	0.18%	415,253	828	0.20%
Time deposits	223,841	954	0.43%	229,426	1,426	0.62%	256,291	2,258	0.88%
Federal Home Loan Bank advances, securities sold	56,625	1,602	2.83%	69,498	1,682	2.42%	70,716	2,053	2.90%

under agreements to repurchase and other debt									
Total interest-bearing liabilities	992,675	3,645	0.37 %	860,292	4,032	0.47 %	832,019	5,234	0.63 %
Non-interest-bearing liabilities:									
Demand deposits	361,393			302,046			283,654		
Other liabilities	10,210			9,744			6,933		
Total liabilities	$ 1,364,278			$ 1,172,082			$ 1,122,606		
Shareholders' equity	142,046			134,285			131,119		
Total	$ 1,506,324			$ 1,306,367			$ 1,253,725		
Fully taxable equivalent net interest income		50,218			47,345			47,573	
Net interest rate spread (1)			3.48 %			3.78 %			3.96 %
Net interest margin, fully taxable equivalent (2)			3.59 %			3.91 %			4.14 %
Taxable equivalent adjustment		(650)			(714)			(731)	
Net interest income		$ 49,568			$ 46,631			$ 46,842	

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

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

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CHANGES DUE TO VOLUME AND RATE

Net interest income can be analyzed in terms of the impact of changes in rates and volumes. Table 15 illustrates the extent to which changes in interest rates and in the volume of average interest-earning assets and interest-bearing liabilities have affected the Corporation's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate); (ii) changes attributable to changes in rates (changes in rates multiplied by prior volume); and (iii) the net changes. For purposes of this table, changes that are not due solely to volume or rate changes have been allocated to these categories based on the respective percentage changes in average volume and rate. Due to the numerous simultaneous volume and rate changes during the periods analyzed, it is not possible to precisely allocate changes between volume and rates. In addition, average earning assets include non-accrual loans and taxable equivalent adjustments were made.

TABLE 15. RATE/VOLUME ANALYSIS OF NET INTEREST INCOME

	2014 vs. 2013 Increase/(Decrease)			2013 vs. 2012 Increase/(Decrease)		
	Total Change	Due to Volume	Due to Rate	Total Change	Due to Volume	Due to Rate
Interest income (in thousands)						
Commercial, agricultural and commercial mortgage loans	$2,035	$4,178	$(2,143)	$497	$3,175	$(2,678)
Mortgage loans	(504)	(156)	(348)	(787)	202	(989)
Consumer loans	463	1,708	(1,245)	162	1,651	(1,489)
Taxable investment securities	654	1,134	(480)	(956)	(122)	(834)
Tax-exempt investment securities	(190)	(87)	(103)	(229)	(243)	14
Interest-bearing deposits	28	27	1	(117)	(79)	(38)
Total interest income	$2,486	$6,804	$(4,318)	$(1,430)	$4,584	$(6,014)
Interest expense (in thousands)						
Interest-bearing demand deposits	$10	$26	$(16)	$(4)	$7	$(11)
Savings and insured money market deposits	155	206	(51)	5	94	(89)
Time deposits	(472)	(34)	(438)	(832)	(218)	(614)
FHLBNY advances, securities sold under agreements to repurchase and other debt	(80)	(339)	259	(371)	(34)	(337)
Total interest expense	(387)	(141)	(246)	(1,202)	(151)	(1,051)
Net interest income	$2,873	$6,945	$(4,072)	$(228)	$4,735	$(4,963)

ADOPTION OF NEW ACCOUNTING STANDARDS

There are no recently issued accounting standards that the Corporation feels will have a material impact on its consolidated financial statements.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Management considers interest rate risk to be the most significant market risk for the Corporation. Market risk is the risk of loss from adverse changes in market prices and rates. Interest rate risk is the exposure to adverse changes in the net income of the Corporation as a result of changes in interest rates.

The Corporation's primary earnings source is net interest income, which is affected by changes in the level of interest rates, the relationship between rates, the impact of interest rate fluctuations on asset prepayments, the level and composition of deposits and liabilities, and credit quality of earning assets.

The Corporation's objectives in its asset and liability management are to maintain a strong, stable net interest margin, to utilize its capital effectively without taking undue risks, to maintain adequate liquidity, and to reduce vulnerability of its operations to changes in interest rates. The Corporation's Asset/Liability Committee ("ALCO") has the strategic responsibility for setting the policy guidelines on acceptable exposure to interest rate risk. These guidelines contain specific measures and limits regarding the risks, which are monitored on a regular basis. The ALCO is made up of the president and chief executive officer, the chief financial officer, the asset liability management officer, and other officers representing key functions.

Interest rate risk is the risk that net interest income will fluctuate as a result of a change in interest rates. It is the assumption of interest rate risk, along with credit risk, that drives the net interest margin of a financial institution. For that reason, the ALCO has established tolerance limits based upon a 200-basis point change in interest rates, with appropriate floors set for interest-bearing liabilities. At December 31, 2014, it is estimated that an immediate 200-basis point decrease in interest rates would negatively impact the next 12 months net interest income by 9.45% and an immediate 200-basis point increase would negatively impact the next 12 months net interest income by 9.62%. Both are within the Corporation's policy guideline of 15%. Given the overall low level of current interest rates and the unlikely event of a 200-basis point decline from this point, management additionally modeled an immediate 100-basis point decline and an immediate 300-basis point increase in interest rates. When applied, it is estimated these scenarios would result in negative impacts to net interest income of 4.25% and 14.39%, respectively.

A related component of interest rate risk is the expectation that the market value of the Corporation's capital account will fluctuate with changes in interest rates. This component is a direct corollary to the earnings-impact component: an institution exposed to earnings erosion is also exposed to shrinkage in market value. At December 31, 2014, it is estimated that an immediate 200-basis point decrease in interest rates would negatively impact the market value of the Corporation's capital account by 7.29% and an immediate 200-basis point increase in interest rates would negatively impact the market value by 4.27%. Both are within the Corporation's policy guideline of 15%. Management also modeled the impact to the market value of the Corporation's capital with an immediate 100-basis point decline and an immediate 300-basis point increase in interest rates, based on the current interest rate environment. When applied, it is estimated these scenarios would result in negative impacts to the market value of the Corporation's capital of 3.99% and 6.61%, respectively.

Management does recognize the need for certain hedging strategies during periods of anticipated higher fluctuations in interest rates and the Funds Management Policy provides for limited use of certain derivatives in asset liability management. These strategies were not employed during 2014.

Credit Risk

The Corporation manages credit risk consistent with state and federal laws governing the making of loans through written policies and procedures; loan review to identify loan problems at the earliest possible time; collection procedures (continued even after a loan is charged off); an adequate allowance for loan losses; and continuing education and training to ensure lending expertise. Diversification by loan product is maintained through offering commercial loans, 1-4 family mortgages, and a full range of consumer loans.

The Corporation monitors its loan portfolio carefully. The Loan Committee of the Corporation's Board of Directors is designated to receive required loan reports, oversee loan policy, and approve loans above authorized individual and Senior Loan Committee lending limits. The Senior Loan Committee, consisting of the President and Chief Executive Officer, Chief Administrative and Risk Officer (non-voting member), business client division manager, retail client division manager, commercial loan manager, consumer loan manager, mortgage loan manager, and the President and commercial loan manager of the Capital Bank division, implements the Board-approved loan policy.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements listed in Part III, Item 15 are filed as part of this report and appear on pages F-1 through F-55.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Corporation's management, with the participation of our President and Chief Executive Officer, who is the Corporation's principal executive officer, and our Treasurer and Chief Financial Officer, who is the Corporation's principal financial officer, has evaluated the effectiveness of the Corporation's disclosure controls and procedures as of December 31, 2014. Based upon that evaluation, the President and Chief Executive Officer and the Treasurer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures are effective as of December 31, 2014.

(b) Management's Report on Internal Control over Financial Reporting

We, as members of management of the Corporation, are responsible for establishing and maintaining adequate internal control over financial reporting. The Corporation's internal control over financial reporting is a process designed to provide reasonable assurance to the Corporation's management and Board of Directors regarding the reliability of financial reporting and the preparation of the Corporation's financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Corporation's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As of December 31, 2014 management assessed the effectiveness of the Corporation's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in the "1992 Internal Control-Integrated Framework," issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on the assessment, we assert that the Corporation maintained effective internal control over financial reporting as of December 31, 2014 based on the specified criteria.

Crowe Horwath LLP, an independent registered public accounting firm, which audited the Corporation's 2014 consolidated financial statements included in the Annual Report, has issued an audit report on the effectiveness of the Corporation's internal control over financial reporting.

(c) Changes in Internal Control over Financial Reporting

During year ended December 31, 2014, we implemented internal control procedures to address a previously identified material weakness related to the identification of troubled debt restructurings. These internal controls included the creation of a formal tracking process of all extension, renewal, modification, or consolidation/refinance loans, which is completed on a quarterly basis, to ensure all troubled debt restructurings are properly identified, strengthening our procedures of troubled debt restructurings, and providing additional training to our loan underwriting and credit administration functions. After completing our testing of the design and operating effectiveness of these new procedures, we concluded that we have remediated the previously identified material weakness as of December 31, 2014.

During the fourth quarter, except for the items described above, there have been no changes in the Corporation's internal control over financial reporting that have materially affected, or that are reasonably likely to material affect, the Corporation's internal control over financial reporting.

/s/ Ronald M. Bentley	/s/ Karl F. Krebs
Ronald M. Bentley	Karl F. Krebs
President and Chief Executive Officer	Chief Financial Officer and Treasurer
March 13, 2015	March 13, 2015

Item 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information responsive to this Item 10 is incorporated herein by reference to the Corporation's definitive proxy statement for its 2015 Annual Meeting of Shareholders, which will be filed with the SEC within 120 days after the Corporation’s 2014 fiscal year end.

ITEM 11. EXECUTIVE COMPENSATION

Information responsive to this Item 11 is incorporated herein by reference to the Corporation's definitive proxy statement for its 2015 Annual Meeting of Shareholders, which will be filed with the SEC within 120 days after the Corporation’s 2014 fiscal year end.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT, AND RELATED STOCKHOLDER MATTERS

Information responsive to this Item 12 is incorporated herein by reference to the Corporation's definitive proxy statement for its 2015 Annual Meeting of Shareholders, which will be filed with the SEC within 120 days after the Corporation’s 2014 fiscal year end.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information responsive to this Item 13 is incorporated herein by reference to the Corporation's definitive proxy statement for its 2015 Annual Meeting of Shareholders, which will be filed with the SEC within 120 days after the Corporation’s 2014 fiscal year end.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information responsive to this Item 14 is incorporated herein by reference to the Corporation's definitive proxy statement for its 2015 Annual Meeting of Shareholders, which will be filed with the SEC within 120 days after the Corporation’s 2014 fiscal year end.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) The following consolidated financial statements of the Corporation appear on pages F-1 through F-55 of this report and are incorporated in Part II, Item 8:

Report of Independent Registered Public Accounting Firm-Crowe Horwath LLP

Consolidated Financial Statements
Consolidated Balance Sheets as of December 31, 2014 and 2013

Consolidated Statements of Income for the three years ended December 31, 2014

Consolidated Statements of Comprehensive Income for the three years ended December 31, 2014

Consolidated Statements of Shareholders' Equity for the three years ended December 31, 2014

Consolidated Statements of Cash Flows for the three years ended December 31, 2014

Notes to Consolidated Financial Statements

(2) Financial statement schedules have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or the Notes thereto under Item 8, "Financial Statements and Supplementary Data".

(b) The following exhibits are either filed with this Form 10-K or are incorporated herein by reference. The Corporation's Securities Exchange Act file number is 000-13888.

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Exhibit	
10.4	Change of Control Agreement dated August 23, 2007 between Chemung Canal Trust Company and Melinda A. Sartori, Executive Vice President. (Filed as Exhibit 10.9 to Registrant's Form 10-K filed with the SEC on March 13, 2008 and incorporated herein by reference).
10.5	Change of Control Agreement dated January 19, 2011 between Chemung Canal Trust Company and Richard G. Carr, Executive Vice President. (Filed as Exhibit 10.11 to Registrant’s Form 10-K filed with the SEC on March 16, 2011 and incorporated herein by reference).
10.6	Change of Control Agreement dated January 19, 2011 between Chemung Canal Trust Company and Louis C. DiFabio, Executive Vice President. (Filed as Exhibit 10.12 to Registrant’s Form 10-K filed with the SEC on March 16, 2011 and incorporated herein by reference).
10.7	Change of Control Agreement dated April 8, 2011 between Chemung Canal Trust Company and Anders M. Tomson, President Capital Bank Division. (Filed as Exhibit 10.14 to Registrant’s Form 10-Q filed with the SEC on May 13, 2011 and incorporated herein by reference).
10.8	Change of Control Agreement dated November 7, 2011 between Chemung Canal Trust Company and Karen R. Makowski, Executive Vice President and Chief Administration and Risk Officer. (Filed as Exhibit 10.16 to Registrant’s Form 10-K on March 28, 2012 and incorporated herein by reference).
10.9	Change of Control Agreement dated October 16, 2013 between Chemung Canal Trust Company and Karl F. Krebs, Executive Vice President and Chief Financial Officer. (Filed as Exhibit 10.1 to Registrant’s Form 8-K filed with the SEC on October 17, 2013 and incorporated herein by reference).
21	Subsidiaries of the Registrant.*
23	Consent of Crowe Horwath LLP, Independent Registered Public Accounting Firm.*
31.1	Certification of President Chief Executive Officer of the Registrant pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.*
31.2	Certification of Treasurer and Chief Financial Officer of the Registrant pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.*
32.1	Certification of President and Chief Executive Officer of the Registrant pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 19 U.S.C. §1350.*
32.2	Certification of Treasurer and Chief Financial Officer of the Registrant pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 19 U.S.C. §1350.*
101.INS	Instance Document
101.SCH	XBRL Taxonomy Schema*
101.CAL	XBRL Taxonomy Calculation Linkbase*
101.DEF	XBRL Taxonomy Definition Linkbase*
101.LAB	XBRL Taxonomy Label Linkbase*
101.PRE	XBRL Taxonomy Presentation Linkbase*
*	Filed herewith.

