BENCHMARK ELECTRONICS INC
Form DEF 14A
April 05, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, For Use of the Commission Only (as Permitted by Rule 14a-6(e)(2))**
x Definitive Proxy Statement
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BENCHMARK ELECTRONICS, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

BENCHMARK ELECTRONICS, INC.

3000 Technology Drive
Angleton, Texas 77515

NOTICE OF 2011 ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON TUESDAY, MAY 17, 2011

Shareholders of Benchmark Electronics, Inc.:

The 2011 Annual Meeting of Shareholders of Benchmark Electronics, Inc. (the Company) will be held at the Four Seasons Hotel Houston, 1300 Lamar Street, Houston, Texas, on Tuesday, May 17, 2011, beginning at 10:00 a.m. (local time), for the following purposes:

1. to elect six directors to serve on the Board of Directors until the 2012 annual meeting of shareholders and until their successors are duly elected and qualified;

2. to provide an advisory vote on the compensation of the Company s Named Executive Officers;

3. to provide an advisory vote on the frequency of future advisory votes on the compensation of the Company s Named Executive Officers;

4. to ratify the appointment of KPMG LLP as the independent registered public accounting firm of the Company for the year ending December 31, 2011; and

5. to transact such other business as may properly come before the meeting or any adjournment thereof.

Shareholders of record at the close of business on March 25, 2011 are entitled to notice of and to vote at the meeting and any adjournment thereof. You are cordially invited to attend the meeting.

By order of the Board of Directors,
/s/ Kenneth S. Barrow
Kenneth S. Barrow
General Counsel and Secretary

Angleton, Texas
April 4, 2011

YOUR VOTE IS IMPORTANT.

Regardless of whether you plan to attend the meeting, you are urged to act promptly to vote your shares. You may vote in person or by using a proxy as follows:

By internet: Go to *www.proxyvote.com*. Please have the notice we sent to you in hand because it has your personal 12 digit control number(s) needed for your vote.
By telephone: Call 1-800-579-1639 on a touch tone phone. Please have the notice we sent to you in hand because it has your personal 12 digit control number(s) needed for your vote.
By mail: Please request written materials as provided in the Notice of Availability of Proxy Materials. Complete, sign, and date the proxy card and return it to the address indicated on the proxy card.

The proxy is revocable at any time before it is voted at the meeting.

BENCHMARK ELECTRONICS, INC.
3000 Technology Drive
Angleton, Texas 77515
(979) 849-6550

April 4, 2011

PROXY STATEMENT FOR 2011 ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON TUESDAY, MAY 17, 2011

INTRODUCTION

This Proxy Statement is being furnished in connection with the solicitation of proxies by the Board of Directors (the Board) of Benchmark Electronics, Inc. (the Company) for use at the 2011 Annual Meeting of Shareholders of the Company to be held on Tuesday, May 17, 2011 beginning at 10:00 a.m. (local time), and any adjournment thereof (the Meeting) for the purposes set forth in this Proxy Statement and the accompanying Notice. It is anticipated that this Proxy Statement, the Notice and the enclosed form of proxy will be sent to shareholders on or about April 7, 2011.

Proxies

Proxies in the enclosed form that are properly executed and received by the Company before or at the Meeting and which are not revoked will be voted in accordance with the directions set forth therein. If no direction is made, a proxy that is properly signed and received by the Company and which is not revoked will be voted *FOR* the election of all nominees for director named herein to serve on the Board until the 2012 annual meeting of shareholders and until their successors are duly elected and qualified, *FOR* the resolution approving the named executive officer compensation for 2010 as disclosed in this proxy statement, *FOR* conducting future advisory votes on compensation of the Company s named executive officers annually and *FOR* the ratification of the appointment of KPMG LLP as the independent registered public accounting firm of the Company for the year ending December 31, 2011. If any other matter, not known or determined at the time of the solicitation of proxies, properly comes before the Meeting, the proxies will be voted in accordance with the discretion of the person or persons voting the proxies. The proxy also confers on the persons named therein discretionary authority to vote with respect to any matters presented at the Meeting for which

advance notice was not received by the Company prior to January 31, 2011. Proxies may be revoked by written notice received by the Secretary of the Company at any time before they are voted by delivering to the Secretary of the Company a signed notice of revocation, or a later dated signed proxy, or by attending the Meeting and voting in person by ballot.

Voting Securities

Shareholders of record at the close of business on March 25, 2011 are entitled to notice of and to vote at the Meeting. As of March 25, 2011, there were 61,154,172 common shares, $0.10 par value per share (Common Shares), issued, outstanding and entitled to vote at the Meeting. Each Common Share is entitled to one vote on all matters that may properly come before the Meeting.

Quorum and Other Matters

The presence at the Meeting, in person or by proxy, of the holders of a majority of the outstanding Common Shares is necessary to constitute a quorum. Common Shares represented by a properly completed, signed and returned proxy will be counted as present at the Meeting for purposes of determining a quorum, without regard to whether the proxy is marked as casting a vote or abstaining. Common Shares held by nominees which are voted on at least one matter coming before the Meeting will also be counted as present for purposes of determining a quorum, even if the beneficial owner s discretion has been withheld (a non-vote) for voting on some or all other matters.

All matters specified in the notice of the Meeting require the approval of the affirmative vote of a majority of the outstanding Common Shares entitled to vote and present, in person or represented by proxy, at the Meeting. An abstention, a broker non-vote or a withholding of authority to vote with respect to the election of directors or the ratification of the appointment of the Company s independent registered public accountants will have the effect of a vote against the proposal.

An Inspector of Election appointed by the Company will tabulate votes at the Meeting.

The Board is not aware of any matters that are expected to come before the Meeting other than those referred to in this Proxy Statement. If any other matter properly comes before the Meeting, the proxies will be voted in accordance with the discretion of the person or persons voting the proxies.

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PROPOSAL 1

ELECTION OF DIRECTORS

Nominees for Election

The following table sets forth certain information with respect to each nominee for election as a director of the Company. Each nominee was proposed for reelection by the Nominating/Governance Committee for consideration by the Board and proposal to the Shareholders. The information as to age, principal occupation, and directorships has been furnished by each such nominee.

Name	Age	Principal Occupation	Director Since
Cary T. Fu	62	Chairman of the Board and Chief Executive Officer of the Company	1990(1)
Michael R. Dawson	57	Retired Senior Vice President and Chief Financial Officer of Northern Offshore, Ltd.	2006
Peter G. Dorflinger	59	General Partner of MAD Capital Partners	1990
Douglas G. Duncan	60	Retired President and Chief Executive Officer of FedEx Freight Corporation	2006
Bernee D.L. Strom	63	Chairman and Chief Executive Officer of WebTuner Corp.	2004
Clay C. Williams	48	Executive Vice President and Chief Financial Officer of National Oilwell Varco, Inc.	2008

(1) Also served as a director of the Company from 1986 to 1988.

Mr. Fu has been a director of the Company since 1990, Chairman of the Board since May 2009 and Chief Executive Officer since September 2004. He served as President and Chief Executive Officer of the Company from September 2004 to December 2006, President and Chief Operating Officer of the Company from May 2001 to September 2004, Executive Vice President from 1990 to May 2001 and Executive Vice President Financial Administration from 1990 to April 1992. He also has served the Company as Treasurer from 1986 to January 1996, Secretary from 1990 to January 1996 and from 1986 to 1988 and Assistant Secretary from 1988 to 1990. In addition, Mr. Fu also served as a director of the Company from 1986 to 1988. From 1983 to 1986, Mr. Fu was employed by Intermedics as Controller of the Company and another subsidiary of Intermedics. Mr. Fu holds an M.S. degree in accounting from the University of Houston and is a Certified Public Accountant. Mr. Fu also serves on the board of directors of Teradata Corporation. As one of the Company s founders, Mr. Fu brings to the Board an unparalleled familiarity with the Company s business and industry.

Mr. Dawson has been a director of the Company since 2006 and has served as chair of the Audit Committee since May 2007. Mr. Dawson was Senior Vice President and Chief Financial Officer of Northern Offshore, Ltd., an offshore oil and gas drilling contractor from January 2008 to April 2010. Mr. Dawson served as Senior Vice President and Chief Financial Officer of GlobalSantaFe Corporation from June 2005 to November 2007. Previously, he served GlobalSantaFe as Vice President and Controller from 2003 to 2005 and as Vice President and Treasurer from 2001 to 2003. Prior to November 2001, Mr. Dawson served as Vice President, Investor Relations and Corporate Communications for Global Marine Inc. A former Certified Public Accountant, Mr. Dawson joined Global Marine in 1999 after 16 years with Union Texas Petroleum Holdings, where he served as Director of Acquisitions and Portfolio

Management, Director of Investor Relations and in numerous financial management positions in the Controller s organization. Mr. Dawson began his career at Shell Oil Company in 1975. Mr. Dawson holds a B.B.A. degree from the University of Iowa. In recommending Mr. Dawson as a nominee for election as a director of the Company, the Nominating/Governance Committee considered Mr. Dawson s experience as a Chief Financial Officer and related positions with various companies, all of which will add to his service on the Company s Audit Committee. Mr. Dawson qualifies as an independent director under the rules of the NYSE and as defined in Schedule 14A promulgated under Securities Exchange Act of 1934 and as an audit committee financial expert under the rules of the Securities and Exchange Commission.