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CHEMUNG FINANCIAL CORPORATION

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Chemung Financial Corporation
Elmira, New York

We have audited the accompanying consolidated balance sheets of Chemung Financial Corporation as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income (loss), shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2014. We also have audited Chemung Financial Corporation’s internal control over financial reporting as of December 31, 2014, based on criteria established in the 1992 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Chemung Financial Corporation’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting as disclosed in Item 9A. Our responsibility is to express an opinion on these financial statements and an opinion on Chemung Financial Corporation’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chemung Financial Corporation as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Chemung Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of

December 31, 2014 based on criteria established in the 1992 Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Crowe Horwath LLP
Livingston, New Jersey
March 13, 2015

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	YEARS ENDED DECEMBER 31,	
(amounts in thousands, except share and per share amounts)	2014	2013
ASSETS		
Cash and due from financial institutions	$28,130	$31,600
Interest-bearing deposits in other financial institutions	1,033	20,009
Total cash and cash equivalents	29,163	51,609
Trading assets, at fair value	549	366
Securities available for sale, at estimated fair value	280,507	346,016
Securities held to maturity, estimated fair value of $6,197 at December 31, 2014 and $6,930 at December 31, 2013	5,831	6,495
Federal Home Loan Bank and Federal Reserve Bank Stock, at cost	5,535	4,482
Loans, net of deferred loan fees	1,121,574	995,866
Allowance for loan losses	(13,686)	(12,776)
Loans, net	1,107,888	983,090
Loans held for sale	665	695
Premises and equipment, net	32,287	30,039
Goodwill	21,824	21,824
Other intangible assets, net	5,067	6,377
Bank owned life insurance	2,764	2,796
Accrued interest and other assets	32,459	22,354
Total assets	$1,524,539	$1,476,143
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	$366,298	$351,222
Interest-bearing	913,716	915,034
Total deposits	1,280,014	1,266,256
Federal Home Loan Bank overnight advances	30,830	-
Securities sold under agreements to repurchase	29,652	32,701
Federal Home Loan Bank term advances	19,310	25,243
Long term capital lease obligation	2,976	-
Dividends payable	1,204	1,195
Accrued interest payable and other liabilities	26,925	12,170
Total liabilities	1,390,911	1,337,565
Shareholders' equity:		
Common stock, $.01 par value per share, 10,000,000 shares authorized; 5,310,076 issued at December 31, 2014 and December 31, 2013	53	53
Additional-paid-in capital	45,355	45,399
Retained earnings	114,383	111,031
Treasury stock, at cost (680,948 shares at December 31, 2014; 707,674	(17,378)	(18,060)

shares at December 31, 2013)		
Accumulated other comprehensive income (loss)	(8,785)	155
Total shareholders' equity	133,628	138,578
Total liabilities and shareholders' equity	$1,524,539	$1,476,143

See accompanying notes to consolidated financial statements.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	YEARS ENDED DECEMBER 31		
(amounts in thousands, except per share amounts)	2014	2013	2012
Interest and Dividend Income:			
Loans, including fees	$47,139	$45,136	$45,298
Taxable securities	5,043	4,391	5,357
Tax exempt securities	967	1,100	1,268
Interest-bearing deposits	64	36	153
Total interest and dividend income	53,213	50,663	52,076
Interest Expense:			
Deposits	2,043	2,350	3,181
Borrowed funds	754	824	1,059
Securities sold under agreements to repurchase	848	858	994
Total interest expense	3,645	4,032	5,234
Net interest income	49,568	46,631	46,842
Provision for loan losses	3,981	2,755	828
Net interest income after provision for loan losses	45,587	43,876	46,014
Other operating income:			
Wealth management group fee income	7,747	7,344	6,827
Service charges on deposit accounts	5,281	4,706	4,241
Net gains on securities transactions	6,869	16	301
Net impairment loss on investment securities	-	(29)	-
Net gain on sales of loans held for sale	301	503	484
Casualty gains	-	-	790
Net gains (losses) on sales of other real estate owned	(64)	28	(45)
Gain from bargain purchase	-	470	-
Income from bank owned life insurance	78	84	87
Other	6,544	4,955	4,503
Total other operating income	26,756	18,077	17,188
Other operating expenses:			
Salaries and wages	21,315	19,365	18,918
Pension and other employee benefits	5,733	5,939	5,624
Net occupancy expenses	7,098	5,501	5,164
Furniture and equipment expenses	2,972	2,326	2,205
Data processing expense	6,393	4,750	4,421
Professional services	1,597	928	1,443
Legal settlements	4,250	-	-
Amortization of intangible assets	1,310	921	1,047
Marketing and advertising expense	1,079	1,033	1,068
Other real estate owned expenses	247	194	328
FDIC insurance	1,116	866	807
Loan expense	811	779	788
Merger and acquisition related expenses	115	1,387	30
Other	6,441	5,411	4,952
Total other operating expenses	60,477	49,400	46,795
Income before income tax expense	11,866	12,553	16,407

Income tax expense	3,709	3,822	5,385
Net income	$8,157	$8,731	$11,022
Weighted average shares outstanding	4,683	4,660	4,641
Basic and diluted earnings per share	$1.74	$1.87	$2.38

See accompanying notes to consolidated financial statements.

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

	YEARS ENDED DECEMBER 31		
(amounts in thousands)	2014	2013	2012
Net income	$8,157	$8,731	$11,022
Other comprehensive income (loss):			
Unrealized holding (losses) gains on securities available for sale	236	(3,229)	411
Reclassification adjustment for other-than-temporary losses realized in net income	-	29	-
Reclassification adjustment gains realized in net income	(6,869)	(16)	(301)
Net unrealized (losses) gains	(6,633)	(3,216)	110
Tax effect	2,550	1,236	(75)
Net of tax amount	(4,083)	(1,980)	35
Change in funded status of defined benefit pension plan and other benefit plans:			
Net gain (loss) arising during the period	(8,481)	6,487	(3,624)
Reclassification adjustment for amortization of prior service costs	(90)	(83)	(83)
Reclassification adjustment for amortization of net actuarial loss	681	1,624	1,431
Total before tax effect	(7,890)	8,028	(2,276)
Tax effect	3,033	(3,086)	875
Net of tax amount	(4,857)	4,942	(1,401)
Total other comprehensive income (loss)	(8,940)	2,962	(1,366)
Comprehensive income (loss)	$(783)	$11,693	$9,656

See accompanying notes to consolidated financial statements.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balances at January 1, 2012	$ 53	$ 45,582	$ 100,629	$ (18,894)	$ (1,441)	$ 125,929
Net income	-	-	11,022	-	-	11,022
Other comprehensive loss	-	-	-	-	(1,366)	(1,366)
Restricted stock awards	-	80	-	-	-	80
Distribution of 3,240 shares of treasury stock for directors' deferred compensation plan	-	(82)	-	83	-	1
Distribution of 10,760 shares of treasury stock granted for employee restricted stock awards, net	-	(274)	-	274	-	-
Restricted stock units for directors' deferred compensation plan	-	87	-	-	-	87
Cash dividends declared ($1.00 per share)	-	-	(4,573)	-	-	(4,573)
Distribution of 10,238 shares of treasury stock for directors' compensation	-	(28)	-	261	-	233
Distribution of 3,453 shares of treasury stock for employee compensation	-	(8)	-	88	-	80
Sale of 10,100 shares of treasury stock	-	-	-	258	-	258
Purchase of 25,468 shares of treasury stock	-	-	-	(636)	-	(636)
Balances at December 31, 2012	$ 53	$ 45,357	$ 107,078	$ (18,566)	$ (2,807)	$ 131,115
Net income	-	-	8,731	-	-	8,731
Other comprehensive income	-	-	-	-	2,962	2,962
Restricted stock awards	-	131	-	-	-	131
Distribution of 3,356 shares of treasury stock for directors' deferred compensation plan	-	(75)	-	86	-	11
Distribution of 8,087 shares of treasury stock granted for employee restricted stock awards, net	-	(206)	-	206	-	-
Restricted stock units for directors' deferred compensation plan	-	99	-	-	-	99
Cash dividends declared ($1.04 per share)	-	-	(4,778)	-	-	(4,778)
Distribution of 7,969 shares of treasury stock for directors' compensation	-	14	-	203	-	217
Distribution of 4,116 shares of treasury stock for employee compensation	-	7	-	105	-	112
Forfeit 1,797 shares of restricted stock awards	-	61	-	(61)	-	-
Sale of 2,369 shares of treasury stock	-	11	-	60	-	71
Purchase of 3,094 shares of treasury stock	-	-	-	(93)	-	(93)
Balances at December 31, 2013	$ 53	$ 45,399	$ 111,031	$ (18,060)	$ 155	$ 138,578

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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(continued)	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balances at December 31, 2013	$ 53	$ 45,399	$ 111,031	$ (18,060)	$ 155	$ 138,578
Net income	-	-	8,157	-	-	8,157
Other comprehensive loss	-	-	-	-	(8,940)	(8,940)
Restricted stock awards	-	151	-	-	-	151
Distribution of 3,467 shares of treasury stock granted for directors' deferred compensation plan	-	(85)	-	88	-	3
Distribution of 11,279 shares of treasury stock granted for employee restricted stock awards, net	-	(288)	-	288	-	-
Restricted stock units for directors' deferred compensation plan	-	94	-	-	-	94
Cash dividends declared ($1.04 per share)	-	-	(4,805)	-		(4,805)
Distribution of 8,385 shares of treasury stock for directors' compensation	-	59	-	214	-	273
Distribution of 3,595 shares of treasury stock for employee compensation	-	25	-	92	-	117
Balances at December 31, 2014	$ 53	$ 45,355	$ 114,383	$ (17,378)	$ (8,785)	$ 133,628

See accompanying notes to consolidated financial statements.

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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)	Years Ended December 31,		
CASH FLOWS FROM OPERATING ACTIVITIES:	2014	2013	2012
Net income	$8,157	$8,731	$11,022
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of intangible assets	1,310	921	1,047
Deferred income tax (benefit) expense	(2,263)	(121)	647
Provision for loan losses	3,981	2,755	828
Loss on disposal of fixed assets	14	-	-
Depreciation and amortization of fixed assets	3,861	3,236	2,946
Amortization of premiums on securities, net	2,398	2,280	1,827
Gains on sales of loans held for sale, net	(301)	(503)	(484)
Proceeds from sales of loans held for sale	14,062	20,076	15,684
Loans originated and held for sale	(13,731)	(19,210)	(15,862)
Gain on bargain purchase	-	(470)	-
Net (gains) losses on sale of other real estate owned	64	(28)	45
Net gains on trading assets	(50)	(43)	(27)
Net gains on securities transactions	(6,869)	(16)	(301)
Net impairment loss recognized on investment securities	-	29	-
Proceeds from sales of trading assets	7	112	96
Purchase of trading assets	(140)	(87)	(123)
(Increase) decrease in other assets	(7,438)	(6,213)	6,084
Decrease in prepaid FDIC Assessment	-	1,970	733
Decrease in accrued interest payable	(99)	(108)	(348)
Expense related to restricted stock units for directors' deferred compensation plan	94	99	87
Expense related to employee stock compensation	117	112	80
Expense related to employee restricted stock awards	151	131	80
Increase in other liabilities	15,086	9,403	588
Proceeds from bank owned life insurance	110	-	-
Income from bank owned life insurance	(78)	(84)	(87)
Net cash provided by operating activities	18,443	22,972	24,562
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and calls of securities available for sale	62,738	18,150	90,870
Proceeds from maturities and principal collected on securities available for sale	24,222	44,046	29,342
Proceeds from maturities and principal collected on securities held to maturity	3,201	5,703	4,296
Purchases of securities available for sale	(23,613)	(174,034)	(80,444)
Purchases of securities held to maturity	(2,537)	(6,449)	(1,733)
Purchase of Federal Home Loan Bank and Federal Reserve Bank stock	(3,907)	(16,124)	(26)
Redemption of Federal Home Loan Bank and Federal Reserve Bank stock	2,854	16,353	825
Purchases of premises and equipment	(2,586)	(3,711)	(3,668)
Cash received acquisition of Bank of America branches	-	173,673	-
Cash paid Bank of America branches	-	(2,768)	-
Proceeds from sale of other real estate owned	342	155	796
Net increase in loans	(131,852)	(101,481)	(97,115)
Net cash used by investing activities	(71,138)	(46,487)	(56,857)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in demand deposits, interest-bearing demand accounts,	46,407	67,566	86,541

savings accounts, and insured money market accounts			
Net decrease in time deposits	(32,649)	(27,085)	(40,300)
Net decrease in securities sold under agreements to repurchase	(3,049)	(9)	(4,396)
Proceeds from FHLB overnight advances, net	30,830	-	-
Repayments of Federal Home Loan Bank long term advances	(5,933)	(1,983)	(16,119)
Payments made on capital lease	(561)	-	-
Purchase of treasury stock	-	(93)	(636)
Sale of treasury stock	-	71	258
Cash dividends paid	(4,796)	(3,584)	(5,714)
Net cash provided by financing activities	30,249	34,883	19,634
Net (decrease) increase in cash and cash equivalents	(22,446)	11,368	(12,661)
Cash and cash equivalents, beginning of period	51,609	40,241	52,902
Cash and cash equivalents, end of period	$29,163	$51,609	$40,241

(continued)

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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(continued)	2014	2013	2012
Cash paid during the year for:			
Interest	$3,744	$4,163	$5,643
Income Taxes	$3,346	$5,304	$1,732
Supplemental disclosure of non-cash activity:			
Transfer of loans to other real estate owned	$3,074	$103	$618
Dividends declared, not yet paid	$1,204	$1,195	$-
Assets acquired through long term capital lease obligation	$3,537	$-	$-

See accompanying notes to consolidated financial statements.

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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014, 2013 and 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

To assist the reader, the Corporation has provided the following list of commonly used acronyms and abbreviations included in the Notes to Consolidated Financial Statements.

Bank: Chemung Canal Trust Company	FRBNY: Federal Reserve Bank of New York
CDO: Collateralized Debt Obligation	Freddie Mac: Federal Home Loan Mortgage Corporation
Corporation: Chemung Financial Corporation	GAAP: U.S. generally accepted accounting principles
FASB: Financial Accounting Standards Board	OTTI: Other-than-temporary impairment
FDIC: Federal Deposit Insurance Corporation	PCI: Purchased credit impaired
FHLBNY: Federal Home Loan Bank of New York	SEC: Securities and Exchange Commission
FRB: Board of Governors of the Federal Reserve System	TDRs: Troubled debt restructurings

ORGANIZATION

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

BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in conformity with GAAP and include the accounts of the Corporation and its subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation.

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.

SECURITIES

Management determines the appropriate classification of securities at the time of purchase. If management has the intent and the Corporation has the ability at the time of purchase to hold securities until maturity, they are classified as held to maturity and carried at amortized cost. Securities to be held for indefinite periods of time or not intended to be held to maturity are classified as available for sale and carried at fair value. Unrealized holding gains and losses on securities classified as available for sale are excluded from earnings and are reported as accumulated other comprehensive income (loss) in shareholders' equity, net of the related tax effects, until realized. Realized gains and losses are determined using the specific identification method.

Management evaluates securities for OTTI on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and

2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

In order to determine OTTI for purchased beneficial interests that, on the purchase date, were not highly rated, the Corporation compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment of yield using the interest method. Dividend and interest income is recognized when collected.

FEDERAL HOME LOAN BANK AND FEDERAL RESERVE BANK STOCK

The Bank is a member of both the FHLBNY and the FRBNY. FHLBNY members are required to own a certain amount of stock based on the level of borrowings and other factors, while FRBNY members are required to own a certain amount of stock based on a percentage of the Bank’s capital stock and surplus. FHLBNY and FRBNY stock are carried at cost and classified as non-marketable equities and periodically evaluated for impairment based on ultimate recovery of par value. Cash dividends are reported as income.

BANK OWNED LIFE INSURANCE

Bank Owned Life Insurance ("BOLI") is recorded at the amount that can be realized under the insurance contracts at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Changes in the cash surrender value are recorded in other income.

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, as well as the commitments to sell the loans that are originated for sale, are regularly evaluated for changes in fair value. If necessary, a valuation allowance is established with a charge to income for unrealized losses attributable to a change in market rates.

LOANS

Loans are stated at the amount of unpaid principal balance net of deferred loan fees. Additionally, recorded investment in loans includes interest receivable on loans. The Corporation has the ability and intent to hold its loans for the foreseeable future. The Corporation’s loan portfolio, including acquired loans, is comprised of the following segments: (i) commercial and agricultural, (ii) commercial mortgages, (iii) residential mortgages, and (iv) consumer loans.

Commercial and agricultural loans primarily consist of loans to small to mid-sized businesses in the Corporation’s market area in a diverse range of industries. These loans are typically made on the basis of the borrower’s ability to make repayment from the cash flow of the borrower’s business. Commercial mortgage loans are generally non-owner occupied commercial properties or owner occupied commercial real estate with larger balances. Repayment of these loans is often dependent upon the successful operation and management of the properties and the businesses occupying the properties, as well as on the collateral securing the loan. Residential mortgage loans are generally made on the basis of the borrower’s ability to make repayment from their employment and other income, but are secured by real property. Consumer loans include home equity lines of credit and home equity loans, which exhibit many of the same characteristics as residential mortgages. Indirect and other consumer loans are typically secured by depreciable assets, such as automobiles or boats, and are dependent on the borrower’s continuing financial stability.

Interest on loans is accrued and credited to operations using the interest method. Past due status is based on the contractual terms of the loan. The accrual of interest is generally discontinued and previously accrued interest is reversed when loans become 90 days delinquent. Loans may also be placed on non-accrual status if management believes such classification is otherwise warranted. All payments received on non-accrual loans are applied to principal. Loans are returned to accrual status when they become current as to principal and interest and remain current for a period of six consecutive months or when, in the opinion of management, the Corporation expects to receive all of its original principal and interest. Loan origination fees and certain direct loan origination costs are deferred and amortized over the life of the loan as an adjustment to yield, using the interest method.

ACQUIRED LOANS

Non-Impaired Acquired Loans:

Loans acquired are initially recorded at fair value with no carryover of the related allowance for loan losses. After acquisition, losses beyond those estimated in determining the initial fair value are recognized through the allowance for loan losses. Determining fair value of the loans involves estimating the amount and timing of expected principal and interest cash flows to be collected on the loans and discounting those cash flows at a market interest rate.

Purchased Credit Impaired Loans:

Loans acquired that show evidence of credit deterioration since origination are considered purchased credit impaired loans These loans are recorded at the fair value of the amount paid, such that there is no carryover of the seller’s allowance for loan losses.

Such purchased loans are accounted for individually. The Corporation estimates the amount and timing of expected cash flows for each purchased loan and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan’s contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

After acquisition, losses are recognized by an increase in the allowance for loan losses. Over the life of the loan expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a reserve is established. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income. These loans are charged against the allowance for loan losses when management believes that the collectability of all or a portion of the principal is unlikely.

TROUBLED DEBT RESTRUCTURINGS

A TDR is a formally renegotiated loan in which the Bank, for economic or legal reasons related to a borrower’s financial difficulties, grants a concession to the borrower that would not have been granted to the borrower otherwise. Not all loans that are restructured as a TDR are classified as non-accrual before the restructuring occurs. Restructured loans can convert from non-accrual to accrual status when said loans have demonstrated performance, generally evidenced by six months of payment performance in accordance with the restructured terms, or by the presence of other significant items.

ALLOWANCE FOR LOAN LOSSES

The allowance is an amount that management believes will be adequate to absorb probable incurred losses on existing loans. The allowance is established based on management’s evaluation of the probable inherent losses in our portfolio in accordance with GAAP, and is comprised of both specific valuation allowances and general valuation allowances.

A loan is classified as impaired when, based on current information and events, it is probable that the Corporation will be unable to collect both the principal and interest due under the contractual terms of the loan agreement. Specific valuation allowances are established based on management’s analyses of individually impaired loans. Factors considered by management in determining impairment include payment status, evaluations of the underlying collateral, expected cash flows, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. If a loan is determined to be impaired and is placed on nonaccrual status, all future payments received are applied to principal and a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan’s existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. Loans not impaired but classified as substandard and special mention use a historical loss factor on a rolling five year history of net losses. For all other unclassified loans, the historical loss experience is determined by portfolio class and is based on the actual loss history experienced by the Corporation over the most recent two years.

This actual loss experience is supplemented with other qualitative factors based on the risks present for each portfolio class. These qualitative factors include consideration of the following: (1) lending policies and procedures, including underwriting standards and collection, charge-off and recovery policies, (2) national and local economic and business conditions and developments, including the condition of various market segments, (3) loan profiles and volume of the portfolio, (4) the experience, ability, and depth of lending management and staff, (5) the volume and severity of past due, classified and watch-list loans, non-accrual loans, troubled debt restructurings, and other modifications (6) the quality of the Bank's loan review system and the degree of oversight by the Bank's Board of Directors, (7) collateral related issues: secured vs. unsecured, type, declining valuation environment and trend of other related factors, (8) the existence and effect of any concentrations of credit, and changes in the level of such concentrations, (9) the effect of external factors, such as competition and legal and regulatory requirements, on the level of estimated credit losses in the Bank's current portfolio and (10) the impact of the global economy.

The allowance for loan losses is increased through a provision for loan losses charged to operations. Loans are charged against the allowance for loan losses when management believes that the collectability of all or a portion of the principal is unlikely. Management's evaluation of the adequacy of the allowance for loan losses is performed on a periodic basis and takes into consideration such factors as the credit risk grade assigned to the loan, historical loan loss experience and review of specific impaired loans. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses. Such agencies may require the Corporation to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

PREMISES AND EQUIPMENT

Land is carried at cost, while buildings, equipment, leasehold improvements and furniture are stated at cost less accumulated depreciation and amortization. Depreciation is charged to current operations under the straight-line method over the estimated useful lives of the assets, which range from 15 to 50 years for buildings and from 3 to 10 years for equipment and furniture. Amortization of leasehold improvements and leased equipment is recognized on the straight-line method over the shorter of the lease term or the estimated life of the asset.

OTHER REAL ESTATE

Real estate acquired through foreclosure or deed in lieu of foreclosure is recorded at estimated fair value of the property less estimated costs to dispose at the time of acquisition to establish a new carrying value. Write downs from the carrying value of the loan to estimated fair value which are required at the time of foreclosure are charged to the allowance for loan losses. Subsequent adjustments to the carrying values of such properties resulting from declines in fair value are charged to operations in the period in which the declines occur.

INCOME TAXES

The Corporation files a consolidated tax return. Deferred tax assets and liabilities are recognized for future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for unused tax loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates to apply to taxable income in the years in which temporary differences are expected to be recovered or settled, or the tax loss carry forwards are expected to be utilized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

WEALTH MANAGEMENT GROUP FEE INCOME

Assets held in a fiduciary or agency capacity for customers are not included in the accompanying consolidated balance sheets, since such assets are not assets of the Corporation. Wealth Management Group income is recognized on the accrual method as earned based on contractual rates applied to the balances of individual trust accounts. The unaudited market value of trust assets under administration total $1.956 billion at December 31, 2014 and $1.888 billion at December 31, 2013.

POSTRETIREMENT BENEFITS

Pension Plan:

The Chemung Canal Trust Company Pension Plan is a non-contributory defined benefit pension plan. The Pension Plan is a "qualified plan" under the IRS Code and therefore must be funded. Contributions are deposited to the Plan and held in trust. The Plan assets may only be used to pay retirement benefits and eligible plan expenses. The plan was amended such that new employees hired on or after July 10, 2010 will not be eligible to participate in the plan, however, existing participants at that time will continue to accrue benefits. The amendment has resulted in a decrease over time in the future benefit obligations of the plan and the corresponding net periodic benefit cost associated with the plan.

Under the Plan, pension benefits are based upon final average annual compensation where the annual compensation is total base earnings paid plus 401(k) salary deferrals. Bonuses, overtime, commissions and dividends are excluded. The normal retirement benefit equals 1.2% of final average compensation (highest consecutive five years of annual compensation in the prior ten years) times years of service (up to a maximum of 25 years), plus 1% of average monthly compensation for each additional year of service (up to a maximum of 10 years), plus .65% of average monthly compensation in excess of covered compensation for each year of credited service up to 35 years. Covered compensation is the average of the social security taxable wage bases in effect for the 35 year period prior to normal social security retirement age. Compensation for purposes of determining benefits under the Plan is reviewed annually.

Defined Contribution Profit Sharing, Savings and Investment Plan:

The Corporation also sponsors a 401(K) defined contribution profit sharing, savings and investment plan which covers all eligible employees with a minimum of 1,000 hours of annual service. The Corporation makes non-discretionary contributions and discretionary matching and profit sharing contributions to the plan based on the financial results of the Corporation. The plan's assets consist of Chemung Financial Corporation common stock, as well as other common and preferred stocks, U.S. Government securities, corporate bonds and notes, and mutual funds. The plan’s expense is the amount of non-discretionary contributions and discretionary matching and profit sharing contributions, and is charged to other expenses in the consolidated statements of income.

Defined Benefit Health Care Plan:

The Corporation sponsors a defined benefit health care plan that provides postretirement medical benefits to employees who meet minimum age and service requirements. This plan was amended effective July 1, 2006. Prior to this amendment, all retirees age 55 or older were eligible for coverage under the Corporation's self-insured health care plan, contributing 40% of the cost of the coverage. Under the amended plan, coverage for Medicare eligible retirees who reside in the Central New York geographic area is provided under a group sponsored plan with Excellus BlueCross BlueShield called Medicare Blue PPO, with the retiree paying 100% of the premium. Excellus BlueCross BlueShield assumes full liability for the payment of health care benefits incurred after July 1, 2006. Current Medicare eligible retirees who reside outside of the Central New York geographic area were eligible for coverage under the Corporation's self insurance plan thru December 31, 2009, contributing 50% of the cost of coverage. Effective January 1, 2010, these out of area retirees were eligible for coverage under a Medicare Supplement Plan C administered by Excellus BlueCross BlueShield, contributing 50% of the premium. Current and future retirees between the ages of 55 and 65, will continue to be eligible for coverage under the Corporation's self insured plan, contributing 50% of the cost of the coverage. Employees who retire after July 1, 2006, and become Medicare eligible will only have access to the Medicare Blue PPO plan. Additionally, effective July 1, 2006, dental benefits were eliminated for all retirees. The cost of the plan is based on actuarial computations of current and future benefits for employees, and is charged to other operating expenses in the consolidated statements of income.

Executive Supplemental Pension Plan:

U.S. laws place limitations on compensation amounts that may be included under the Pension Plan. The Executive Supplemental Pension Plan is provided to executives in order to produce total retirement benefits, as a percentage of compensation that is comparable to employees whose compensation is not restricted by the annual compensation limit. Pension amounts, which exceed the applicable Internal Revenue Service code limitations, will be paid under the Executive Supplemental Pension Plan.

The Executive Supplemental Pension Plan is a “non-qualified plan” under the Internal Revenue Service Code. Contributions to the Plan are not held in trust; therefore, they may be subject to the claims of creditors in the event of bankruptcy or insolvency. When payments come due under the Plan, cash is distributed from general assets. The cost of the plan is based on actuarial computations of current and future benefits for executives, and is charged to other operating expense in the consolidated statements of income.

Defined Contribution Supplemental Executive Retirement Plan:

The Defined Contribution Supplemental Executive Retirement Plan is provided to certain executives to motivate and retain key management employees by providing a nonqualified retirement benefit that is payable at retirement, disability, death and certain other events. The Defined Contribution Supplemental Executive Retirement Plan will deliver a retirement benefit comparable to that received by other executive officers participating in the bank's Defined Benefit Plan.

The Supplemental Executive Retirement Plan is intended to be an unfunded plan maintained primarily for the purpose of providing deferred compensation benefits for a select group of management or highly compensated employees under Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974. The plan's expense is the Corporation's annual contribution plus interest credits.

STOCK-BASED COMPENSATION

Restricted Stock Plan:

The Restricted Stock Plan, in effect as of June 16, 2010, is designed to align the interests of the Corporation's executives and senior managers with the interests of the Corporation and its shareholders, to ensure the Corporation's compensation practices are competitive and comparable with those of its peers, and to promote the retention of select management-level employees. Under the terms of the Plan, the Corporation may make discretionary grants of restricted shares of the Corporation's common stock to or for the benefit of employees selected to participate in the Plan. Each officer of the Corporation, other than the Corporation's chief executive officer, is eligible to participate in the Plan. Awards are based on the performance, responsibility and contributions of the employee and are targeted at an average of the peer group. The maximum number of shares of the Corporation's common stock that may be awarded as restricted shares to Plan participants may not exceed 15,000 per calendar year. Twenty percent of the restricted stock awarded to a participant vests each year commencing with the first anniversary date of the award and is 100 percent vested on the fifth anniversary date. Except in the case of the participant's death, disability, or in the event of a change in control, the participant's unvested shares of unrestricted stock will be forfeited if the participant leaves the employ of the Corporation or the Bank, with or without cause, or if the participant retires prior to attainment of age 65. The plan's expense is recognized as compensation expense ratably over the vesting period for the fair value of the award, measured at the grant date.

Deferred Directors Fee Plan:

A Deferred Directors Fee Plan for non-employee directors provides that directors may elect to defer receipt of all or any part of their fees. Deferrals are either credited with interest compounded quarterly at the Applicable Federal Rate for short-term debt instruments or converted to units, which appreciate or depreciate, as would an actual share of the Corporation's common stock purchased on the deferral date. Cash deferrals will be paid into an interest bearing account and paid in cash. Units will be paid in shares of common stock. All directors' fees are charged to other operating expense in the consolidated statements of income.

Directors' Compensation Plan:

The purpose of the Directors' Compensation Plan is to enable the Corporation to attract and retain persons of exceptional ability to serve as directors and stockholders in enhancing the value of the common stock of the Corporation. The Plan was originally established to provide for the cash payment of an annual retainer and fees to non-employee directors serving on the Board of Directors of the Corporation and the Bank. The Plan was subsequently amended to provide: (i) payment of additional compensation to each non-employee director in shares of the Corporation's common stock in an amount equal to the total cash compensation earned by each non-employee director during the year for service on the Board of Directors of each of the Corporation and the Bank, and for each year of service thereafter, to be distributed from treasury shares in January of the following calendar year; and (ii) payment to the President and CEO of the Corporation and the Bank for his service on the Boards of Directors of the Corporation and the Bank in an amount equal in value to the average cash compensation awarded to non-employee directors who have served twelve (12) months of the previous year. The maximum number of shares of Corporation's common stock that may be granted under the Plan may not exceed 20,000 per year. The Plan was amended, effective January 1, 2012, to provide that the value of a share of common stock granted under the Plan shall be determined as the average of the closing prices of a share of common stock as quoted on the applicable established securities market for each of the prior 30 trading days ending on December 31st of the calendar year. The cost of all cash and stock compensation is charged to other operating expenses in the consolidated statements of income.

Incentive Compensation Plan:

The Incentive Compensation Plan replaces the President and CEO Bonus Plan that was in effect prior to January 1, 2012. The purpose of the Incentive Compensation Plan is to attract and retain highly qualified officers and key employees, and to motivate such persons to serve the Corporation and the Bank and to expend maximum effort to improve the business results and earnings of the Corporation by providing to such persons an opportunity to acquire or increase a direct proprietary interest in the operations and future success of the Corporation. To this end, the Incentive Compensation Plan provides for the discretionary grant of cash and/or unrestricted stock, i.e., common stock of the Corporation that is free of any restrictions, such as restrictions on transferability, to select officers and key employees as designated by the Board in its sole discretion. The maximum number of shares that can be awarded as unrestricted stock under the Incentive Compensation Plan to any individual is 10,000 per calendar year; and the maximum amount that may be earned in cash as an Incentive Award in any calendar year by any individual is $300,000. The right of any eligible employee to receive a grant of an incentive award, whether in the form of cash or unrestricted stock, is subject to performance standards that are specified by either the Compensation Committee or the Board. The cost of all cash and unrestricted stock compensation is charged to other operating expenses in the consolidated statements of income.