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Mr. Dorflinger has been a director of the Company since 1990 and is a member of the Audit Committee. Mr. Dorflinger served as chair of the Nominating/Governance Committee from May 2006 to May 2010 and as chair of the Compensation Committee from December 2003 to May 2006. Mr. Dorflinger is a general partner of MAD Capital Partners focusing on private investments in oil and gas exploration, commercial property development, and early stage medical product companies. Mr. Dorflinger is the former President of GlasTech, Inc., a dental products manufacturer, a position he held from November 1998 through May 2002. From January 1998 through October 1998, he served as President and Chief Operating Officer of Physicians Resource Group, Inc., a physicians practice management company. From January 1997 through January 1998, he served as Vice President and General Counsel of Advanced Medical Instruments, Inc., a manufacturer of medical monitoring equipment. From March 1987 through October 1996, he served as Vice President, General Counsel and Secretary of Intermedics. From June 1990 through October 1996, he also served as Group Vice President and General Counsel of SULZERmedica, a division of Sulzer Limited of Switzerland, composed of eight operating medical companies, including Intermedics. Mr. Dorflinger received a J.D. degree from the University of Houston and is also a director of several privately held companies. Mr. Dorflinger brings the experience of many years of service as a director of the Company and his intimate understanding of the Company and its business. Mr. Dorflinger qualifies as an independent director under the rules of the NYSE.

Mr. Duncan has been a director of the Company since 2006 and is a member of the Audit and Nominating/Governance Committees. He has served as chair of the Nominating/Governance Committee since May 2010. Mr. Duncan is the retired President and Chief Executive Officer of FedEx Freight Corporation, a provider of regional and interregional less-than-truckload freight services. He was founding CEO of this stand-alone corporation for FedEx and served in that capacity from 2001 until 2010. Mr. Duncan graduated from Christopher Newport University. In recommending Mr. Duncan as a nominee for election as a director of the Company, the Nominating/Governance Committee considered not only Mr. Duncan s experience as a Chief Executive Officer, but also his skills and leadership with logistics. Mr. Duncan qualifies as an independent director under the rules of the NYSE. Mr. Duncan also serves on the board of directors of J.B. Hunt Transport Services, Inc.

Ms. Strom has been a director of the Company since 2004 and is a member of the Compensation and Nominating/Governance Committees. Ms. Strom has served as Presiding Director since May 2010. She served as chair of the Audit Committee from May 2006 to May 2007 and served as chair of the Nominating/Governance Committee from May 2004 to May 2006. Ms. Strom is Chairman and CEO of WebTuner Corp., a developer of software infrastructure for next generation television systems. She remains a Founding Partner of Revitalization Partners LLC, an international specialty management services firm that provides hands-on interim executive management and advisory services to client companies. Ms. Strom also serves as a director of Ensequence, Inc., a software company that has developed a cross platform technology for interactive video across cable, satellite, broadband and mobile devices. She also has served as President and Chief Executive Officer of The Strom Group, an investment and business advisory firm, since 1990. From July 2000 to February 2001 she was Chairman and Chief Executive Officer of *iCopyright.com*, a provider of Internet content services. From January to June 2000 she was President of InfoSpace.com Ventures, LLC, the venture capital arm of InfoSpace.com, Inc., a global provider of information and commerce infrastructure services for wireless devices and web sites. From 1998 to 1999 she was President and Chief Operating Officer of InfoSpace.com, Inc. From 1997 to 1998, she was CEO of Walker Digital and its first spin-out, priceline.com. From 1995 to 1997 she was President and Chief Executive Officer of USA Digital Radio Partners, LP, a communication and technology company. Ms. Strom received her B.S. in mathematics and history, her M.A. and her Ph.D. (ABD) in mathematics and mathematics education from New York University and her M.B.A. from the Anderson School at the University of California, Los Angeles. She was recently named one of Anderson s 100 Most Impactful alumni. Ms. Strom brings the experience gained through her service on boards or as an officer of several companies and qualifies as an independent director under the rules of the NYSE.

Mr. Williams has been a director of the Company since 2008 and is a member of the Compensation and Nominating/Governance Committees. He has served as chair of the Compensation Committee since May 2010. Mr.

Williams is Executive Vice President and Chief Financial Officer of National Oilwell Varco, Inc., a global service provider and manufacturer of equipment for oil and gas producers. He also served as the

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Chief Financial Officer of Varco International, Inc. prior to Varco s merger with National-Oilwell. Mr. Williams began his career at Shell Oil Company in 1985, and has held various positions in the energy industry for more than 20 years. Mr. Williams received a B.S. degree in Civil/Geological Engineering from Princeton University and an M.B.A. from the University of Texas at Austin. In recommending Mr. Williams as a nominee for election as a director of the Company, the Nominating/Governance Committee considered Mr. Williams current and past experience as a Chief Financial Officer. Mr. Williams qualifies as an independent director under the rules of the NYSE and as defined in Schedule 14A promulgated under Securities Exchange Act of 1934 and as an audit committee financial expert under the rules of the Securities and Exchange Commission.

The officers of the Company are elected by, and serve at the discretion of, the Board.

Election Procedures; Term

The directors will be elected by the affirmative vote of the holders of a majority of the outstanding Common Shares present in person or represented by proxy at the Meeting. Unless the authority to vote for the election of directors is withheld as to any or all of the nominees, all Common Shares represented by proxy will be voted for the election of the nominees. If the authority to vote for the election of directors is withheld as to any but not all of the nominees, all Common Shares represented by any such proxy will be voted for the election of the nominees as to whom such authority is not withheld. If a nominee becomes unavailable to serve as a director for any reason before the election, the shares represented by proxy will be voted for such other person, if any, as may be designated by the Board. The Board, however, has no reason to believe that any nominee will be unavailable to serve as a director.

Any vacancy on the Board occurring after the election may be filled (1) by election at any annual or special meeting of the shareholders called for that purpose, or (2) by a majority of the remaining directors though less than a quorum of the Board, provided that the remaining directors may not fill more than two such director vacancies during the period between any two successive annual meetings of shareholders. A director elected to fill a vacancy will be elected for the unexpired portion of the term of his or her predecessor in office.

All directors will be elected to serve until the 2012 annual meeting of shareholders and until their successors are duly elected and qualified.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR* THE ELECTION OF EACH OF THE NOMINEES TO THE BOARD OF DIRECTORS.

Executive Officers

The executive officers of the Company are Cary T. Fu, Donald F. Adam and Gayla J. Delly. See Election of Directors Nominees for Election for certain information with respect to the age, positions and length of service with the Company, and business experience of Mr. Fu.

Ms. Delly, 51, has been with the Company since 1996 and served as President from December 2006 and Chief Financial Officer from May 2001 to December 2006. She has also served as Executive Vice President of the Company from September 2004 to December 2006, as Vice President Finance of the Company from November 2000 to September 2004, as Treasurer from January 1996 to December 2006 and as Controller of the Company from January 1996 to January 2002. Ms. Delly holds a B.S. degree in accounting from Samford University and is a Certified Public Accountant. Ms. Delly also serves as a director of Flowserve Corporation.

Mr. Adam, 47, has been Chief Financial Officer of the Company since December 2006. He has served as Vice President and Corporate Controller from July 2005 to December 2006 and as Corporate Controller from January 2002 to July 2005. From February 1998 to January 2002, Mr. Adam served as Chief Financial Officer of Specialty Piping Components, Inc. Mr. Adam holds a B.B.A. degree in accounting from The University of Texas and is a Certified Public Accountant.

Corporate Governance

The Company has been built on a culture where integrity is the first and most important value, and this value has long been a part of the Company s corporate identity. The Company s practices reflect corporate governance initiatives that are compliant with existing standards of the NYSE and the corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

A majority of our Board members are independent of the Company and its management as defined by the NYSE;
The independent members of the Board meet regularly without the presence of management;
The Audit Committee, the Compensation Committee and the Nominating/Governance Committee each operate under charters that clearly establish their respective roles and responsibilities;
All members of the Audit Committee, the Compensation Committee and the Nominating/Governance Committee meet the tests for independence established by the NYSE;
The Chairman of the Audit Committee is an audit committee financial expert , as defined by the SEC;
The Audit Committee meets with management and the auditors to receive information concerning the design and operation of internal controls;
KPMG LLP, our independent registered public accounting firm, reports directly to the Audit Committee;
The Company s internal audit group reports periodically throughout the year directly to the Audit Committee;
The Company has, consistent with the requirements of the Sarbanes-Oxley Act of 2002, adopted a policy prohibiting personal loans or extensions of credit to any executive officer or director;
The Company has a code of conduct that applies to all employees, officers and directors and a reporting policy to allow for confidential and anonymous reporting to the Audit Committee; and
The Board operates under a set of corporate governance guidelines.
The Board will continue to enhance the Company s governance practices as new ideas and best practices emerge. You can access our current committee charters for our Audit Committee, Compensation Committee and Nominating/Governance Committee, as well as our Code of Conduct applicable to all of the Company s employees, officers and directors, and our Corporate Governance Guidelines, on our website at *www.bench.com* under Investor Corporate Governance, or you may obtain print copies of these materials by writing to the Corporate Secretary at Benchmark Electronics, Inc., 3000 Technology Drive, Angleton, Texas 77515, phone 979-849-6550.

Shareholders and other interested parties may send communications to the Board, the non-employee directors as a group or individual directors, in each case in care of Benchmark Electronics, Inc., 3000 Technology Drive, Angleton, Texas 77515.

Operation of Board of Directors and Its Committees

The Board has responsibility for establishing broad corporate policies and reviewing our overall performance rather than day-to-day operations. The Board s primary responsibility is to oversee the management of the Company and, in so doing, serve the best interests of the Company and its shareholders. The Board selects, evaluates and provides for the succession of executive officers and, subject to shareholder election, directors. It reviews and approves corporate objectives and strategies, and evaluates significant policies and proposed major commitments of corporate resources. It participates in decisions that have a potential major economic impact on the Company. Management keeps the directors informed of Company activity through regular written reports and presentations at Board and committee meetings.

The directors are elected annually by the shareholders and hold office until their successors are elected and qualified. The Amended and Restated Bylaws of the Company provide for a Board of Directors consisting of not less than five, nor more than nine, members, as set from time to time by resolution of the Board of Directors. The Board presently consists of seven members. Following six years as a member of our Board, Laura W. Lang, has decided to not stand for reelection to the Board. Ms. Lang has been a director of the Company since 2005, and has served in several capacities, including Chairman of the Compensation Committee from May 2006 to May 2010. The decision that she would not be a nominee for reelection was not because of any disagreement with the Company or any matter related to the Company s operations, policies or practices. The Board is interviewing candidates to replace Ms. Lang as an independent director, but there is no assurance that she will be replaced. If all of the nominees for election as director are elected at the Meeting, there will be six directors.