Non-qualified Deferred Compensation Plan:

The Deferred Compensation Plan allows a select group of management and employees to defer all or a portion of their annual compensation to a future date. Eligible employees are generally highly compensated employees and are designated by the Board from time to time. Investments in the plan are recorded as trading assets and deferred amounts are an unfunded liability of the Corporation. The plan requires deferral elections be made before the beginning of the calendar year during which the participant will perform the services to which the compensation relates. Participants in the Plan are required to elect a form of distribution, either lump sum payment or annual installments not to exceed ten years, and a time of distribution, either a specified age or a specified date. The terms and conditions for the deferral of compensation are subject to the provisions of 409A of the IRS Code. The income from investments and cost of the plan are recorded as other operating income and other operating expenses, respectively, in the consolidated statements of income.

GOODWILL AND INTANGIBLE ASSETS

Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Corporation has selected December 31 as the date to perform the annual impairment test. Goodwill is the only intangible asset with an indefinite life on our balance sheet. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. The balances are reviewed for impairment on an ongoing basis or whenever events or changes in business circumstances warrant a review of the carrying value. If impairment is determined to exist, the related write-down of the intangible asset's carrying value is charged to operations. Based on these impairment reviews, the Corporation determined that goodwill and other intangible assets were not impaired at December 31, 2014.

The Corporation's intangible assets with definite useful lives resulted from the purchase of the trust business of Partners Trust Bank in May of 2007, the acquisition of three former M&T Bank branch offices in March 2008, the acquisition of Canton Bancorp, Inc. in May 2009, the acquisition of Fort Orange Financial Corp. in April 2011 and the acquisition of six branches of Bank of America in November of 2013, with balances of $2.4 million, $21 thousand, $8 thousand, $1.1 million and $1.6 million, respectively, at December 31, 2014. The trust business intangible is being amortized to expense over the expected useful life of 15 years. The identifiable core deposit and customer relationship intangibles related to the M&T branch offices, and Canton Bancorp, Inc. acquisitions are being amortized to expense using a 7.25 year accelerated method. The identifiable core deposit related to the branch offices in the Bank of America acquisition is being amortized to expense using a 7 year accelerated method. The identifiable core deposit intangible related to the FOFC acquisition is being amortized using a 10 year sum-of-the-years digits method.

ADVERTISING COSTS

Costs for advertising products and services or for promoting our corporate image are expensed as incurred.

EARNINGS PER COMMON SHARE

Basic earnings per share is net income divided by the weighted average number of common shares outstanding during the period. Issuable shares including those related to directors’ restricted stock units and directors’ stock compensation are considered outstanding and are included in the computation of basic earnings per share as they are earned. All outstanding unvested share based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Restricted stock awards are grants of participating securities. The impact of the participating securities on earnings per share is not material. Earnings per share information is adjusted to present comparative results for stock splits and stock dividends that occur.

COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale and changes in the funded status of the Corporation's defined benefit pension plan and other benefit plans, net of the related tax effect, which are also recognized as separate components of equity.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and amounts due from banks and interest-bearing deposits with other financial institutions.

TRADING ASSETS

Securities that are held to fund a non-qualified deferred compensation plan are recorded at fair value with changes in fair value included in earnings.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Corporation enters into sales of securities under agreements to repurchase. The agreements are treated as financings, and the obligations to repurchase securities sold are reflected as liabilities in the consolidated balance sheets. The amount of the securities underlying the agreements continues to be carried in the Corporation's securities portfolio. The Corporation has agreed to repurchase securities identical to those sold. The securities underlying the agreements are under the Corporation's control.

OTHER FINANCIAL INSTRUMENTS

The Corporation is a party to certain other financial instruments with off-balance sheet risk such as unused portions of lines of credit and commitments to fund new loans. The Corporation's policy is to record such instruments when funded.

SEGMENT REPORTING

The Corporation has identified separate operating segments and internal financial information is primarily reported and aggregated in two lines of business, banking and wealth management services.

RECLASSIFICATION

Amounts in the prior years' consolidated financial statements are reclassified whenever necessary to conform to the current year's presentation.

SUBSEQUENT EVENTS

The Corporation has evaluated subsequent events for recognition and disclosure through March, 13, 2015, which is the date the financial statements were available to be issued.

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(2) RESTRICTIONS ON CASH AND DUE FROM BANK ACCOUNTS

The Corporation was in compliance with the reserve requirement with the Federal Reserve Bank of New York as of December 31, 2014.

The Corporation also maintains a pre-funded settlement account with a financial institution in the amount of $1.4 million for electronic funds transaction settlement purposes at December 31, 2014.

(3) SECURITIES

Amortized cost and estimated fair value of securities available for sale at December 31, 2014 and 2013 are as follows (amounts in thousands):

	2014		2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Obligations of U.S. Government and U.S. Government sponsored enterprises	$180,535	$181,673	$187,098	$188,106
Mortgage-backed securities, residential	60,787	61,660	104,069	104,356
Collateralized mortgage obligations	335	338	1,001	1,015
Obligations of states and political subdivisions	30,677	31,451	37,339	38,376
Corporate bonds and notes	1,502	1,533	2,879	2,946
SBA loan pools	1,296	1,304	1,471	1,488
Trust preferred securities	1,906	2,028	1,898	2,034
Corporate stocks	285	520	444	7,695
Total	$277,323	$280,507	$336,199	$346,016

Gross unrealized gains and losses on securities available for sale at December 31, 2014 and 2013, were as follows (amounts in thousands):

	2014		2013	
	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses
Obligations of U.S. Government and U.S. Government sponsored enterprises	$1,300	$ 162	$1,914	$ 906
Mortgage-backed securities, residential	892	19	1,037	750
Collateralized mortgage obligations	3	-	14	-
Obligations of states and political subdivisions	802	28	1,059	22
Corporate bonds and notes	35	4	76	9
SBA loan pools	11	3	17	-
Trust preferred securities	122	-	136	-
Corporate stocks	235	-	7,253	2
Total	$3,400	$ 216	$11,506	$ 1,689

The amortized cost and estimated fair value of debt securities available for sale 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 (amounts in thousands):

	December 31, 2014	
	Amortized Cost	Fair Value
Within one year	$37,087	$37,552
After one, but within five years	172,100	173,534
After five, but within ten years	5,433	5,599
After ten years	-	-
Mortgage-backed securities, residential	60,787	61,660
Collateralized mortgage obligations	335	338
SBA loan pools	1,296	1,304
Total	$277,038	$279,987

Actual maturities may differ from contractual maturities above because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

The proceeds from sales and calls of securities resulting in gains or losses are listed below (amounts in thousands):

	2014	2013	2012
Proceeds	$36,258	$2,650	$26,210
Gross gains	$6,869	$16	$301
Tax expense	$2,641	$6	$116

Amortized cost and estimated fair value of securities held to maturity at December 31, 2014 and 2013 are as follows (amounts in thousands):

	2014		2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Obligations of states and political subdivisions	$5,175	$ 5,535	$5,472	$ 5,891
Time deposits with other financial institutions	656	662	1,023	1,039
	$5,831	$ 6,197	$6,495	$ 6,930

Gross unrealized gains and losses on securities held to maturity at December 31, 2014 and 2013, were as follows (amounts in thousands):

	2014		2013	
	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses
Obligations of states and political subdivisions	$360	$ -	$419	$ -
Time deposits with other financial institutions	6	-	16	-
Total	$366	$ -	$435	$ -

There were no sales of securities held to maturity in 2014 or 2013.

The contractual maturity of securities held to maturity is as follows at December 31, 2014 (amounts in thousands):

	December 31, 2014	
	Amortized Cost	Fair Value
Within one year	$2,629	$2,658
After one, but within five years	2,199	2,390
After five, but within ten years	1,003	1,149
After ten years	-	-
Total	$5,831	$6,197

The following table summarizes the investment securities available for sale with unrealized losses at December 31, 2014 and December 31, 2013 by aggregated major security type and length of time in a continuous unrealized position (amounts in thousands):

	Less than 12 months		12 months or longer		Total	
2014	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	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
SBA loan pools	276	1	316	2	592	3
Total temporarily impaired securities	$73,464	$ 150	$6,560	$ 66	$80,024	$ 216

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

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Other-Than-Temporary-Impairment

As of December 31, 2014, the majority of the Corporation's unrealized losses in the investment securities portfolio related to obligations of U.S. Government and U.S. Government sponsored enterprises and mortgage-backed securities. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Corporation does not have the intent to sell these securities and it is not likely that it will be required to sell these securities before their anticipated recovery, the Corporation does not consider these securities to be other-than-temporarily impaired at December 31, 2014.

During the fourth quarter of 2013, the Corporation sold one CDO consisting of a pool of trust preferred securities that had an amortized cost of $600 thousand. Total proceeds from the sale of this CDO, was $600 thousand resulting in a slight loss. The Corporation recognized $29 thousand of additional credit loss in OTTI during 2013. This CDO was sold in light of the uncertainty surrounding the recently released rules contained in the "Volcker Rule" regarding the ability of banks to hold these types of securities and based on current market conditions.

The table below presents a roll forward of the cumulative credit losses recognized in earnings for the periods ended December 31, 2014, 2013 and 2012 (amounts in thousands):

	2014	2013	2012
Beginning balance, January 1,	$1,939	$3,506	$3,506
Amounts related to credit loss for which other-than-temporary impairment was not previously recognized	-	-	-
Additions/Subtractions:			
Amounts related to securities for which the company intends to sell or that it will be more likely than not that the company will be required to sell prior to recovery of amortized cost basis	-	-	-
Reductions for increase in cash flows expected to be collected that are recognized over the remaining life of the security	-	-	-
Reductions for previous credit losses realized on securities sold during the year	-	(1,596)	-
Reductions for previous credit losses realized on securities liquidated during the year	(1,939)	-	-
Increases to the amount related to the credit loss for which other-than-temporary impairment was previously recognized	-	29	-
Ending balance, December 31,	$-	$1,939	$3,506

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 to reflect proceeds received from the liquidation. The Corporation does not own any other CDO's in its investment securities portfolio.

The fair value of securities pledged to secure public funds on deposit or for other purposes as required by law was $190.7 million at December 31, 2014 and $188.9 million at December 31, 2013.

The table below shows the securities pledged to secure securities sold under agreements to repurchase at December 31, 2014 and 2013. (amounts in thousands)

	2014		2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government and U. S. Government sponsored enterprises	$36,195	$36,641	$33,746	$34,369

Mortgage-backed securities, residential	7,934	8,350	11,802	12,365
Collateralized mortgage obligations	48	48	205	207
Total	$44,177	$45,039	$45,753	$46,941

There are no securities of a single issuer (other than securities of U.S. Government sponsored enterprises) that exceed 10% of shareholders' equity at December 31, 2014 or 2013.

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The Corporation has an equity investment in Cephas Capital Partners, L.P. This small business investment company was established for the purpose of providing financing to small businesses in market areas served by the Corporation, including minority-owned small businesses and those that are anticipated to create jobs for the low to moderate income levels in the targeted areas. As of December 31, 2014 and 2013, these investments totaled $0.7 million and $1.0 million, respectively, are included in other assets, and are accounted for under the equity method of accounting.

(4) LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the loan portfolio, net of deferred loan fees is summarized as follows (amounts in thousands):

	December 31, 2014	December 31, 2013
Commercial and agricultural:		
Commercial and industrial	$165,385	$144,787
Agricultural	1,021	576
Commercial mortgages:		
Construction	54,831	27,440
Commercial mortgages	397,762	345,707
Residential mortgages	196,809	195,997
Consumer loans:		
Credit cards	1,654	1,756
Home equity lines and loans	99,354	95,905
Indirect consumer loans	184,763	164,846
Direct consumer loans	19,995	18,852
Total loans, net of deferred loan fees	$1,121,574	$995,866
Interest receivable on loans	2,780	2,597
Total recorded investment in loans	$1,124,354	$998,463

Residential mortgages held for sale as of December 31, 2014 and 2013 totaling $0.7 million and $0.7 million, respectively, are not included in the above table.

Residential mortgages totaling $152.7 million at December 31, 2014 and $145.1 million at December 31, 2013 were pledged under a blanket collateral agreement for the Corporation's line of credit with the FHLBNY.

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 years ended December 31, 2014, 2013 and 2012, respectively (amounts in thousands):

	December 31, 2014					
Allowance for loan losses	Commercial, and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total
Beginning balance:	$1,979	$ 6,243	$ 1,517	$ 3,037	$ -	$12,776
Charge Offs:	(444)	(2,229)	(97)	(1,508)	-	(4,278)
Recoveries:	385	156	32	634	-	1,207

Net (charge offs) recoveries	(59)	(2,073)	(65)	(874)	-	(3,071)
Provision	(460)	2,156	120	2,165	-	3,981
Ending balance	$1,460	$ 6,326	$ 1,572	$ 4,328	$ -	$13,686

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	December 31, 2013					
Allowance for loan losses	Commercial, and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total
Beginning balance:	$1,708	$ 4,428	$ 1,565	$ 2,706	$ 26	$10,433
Charge Offs:	(186)	(44)	(124)	(1,139)	-	(1,493)
Recoveries:	537	98	65	381	-	1,081
Net recoveries (charge offs)	351	54	(59)	(758)	-	(412)
Provision	(80)	1,761	11	1,089	(26)	2,755
Ending balance	$1,979	$ 6,243	$ 1,517	$ 3,037	$ -	$12,776

	December 31, 2012					
Allowance for loan losses	Commercial, and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total
Beginning balance:	$3,143	$ 2,570	$ 1,310	$ 2,193	$ 443	$9,659
Reclassification of acquired loan discount	74	50	-	-	-	124
Charge Offs:	(181)	(335)	(83)	(674)	-	(1,273)
Recoveries:	802	55	-	238	-	1,095
Net recoveries (charge offs)	621	(280)	(83)	(436)	-	(178)
Provision	(2,130)	2,088	338	949	(417)	828
Ending balance	$1,708	$ 4,428	$ 1,565	$ 2,706	$ 26	$10,433

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 December 31, 2014 and December 31, 2013 (amounts in thousands):

	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

	December 31, 2013				
Allowance for loan losses	Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$576	$ 466	$ -	$ 4	$1,046
Collectively evaluated for impairment	1,403	4,407	1,497	3,033	10,340
Loans acquired with deteriorated credit quality	-	1,370	20	-	1,390
Total ending allowance balance	$1,979	$ 6,243	$ 1,517	$ 3,037	$12,776

Loans:	December 31, 2014 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

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

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The following tables present loans individually evaluated for impairment recognized by class of loans as of December 31, 2014 and December 31, 2013, the average recorded investment and interest income recognized by class of loans as of the years ended December 31, 2014, 2013 and 2012 (amounts in thousands):

	December 31, 2014			December 31, 2013		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:						
Commercial and agricultural:						
Commercial and industrial	$1,359	$ 1,364	$ -	$1,906	$ 1,909	$ -
Commercial mortgages:						
Construction	1,927	1,910	-	2,329	2,319	-
Commercial mortgages	7,803	7,708	-	7,406	7,439	-
Residential mortgages	253	253	-	117	117	-
Consumer loans:						
Home equity lines and loans	429	432	-	71	73	-
With an allowance recorded:						
Commercial and agricultural:						
Commercial and industrial	89	89	89	1,037	1,037	
Commercial mortgages:						576
Commercial mortgages	4,210	4,094	1,145	951	945	
Consumer loans:						466
Home equity lines and loans	54	54	1	58	58	4
Total	$16,124	$ 15,904	$ 1,235	$13,875	$ 13,897	$ 1,046

	December 31, 2014		December 31, 2013		December 31, 2012	
	Average Recorded Investment	Interest Income Recognized (1)	Average Recorded Investment	Interest Income Recognized (1)	Average Recorded Investment	Interest Income Recognized (1)
With no related allowance recorded:						
Commercial and agricultural:						
Commercial and industrial	$1,463	$ 40	$1,605	$ 71	$481	$ 1
Commercial mortgages:						
Construction	2,104	102	3,364	95	73	1
Commercial mortgages	7,492	259	5,991	249	1,990	10
Residential mortgages	141	1	125	-	106	-
Consumer loans:						
Home equity lines & loans	143	6	47	2	30	-
With an allowance recorded:						
Commercial and agricultural:						
Commercial and industrial	502	-	719	-	1,831	-
Commercial mortgages:						
Construction	-	-	-	-	4	-
Commercial mortgages	1,611	41	867	-	872	-
Residential mortgages	-	-	-	-	64	-
Consumer loans:						
Home equity lines and loans	56	4	47	3	-	-
Direct consumer loans	-	-	3	-	-	-

Total	$13,512	$ 453	$12,768	$ 421	$5,451	$ 12

(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 December 31, 2014 and December 31, 2013 (amounts in thousands):

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	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.

December 31, 2013

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

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

Troubled Debt Restructurings:

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

As of December 31, 2014, 2013 and 2012, the Corporation has a recorded investment in troubled debt restructurings of $9.7 million, $7.9 million, and $5.7 million, respectively. There were specific reserves of $0.3 million allocated for troubled debt restructurings at December 31, 2014 and December 31, 2013, respectively, and no specific reserves allocated at December 31, 2012. As of December 31, 2014, troubled debt restructurings totaling $8.7 were accruing interest under the modified terms and $1.0 million were on non-accrual status. As of December 31, 2013, troubled debt restructurings totaling $6.8 million were accruing interest under the modified terms and $1.1 million were on non-accrual status. As of December 31, 2012, troubled debt restructurings totaling $5.4 million were accruing interest under the modified terms and $0.4 million were on non-accrual status. The Corporation has committed additional amounts totaling up to less than $0.1 million and $0.2 million as of December 31, 2014 and December 31, 2013, respectively, to customers with outstanding loans that are classified as troubled debt restructurings. The Corporation did not commit to lend any additional amounts to customers with outstanding loans that were classified as troubled debt restructurings as of December 31, 2012.

During the years ended December 31, 2014, 2013 and 2012, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a change in the schedule of payments, a reduction in the interest rate, an extension of the maturity date, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk or a permanent reduction of the recorded investment in the loan.

The following table presents loans by class modified as troubled debt restructurings that occurred during the years ended December 31, 2014, 2013 and 2012 (amounts in thousands):

December 31, 2014	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial and agricultural:			
Commercial and industrial	4	$ 1,028	$ 1,028
Commercial mortgages:			
Commercial mortgages	4	2,666	2,623
Residential mortgages	1	149	150
Consumer loans:			
Home equity lines and loans	1	366	366
Total	10	$ 4,209	$ 4,167

December 31, 2013	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			

Commercial and agricultural:			
Commercial and industrial	5	$ 1,343	$ 1,343
Commercial mortgages:			
Construction	1	326	326
Commercial mortgages	1	133	133
Consumer loans:			
Home equity lines and loans	3	134	134
Total	10	$ 1,936	$ 1,936

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December 31, 2012	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial and agricultural:			
Commercial and industrial	4	$ 1,307	$ 1,307
Commercial mortgages:			
Construction	1	251	251
Commercial mortgages	3	3,872	3,872
Total	8	$ 5,430	$ 5,430

The troubled debt restructurings described above increased the allowance for loan losses by $0.2 million and resulted in less than $0.1 million in charge offs during the twelve months ended December 31, 2014. The troubled debt restructurings described above increased the allowance for loan losses by $0.1 million and resulted in no charge offs during the year ended December 31, 2013. The troubled debt restructurings described above did not increase the allowance for loan losses and resulted in no charge offs during the year ended December 31, 2012.

There were no payment defaults on any loans previously modified as troubled debt restructurings during the years ended December 31, 2014, December 31, 2013 or December 31, 2012, 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 as some future date.

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

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

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 December 31, 2014 and December 31, 2013, the risk category of the recorded investment of loans by class of loans is as follows (amounts in thousands):

	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

	December 31, 2013						
	Not Rated	Pass	Loans acquired with deteriorated credit quality	Special Mention	Substandard	Doubtful	Total
Commercial and agricultural:							
Commercial and industrial	$ -	$ 133,615	$ 678	$ 5,117	$ 4,724	$ 1,021	$ 145,155
Agricultural	-	577	-	-	-	-	577
Commercial mortgages:							
Construction	-	23,087	774	2,783	866	-	27,510
Commercial mortgages	-	313,956	7,983	13,611	11,036	-	346,586
Residential mortgages	192,995	-	261	-	3,269	-	196,525
Consumer loans							
Credit cards	1,757	-	-	-	-	-	1,757
Home equity lines and loans	95,422	-	-	-	712	-	96,134
Indirect consumer loans	165,045	-	-	-	249	-	165,294
Direct consumer loans	18,880	-	-	-	45	-	18,925
Total	$ 474,099	$ 471,235	$ 9,696	$ 21,511	$ 20,901	$ 1,021	$ 998,463

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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 December 31, 2014 and December 31, 2013 (amounts in thousands):

	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

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

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

The table below summarizes the changes in total contractually required principal and interest cash payments, management's estimate of expected total cash payments and carrying value of the PCI loans from January 1, 2014 to December 31, 2014 (amounts in thousands):

	Balance at December 31, 2013	Income Accretion	All Other Adjustments	Balance at December 31, 2014
Contractually required principal and interest	$ 11,230	$ -	$ (7,609)	$ 3,621
Contractual cash flows not expected to be collected (non accretable discount)	(543)	-	(27)	(570)
Cash flows expected to be collected	10,687	-	(7,636)	3,051
Interest component of expected cash flows (accretable yield)	(991)	515	56	(420)
Fair value of loans acquired with deteriorating credit quality	$ 9,696	$ 515	$ (7,580)	$ 2,631

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(5) PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2014 and 2013 are as follows (amounts in thousands):

	2014	2013
Land	$4,803	$4,803
Buildings	35,067	34,379
Projects in progress	132	-
Equipment and furniture	40,088	34,920
Leasehold improvements	6,094	6,041
	86,184	80,143
Less accumulated depreciation and amortization	53,897	50,104
	$32,287	$30,039

Depreciation expense was $3.9 million, $3.2 million and $2.9 million for 2014, 2013 and 2012, respectively.

Operating Leases: The Corporation leases certain branch properties under operating leases. Rent Expense was $2.0 million, $1.3 million, and $1.1 million for 2014, 2013, and 2012, respectively. Rent commitments, before considering renewal options that generally are present, were as follows (amounts in thousands):

Year	Estimated Expense
2015	$ 1,429
2016	1,166
2017	1,143
2018	1,147
2019	834
2020 and thereafter	4,154
Total	$ 9,873

Capital Leases: The Corporation leases certain buildings under capital leases. The lease arrangements require monthly payments through 2030.

The Corporation has included these leases in premises and equipment as follows:

	2014	2013
Buildings	$3,537	$ -
Accumulated depreciation	-	-
	$3,537	$ -

The following is a schedule by year of future minimum lease payments under the capitalized lease, together with the present value of net minimum lease payments as of December 31, 2014 (amounts in thousands):

Year	Amount
2015	$ 234
2016	234
2017	234
2018	234
2019	234
2020 and thereafter	2,644

Total minimum lease payments	3,814
Less amount representing interest	838
Present value of net minimum lease payments	$ 2,976

(6) GOODWILL AND INTANGIBLE ASSETS

The changes in goodwill included in the core banking segment during the years ended December 31, 2014 and 2013 were as follows (amounts in thousands):

	2014	2013
Beginning of year	$21,824	$21,824
Acquired goodwill	-	-
End of year	$21,824	$21,824

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

	At December 31, 2014		At December 31, 2013	
	Balance Acquired	Accumulated Amortization	Balance Acquired	Accumulated Amortization
Core deposit intangibles	$5,975	$ 3,279	$5,975	$ 2,338
Other customer relationship intangibles	5,633	3,262	6,063	3,323
Total	$11,608	$ 6,541	$12,038	$ 5,661

Aggregate amortization expense was $1.3 million, $0.9 million and $1.0 million for 2014, 2013 and 2012, respectively.

The remaining estimated aggregate amortization expense at December 31, 2014 is listed below (amounts in thousands):

Year	Estimated Expense
2015	$ 1,136
2016	986
2017	859
2018	734
2019	609
2020 and thereafter	743
Total	$ 5,067

(7) DEPOSITS

A summary of deposits at December 31, 2014 and 2013 is as follows (amounts in thousands):

	2014	2013
Non-interest-bearing demand deposits	$366,298	$351,222
Interest-bearing demand deposits	110,819	114,679
Insured money market accounts	392,871	361,095
Savings deposits	198,183	194,768
Time deposits	211,843	244,492
	$1,280,014	$1,266,256

Scheduled maturities of time deposits at December 31, 2014, are summarized as follows (amounts in thousands):

Year	
2015	$155,295
2016	34,803
2017	9,486
2018	4,775
2019	5,851
2020 and thereafter	1,633
	$211,843

Time deposits that meet or exceed the FDIC Insurance limit of $250,000 at December 31, 2014 and 2013 were $42.8 million and $37.7 million, respectively.

Time deposits include certificates of deposit in denominations of $100 thousand or more aggregating $80.5 million and $88.8 million at December 31, 2014 and 2013, respectively. Interest expense on such certificates was $0.5 million, $0.8 million and $1.2 million for 2014, 2013 and 2012, respectively.

Maturities of time deposits in denominations of $100 thousand or more outstanding at December 31, 2014 are summarized as follows (amounts in thousands):

3 months or less	$31,484
Over 3 through 6 months	15,286
Over 6 through 12 months	17,842
Over 12 months	15,845
	$80,457

(8) SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

A summary of securities sold under agreements to repurchase as of and for the years ended December 31, 2014, 2013 and 2012 is as follows (amounts in thousands):

	2014	2013	2012
Balance at December 31	$29,652	$32,701	$32,711
Maximum month-end balance	$31,914	$32,701	$38,284
Average balance during year	$30,667	$31,102	$34,534
Weighted-average interest rate at December 31	2.82 %	2.93 %	3.02 %
Average interest rate paid during year	2.77 %	2.76 %	2.88 %

Information concerning outstanding securities repurchase agreements as of December 31, 2014 is summarized as follows (amounts in thousands):

Remaining Term to Final Maturity (1)	Repurchase Liability	Accrued Interest Payable	Weighted Average Rate	Estimated Fair Value of Collateral Securities (2)
Within 90 days	$ 9,652	$ -	0.10 %	$ 16,682
After 90 days but within one year	-	-	- %	-
After one year but within five years	20,000	63	4.13 %	23,530
After five years but within ten years	-	-	- %	-
Total	$ 29,652	$ 63	2.82 %	$ 40,212

(1) At December 31, 2014, the securities repurchase agreements were non-callable with a weighted-average rate of 3.10%, and a weighted-average term to maturity of approximately 1.9 years.

(2) Represents the estimated fair value of the securities subject to the repurchase agreements, including accrued interest receivable, of approximately $342 thousand at December 31, 2014.

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(9) FEDERAL HOME LOAN BANK TERM ADVANCES AND OVERNIGHT ADVANCES

The following is a summary of Federal Home Loan Bank fixed rate advances at December 31, 2014 and 2013. The carrying amount includes the advance balance plus purchase accounting adjustments that are amortized over the term of the advance (amounts in thousands):

2014

Amount	Rate	Maturity Date	Call Date
$30,830	0.32%	January 2, 2015	-
10,000	4.60%	December 22, 2016	-
4,138	3.90%	October 19, 2017	January 19, 2015
3,103	2.91%	December 4, 2017	March 3, 2015
2,069	3.05%	January 2, 2018	April 1, 2015
$50,140	1.73%		

2013

Amount	Rate	Maturity Date	Call Date
$1,033	3.20%	June 18, 2014	-
775	3.05%	October 2, 2014	-
4,134	3.84%	October 20, 2014	January 20, 2014
10,000	4.60%	December 22, 2016	-
4,134	3.90%	October 19, 2017	January 19, 2014
3,100	2.91%	December 4, 2017	March 4, 2014
2,067	3.05%	January 2, 2018	April 1, 2014
$ 25,243	3.93%		

Each advance is payable at its maturity date, with a prepayment penalty for term advances. The advances were collateralized by $152.7 million and $145.1 million of first mortgage loans under a blanket lien arrangement at December 31, 2014 and 2013, respectively. Based on this collateral and the Corporation's holdings of FHLBNY stock, the Corporation is eligible to borrow up to a total of $86.0 million at year-end 2014.

(10) INCOME TAXES

For the years ended December 31, 2014, 2013 and 2012, income tax expense attributable to income from operations consisted of the following (amounts in thousands):

Current:	2014	2013	2012
State	$606	$395	$530

Federal	5,366	3,548	4,208
	5,972	3,943	4,738
Deferred expense/(benefit)	(2,263)	(121)	647
	$3,709	$3,822	$5,385

Income tax expense differed from the amounts computed by applying the U.S. Federal statutory income tax rate to income before income tax expense as follows (amounts in thousands):

	2014	2013	2012
Tax computed at statutory rate	$4,034	$4,268	$5,578
Tax-exempt interest	(456)	(483)	(506)
Dividend exclusion	(60)	(46)	(40)
State taxes, net of Federal impact	227	188	439
Nondeductible interest expense	8	11	16
Other items, net	(44)	(116)	(102)
Income tax expense	$3,709	$3,822	$5,385

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2014 and 2013, are presented below (amounts in thousands):

	2014	2013
Deferred tax assets:		
Allowance for loan losses	$5,182	$4,889
Accrual for employee benefit plans	709	754
Depreciation	1,010	431
Deferred compensation and directors' fees	1,076	947
Purchase accounting adjustment – deposits	65	137
Purchase accounting adjustment – loans	259	340
Purchase accounting adjustment - fixed assets	221	224
Accounting for defined benefit pension and other benefit plans	6,624	3,691
Trust preferred impairment write down	540	742
Nonaccrued interest	617	626
Accrued expense	1,580	-
Other	456	647
Total gross deferred tax assets	18,339	13,428

Deferred tax liabilities:		
Deferred loan fees and costs	910	929
Prepaid pension	5,179	5,435
Net unrealized gains on securities available for sale	1,359	3,929
Discount accretion	410	352
Core deposit intangible	1,479	1,556
Other	153	144
Total gross deferred tax liabilities	9,490	12,345
Net deferred tax asset	$8,849	$1,083

Realization of deferred tax assets is dependent upon the generation of future taxable income or the existence of sufficient taxable income within the loss carryback period. A valuation allowance is recognized when it is more likely than not that some portion of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, management considers the scheduled reversal of the deferred tax assets, the level of historical taxable income and projected future taxable income over the periods in which the temporary differences comprising the deferred tax assets will be deductible. Based on its assessment, management determined that no valuation allowance is necessary.