Currently, Mr. Fu serves as Chief Executive Officer and Chairman of the Board of Directors. The Board believes that having Mr. Fu serve both as Chairman of the Board and Chief Executive Officer represents at this point in time the most appropriate leadership structure for the Company. In reaching this conclusion the Board has considered, among others, the following reasons: Mr. Fu s familiarity with the Company s business and industry, his capacity to identify strategic priorities, his vision, and his ability to facilitate the flow of information between management and the Board. The Board feels that combining the roles of Chief Executive Officer and Chairman of the Board affirms the fact that the Company has the ability to develop and implement strategy effectively without being weakened by multiple leaders. The Board acknowledges, however, that independent Board leadership is important and therefore the Board has established the position for a lead independent director, who carries the title Presiding Director and is elected to preside at the non-management executive sessions. The Presiding Director also serves as an additional communication link between management and the Board.

The NYSE rules require that the Company have a majority of independent directors. The rules provide that no director will qualify as independent unless the Board affirmatively determines that the director has no material relationship with the Company and its subsidiaries, either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company. In evaluating each director s independence, the Board considers the NYSE rules as well as all facts and circumstances deemed relevant. Accordingly, as of the date of this Proxy Statement, the Board has determined that the following nominees are independent : Michael R. Dawson, Peter G. Dorflinger, Douglas G. Duncan, Bernee D.L. Strom and Clay C. Williams. The Board has determined that each independent director or nominee had no material relationship with the Company other than as a director, shareholder or management, and that none of the express disqualifications contained in the NYSE rules apply to any of them.

In making this determination, the Board considered any transactions, relationships and arrangements as required by the NYSE listing requirements. In particular, the Board noted that in the ordinary course of business, transactions may occur between the Company and companies or other entities at which some of our directors are executive officers. If the Board identifies a suitable independent replacement for Ms. Lang, it intends to increase the size of the Board back to seven to fill the vacancy created thereby with such individual.

During 2010, Mr. Duncan was employed by FedEx Freight Corporation with which the Company engages in ordinary course of business transactions purchasing of freight services. Under the NYSE rules, business transactions are not considered to be material transactions that would impair a director s independence if the director is an employee or executive officer of another company that does business with the Company and our annual payments to or from that company in each of the last three fiscal years are in an amount less than the greater of $1,000,000 or 2% of the annual consolidated gross revenues of the company by which the director is employed. The Company s transactions with FedEx Freight Corporation and its parent, FedEx Corporation, were below the threshold set forth in the NYSE rules.

Our Board oversees an enterprise-wide approach to risk management. The Board not only aims to understand the risks facing the Company and the steps management is taking to address them, but also actively decides on the levels of

risks appropriate for the Company, when designing and implementing its business strategy. In achieving this objective, the full Board participates in an annual enterprise risk

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management assessment. In this process, risk is assessed throughout the business, focusing on six primary areas of risk: financial risk, legal/compliance risk, operational/transaction risk, customer services/reputation risk, information technology risk and inherent (other) risks. In addition to discussion of risk with the full Board at least once a year, the independent directors discuss risk management during non-management executive sessions led by the Presiding Director.

While the Board has the ultimate oversight responsibility for the risk management process, various committees of the Board have also been entrusted with responsibility for risk management. In particular, the Audit Committee focuses on assessing and mitigating financial reporting risk, including internal controls, and receives an annual risk assessment report from the Company s internal auditor, and quarterly reports on identified risk areas. In setting compensation, the Compensation Committee also strives to create incentives that encourage a level of risk-taking behavior consistent with the Company s business strategy.

The Board held six meetings during 2010. Each of the directors attended at least 75% of such meetings during the period in which he or she was director. Mr. Fu is also an employee of the Company. He does not participate in any meeting at which his compensation is evaluated. All members of all committees are non-employee directors. In addition to committee meetings, the non-employee directors regularly meet outside the presence of Mr. Fu. These executive sessions are currently held either before, after or otherwise in conjunction with the Board s regularly scheduled meetings. Additional executive sessions can be scheduled at the request of the non-employee directors. The non-employee directors elect a Presiding Director to preside at these non-management executive sessions, on a rotating basis. Since May 2010, Ms. Strom has served as Presiding Director over the executive sessions and will serve as Presiding Director from May 2011 to May 2012.

The Board has an Audit Committee, a Compensation Committee and a Nominating/Governance Committee. Each committee has a charter that has been approved by the Board. Each committee must review the appropriateness of its charter at least annually. Each member of each committee meets the independence requirements of the NYSE.

The Audit Committee, consisting of Messrs. Dawson, Dorflinger and Duncan, met twelve times during 2010 and each member attended at least 75% of the meetings during the period in which he or she was a member of such committee. Mr. Dawson qualifies as an audit committee financial expert under the rules of the SEC. For a description of Mr. Dawson s qualifications see Election of Directors Nominees for Election . An audit committee financial expert is defined as a person who has the following attributes: (i) an understanding of generally accepted accounting principles and financial statements; (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves; (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant s financial statements, or experience actively supervising one or more persons engaged in such activities; (iv) an understanding of internal controls and procedures for financial reporting; and (v) an understanding of audit committee functions. The Board, in its business judgment, has determined that Audit Committee members are independent, as required by applicable listing standards of the NYSE governing the qualifications of the members of audit committees, including the requirements of the Securities Exchange Act of 1934. The function of the Audit Committee is to assist the Board in fulfilling its responsibility to oversee (i) management s conduct of the Company s financial reporting process (including management s development and maintenance of systems of internal accounting and financial controls), (ii) the integrity of the Company s financial statements, (iii) the Company s compliance with legal and regulatory requirements and ethical standards, (iv) the qualifications and independence of the Company s outside auditors and (v) the performance of the Company s internal audit function and the outside auditors; and to prepare the audit committee report required by the rules of the SEC to be included in the Company s annual proxy statement. Additional information regarding the functions performed by the committee is set forth below in the Report of the Audit Committee.

The Compensation Committee, consisting of Mr. Williams, Ms. Lang and Ms. Strom, met five times during 2010 and each member attended at least 75% of the meetings during the period in which he or she was a member of such committee. The functions of the Compensation Committee are to (i) oversee the administration of the compensation plans, in particular the incentive compensation and equity-based plans, of

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the Company (and, to the extent appropriate, the subsidiaries of the Company), (ii) discharge the Board s responsibilities relating to the compensation of the Company s executives, (iii) review and make recommendations on director compensation and (iv) prepare the annual report on executive compensation required by the rules and regulations of the SEC to be included in the Company s annual proxy statement. Additional information regarding the functions performed by the committee is set forth below in the Report of the Compensation Committee.

The Nominating/Governance Committee, consisting of Messrs. Duncan, Williams and Ms. Strom, met four times during 2010 and each member attended at least 75% of the meetings during the period in which he or she was a member of such committee. The functions of the Nominating/Governance Committee are to (i) identify individuals qualified to become Board members and recommend such individuals to the Board for nomination for election to the Board, (ii) make recommendations to the Board concerning committee appointments, (iii) develop, recommend and annually review corporate governance guidelines for the Company and (iv) oversee corporate governance matters and coordinate an annual evaluation of the Board.

To be considered by the Nominating/Governance Committee, a director nominee should have experience as a board member or senior executive of a public company or nationally recognized private company. In addition to these minimum requirements, the Nominating/Governance Committee will also evaluate whether the nominee s skills are complementary to the existing Board members skills, and the Board s needs for operational, management, financial, international, technological or other expertise. In addition, although there is no specific policy on considering diversity, the Board and the Nominating/Governance Committee, believe that the Board membership should reflect diversity in its broadest sense, including persons diverse in geography, gender, ethnicity, viewpoint, education, skills and professional experience. The Nominating/Governance Committee typically utilizes a search firm to identify and screen the candidates, do reference checks, prepare a biography for each candidate for the Nominating/Governance Committee to review and coordinate interviews. The Nominating/Governance Committee, the Chairman of the Board and executive officers interview candidates that meet the criteria, and the Nominating/Governance Committee selects nominees who best suit the Board s needs. The Nominating/Governance Committee will consider for nomination to the Board candidates suggested by the shareholders, provided that such recommendations are submitted and received by us at our principal executive offices at 3000 Technology Drive, Angleton, Texas 77515, with an appropriate biographical summary, in accordance with the requirements described below under Date of Submission of Shareholder Proposals.

The Board does not have a formal written policy requiring members to attend the Shareholders Meeting, although all members have traditionally attended. We anticipate that all of our directors will attend our 2011 Annual Meeting of Shareholders.

Certain Transactions

The Board reviews Related Person Transactions (as defined below) in which the Company is or will be a participant to determine if they are in the best interests of our shareholders and the Company. Financial transactions, arrangements, relationships or any series of similar transactions, arrangements or relationships in which a Related Person (as defined below) had or will have a direct or indirect material interest and that exceed $120,000 (Related Person Transactions) are subject to the Board s review. Related Persons are directors, director nominees, executive officers, holders of 5% or more of our voting stock and their immediate family members. Immediate family members are children, stepchildren, spouses, parents, siblings, stepparents, mothers-in-law, fathers-in-law, brothers-in-law, sisters-in-law, daughters-in-law, sons-in-law and any person, other than a tenant or domestic employee, who shares in the household of a director, director nominee, executive officer or holder of 5% or more of our voting stock.

The Board does not have a written policy regarding Related Person Transactions. The Board does not believe a written policy is necessary because the Board has not, and does not expect to, approve the Company s engagement in any Related Person Transactions other than in rare circumstances. Each Related Person Transaction is considered on a stand-alone basis based on facts and circumstances at the time.

After its review, the Board decides whether to approve or ratify a Related Person Transaction that is in, or is not inconsistent with, the best interests of the Company and its shareholders, as the Board determines in good faith.

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COMPENSATION DISCUSSION AND ANALYSIS

Philosophy and Objectives

Our executive compensation program is designed to:

- Attract, retain and reward high-caliber management talent;
- Incentivize the achievement of both the Company s short-term and long-term operating objectives and performance;
- Be transparent, fair, objective and, to the extent practical, formulaic;
- Encourage taking prudent business risk for appropriate potential long-term benefit, while avoiding excessive, unnecessary or unwise risk; and;
- Encourage smart investment and prudent deployment of capital.

At-risk, incentive compensation commits our senior executives to delivering challenging results over both the short- and long-term by rewarding the achievement of those results and aligning their interests with the financial interests of our shareholders.

We have made three important changes to our compensation program within the past two years to more closely align the financial interests of our executive officers with that of our shareholders. First, we instituted a share ownership guideline for our executive officers, to require a long-term ownership stake in the Company (See Share Ownership Guidelines).

Second, beginning in March 2011, our Compensation Committee achieved its goal of aligning all board-level compensation decisions (adjustments to base salaries, annual incentive compensation opportunities, and long-term equity-based incentive compensation) to a single day, rather than adjusting different components and making awards throughout the year. The Committee believes that alignment of compensation decisions to a single day better reinforces performance feedback to the executive (See Timing of Compensation Decisions).

Third, in March of 2011 we added performance-based restricted stock units (PSUs) to the compensation components used in our compensation program, to more closely tie pay to performance. Specifically, the vesting of PSUs depends upon the Company s achievement of absolute financial goals as set by the Board, including annual revenue growth rate (8% or higher), operating income margin (4.5% or higher), and return on invested capital (12% or higher), over a four year period (See Long-Term Equity-Based Incentive Compensation).

The primary components of our executive compensation program, described in more detail within the report, are:

- ***Base Salary*** pays a set level of monthly cash income to the executive, generally within the median range of Peers.
- ***Annual Incentive Award*** pays a variable cash award based solely upon financial performance by the Company against revenue, earnings, and inventory turn targets set by the board at the beginning of each year, to reward good near-term operational performance in sales, earnings and cash flow.
- ***Restricted Shares*** are awarded to retain management and permit each executive to steadily build an ownership stake in the Company to encourage long-term shareholder value creation.
- ***Performance-Based Restricted Stock Units (PSUs)*** reward performance and accelerate the executive s ownership stake, subject to the achievement of specific long-term financial objectives over a four year period.
- ***Stock Options*** directly align value to the executive with the increase in value of shares of the Company, over a four year vesting period and as long as the executive holds the options.

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Philosophy and Objectives

Three of the components Annual Incentive Awards, Performance-Based Restricted Stock Units, and Stock Options are at-risk in that they are of value only when the Company s financial objectives are achieved by the executive or the value of the Company s shares rise. The Company believes that the design of these closely aligns the executive s pay with performance beneficial to the Company and its shareholders.

Role of Compensation Committee

Our Compensation Committee, which is comprised solely of independent directors, is responsible for reviewing and approving all salary and annual incentive compensation paid to officers of the Company, including our Named Executive Officers and Chief Executive Officer. With respect to long-term equity-based incentive compensation paid to our Named Executive Officers and Chief Executive Officer, as well as to all other employees, the Compensation Committee makes a recommendation to the Board, which then approves the compensation.

Our Compensation Committee directly engaged Mercer Human Resource Consulting, Inc. in 2010 to serve as the Compensation Committee s independent compensation consultant (the consultant) and perform an executive compensation review. The consultant did not provide any services on behalf of management and did not have any potential business conflicts with its role as an independent advisor.

Role of Management

Regarding most compensation matters, including executive and director compensation, our management provides recommendations to the Compensation Committee; however, the Compensation Committee does not delegate any of its responsibilities to others in setting compensation for the executive officers. The Chief Executive Officer annually reviews the performance of the other executive officers, and conclusions reached and recommendations based on these reviews, including with respect to salary adjustments and annual equity awards, are presented to the Compensation Committee. Our Compensation Committee can exercise its discretion in modifying any recommended adjustments or awards to the officers of the Company (which includes the executive officers).

Competitive Market Review

In setting executive officer compensation, our Compensation Committee considers all factors it deems relevant, including its views of appropriate compensation levels. The Compensation Committee also considers data and recommendations presented by the consultant and management based on market pay survey data that provides information on the level of the total target compensation (which is comprised of salary, annual incentive compensation and long-term incentive awards) paid to similarly positioned executives at companies in a peer group (the Peer Group), identified below. The Company s targeted compensation opportunity is generally set with the median range of the Peer Group. Our compensation program is designed to deliver above median compensation for above median performance and below median compensation for below median performance. To determine the amount for each of these executives, the Compensation Committee performed a subjective evaluation of each executive s performance and responsibilities, market pay survey data, relativity in pay among the Company s executive officers; comparability of each executive s role to other named executive officers cited within proxies from the Peer Group; general compensation trends; the Company s financial position; specific challenges faced by the executive; and, for each executive other than the Chief Executive Officer, the recommendation of the Chief Executive Officer (without assigning specific weight to each factor). In setting executive compensation, our Compensation Committee has not established a set formula or other quantitative policy for allocating between cash and non-cash compensation, establishing the amount of equity awards or allocating equity awards between stock options, restricted shares and performance based restricted share units, but rather considers compensation in totality for each individual.

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The Peer Group was selected in 2007 based on a recommendation by the consultant from publicly traded companies that are major competitors in the marketplace for talent for the applicable positions. The companies in the Peer Group included entities with revenues of between $1 billion and $7.5 billion, manufacturers and companies in the electronics, semiconductor and electronics manufacturing services industries. The Peer Group consisted of the following 15 companies:

Agilysys, Inc.
Anixter International Inc.
Amphenol Corporation
Bell Microproducts Inc.
Brightpoint, Inc.
CDW Corporation
Cooper Industries, Ltd.
Insight Enterprises, Inc.

Jabil Circuit, Inc.
Molex Incorporated
PC Connection, Inc.
Plexus Corp
ScanSource, Inc.
Synnex Corporation
Vishay Intertechnology, Inc.

Timing of Compensation Decisions

In order to reinforce performance feedback through compensation, beginning in 2011, our Compensation Committee began to make executive base salary compensation decisions in March of each year rather than effect changes to different compensation components at different times throughout the year. The Compensation Committee s practice has been to review and approve stock-based awards to all eligible employees, including executive officers, once a year, on the date of the Compensation Committee s regularly scheduled fourth quarter meeting and, with respect to stock options, at an exercise price equal to the closing price of the Company s Common Shares as reported by the New York Stock Exchange on that date. The Company believes this practice is reasonable when followed on a consistent basis each year and does not time the grant of stock-based awards with the release of material nonpublic information. In order to make all performance and compensation reviews at the same time each year, stock-based awards were not granted in December 2010. Instead, the Compensation Committee postponed equity awards until March 2011.

2010 Compensation

Base Salary Compensation

Our Compensation Committee reviews base salaries for executive officers annually. In making salary determinations, the Compensation Committee considers the terms of any employment contract with the executive, the recommendations of the Chief Executive Officer (as to other executive officers), salary norms for persons in comparable positions in the executive s Peer Group, the executive s experience and scope of responsibility, and the Compensation Committee s assessment of the executive s individual past and potential future contribution to the Company s results (without assigning a specific weight to each factor). During its review of base salaries for executives, the Compensation Committee primarily considers market data provided by the consultant, the results of a review of the executive s compensation relative to the Company s other executive officers, the executive s individual performance and the committee members own business experience and views on appropriate compensation levels.

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Annual Cash-Based Incentive Compensation

The purpose of the annual incentive compensation plan is to align the interests of executive officers with our shareholders by motivating executive officers to achieve superior financial and operational performance that increases shareholder value. Incentive bonuses are generally granted based on a percentage of each executive officer s base salary earned during the fiscal year. The 2010 incentive compensation plan for Messrs. Fu and Adam and Ms. Delly was adopted by the Compensation Committee in March 2010. Our practice is to award cash incentive bonuses based upon performance goals. The following table sets forth the 2010 threshold, target, incremental and maximum performance goals, and the actual fiscal year financial results of the Company, for each of the executive officers:

	Corporate Performance Goals		
Objective Level	Earnings Per Share Before Special Items[(1)]	Inventory Turns[(2)]	Revenue
Threshold	$ 1.17	6.5	$ 2.325 billion
Target	$ 1.27	7.0	$ 2.400 billion
Incremental	$ 1.37	7.5	$ 2.475 billion
Maximum	$ 1.47	8.0	$ 2.550 billion
Actual	$ 1.37	6.4	$ 2.402 billion

(1) Earnings per share before special items excludes restructuring charges, net of tax.

(2) Inventory turns is calculated as sales divided by average inventory for each of the four quarters ended December 31, 2010.

The following table sets forth the 2010 threshold, target, incremental and maximum cash incentive amount levels, as a percentage of salary, for each of the executives based on the Company s achievement of each of the three performance goals above:

	2010 Incentive Amount as a Percentage of Salary Related to Achievement of Each of Three Corporate Performance Goals			
Named Executive	Threshold	Target	Incremental	Maximum
Cary T. Fu	16.70 %	41.67 %	58.33 %	75.00 %
Donald F. Adam	8.30 %	25.00 %	33.33 %	41.67 %
Gayla J. Delly	12.50 %	33.33 %	45.83 %	58.33 %

The total incentive bonus award is determined according to the level of achievement of the corporate performance goals. The maximum incentive bonus for these executive officers was 225% for Mr. Fu, 125% for Mr. Adam and 175% for Ms. Delly.

At its March 2011 meeting, our Compensation Committee determined the extent to which the 2010 performance goals were achieved, and approved the amount of the award to be paid to each executive officer. The Compensation Committee determined that the executives had achieved the incremental performance in earnings per share before special items, below threshold performance in inventory turns and target performance in revenue. For each of the executives, we have set forth in the table below the amount of annual cash compensation earned and the

corresponding percentage of their 2010 salary that the amount represented.