As of December 31, 2014, December 31, 2013 and December 31, 2012 the Corporation did not have any unrecognized tax benefits.

The Corporation accounts for interest and penalties related to uncertain tax positions as part of its provision for Federal and State income taxes. As of December 31, 2014, 2013 and 2012, the Corporation did not accrue any interest or penalties related to its uncertain tax positions.

The Corporation is not currently subject to examinations by Federal taxing authorities for the years prior to 2010 and for New York State taxing authorities for the years prior to 2010.

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(11) PENSION PLAN AND OTHER BENEFIT PLANS

Pension Plan

The Corporation has a noncontributory defined benefit pension plan covering a majority of employees. The plan's defined benefit formula generally bases payments to retired employees upon their length of service multiplied by a percentage of the average monthly pay over the last five years of employment.

The Corporation uses a December 31 measurement date for its pension plan.

The Corporation amended the Defined Benefit Pension Plan during 2010. New employees hired on or after the effective date will not be eligible to participate in the plan, however, existing participants at that time will continue to accrue benefits. The amendment will result in a decrease over time in the future benefit obligations of the plan and the corresponding net periodic benefit cost associated with the plan.

The following table presents (1) changes in the plan's projected benefit obligation and plan assets, and (2) the plan's funded status at December 31, 2014 and 2013 (amounts in thousands):

Change in projected benefit obligation:	2014	2013
Benefit obligation at beginning of year	$36,186	$38,051
Service cost	1,045	1,195
Interest cost	1,738	1,587
Actuarial (gain) loss	8,064	(3,269)
Benefits paid	(1,489)	(1,378)
Benefit obligation at end of year	$45,544	$36,186

Change in plan assets:	2014	2013
Fair value of plan assets at beginning of year	$41,782	$37,239
Actual return on plan assets	3,043	5,921
Employer contributions	-	-
Benefits paid	(1,489)	(1,378)
Fair value of plan assets at end of year	$43,336	$41,782
Funded status	$(2,207)	$5,596

Amount recognized in accumulated other comprehensive income (loss) at December 31, 2014 and 2013 consist of the following (amounts in thousands):

	2014	2013
Net actuarial loss	$17,388	$9,843
Prior service cost	15	22
Total before tax effects	$17,403	$9,865

The accumulated benefit obligation at December 31, 2014 and 2013 was $38.7 million and $31.2 million, respectively.

The principal actuarial assumptions used in determining the projected benefit obligation as of December 31, 2014, 2013 and 2012 were as follows:

	2014	2013	2012
Discount rate	4.09%	4.92%	4.26%
Assumed rate of future compensation increase	5.00%	5.00%	5.00%

Components of net periodic benefit cost and other amounts recognized in other comprehensive income (loss) in 2014, 2013 and 2012 consist of the following (amounts in thousands):

Net periodic benefit cost	2014	2013	2012
Service cost, benefits earned during the year	$1,045	$1,195	$1,074
Interest cost on projected benefit obligation	1,738	1,587	1,606
Expected return on plan assets	(3,174)	(2,824)	(2,743)
Amortization of net loss	649	1,579	1,410
Amortization of prior service cost	7	14	14
Net periodic cost	$265	$1,551	$1,361

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss):	2014	2013	2012
Net actuarial (gain) loss	$8,195	$(6,367)	$3,365
Recognized loss	(649)	(1,579)	(1,410)
Amortization of prior service cost	(7)	(14)	(14)
Total recognized in other comprehensive (loss) income (before tax effect)	$7,539	$(7,960)	$1,941
Total recognized in net benefit cost and other comprehensive (loss) income (before tax effect)	$7,804	$(6,409)	$3,302

Amounts expected to be recognized in net periodic cost during 2015	
Loss recognition	$1,475
Prior service cost recognition	$7

The principal actuarial assumptions used in determining the net periodic benefit cost for the years ended December 31, 2014, 2013 and 2012 were as follows:

	2014	2013	2012
Discount rate	4.92%	4.26%	4.95%
Expected long-term rate of return on assets	7.75%	7.75%	8.00%
Assumed rate of future compensation increase	5.00%	5.00%	5.00%

The Corporation changes important assumptions whenever changing conditions warrant. At December 31, 2014, the Corporation adopted the Retirement Plan 2014 (RP-2014) and Mortality Projection 2014 (MP-2014) mortality tables, which were finalized by the Society of Actuaries in October 2014 and reflected improved life expectancies and an expectation that this trend will continue. The discount rate is evaluated at least annually and the expected long-term return on plan assets will typically be revised every three to five years, or as conditions warrant. Other material assumptions include the compensation increase rates, rates of employee terminations, and rates of participant mortality.

The Corporation's overall investment strategy is to achieve a mix of investments for long-term growth and for near-term benefit payments with a wide diversification of asset types. The target allocations for plan assets are shown in the table below. Equity securities primarily include investments in common or preferred shares of both U.S. and international companies. Debt securities include U.S. Treasury and Government bonds as well as U.S. Corporate bonds. Other investments may consist of mutual funds, money market funds and cash & cash equivalents. While no significant changes in the asset allocations are expected during 2014, the Corporation may make changes at any time.

The expected return on plan assets was determined based on a Capital Asset Pricing Model ("CAPM") using historical and expected future returns of the various asset classes, reflecting the target allocations described below.

Asset Class	Target Allocation 2014	Percentage of Plan Assets at December 31, 2014	Percentage of Plan Assets at December 31, 2013	Expected Long-Term Rate of Return
Large cap domestic equities	30% - 60 %	50 %	54 %	10.3 %
Mid-cap domestic equities	0% - 20 %	14 %	8 %	10.6 %
Small-cap domestic equities	0% - 15 %	3 %	3 %	10.8 %
International equities	0% - 25 %	4 %	4 %	10.3 %
Intermediate fixed income	20% - 50 %	26 %	26 %	4.7 %
Alternative assets	0% - 10 %	2 %	3 %	7.5 %
Cash	0% - 20 %	1 %	2 %	2.5 %
Total		100 %	100 %	

The investment policy of the plan is to provide for long-term growth of principal and income without undue exposure to risk. The focus is on long-term capital appreciation and income generation. The Corporation maintains an Investment Policy Statement ("IPS") that guides the investment allocation in the plan. The IPS describes the target asset allocation positions as shown in the table above.

The Corporation has appointed an Employee Pension and Profit Sharing Committee to manage the general philosophy, objectives and process of the plan. The Employee Pension and Profit Sharing Committee meets with the Investment Manager periodically to review the plan's performance and to ensure that the current investment allocation is within the guidelines set forth in the IPS. Only the Employee Pension and Profit Sharing Committee, in consultation with the Investment Manager, can make adjustments to maintain target ranges and for any permanent changes to the IPS. Quarterly, the Board of Directors' Trust and Employee Benefits Committee reviews the performance of the plan with the Investment Manager.

As of December 31, 2014 and 2013, the Corporation's pension plan did not hold any direct investment in the Corporation's common stock.

The Corporation used the following methods and significant assumptions to estimate the fair value of each type of financial instrument held by the pension plan:

Fair value is the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. The fair value hierarchy described below requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Discounted cash flows are calculated using spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

The fair value of the plan assets at December 31, 2014 and 2013, by asset class are as follows (amounts in thousands):

		Fair Value Measurement at December 31, 2014 Using		
Plan Assets	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$626	$626	$ -	$ -
Equity securities:				
U.S. companies	28,011	28,011	-	-
International companies	856	856	-	-
Mutual funds	7,111	7,111	-	-
Debt securities:				
U.S. Treasuries/Government bonds	2,701	2,701	-	-
U.S. Corporate bonds	3,775	-	3,775	-
Foreign bonds, notes & debentures	256	-	256	-
Total plan assets	$43,336	$39,305	$ 4,031	$ -

		Fair Value Measurement at December 31, 2013 Using		
Plan Assets	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	$982	$982	$ -	$ -
Equity securities:				
U.S. companies	27,170	27,170	-	-
Mutual funds	7,288	7,288	-	-
Debt securities:				
U.S. Treasuries/Government bonds	3,309	3,309	-	-
U.S. Corporate bonds	2,771	-	2,771	-
Foreign bonds, notes & debentures	262	-	262	-
Total plan assets	$41,782	$38,749	$ 3,033	$ -

The following table presents the estimated benefit payments for each of the next five years and the aggregate amount expected to be paid in years six through ten for the pension plan (amounts in thousands):

Calendar Year	Future Expected Benefit Payments
2015	$ 1,761
2016	$ 1,849
2017	$ 1,949
2018	$ 2,052
2019	$ 2,114
2020-2024	$ 11,949

The Corporation does not expect to contribute to the plan during 2015. Funding requirements for subsequent years are uncertain and will significantly depend on changes in assumptions used to calculate plan funding levels, the actual return on plan assets, changes in the employee groups covered by the plan, and any legislative or regulatory changes affecting plan funding requirements.

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For tax planning, financial planning, cash flow management or cost reduction purposes the Corporation may increase, accelerate, decrease or delay contributions to the plan to the extent permitted by law.

Defined Contribution Profit Sharing, Savings and Investment Plan

The Corporation also sponsors a defined contribution profit sharing, savings and investment plan which covers all eligible employees with a minimum of 1,000 hours of annual service. The Corporation makes discretionary matching and profit sharing contributions to the plan for employees hired prior to July 1, 2010 based on the financial results of the Corporation. The Corporation also contributes to a non-discretionary 401K plan which covers all eligible employees hired after July 1, 2010. Expense related to both plans totaled $620 thousand, $521 thousand, and $393 thousand for the years ended December 31, 2014, 2013 and 2012, respectively. The plan's assets at December 31, 2014, 2013 and 2012 include 170,714, 178,113 and 189,337 shares, respectively, of Chemung Financial Corporation common stock, as well as other common and preferred stocks, U.S. Government securities, corporate bonds and notes, and mutual funds.

Defined Benefit Health Care Plan

The Corporation uses a December 31 measurement date for its postretirement medical benefits plan.

The following table presents (1) changes in the plan's accumulated postretirement benefit obligation and (2) the plan's funded status at December 31, 2014 and 2013 (amounts in thousands):

Changes in accumulated postretirement benefit obligation:	2014	2013
Accumulated postretirement benefit obligation - beginning of year	$1,490	$1,534
Service cost	39	44
Interest cost	72	66
Participant contributions	84	74
Actuarial (gain) loss	177	(61)
Benefits paid	(199)	(167)
Accumulated postretirement benefit obligation at end of year	$1,663	$1,490

Change in plan assets:	2014	2013
Fair value of plan assets at beginning of year	$-	$-
Employer contribution	115	93
Plan participants’ contributions	84	74
Benefits paid	(199)	(167)
Fair value of plan assets at end of year	$-	$-
Funded status	$(1,663)	$(1,490)

Amount recognized in accumulated other comprehensive income (loss) at December 31, 2014 and 2013 consist of the following (amounts in thousands):

	2014	2013
Net actuarial loss	$322	$148
Prior service benefit	(531)	(628)
Total before tax effects	$(209)	$(480)

Weighted-average assumption for disclosure as of December 31,	2014	2013	2012
Discount rate	4.09 %	4.92 %	4.26 %

Health care cost trend: Initial	7.00 %	8.00 %	9.00 %
Health care cost trend: Ultimate	5.00 %	5.00 %	5.00 %
Year ultimate cost trend reached	2018	2018	2018

The components of net periodic postretirement benefit cost for the years ended December 31, 2014, 2013 and 2012 are as follows (amounts in thousands):

Net periodic benefit cost	2014	2013	2012
Service cost	$39	$44	$39
Interest cost	72	66	71
Amortization of prior service benefit	(97)	(97)	(97)
Recognized actuarial loss	3	10	1
Net periodic postretirement cost	$17	$23	$14

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss):	2014	2013	2012
Net actuarial (gain) loss	$177	$(61)	$178
Recognized actuarial loss	(3)	(10)	(1)
Amortization of prior service benefit	97	97	97
Total recognized in other comprehensive income (loss) (before tax effect)	$271	$26	$274
Total recognized in net benefit cost and other comprehensive income (loss) (before tax effect)	$288	$49	$288

During 2014 the plan's total unrecognized net loss increased by $174 thousand. Because the total unrecognized net gain or loss in the plan exceeds 10% of the accumulated postretirement benefit obligation, the excess will be amortized over the average future working lifetime of active plan participants. As of January 1, 2014 the average future working lifetime of active participants was 14.89 years. Actual results for 2015 will depend on the 2015 actuarial valuation of the plan.

Amounts expected to be recognized in net periodic cost during 2015:	
Loss recognition	$10
Prior service cost recognition	$(97)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point change in assumed health care cost trend rates would have the following effects (amounts in thousands):

Effect of a 1% increase in health care trend rate on:	2014	2013	2012
Benefit obligation	$ 5	$ 15	$ 4
Total service and interest cost	$ -	$ -	$ -

Effect of a 1% decrease in health care trend rate on:	2014	2013	2012
Benefit obligation	$ (6)	$ (23)	$ (5)
Total service and interest cost	$ -	$ (2)	$ (1)

Weighted-average assumptions for net periodic cost as of December 31,:	2014	2013	2012
Discount rate	4.92 %	4.26 %	4.95 %
Health care cost trend: Initial	8.00 %	9.00 %	10.00 %
Health care cost tread: Ultimate	5.00 %	5.00 %	5.00 %
Year ultimate reached	2018	2018 %	2018

The following table presents the estimated benefit payments for each of the next five years and the aggregate amount expected to be paid in years six through ten (amounts in thousands):

Calendar Year	Future Estimated Benefit Payments
2015	$ 201
2016	$ 176
2017	$ 140
2018	$ 150
2019	$ 159
2020-2024	$ 652

The Corporation's policy is to contribute the amount required to fund postretirement benefits as they become due to retirees. The amount expected to be required in contributions to the plan during 2015 is $201 thousand.

Executive Supplemental Pension Plan

The Corporation also sponsors an Executive Supplemental Pension Plan for certain current and former executive officers to restore certain pension benefits that may be reduced due to limitations under the Internal Revenue Code. The benefits under this plan are unfunded as of December 31, 2014 and 2013.

The Corporation uses a December 31 measurement date for its Executive Supplemental Pension Plan.

The following table presents Executive Supplemental Pension plan status at December 31, 2014 and 2013 (amounts in thousands):

Change in projected benefit obligation:	2014	2013
Benefit obligation at beginning of year	$1,116	$1,162
Service cost	38	40
Interest cost	55	48
Actuarial (gain) loss	110	(59)
Benefits paid	(75)	(75)
Projected benefit obligation at end of year	$1,244	$1,116

Changes in plan assets:	2014	2013
Fair value of plan assets at beginning of year	$-	$-
Employer contributions	75	75
Benefits paid	(75)	(75)
Fair value of plan assets at end of year	$-	$-
Unfunded status	$(1,244)	$(1,116)

Amounts recognized in accumulated other comprehensive income (loss) at December 31, 2014 and 2013 consist of the following (amounts in thousands):

	2014	2013
Net actuarial loss	$275	$194
Prior service cost	-	-
Total before tax effects	$275	$194

Accumulated benefit obligation at December 31, 2014 and 2013 was $1.2 million and $1.0 million, respectively.