Named Executive	Amount of Cash Incentive Earned	% of Salary
Cary T. Fu	$ 740,000	100.00 %[(1)]
Donald F. Adam	$ 198,322	58.33 %[(2)]
Gayla J. Delly	$ 399,758	79.16 %[(3)]

(1) Mr. Fu s total cash incentive compensation of 100.00% consisted of the following percentages for each performance goal: 58.33% for earnings per share before special items, 0% for inventory turns and 41.67% for revenue.

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(2) Mr. Adam s total cash incentive compensation of 58.33% consisted of the following percentages for each performance goal: 33.33% for earnings per share before special items, 0% for inventory turns and 25.00% for revenue.

(3) Ms. Delly s total cash incentive compensation of 79.16% consisted of the following percentages for each performance goal: 45.83% for earnings per share before special items, 0% for inventory turns and 33.33% for revenue.

Long-Term Equity-Based Incentive Compensation

Our Compensation Committee believes that equity-based incentive compensation is critical in motivating the long-term creation of shareholder value because it focuses executive attention on share price as the primary measure of the Company s overall performance. In 2010, the Board adopted and our shareholders approved, the Benchmark Electronics, Inc. 2010 Omnibus Incentive Plan (the 2010 Plan), which superseded the Benchmark Electronics, Inc. 2000 Stock Awards Plan. However, our Compensation Committee did not grant any long-term incentive awards to our Named Executive Officers in 2010 as a result of its decision to begin making grants of such awards in March of the fiscal year to which they relate. For additional information regarding the decision to shift the timing of long-term incentive award grants, see Executive Compensation Policy Timing of Compensation Decisions . Beginning in 2011, our Compensation Committee awarded executive officers a combination of stock options, restricted shares and PSUs. To determine the amount for each executive, the Compensation Committee performed a subjective evaluation of each executive s performance and responsibilities, and also considered market pay survey data, relative pay among the Company s executive officers and other factors (without assigning a specific weight to each factor). Although our management may recommend the number of shares to be covered by equity awards granted to employees, the Compensation Committee approves the grant of all equity awards and does not delegate the timing of such grants. Equity award grants to our Chief Executive Officer and other executive officers are not made automatically each year. The amount and terms of equity awards already held by an executive officer generally are not significant factors in the Compensation Committee s determination of whether and how many equity awards should be granted to the executive officer.

Stock Options The Compensation Committee grants stock options at not less than 100% of the fair market value of the Common Shares on the date of grant. Because stock options provide value only in the event of share price appreciation, our Compensation Committee believes these awards are, by their nature, performance-based and are an important component of our executive compensation program.

Restricted Shares Long-term equity-based incentive compensation awards also include time-based awards which vest over four years, to improve retention of executives and to enable a steadily-growing ownership stake in the Company to encourage long-term strategic performance.

Performance-Based Restricted Stock Units Beginning in 2011, in addition to grants of stock options and restricted shares, the Compensation Committee added a PSU award to the long-term incentive compensation component of executive compensation. Our Compensation Committee believes the PSUs, which vest over four years subject to the achievement of measurable, absolute financial goals, will enable management to build a meaningful ownership stake in the Company to encourage long-term strategic thinking and the avoidance of risk taking. The financial goals were set by our Board, and include an annual revenue growth rate of 8% or more; operating income margins of 4.5% or more; and return on invested capital of 12% or more.

The long-term equity-based incentive compensation awards made in March 2011 were evenly balanced, with approximately one-third of the total value awarded in stock options, restricted shares and PSUs, respectively.

Deferred Compensation Benefits

In order to attract and retain key employees the Company established the Benchmark Electronics, Inc. Deferred Compensation Plan (the Deferred Compensation Plan) which allows certain designated employees, including our Named Executive Officers, the opportunity to defer, on a pre-tax basis, their salary, bonus awards, and other specified compensation and to receive the deferred amounts, together with an investment return (positive or negative), either at a pre-determined time in the future or upon termination of employment with the Company. The Company intends that the Deferred Compensation Plan will at all times be maintained on an unfunded basis for federal income tax purposes under the Internal Revenue Code and be administered as a nonqualified top-hat plan exempt from the substantive requirements of the Employee Retirement Income Security Act.

Retirement Benefits

All employees in the United States, including the executive officers, are eligible to participate in the Company s 401(k) Employee Savings Plan (the Savings Plan). The Savings Plan is a defined contribution tax-qualified retirement savings plan pursuant to which employees are able to contribute a portion of their eligible cash compensation to the Savings Plan and the Company provides matching cash contributions up to 4% of the employees eligible compensation. All contributions to the Savings Plan as well as any matching contributions are fully vested upon contribution.

Perquisites and Personal Benefits

The Company provides only minimal perquisites or other personal benefits to executive officers, consisting primarily of a portion of the cost of financial planning services, health club memberships and annual physical exams.

Other Matters

Share Ownership Guidelines

Our executive officers are subject to a share ownership requirement. During the term of his or her employment with the Company, our executive officers are expected to directly own Common Shares of the Company having a market value of at least (a) three times their annual base salary if he or she is President or Chief Executive Officer and (b) two times his or her annual base salary if he or she is Chief Financial Officer. Mr. Fu is in compliance with this ownership requirement. Our executive officers who have not yet achieved this ownership requirement (including Mr. Adam and Ms. Delly) are expected to retain 20% of the underlying shares of (a) each exercise of stock option grants and (b) each vesting of restricted share grants until such executive officer has achieved his or her respective ownership requirement.

Mr. Fu, who serves as Chairman of the Board, is also subject to an additional minimum share ownership requirement in his capacity as a director. Within three years after joining the Board, each director is required to directly own Common Shares of the Company with a market value of at least $100,000. Mr. Fu is in compliance with this share ownership requirement.

Analysis of Compensation Risk

During 2010 our Compensation Committee conducted an analysis of potential risks posed by the Company s compensation program, asking, in essence, whether the program might encourage the executive officers to take unnecessary or excessive risks, or whether the program might encourage the manipulation of reported earnings. As part of its analysis the Compensation Committee also considered mitigating factors and controls:

Component	Potential Risk	Mitigating Factors
Base Salary	Unsustainable fixed expense Retention challenges if too low	Management of expenses and increases Periodic market surveys
Annual Incentive Plan	Imprudent risk taking to maximize short-term reported financial results Earnings manipulation	Internal financial controls Award limits Long-term incentive awards at risk Share ownership guidelines Tied to independently audited results
Long-Term Equity-Based Incentive Plans	Imprudent risk taking to maximize short-term stock price Earnings manipulation	Award limits Share ownership guidelines Long vesting periods Internal financial controls Independent audit
Health & Insurance Benefits	Unsustainable fixed expense Retention challenges if too low	Management of expenses Periodic market surveys
Retirement Benefits (401k and Deferred Compensation Plans)	Unsustainable fixed expense Retention challenges if too low Legal compliance risks	Management of expenses Limited non-qualified retirement benefits Third party professional advisors, periodic market surveys
Severance Plans	Unsustainable fixed expense	Limitations within employment, severance and change of control agreements
Perquisites & Expatriate Benefits	Unsustainable fixed expense Retention challenges if too low	Award limits Management of expenses Periodic market surveys

Based on its analysis the Compensation Committee determined that our compensation program is unlikely to motivate inappropriate risk-taking.

IRS Limits on Deductibility of Compensation

An income tax deduction under Section 162(m) of the Internal Revenue Code will generally be available for annual compensation in excess of $1 million paid to the executive officers (other than the Chief Financial Officer) only if that compensation is performance-based and complies with certain other tax law requirements. Although our Compensation Committee considers deductibility issues when approving executive compensation elements, we believe that the other compensation objectives, such as attracting, retaining and providing incentives to qualified managers, are important and may supersede the goal of maintaining deductibility. Consequently, the Compensation Committee may make compensation decisions without regard to deductibility when it believes it is in the best interests of the Company and our shareholders to do so.

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REPORT OF COMPENSATION COMMITTEE

Our executive compensation program is administered by the Compensation Committee, a committee of the Board composed of non-employee directors listed below this report. The Compensation Committee is responsible for recommending to the full Board the compensation of our Chief Executive Officer, determining the compensation of our other executive officers and administering our employee benefit plans. None of the members of the Compensation Committee has any interlocking or other relationships with the Company that would call into question their independence as Compensation Committee members. Our Compensation Committee operates under a written charter previously approved by the Board.

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis (the CD&A) for the year ended December 31, 2010 with management. In reliance on the reviews and discussions referred to above, the Compensation Committee recommended to the Board, and the Board has approved, that the CD&A be included in the proxy statement for the year ended December 31, 2010 for filing with the SEC.

SUBMITTED BY THE COMPENSATION COMMITTEE OF
THE COMPANY S BOARD OF DIRECTORS

Clay C. Williams, Chair
Laura W. Lang
Bernee D. L. Strom

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COMPENSATION TABLES AND NARRATIVES

The following tables, narratives and footnotes describe the total compensation and benefits of our Chief Executive Officer and our other two executive officers for 2010 (our Named Executive Officers).

Summary Compensation Table

The following table sets forth information concerning the compensation and benefits of our Named Executive Officers during the fiscal years ended December 31, 2010, 2009 and 2008.

(1) The amounts reflect the aggregate grant date fair value of stock option and restricted stock grants during the fiscal years ended December 31, 2010, 2009 and 2008, respectively, computed in accordance with in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718, pursuant to the Company s stock awards plan. Assumptions used in the calculation of this amount for fiscal years ended December 31, 2010, 2009 and 2008 are included in footnote 1(m) to the Company s audited financial statements for the fiscal year ended December 31, 2010, included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 25, 2011. During 2010, the Company did not grant any equity awards to our Named Executive Officers.

(2) The amounts shown in this column reflect cash incentive bonuses paid to our Named Executive Officers pursuant to the Company s annual incentive compensation plans. The amounts include cash bonuses earned in year of service regardless of when paid.