Weighted-average assumption for disclosure as of December 31,:	2014	2013	2012
Discount rate	4.09%	4.92%	4.26%
Assumed rate of future compensation increase	5.00%	5.00%	5.00%

The components of net periodic benefit cost for the years ended December 31, 2014, 2013 and 2012 are as follows (amounts in thousands):

Net periodic benefit cost	2014	2013	2012
Service cost	$38	$40	$35
Interest cost	55	48	51
Recognized actuarial loss	29	34	20

Net periodic postretirement benefit cost	$122	$122	$106

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Other changes in plan assets and benefit obligation recognized in other comprehensive income (loss):	2014	2013	2012
Net actuarial (gain) loss	$110	$(59)	$81
Recognized actuarial loss	(29)	(34)	(20)
Total recognized in other comprehensive income (loss) (before tax effect)	$81	$(93)	$61
Total recognized in net benefit cost and other comprehensive income (loss) (before tax effect)	$203	$29	$167

Amounts expected to be recognized in net periodic cost during 2015:	
Loss recognition	$50
Prior service cost recognition	$-

Weighted-average assumptions for net periodic cost as of December 31,:	2014	2013	2012
Discount rate	4.92 %	4.26%	4.95 %
Salary scale	5.00 %	5.00%	5.00 %

The following table presents the estimated benefit payments for each of the next five years and the aggregate amount expected to be paid in years six through ten for the Supplemental Pension Plan (amounts in thousands):

Calendar Year	Future Estimated Benefit Payments
2015	$ 75
2016	$ 75
2017	$ 75
2018	$ 116
2019	$ 116
2020-2024	$ 580

The Corporation expects to contribute $75 thousand to the plan during 2015. Corporation contributions are equal to the benefit payments to plan participants.

Defined Contribution Supplemental Executive Retirement Plan

The Corporation also sponsors a Defined Contribution Supplemental Executive Retirement Plan for certain current executive officers, which was initiated in 2012. The plan is unfunded as of December 31, 2014 and is intended to provide nonqualified deferred compensation benefits payable at retirement, disability, death or certain other events. The balance in the plan as of December 31, 2014 and December 31, 2013 was $550 thousand and $337 thousand, respectively. A total of $213 thousand and $155 thousand was expensed during the years ended December 31, 2014 and 2013, respectively In addition to each participants account being credited with the annual company contribution, each account will receive a quarterly interest credit that will equal the average yield on five year U.S. Treasury Notes.

(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, 2014, and 2013, 9,673, 8,385 and 7,969 shares, respectively, were re-issued from treasury to fund the stock component of the directors' and the President and Chief Executive Officer's compensation. An expense of $271 thousand, $273 thousand and $217 thousand related to this compensation was recognized during the years 2014, 2013 and 2012, respectively. This expense is accrued as shares are earned.

Restricted Stock Plan

Pursuant to the Corporation's Restricted Stock Plan (the "Plan"), the Corporation may make discretionary grants of restricted stock to officers other than the Corporation's President and 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 as of December 31, 2014, and changes during the year ended is presented below:

	Shares	Weighted–Average Grant Date Fair Value
Nonvested at December 31, 2013	20,639	$ 27.17
Granted	11,279	28.40
Vested	(5,490)	26.09
Forfeited or Cancelled	-	-
Nonvested at December 31, 2014	26,428	$ 27.92

As of December 31, 2014, there was $718 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 3.95 years. The total fair value of shares vested during the years ended December 31, 2014 and 2013 were $152 thousand and $181 thousand, respectively.

(13) RELATED PARTY TRANSACTIONS

Members of the Board of Directors, certain Corporation officers, and their immediate families directly, or through entities in which they are principal owners (more than 10% interest), were customers of, and had loans and other transactions with the Corporation. These loans are summarized as follows for the years ended December 31, 2014 and 2013 (amounts in thousands):

	2014	2013
Balance at beginning of year	$26,408	$25,390
New loans or additional advances	33,282	30,056
Repayments	(21,888)	(29,038)
Balance at end of year	$37,802	$26,408

Deposits from principal officers, directors, and their affiliates at year-end 2014 and 2013 were $12.0 million and $9.8 million, respectively.

(14) COMMITMENTS AND CONTINGENCIES

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amounts of financial instruments with off-balance sheet risk at year-end were as follows (amounts in thousands):

	2014		2013	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$23,756	$11,082	$21,049	$7,893
Unused lines of credit	$812	$185,235	$2,190	$187,061
Standby letters of credit	$-	$16,747	$-	$17,290

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Commitments to make Real Estate and Home Equity loans are generally made for periods of sixty days or less. As of December 31, 2014, the fixed rate commitments to make loans have interest rates ranging from 2.750% to 5.875% and maturities ranging from five years to thirty years. Commitments to fund commercial draw notes are generally made for periods of three months to eighteen months. As of December 31, 2014, the fixed rate commitments have interest rates ranging from 1.76% to 5.25%.

Because many commitments and almost all standby letters of credit expire without being funded in whole or in part, the contract amounts are not estimates of future cash flows. Loan commitments and unused lines of credit have off-balance sheet credit risk because only origination fees are recognized on the consolidated balance sheet until commitments are fulfilled or expire. The credit risk amounts are equal to the contractual amounts, assuming the amounts are fully advanced and collateral or other security is of no value. The Corporation does not anticipate losses as a result of these transactions. These commitments also have off-balance sheet interest rate risk in that the interest rate at which these commitments were made may not be at market rates on the date the commitments are fulfilled.

The Corporation has issued conditional commitments in the form of standby letters of credit to guarantee payment on behalf of a customer and guarantee the performance of a customer to a third party. Standby letters of credit generally arise in connection with lending relationships. The credit risk involved in issuing these instruments is essentially the same as that involved in extending loans to customers. Contingent obligations under standby letters of credit totaled $16.7 million at December 31, 2014 and represent the maximum potential future payments the Corporation could be required to make. Typically, these instruments have terms of twelve months or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. Each customer is evaluated individually for creditworthiness under the same underwriting standards used for commitments to extend credit and on-balance sheet instruments. Corporation policies governing loan collateral apply to standby letters of credit at the time of credit extension. The carrying amount and fair value of the Corporation's standby letters of credit at December 31, 2014 was not significant.

The Corporation has an executive severance agreement with its President and Chief Executive Officer.

The Bank is a party in two legal proceedings involving its Wealth Management Group. In both proceedings, the Bank, as trustee pursuant to written trust instruments, has sought judicial settlement of trust accounts in the New York Surrogate's Court for Chemung County. Individuals who are beneficiaries under the trusts have filed formal objections and/or demand letters with the Court in both of these accounting proceedings, objecting to the final settlement of the trust accounts. The objectants primarily assert that the Bank acted imprudently by failing to diversify the trusts' investments and they claim $13.2 million and $24.1 million, consisting of damages and disallowed trustee's commissions, plus unspecified legal fees in the respective proceedings. For both legal proceedings, the Bank agreed to participate in non-binding mediation which began November 10, 2014. As a result of mediation and in anticipation of a settlement with both parties, the Bank's Board of Directors approved the establishment of an accrual for legal settlement in the amount of $12.1 million, offset by a $7.9 million receivable for insurance proceeds. Two stipulations reflecting the settlements have been submitted to the Surrogate’s Court.

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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(15) PARENT COMPANY FINANCIAL INFORMATION

Condensed parent company only financial statement information of Chemung Financial Corporation is as follows (investment in subsidiaries is recorded using the equity method of accounting) (amounts in thousands):

BALANCE SHEETS - DECEMBER 31	2014	2013
Assets:		
Cash on deposit with subsidiary bank	$3,200	$2,686
Investment in subsidiary - Chemung Canal Trust Company	128,081	133,557
Investment in subsidiary - CFS Group, Inc.	908	779
Dividends receivable from subsidiary bank	1,204	1,195
Securities available for sale, at estimated fair value	346	343
Other assets	1,129	1,254
Total assets	$134,868	$139,814
Liabilities and shareholders' equity:		
Dividends payable	1,204	1,195
Other liabilities	36	41
Total liabilities	1,240	1,236
Shareholders' equity:		
Total shareholders' equity	133,628	138,578
Total liabilities and shareholders' equity	$134,868	$139,814

STATEMENTS OF INCOME - YEARS ENDED DECEMBER 31	2014	2013	2012
Dividends from subsidiary bank	$4,805	$4,778	$4,573
Interest and dividend income	10	9	7
Other income	-	132	150
Operating expenses	261	324	331
Income before impact of subsidiaries' undistributed earnings	4,554	4,595	4,399
Equity in undistributed earnings of Chemung Canal Trust Company	3,307	3,873	6,411
Equity in undistributed earnings of CFS Group, Inc.	129	139	54
Income before income tax	7,990	8,607	10,864
Income tax benefit	(167)	(124)	(158)
Net Income	$8,157	$8,731	$11,022

STATEMENTS OF CASH FLOWS - YEARS ENDED DECEMBER 31	2014	2013	2012
Cash flows from operating activities:			
Net Income	$8,157	$8,731	$11,022
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of Chemung Canal Trust Company	(3,307)	(3,873)	(6,411)
Equity in undistributed earnings of CFS Group, Inc.	(129)	(139)	(54)
Change in dividend receivable	(9)	(1,195)	1,141
Change in other assets	126	558	765
Change in other liabilities	110	79	48
Expense related to employee stock compensation	117	112	80
Expense related to restricted stock units for directors' deferred compensation plan	94	99	87
Expense to employee restricted stock awards	151	131	80
Net cash provided by operating activities	5,310	4,503	6,758
Cash flow from financing activities:			
Cash dividends paid	(4,796)	(3,583)	(5,714)

Purchase of treasury stock	-	(93)	(636)
Sale of treasury stock	-	71	258
Net cash used in financing activities	(4,796)	(3,605)	(6,092)
Increase in cash and cash equivalents	514	898	666
Cash and cash equivalents at beginning of year	2,686	1,788	1,122
Cash and cash equivalents at end of year	$3,200	$2,686	$1,788

(16) FAIR VALUES

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

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

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

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

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

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

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

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

Other Real Estate Owned (“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 (amounts in thousands):

Financial Assets:	Fair Value	Fair Value Measurement at December 31, 2014 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of U.S. Government and U.S. Government sponsored enterprises	$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	$ -	$ -

Financial Assets:	Fair Value	Fair Value Measurement at December 31, 2013 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of U.S. Government and U.S. Government sponsored enterprises	$188,106	$31,262	$ 156,844	$ -
Mortgage-backed securities, residential	104,356	-	104,356	-
Collateralized mortgage obligations	1,015	-	1,015	-
Obligations of states and political subdivisions	38,376	-	38,376	-
Corporate bonds and notes	2,946	-	2,946	-
SBA loan pools	1,488	-	1,488	-
Trust Preferred securities	2,034	-	2,034	-
Corporate stocks	7,695	7,279	416	-
Total available for sale securities	$346,016	$38,541	$ 307,475	$ -

Trading assets	$366	$366	$ -	$ -

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2014 and December, 31, 2013.

The significant unobservable inputs used in the fair value measurement of the Corporation's collateralized mortgage obligations are probabilities of specific-issuer defaults and deferrals and specific-issuer recovery assumptions. Significant increases in specific-issuer default assumptions or decreases in specific-issuer recovery assumptions would result in a significantly lower fair value measurement. Conversely, decreases in specific-issuer default assumptions or increases in specific-issuer recovery assumptions would result in a higher fair value measurement. The Corporation treats all interest payment deferrals as defaults and assumes no recoveries on defaults.

The tables below present a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2014 and 2013:

Trust Preferred Securities Available for Sale	Fair Value Measurement twelve-months ended December 31, 2014 Using Significant Unobservable Inputs (Level 3)	Fair Value Measurement twelve-months ended December 31, 2013 Using Significant Unobservable Inputs (Level 3)
Beginning balance	$ -	$ 445,600
Total gains/losses (realized/unrealized):		
Included in earnings:		
Impairment charge on investment securities	-	(29,025)
Included in other comprehensive income	-	183,425
Transfers in and/or out of Level 3	-	(600,000)
Ending balance, December 31	$ -	$ -

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

Financial Assets:	Fair Value	Fair Value Measurement at December 31, 2014 Using 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	$-	$ -	$ 2,905
Consumer loans:				
Home equity lines and loans	52	-	-	52
Total Impaired Loans	$3,645	$-	$ -	$ 2,957
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

Financial Assets:	Fair Value	Fair Value Measurement at December 31, 2013 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans:				
Commercial and agricultural:				
Commercial and industrial	$ 460	$ -	$ -	$ 460
Commercial mortgages:				
Commercial mortgages	485	-	-	485
Consumer loans:				
Home equity lines and loans	54	-	-	54
Total Impaired Loans	$ 999	$ -	$ -	$ 999
Other real estate owned:				
Commercial and agricultural:				
Commercial and industrial	$ 101	$ -	$ -	$ 101
Commercial mortgages:				
Commercial mortgages	266	-	-	266
Residential mortgages	106	-	-	106
Consumer loans:				
Home equity lines and loans	65	-	-	65
Total Other Real Estate Owned, net	$ 538	$ -	$ -	$ 538

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

Description	Fair Value at December 31, 2014	Technique		Unobservable Inputs
Impaired loans	$ 3,645	Third party real estate and a 100% discount of personal property	1	Management discount based on underlying collateral characteristics and market conditions
OREO	$ 3,065	Third party appraisals	1	Estimated holding period
			2	Estimated closing costs

Description	Fair Value at December 31, 2013	Technique		Unobservable Inputs
Impaired loans	$ 999	Third party real estate and a 100% discount of personal property	1	Management discount based on underlying collateral characteristics and market conditions

OREO	$ 538	Third party appraisals	1	Estimated holding period
			2	Estimated closing costs

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $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 ending December 31, 2014. Impaired loans had a principal balance of $2.0 million with a valuation allowance of $1.0 million as of December 31, 2013, resulting in an increase of $853 thousand in the provision for loan losses for the year ending December 31, 2013.

OREO, which is measured by the lower of carrying or fair value less costs to sell, had a net carrying amount of $3.1 million at December 31, 2014. The net carrying amount reflects the outstanding balance of $3.1 million, net of a valuation allowance of $2 thousand at December 31, 2014. OREO had a net carrying amount of $538 thousand at December 31, 2013. The net carrying amount reflects the outstanding balance of $732 thousand, net of a valuation allowance of $194 thousand at December 31, 2013, which resulted in a write down of $2 thousand for the year ended December 31, 2013.

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, and time deposits are classified as Level 2.

FHLB and FRB Stock

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

Loans Receivable

For variable-rate loans that reprice frequently, fair values approximate carrying values. The fair values for other loans are estimated through discounted cash flow analysis using interest rates currently being offered for loans with similar terms and credit quality. Loans are classified as Level 3. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price. Loans held for sale are classified as Level 2.

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 December 31, 2014 and 2013.

Accrued Interest Receivable and Payable

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

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

	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.