(3) For fiscal year ended December 31, 2010, the All Other Compensation column includes (a) $9,800 paid by the Company pursuant to the Company s Savings Plan to each of our Named Executive Officers (under the Savings Plan, the Company is obligated to make matching contributions to the Savings Plan in an amount equal to 100% of each participant s elective contributions, to the extent that such elective contributions do not exceed 4% of such participant s eligible compensation), and (b) payments by the Company of premiums of $324 for term life insurance on behalf of each of our Named Executive Officers.

Employment Agreements

The Company has entered into employment agreements with each of Messrs. Fu and Adam and Ms. Delly. The agreements provide for annual base salaries, subject to increases from time to time as determined by the Compensation Committee. These agreements are automatically extended by successive one-year terms, unless terminated by the Company or the executive. Effective March 3, 2010, Mr. Fu s current annual base salary was $750,000, Ms. Delly s current annual base salary was $510,000 and Mr. Adam s current annual based salary was $350,000. Effective March 2, 2011, the Compensation Committee increased Mr. Fu s annual base salary to $775,000, increased Ms. Delly s annual base salary to $530,000 and increased Mr. Adam s annual base salary to $370,000.

In addition to annual base salaries, each employment agreement provides for payment of bonuses if the Company attains or exceeds its corporate performance goals which are specified each year by the Compensation Committee. A more detailed discussion of the corporate performance goals and these bonuses,

including the percentage of base salary and the mechanism by which the bonuses are paid and determined by the Compensation Committee is set forth in Compensation Discussion and Analysis 2010 Compensation Annual Cash-Based Incentive Compensation .

Each employment agreement also provides for severance payments if the applicable Named Executive Officer s employment is terminated under certain qualifying circumstances. A more detailed discussion of the severance terms is set forth in Potential Payments Upon Termination or Change in Control .

Each employment agreement contains restrictive covenants that prohibit the applicable Named Executive Officer from competing with the Company or soliciting its customers or service providers during the term of the employment agreement and for two years thereafter as well as a confidentiality covenant of indefinite length.

Grants of Plan-Based Awards

The Benchmark Electronics, Inc. 2000 Stock Awards Plan (the 2000 Plan) and the Benchmark Electronics, Inc. 2010 Omnibus Incentive Compensation Plan (the 2010 Plan) authorize the Company, upon recommendation of the Compensation Committee, to grant a variety of types of awards, including stock options, restricted stock awards, restricted stock units, stock appreciation rights, performance compensation awards, phantom stock awards and deferred share units, or any combination thereof, to any director, officer, employee or consultant (including any prospective director, officer, employee or consultant) of the Company. Stock options are granted with an exercise price equal to the market price of the Company s common shares on the date of grant, have a term of ten years and, unless otherwise provided in the applicable award agreement, vest over a four-year period from the date of grant, subject to the continued employment of the employee by the Company. Restricted shares and phantom stock awards granted to employees, unless otherwise provided in the applicable award agreement, vest over a four-year period from the date of grant, subject to the continued employment of the employee by the Company. The 2000 Plan expired on February 16, 2010 and no additional grants can be made under that plan. The 2010 Plan was approved by the Company s shareholders on May 18, 2010 and replaced the 2000 Plan. As of December 31, 2010, the Company had equity awards outstanding with respect to 4.7 million Common Shares under the Company s 2000 and 2010 Plans, and 5.1 million additional common shares are available for issuance under the Company s 2010 Plan.

The following table sets forth information concerning estimated possible payouts under cash incentive plans to our Named Executive Officers during the fiscal year ended December 31, 2010. During 2010, the Company did not grant any equity awards. Accordingly, these columns have been omitted. For additional information regarding the Compensation Committee s decision to shift the timing of long-term incentive award grants, see Compensation Discussion and Analysis Executive Compensation Policy Timing of Compensation Decisions .

2010 Grants of Plan-Based Awards

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards[1]		
		Threshold ($)	Target ($)	Maximum ($)
Cary T. Fu	03/02/10	$ 370,740	$ 925,000	$ 1,665,000
Donald F. Adam	03/02/10	84,660	255,000	425,000
Gayla J. Delly	03/02/10	189,375	505,000	883,750

(1) The information included in the Threshold , Target and Maximum columns represent the range of potential payout under the 2010 incentive compensation plan for Messrs. Fu and Adam and Ms. Delly adopted by the Compensation Committee in March 2010.

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2010 Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information concerning stock options and stock awards held by our Named Executive Officers at December 31, 2010.

	Option Awards					Stock Awards		
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable		Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)		Market Value of Shares or Units of Stock That Have Not Vested ($)
Cary T. Fu	67,500			$ 9.01	07/24/11			
	112,499			$ 11.44	08/01/12			
	75,000			$ 24.13	12/11/13			
	75,000			$ 23.37	11/30/14			
	75,000			$ 23.22	01/10/16			
	50,000			$ 26.84	11/15/16			
	25,000	25,000	(1)	$ 17.22	12/05/17			
	20,000	80,000	(2)	$ 12.64	12/10/18			
	22,500	67,500	(3)	$ 19.11	12/09/19			
						26,750	(4)	$ 485,780
Donald F. Adam	16,874			$ 15.77	02/18/13			
	15,000			$ 24.13	12/11/13			
	15,000			$ 23.37	11/30/14			
	15,000			$ 23.22	01/10/16			
	20,000			$ 26.84	11/15/16			
	10,000	10,000	(1)	$ 17.22	12/05/17			
	8,000	32,000	(2)	$ 12.64	12/10/18			
	8,750	26,250	(3)	$ 19.11	12/09/19			
						10,850	(4)	$ 197,036
Gayla J. Delly	33,750			$ 8.46	01/02/12			
	44,999			$ 15.77	02/18/13			
	30,000			$ 24.13	12/11/13			
	37,500			$ 23.37	11/30/14			
	45,000			$ 23.22	01/10/16			
	30,000			$ 26.84	11/15/16			
	15,000	15,000	(1)	$ 17.22	12/05/17			
	12,000	48,000	(2)	$ 12.64	12/10/18			
	13,750	41,250	(3)	$ 19.11	12/09/19			
						16,650	(4)	$ 302,364

(1) Options granted December 5, 2007 with an exercise price of $17.22 will vest as follows.

Vesting Date	Cary T. Fu	Donald F. Adam	Gayla J. Delly

December 5, 2011	25,000	10,000	15,000

(2) Options granted December 10, 2008 with an exercise price of $12.64 will vest as follows.

Vesting Date	Cary T. Fu	Donald F. Adam	Gayla J. Delly
December 10, 2011	30,000	12,000	18,000
December 10, 2012	50,000	20,000	30,000
	80,000	32,000	48,000

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(3) Options granted December 9, 2009 with an exercise price of $19.11 will vest as follows.

Vesting Date	Cary T. Fu	Donald F. Adam	Gayla J. Delly
December 9, 2011	22,500	8,750	13,750
December 9, 2012	22,500	8,750	13,750
December 9, 2013	22,500	8,750	13,750
	67,500	26,250	41,250

(4) The following table provides the number of unvested restricted stock awards by vesting date held by our Named Executive Officers at December 31, 2010.

Vesting Date	Cary T. Fu	Donald F. Adam	Gayla J. Delly
March 17, 2011	2,125	1,000	1,500
December 9, 2011	4,500	1,750	2,750
December 10, 2011	4,500	1,800	2,700
March 17, 2012	2,125	1,000	1,500
December 9, 2012	4,500	1,750	2,750
December 10, 2012	4,500	1,800	2,700
December 9, 2013	4,500	1,750	2,750
	26,750	10,850	16,650

2010 Option Exercises and Stock Vested Table

The following table sets forth information concerning exercises of stock options and vesting of restricted shares by our Named Executive Officers during the fiscal year ended December 31, 2010.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Cary T. Fu	45,000	$ 385,406	17,750	$ 325,148
Donald F. Adam		$	7,350	$ 135,657
Gayla J. Delly	22,500	$ 192,209	11,150	$ 205,623

Pension Benefits

None of our Named Executive Officers is covered by a pension plan or other similar benefit plan that provides for payments or other benefits.

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Non-Qualified Deferred Compensation

The Deferred Compensation Plan allows certain designated employees, including our Named Executive Officers, to defer up to 75% of their base salary and up to 100% of their incentive bonus and other types of compensation (commission and such other cash compensation or equity compensation approved by the Compensation Committee) on a tax-deferred basis. Participants may receive matching contributions from the Company on certain of their deferrals. Some participants may also receive discretionary contributions made by the Company. Deferred amounts, together with any investment return (positive or negative) may be distributed either at a pre-determined time in the future or upon termination of employment with the Company. The Company intends that the Deferred Compensation Plan will at all times be maintained on an unfunded basis for federal income tax purposes under the Internal Revenue Code and be administered as a nonqualified top-hat plan exempt from the substantive requirements of the Employee Retirement Income Security Act.

Name	Executive Contributions in Last Fiscal Year ($)	Registrant Contributions in Last Fiscal Year ($)	Aggregate Earnings in Last Fiscal Year[1] ($)	Aggregate Withdrawals/ Distributions ($)	Ending Balance at Last FYE ($)
Cary T. Fu	$ 921,889	$	$ 1	$	$ 1,215,964
Donald F. Adam	16,923		2,351		32,772
Gayla J. Delly	73,712		8,521		113,490

(1) These amounts are not considered above-market or preferential under SEC rules and therefore are not reported in the summary compensation table in this proxy statement.

Potential Payments Upon Termination or Change in Control

The Company has entered into employment agreements with each of our Named Executive Officers that will require the payment of severance by the Company if the applicable executive s employment is terminated (i) by the Company without cause or (ii) by the executive for good reason . The severance to be paid is equal to the sum of (a) 100% of the executive s annual base salary and (b) a prorated bonus for the year of termination, payable in lump sum six months after termination. In addition, the Company will pay an amount sufficient to pay any excise taxes levied under Section 280G of the Internal Revenue Code in conjunction with the severance payment. Under the employment agreements, good reason is generally defined as (i) a material diminution of the executive s duties or responsibilities, (ii) a reduction in the executive s base salary greater than ten percent (10%), or annual bonus or long-term incentive compensation opportunity, (iii) a change of control, but only if the executive terminates his employment, for any reason, within 90 days after the date of such change of control, or (iv) a material breach by the Company of any other provision of the employment agreements that is not cured after written notice by the executive.

In addition, the Company will provide continuation of medical, dental, health and other welfare benefits for one year after the termination of employment. Additionally, the agreements provide payment of severance upon the executive s death or disability, in an amount equal to 100% of the executive s annual base salary plus a prorated bonus, in a lump sum payment six months after the date of termination. Upon a termination of employment for cause or retirement, the Named Executive Officers will only receive salary earned to the date of termination.

Potential Payments under Involuntary Termination Without Cause, Termination for Good Reason and Termination Upon a Change in Control

The table below reflects the amount of compensation payable to each Named Executive Officer upon involuntary not-for-cause termination, termination by the executives for good reason and termination following a change of control in accordance with the employment agreements. The amounts shown assume that such termination was effective as of December 31, 2010, and thus includes amounts earned through such time and are estimates of the amounts that would be paid to the executives upon their termination. The actual amounts to be paid can only be determined at the time of such executive s separation from the Company. The Named Executive Officers will be entitled to receive all amounts accrued and vested under our retirement and savings programs, including our Savings Plan and the Deferred Compensation Plan, in which our Named Executive Officer participates. These amounts will be determined and paid in accordance with the applicable plan and are not included in the table because they are not severance payments.

Name	Lump Sum Severance Payment[(1)]	Continuation of Insurance Benefits[(2)]	Accelerated Vesting of Stock Options[(3)]	Accelerated Vesting of Stock Awards[(4)]
Cary T. Fu	$ 1,490,000	$ 14,000	$ 465,100	$ 485,750
Donald F. Adam	548,322	14,000	186,040	197,036
Gayla J. Delly	909,758	14,000	279,060	302,364

(1) Payment based on executive s annual base salary and bonus as of December 31, 2010. The amounts do not include payments to the extent they are provided on a non-discriminatory basis to salaried employees generally upon termination of employment, including accrued salary and vacation pay.

(2) Estimated cost to the Company of providing medical, dental, health and other welfare benefits for one year after the termination of employment based on average annual cost per employee.

(3) The value of the accelerated vesting benefit equals the number of shares as to which the in-the-money stock options would vest on an accelerated basis upon the occurrence of the specified termination or change of control event, multiplied by the difference between the closing price per share of the Company s Common Shares on December 31, 2010 and the exercise price per share for the affected options.

(4) The value of the accelerated vesting benefit equals the number of restricted share awards that would vest on an accelerated basis upon the occurrence of the specified termination or change of control event, multiplied by the closing price per share of the Company s Common Shares on December 31, 2010.

Potential Payments Upon Death or Disability

The amount of compensation payable to each Named Executive Officer s estate upon the death or disability of the executive is shown below. The amounts shown assume that such termination was effective as of December 31, 2010, and thus includes amounts earned through such time and are estimates of the amounts that would be paid to the executives estates upon their termination. The actual amounts to be paid can only be determined at the time of the executive s separation from the Company.

Name	Lump Sum Payment Attributable to	Lump Sum Payment Attributable to Cash Incentive

	Salary[(1)]	Bonus[(1)]
Cary T. Fu	$ 750,000	$ 740,000
Donald F. Adam	350,000	198,322
Gayla J. Delly	510,000	399,758

(1) Payment based on executive s annual base salary and cash incentive bonus as of December 31, 2010. The amounts do not include payments to the extent they are provided on a non-discriminatory basis to salaried employees generally upon termination of employment, including accrued salary and vacation pay.

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Compensation of Directors

Employee directors have never received any additional compensation for serving on the Board above the compensation they received for serving as officers of the Company. For information regarding compensation programs with respect to our Named Executive Officers, see Compensation Discussion and Analysis.

The Company uses a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve on the Board. In setting non-employee director compensation, the Company considers the significant amount of time that directors expend in fulfilling their duties to the Company as well as the skill-level required by the Company of members of the Board.

In addition, directors are subject to a minimum share ownership requirement. Within three years after joining the Board, each director is required to directly own Common Shares of the Company with a market value of at least $100,000. All of the Company s directors are in compliance with this ownership requirement.

Cash Compensation Paid to Non-Employee Directors

The following table shows non-employee director compensation as determined by the Board upon the recommendation of the Compensation Committee.

Annual Board Retainer[1]	$ 60,000
Annual Committee Chair Retainer[1]	$ 5,000
Annual Presiding Director Retainer[1]	$ 5,000
Payment per Board meeting attended in person	$ 1,000
Payment per series of Committee meetings attended in person	$ 1,000
Payment per Committee meeting attended in person as Chair of Committee	$ 1,000
Payment per executive session attended in person as Presiding Director	$ 1,000

(1) Payable quarterly.

The Company also reimburses its non-employee directors for their reasonable travel expenses in attending such meetings.

Stock Option Program for Non-Employee Directors

In December 1994, the Board adopted the Benchmark Electronics, Inc. 1994 Stock Option Plan for Non-Employee Directors (the 1994 Plan) for the benefit of members of the Board who are not employees of the Company or its Affiliates (as defined in the 1994 Plan). The purpose of the 1994 Plan was to encourage ownership of the Company s Common Shares by eligible non-employee directors of the Company, to provide increased incentive for such directors to render services and to exert maximum effort for the business success of the Company and to further strengthen the identification of directors with the shareholders of the Company. The 1994 Plan terminated in December 2004. The 1994 Plan was replaced by the Benchmark Electronics, Inc. 2002 Stock Option Plan for Non-Employee Directors (the 2002 Plan), and no additional grants may be made under the 1994 Plan. As of December 31, 2010, the Company had outstanding options with respect to 13,500 Common Shares under the 1994 Plan.

After giving effect to the Company s stock splits in 2003 and 2006, the 2002 Plan, as amended, provides for the granting of a stock option to purchase up to 15,750 Common Shares upon the occurrence of the non-employee director s election or reelection to the Board. The maximum number of Common Shares for which options may be

granted under the 2002 Plan is 675,000, after giving effect to the Company s stock splits in 2003 and 2006. No awards may be granted under the 2002 Plan after the expiration of ten years from February 26, 2002, the date of its adoption by the Board. The 2002 Plan remains in effect as to awards made prior to the expiration of ten years until such awards have been satisfied or have expired. All awards under the 2002 Plan are fully vested upon the date of grant. The exercise price per common share of options granted under the 2002 Plan will be the fair market value of a Common Share on the date such option is granted.

During 2010, 60,500 options were granted to non-employee directors under the 2002 Plan to purchase Common Shares at an exercise price of $19.41 per share. As of December 31, 2010, the Company had outstanding options with respect to 385,250 Common Shares under the 2002 Plan.

2010 Director Summary Compensation Table

The following table summarizes the cash and equity compensation for non-employee directors during the fiscal year ended December 31, 2010. The Company did not grant any stock awards to any of our non-employee directors during 2010 and none of our directors is covered by a non-equity incentive plan, a pension plan or a nonqualified deferred compensation plan; accordingly these columns have been omitted.

Name	Fees Earned or Paid in Cash ($)	Option Awards[(1)] ($)	Total ($)
Michael R. Dawson	$ 77,000	$ 90,300	$ 167,300
Peter G. Dorflinger	71,896	90,300	162,196
Douglas G. Duncan	77,000	90,300	167,300
Laura W. Lang	69,896	94,815	164,711
Bernee D.L. Strom	73,104	90,300	163,404
Clay C. Williams	73,104	90,300	163,404

(1) Reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2010 in accordance with FASB ASC Topic 718. As of December 31, 2010, each of the non-employee directors had the following number of options outstanding: Mr. Dawson: 50,000; Mr. Dorflinger: 120,500; Mr. Duncan: 50,000; Ms. Lang: 68,250; Ms. Strom: 80,000; and Mr. Williams: 30,000.

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PROPOSAL 2

ADVISORY VOTE ON COMPENSATION OF THE COMPANY S NAMED EXECUTIVE OFFICERS

The Board is seeking a shareholder advisory vote on the compensation of our Named Executive Officers. In accordance with the requirements of Section 14A of the Securities Exchange Act of 1934, as amended (the Exchange Act) (which was added by the Dodd-Frank Wall Street Reform and Consumer Protection Act) and the related rules of the Securities and Exchange Commission, we are providing our shareholders with an opportunity to cast a non-binding, advisory vote on the compensation of our Named Executive Officers as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the compensation discussion and analysis, the compensation tables and any related material disclosed in this proxy statement. This proposal, commonly known as a say-on-pay proposal, gives shareholders the opportunity to express their views on our Named Executive Officers compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our Named Executive Officers and the philosophy, policies and practices described in this proxy statement.

This say-on-pay vote is advisory only and not binding on the Company, the Compensation Committee or the Board. Although the vote is advisory, our Compensation Committee and Board value the opinions of our shareholders and expect to take the outcome of this vote into account when considering future compensation arrangements for our Named Executive Officers.

Recommendation

The Board recommends that shareholders vote **FOR** the following resolution:

RESOLVED, that the compensation paid to the Company s named executive officers, as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the compensation discussion and analysis, the compensation tables and any related material disclosed in this proxy statement is hereby APPROVED.

Unless a proxy is marked to give a different direction, the persons named in the proxy will vote **FOR** the approval of the compensation of our Named Executive Officers as disclosed in this proxy statement.