	Fair Value Measurements at December 31, 2013 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	$31,600	$31,600	$ -	$ -	$31,600
Interest-bearing deposits in other	20,009	20,009	-	-	20,009

financial institutions					
Trading assets	366	366	-	-	366
Securities available for sale	346,016	38,541	307,475	-	346,016
Securities held to maturity	6,495	-	6,930	-	6,930
FHLBNY and FRBNY stock	4,482	-	-	-	N/A
Loans, net	983,090	-	-	1,008,826	1,008,826
Loans held for sale	695	-	695	-	695
Accrued interest receivable	4,166	145	1,468	2,553	4,166
Financial liabilities:					
Deposits:					
Demand, savings, and insured money market accounts	$1,021,764	$1,021,764	$ -	$ -	$1,021,764
Time deposits	244,492	-	245,482	-	245,482
Securities sold under agreements to repurchase	32,701	-	33,636	-	33,636
FHLBNY Advances	25,243	-	26,064	-	26,064
Accrued interest payable	336	15	170	151	336

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

(17) REGULATORY CAPITAL REQUIREMENTS

The Corporation and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets (all as defined in the applicable regulations). Management believes that, as of December 31, 2014 and 2013, the Corporation and the Bank met all capital adequacy requirements to which they were subject.

As of December 31, 2014, the most recent notification from the Federal Reserve Bank of New York categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There have been no conditions or events since that notification that management believes have changed the Bank's or the Corporation's capital category.

The Corporation’s principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year’s net income, combined with the retained net income of the preceding two years, subject to the capital requirements in the table below. During 2015, the Bank could, without prior approval, declare dividends of approximately $13.6 million plus any 2015 net income retained to the date of the dividend declaration.

The actual capital amounts and ratios of the Corporation and the Bank are presented in the following tables (amounts in thousands):

	Actual		Required To Be Adequately Capitalized		Required To Be Well Capitalized	
As of December 31, 2014	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk Weighted Assets):						
Consolidated	$129,211	11.84 %	$87,271	8.00 %	N/A	N/A
Bank	$123,685	11.35 %	$87,178	8.00 %	$108,972	10.00 %
Tier 1 Capital (to Risk Weighted Assets):						
Consolidated	$115,483	10.59 %	$43,636	4.00 %	N/A	N/A
Bank	$110,014	10.10 %	$43,589	4.00 %	$65,383	6.00 %
Tier 1 Capital (to Average Assets):						
Consolidated	$115,483	7.78 %	$44,556	3.00 %	N/A	N/A
Bank	$110,014	7.41 %	$44,512	3.00 %	$74,187	5.00 %
As of December 31, 2013						
Total Capital (to Risk Weighted Assets):						
Consolidated	$126,299	12.10 %	$83,484	8.00 %	N/A	N/A

Bank	$121,222	11.63%	$83,369	8.00%	$104,211	10.00%
Tier 1 Capital (to Risk Weighted Assets):						
Consolidated	$110,260	10.57%	$41,742	4.00%	N/A	N/A
Bank	$105,239	10.10%	$41,684	4.00%	$62,527	6.00 %
Tier 1 Capital (to Average Assets):						
Consolidated	$110,260	8.08 %	$40,940	3.00%	N/A	N/A
Bank	$105,239	7.72 %	$40,900	3.00%	$68,167	5.00 %

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(18) 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 (amounts in thousands):

	Unrealized Gains and Losses on Securities Available for Sale	Defined Benefit and Other Benefit Plans	Total
Balance at December 31, 2013	$ 6,043	$ (5,888)	$ 155
Other comprehensive income (loss) before reclassification	146	(5,221)	(5,075)
Amounts reclassified from accumulated other comprehensive income (loss)	(4,229)	364	(3,865)
Net current period other comprehensive loss	(4,083)	(4,857)	(8,940)
Balance at December 31, 2014	$ 1,960	$ (10,745)	$ (8,785)

	Unrealized Gains and Losses on Securities Available for Sale	Defined Benefit and Other Benefit Plans	Total
Balance at December 31, 2012	$ 8,023	$ (10,830)	$ (2,807)
Other comprehensive income (loss) before reclassification	(1,988)	3,994	2,006
Amounts reclassified from accumulated other comprehensive income (loss)	8	948	956
Net current period other comprehensive loss	(1,980)	4,942	2,962
Balance at December 31, 2013	$ 6,043	$ (5,888)	$ 155

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

Details about Accumulated Other Comprehensive Income (Loss) Components	Year Ended December 31, 2014	2013	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on securities available for sale:			
Reclassification adjustment for other-than-temporary losses realized in income	$ -	$ 9	Total impairment losses
Realized gains on securities available for sale	(6,869)	(16)	Net gains on securities transactions
Tax effect	2,640	(5)	Income tax benefit (expense)

Net of tax	(4,229)	8	
Amortization of defined pension plan and other benefit plan items:			
Prior service costs (a)	(90)	(83)	Pension and other employee benefits
Actuarial losses (a)	681	1,624	Pension and other employee benefits
Tax effect	(227)	(593)	Income tax benefit
Net of tax	364	948	
Total reclassification for the period, net of tax	$(3,865)	$956	

(a) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension and other benefit plan costs (see Note 11 for additional information).

(19) SEGMENT REPORTING

The Corporation manages its operations through two primary business segments: core banking and wealth management services. The core banking segment provides revenues by attracting deposits from the general public and using such funds to originate consumer, commercial, commercial real estate, and residential mortgage loans, primarily in the Corporation's local markets and to invest in securities. The wealth management 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 (amounts in thousands):

Year ended December 31, 2014	Core Banking	Wealth Management Group	Holding Company and Other	Consolidated Totals
Net interest income	$49,556	$ -	$ 12	$49,568
Provision for loan losses	3,981	-	-	3,981
Net interest income after provision for loan losses	45,575	-	12	45,587
Other operating income	18,186	7,746	824	26,756
Legal settlements	-	4,250	-	4,250
Other operating expenses	49,997	5,355	875	56,227
Income (loss) before income tax expense	13,764	(1,859)	(39)	11,866
Income tax expense (benefit)	4,507	(715)	(83)	3,709
Segment net income (loss)	$9,257	$ (1,144)	$ 44	$8,157
Segment assets	$1,518,584	$ 4,357	$ 1,598	$1,524,539

Year ended December 31, 2013	Core Banking	Wealth Management Group	Holding Company and Other	Consolidated Totals
Net interest income	$46,621	$ -	$ 10	$46,631
Provision for loan losses	2,755	-	-	2,755
Net interest income after provision for loan losses	43,866	-	10	43,876
Other operating income	9,913	7,344	820	18,077
Other operating expenses	43,136	5,480	784	49,400
Income before income tax expense	10,643	1,864	46	12,553
Income tax expense (benefit)	3,139	717	(34)	3,822
Segment net income	$7,504	$ 1,147	$ 80	$8,731
Segment assets	$1,469,482	$ 4,943	$ 1,718	$1,476,143

Year ended December 31, 2012	Core Banking	Wealth Management Group	Holding Company and Other	Consolidated Totals
Net interest income	$46,834	$ -	$ 8	$46,842
Provision for loan losses	828	-	-	828

Net interest income after provision for loan losses	46,006	-	8	46,014
Other operating income	9,597	6,827	764	17,188
Other operating expenses	40,550	5,389	856	46,795
Income (loss) before income tax expense	15,053	1,438	(84)	16,407
Income tax expense (benefit)	4,954	553	(122)	5,385
Segment net income	$ 10,099	$ 885	$ 38	$ 11,022
Segment assets	$ 1,240,752	$ 5,156	$ 2,252	$ 1,248,160

(20) BRANCH ACQUISITION

On July 10, 2013, the Bank entered into an agreement with Bank of America to acquire six branch offices in Auburn, Cortland, Ithaca and Seneca Falls, New York. Under the terms of the agreement, the Bank purchased the related branch premises and certain performing loans, and assumed the related deposits. The transaction was completed on November 23, 2013. The assets acquired and deposits assumed in the transaction were recorded at their estimated fair values as follows:

Cash, net	$170,904
Loans	1,240
Bank premises and equipment	4,081
Core deposit intangible asset	2,155
Other assets	350
Total assets acquired	$178,730
Deposits assumed	$177,749
Time deposit premium	263
Other liabilities	718
Total liabilities assumed	$178,730

The transaction was accounted for using the acquisition method of accounting and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at their estimated fair values on the acquisition date. Fair values are preliminary and in certain cases are subject to refinement for up to one year after the closing date of the acquisition as additional information relative to fair values becomes available.

The operating results of the acquired branch offices included in the Corporation’s consolidated statement of income for the year ended December 31, 2013 reflect only the amounts from the acquisition date through December 31, 2013.

The core deposit intangible asset of $2.2 million will be amortized on an accelerated basis over a period of approximately seven years. The time deposit premium of $263 thousand will be accreted over the estimated remaining life of the related deposits as a reduction to interest expense.

Negative goodwill of $470 thousand was recorded as a gain from bargain purchase and was calculated as the purchase discount after adjusting for the fair value of net assets acquired.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	CHEMUNG FINANCIAL CORPORATION
DATED: MARCH 13, 2015	By: /s/ Ronald M. Bentley Ronald M. Bentley, President and Chief Executive Officer (Principal Executive Officer)
DATED: MARCH 13, 2015	By: /s/ Karl F. Krebs Karl F. Krebs, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been executed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Larry H. Becker Larry H. Becker	Director	March 13, 2015
/s/ Bruce W. Boyea Bruce W. Boyea	Director	March 13, 2015
/s/ David J. Dalrymple David J. Dalrymple	Director and Chairman of the Board	March 13, 2015
/s/ Robert J. Dalrymple Robert H. Dalrymple	Director	March 13, 2015
/s/ Clover M. Drinkwater Clover M. Drinkwater	Director	March 13, 2015
/s/ William D. Eggers William D. Eggers	Director	March 13, 2015
/s/ Stephen M. Lounsberry, III Stephen M. Lounsberry, III	Director	March 13, 2015
/s/ John F. Potter John F. Potter	Director	March 13, 2015
/s/ Eugene M. Sneeringer, Jr. Eugene M. Sneeringer, Jr.	Director	March 13, 2015
/s/ Robert L. Storch Robert L. Storch	Director	March 13, 2015

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(signature's continued)

Signature	Title	Date
/s/ Richard W. Swan Richard W. Swan	Director	March 13, 2015
/s/ G. Thomas Tranter, Jr. G. Thomas Tranter, Jr.	Director	March 13, 2015
/s/ Thomas R. Tyrrell Thomas R. Tyrrell	Director	March 13, 2015
/s/ Ronald M. Bentley Ronald M. Bentley	President and Chief Executive Officer	March 13, 2015
/s/ Karl F. Krebs Karl F. Krebs	Chief Financial Officer and Treasurer	March 13, 2015

EXHIBIT INDEX

Exhibit	The following exhibits are either filed with this Form 10-K or are incorporated herein by reference. The Corporation's Securities Exchange Act file number is 000-13888.
3.1	Certificate of Incorporation of Chemung Financial Corporation dated December 20, 1984 (as incorporated by reference to Exhibit 3.1 to Registrant's Form 10-K for the year ended December 31, 2007 filed with the Commission on March 13, 2008).
3.2	Certificate of Amendment to the Certificate of Incorporation of Chemung Financial Corporation, dated March 28, 1988 (as incorporated by reference to Exhibit 3.2 to Registrant's Form 10-K for the year ended December 31, 2007 filed with the Commission on March 13, 2008).
3.3	Certificate of Amendment to the Certificate of Incorporation of Chemung Financial Corporation, dated May 13, 1998 (as incorporated by reference to Exhibit 3.4 to Registrant's Form 10-K for the year ended December 31, 2005 and filed with the Commission on March 15, 2006).
3.4	Amended and Restated Bylaws of Chemung Financial Corporation, as amended to December 17, 2014 (as incorporated by reference to Exhibit 3.1 to Registrant's Form 8-K filed with the Commission on December 19, 2014).
4.1	Specimen Stock Certificate (filed as Exhibit 4.1 to Registrant's Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
10.1	Change of Control Agreement dated September 20, 2006 between Chemung Canal Trust Company and Ronald M. Bentley, President & COO (filed as Exhibit 10.1 to Registrant's Form 10-Q for the quarter ended September 30, 2006 and incorporated herein by reference).
10.2	Executive Severance Agreement dated September 20, 2006 between Chemung Canal Trust Company and Ronald M. Bentley, President & COO (filed as Exhibit 10.2 to Registrant's Form 10-Q for the quarter ended September 30, 2006 and incorporated herein by reference).
10.3	Chemung Financial Corporation 2014 Omnibus Plan and Component Plans (Chemung Financial Corporation Restricted Stock Plan, Chemung Financial Corporation Incentive Compensation Plan, Chemung Financial Corporation Directors' Compensation Plan and Chemung Financial Corporation/Chemung Canal Trust Company Directors' Deferred Fee Plan). (Filed as Exhibits 10.1, 10.2, 10.3, 10.4 and 10.5 to Registrant's Form S-8 filed with the SEC on January 27, 2015 and incorporated herein by reference).
10.4	Change of Control Agreement dated August 23, 2007 between Chemung Canal Trust Company and Melinda A. Sartori, Executive Vice President (filed as Exhibit 10.9 to Registrant's Form 10-K filed with the SEC on March 13, 2008 and incorporated herein by reference).
10.5	Change of Control Agreement dated January 19, 2011 between Chemung Canal Trust Company and Richard G. Carr, Executive Vice President (filed as Exhibit 10.11 to Registrant's Form 10-K filed with the SEC on March 16, 2011 and incorporated herein by reference).
10.6	Change of Control Agreement dated January 19, 2011 between Chemung Canal Trust Company and Louis C. DiFabio, Executive Vice President (filed as Exhibit 10.12 to Registrant's Form 10-K filed with the SEC on March 16, 2011 and incorporated herein by reference).
10.7	Change of Control Agreement dated April 8, 2011 between Chemung Canal Trust Company and Anders M. Tomson, President Capital Bank Division (filed as Exhibit 10.14 to Registrant's Form 10-Q filed with the SEC on May 13, 2011 and incorporated herein by reference).
10.8	Change of Control Agreement dated November 7, 2011 between Chemung Canal Trust Company and Karen R. Makowski, Executive Vice President and Chief Administration and Risk Officer (filed as Exhibit 10.16 to Registrant's Form 10-K on March 28, 2012 and incorporated herein by reference).
10.9	Change of Control Agreement dated October 16, 2013 between Chemung Canal Trust Company and Karl F. Krebs, Executive Vice President and Chief Financial Officer (filed as Exhibit 10.1 to Registrant's Form 8-K filed with the SEC on October 17, 2013 and incorporated herein by reference).
21	Subsidiaries of the Registrant.*
23	Consent of Crowe Horwath LLP, Independent Registered Public Accounting Firm.*

31.1	Certification of President Chief Executive Officer of the Registrant pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.*
31.2	Certification of Treasurer and Chief Financial Officer of the Registrant pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.*
32.1	Certification of President and Chief Executive Officer of the Registrant pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 19 U.S.C. §1350.*
32.2	Certification of Treasurer and Chief Financial Officer of the Registrant pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 19 U.S.C. §1350.*
101.INS	Instance Document
101.SCH	XBRL Taxonomy Schema*
101.CAL	XBRL Taxonomy Calculation Linkbase*
101.DEF	XBRL Taxonomy Definition Linkbase*
101.LAB	XBRL Taxonomy Label Linkbase*
101.PRE	XBRL Taxonomy Presentation Linkbase*
*	Filed herewith.