PROPOSAL 3

ADVISORY VOTE ON THE FREQUENCY OF FUTURE ADVISORY VOTES ON THE COMPENSATION OF THE COMPANY S NAMED EXECUTIVE OFFICERS

The Board is seeking shareholder preference as to the frequency of future shareholder advisory votes on the compensation of the Company s Named Executive Officers (the say-on-pay vote described above in Proposal 2). The Company is required by Section 14A of the Securities Exchange Act of 1934 to include a say-on-pay vote in proxy statements for its annual meetings at least once every three years, and also to seek periodic advisory votes on how often there should be a say-on-pay vote. The Board is asking whether the say-on-pay vote should occur every year, every two years or every three years.

The Board has determined that an annual say-on-pay vote is the most appropriate alternative for the Company at this time. In formulating its recommendation, the Board considered that an annual advisory say-on-pay vote will allow shareholders to provide direct input on the Company s compensation philosophy, policies and practices as disclosed in the proxy statement every year and will be most useful to the Board. Accordingly, the Board recommends an annual say-on-pay vote.

The option of one year, two years or three years that receives the highest number of votes cast by shareholders will be the frequency for the advisory say-on-pay vote preferred by shareholders. This say-on-frequency vote is advisory only and not binding on the Company or the Board. However, the Board expects to take into account the outcome of this vote when considering how frequently to seek a say-on-pay vote of shareholders in the future.

Recommendation

The Board recommends that shareholders vote **FOR** the option of EVERY ONE YEAR as the future frequency with which shareholders will be provided an advisory vote on the compensation of our Named Executive Officers.

Unless a proxy is marked to give a different direction, the persons named in the proxy will vote **FOR** an annual advisory vote on the compensation of our Named Executive Officers.

COMMON SHARE OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership, as defined in Rule 13d-3 under the Exchange Act, of Common Shares as of March 25, 2011, by each person known to the Company to be the beneficial owner of more than 5% of the outstanding Common Shares, each director and nominee for director of the Company, each executive officer of the Company and all directors and executive officers of the Company as a group.

Beneficial Owners	Common Shares Beneficially Owned[1]	Percentage of Outstanding Common Shares
Cary T. Fu 3000 Technology Drive Angleton, Texas 77515	1,103,110 [2]	1.8 %
Donald F. Adam 3000 Technology Drive Angleton, Texas 77515	140,789 [3]	[4]
Gayla J. Delly 3000 Technology Drive Angleton, Texas 77515	321,148 [5]	[4]
Michael R. Dawson 16 St. Christopher Court Sugar Land, Texas 77479	60,000 [6]	[4]
Peter G. Dorflinger One Carolane Trail Houston, Texas 77024	155,750 [7]	[4]
Douglas G. Duncan 3589 Classic Drive South Memphis, Tennessee 38125	58,850 [8]	[4]
Laura W. Lang 800 Boylston Street Boston, Massachusetts 02199	74,250 [9]	[4]
Bernee D.L. Strom 5505 Lake Washington Blvd., N.E. #3B Kirkland, Washington 98033	84,750 [10]	[4]
Clay C. Williams 7909 Parkwood Circle Drive Houston, Texas 77036	40,000 [11]	[4]
Directors and executive officers as a group (9 persons)	2,038,647 [12]	3.3 %
Franklin Resources, Inc. One Franklin Parkway San Mateo, California 94403	6,025,580 [13][14]	9.9 %
Dimensional Fund Advisors LP 1299 Ocean Avenue Santa Monica, California 90401	5,210,641 [13][15]	8.5%

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Beneficial Owners	Common Shares Beneficially Owned[1]	Percentage of Outstanding Common Shares
BlackRock Inc. 45 Freemont Street, 17th Floor San Francisco, California 94105	4,895,610 [13][16]	8.0 %
Royce & Associates, LLC 1414 Avenue of the Americas New York, New York 10019	4,125,160 [13][17]	6.7 %
FMR LLC 82 Devonshire Street Boston, Massachusetts 02109	3,685,948 [13][18]	6.0 %
Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, Pennsylvania 19355	3,059,159 [13][19]	5.0 %

(1) Unless otherwise noted, each person identified possesses sole voting and dispositive power with respect to the Common Shares listed, subject to community property laws.

(2) Includes (i) 522,499 Common Shares that may be acquired upon the exercise of options that are currently exercisable or will become exercisable within 60 days of March 25, 2011, (ii) 49,944 shares of restricted stock, of which Mr. Fu has voting power but not dispositive power, and (iii) 252,968 shares held by a grantor remainder annuity trust of which Mr. Fu is trustee.

(3) Represents (i) 108,624 Common Shares that may be acquired upon the exercise of options that are currently exercisable or will become exercisable within 60 days of March 25, 2011 and (ii) 25,565 shares of restricted stock, of which Mr. Adam has voting power but not dispositive power.

(4) Less than 1%.

(5) Includes (i) 261,999 Common Shares that may be acquired upon the exercise of options that are currently exercisable or will become exercisable within 60 days of March 25, 2011 and (ii) 37,850 shares of restricted stock, of which Ms. Delly has voting power but not dispositive power.

(6) Includes 50,000 Common Shares that may be acquired upon the exercise of options that are currently exercisable or will become exercisable within 60 days of March 25, 2011.

(7) Includes 107,000 Common Shares that may be acquired upon the exercise of options that are currently exercisable or will become exercisable within 60 days of March 25, 2011.

(8) Includes 50,000 Common Shares that may be acquired upon the exercise of options that are currently exercisable or will become exercisable within 60 days of March 25, 2011.

(9) Includes 68,250 Common Shares that may be acquired upon the exercise of options that are currently exercisable or will become exercisable within 60 days of March 25, 2011.

(10) Includes 80,000 Common Shares that may be acquired upon the exercise of options that are currently exercisable or will become exercisable within 60 days of March 25, 2011.

(11) Includes 30,000 Common Shares that may be acquired upon the exercise of options that are currently exercisable or will become exercisable within 60 days of March 25, 2011.

(12) Includes 1,278,372 Common Shares that may be acquired upon the exercise of options that are currently exercisable or will become exercisable within 60 days of March 25, 2011.

(13) Based solely on information filed with the SEC.

(14) The Company has been advised in a Schedule 13G filing dated as of February 2, 2011 as follows with respect to these shares: (i) Franklin Advisory Services, LLC has sole power to vote or to direct the vote of 5,870,580 shares and sole power to dispose or to direct the disposition of 6,025,580 shares and (ii) Franklin Advisory Services, LLC holds such shares in its capacity as investor advisor and other. According to the filed Schedule 13G, Charles

B. Johnson and Rupert H. Johnson Jr. each own in excess of 10% of the outstanding common stock of Franklin Resources Inc. and could therefore be deemed as beneficial owners of the reported shares.

(15) The Company has been advised in a Schedule 13G filing dated as of February 11, 2011 as follows with respect to these shares: (i) Dimensional Fund Advisors LP has sole power to vote or to direct the vote of 5,131,411 shares and sole power to dispose or to direct the disposition of 5,210,641 shares and (ii) Dimensional Fund Advisors LP holds such shares in its capacity as investor advisor.

(16) The Company has been advised in a Schedule 13G filing dated as of February 2, 2011 as follows with respect to these shares: (i) BlackRock, Inc. has sole power to vote or to direct the vote and sole power to dispose or to direct the disposition of 4,895,610 shares and (ii) BlackRock, Inc. holds such shares in its capacity as investor advisor.

(17) The Company has been advised in a Schedule 13G filing dated as of January 12, 2011 as follows with respect to these shares: (i) Royce & Associates, LLC has sole power to vote or to direct the vote and sole power to dispose or to direct the disposition of 4,125,160 shares and (ii) Royce & Associates, LLC holds such shares in its capacity as investor advisor.

(18) The Company has been advised in a Schedule 13G filing dated as of February 14, 2011 as follows with respect to these shares: (i) FMR LLC is the parent holding company of Fidelity Management & Research Company (Fidelity), (ii) Fidelity holds 3,685,948 such shares in its capacity as investor advisor to certain investment companies, (iii) Edward C. Johnson, III, Chairman of FMR LLC, and FMR LLC, through its control of Fidelity and certain Fidelity funds each has the sole power to dispose or to direct the disposition of 3,685,948 shares owned by the funds and (iv) neither FMR LLC nor Edward C. Johnson, III, Chairman of FMR LLC, has the sole power to vote or to direct the vote of the shares owned directly by the Fidelity Funds, which power resides with such funds Board of Trustees; Fidelity carries out the voting of the shares under written guidelines established by such funds Board of Trustees. Members of the family of Edward C. Johnson III are the predominant owners, directly or through trusts, of Series B shares of common stock of FMR LLC, representing 49% of the voting power of FMR LLC. The Johnson family group and all other Series B shareholders have entered into a shareholders voting agreement under which all Series B shares will be voted in accordance with the majority vote of Series B shares. Accordingly, through their ownership of voting common stock and the execution of the shareholders agreement, members of the Johnson family may be deemed to form a controlling group with respect to FMR LLC.

(19) The Company has been advised in a Schedule 13G filing dated as of February 10, 2011 as follows with respect to these shares: (i) Vanguard Group, Inc. has sole power to vote or to direct the vote of 98,409 shares, shared power to dispose or to direct the disposition of 98,409 shares and sole power to dispose or to direct the disposition of 2,960,750 shares and (ii) Vanguard Group, Inc. holds such shares in its capacity as investor advisor.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company s directors and executive officers, and persons who own more than ten percent of a registered class of the Company s equity securities, to file with the SEC and the NYSE initial reports of beneficial ownership and reports of changes in beneficial ownership of Common Shares and other equity securities of the Company. Officers, directors and greater than ten-percent shareholders are required by regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company s knowledge, based solely on review of the copies of such reports furnished to the Company and certain written representations provided to the Company by such persons, for the fiscal year beginning January 1, 2010 and ending December 31, 2010 all Section 16(a) filing requirements applicable to the Company s officers, directors and greater than ten-percent beneficial owners were satisfied in a timely manner, except for Mr. Kenneth Barrow who filed a late Form 4 on December 29, 2010 with respect to a transaction on December 15, 2010.

PROPOSAL 4

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board has appointed KPMG LLP as the independent public accounting firm of the Company for the year ending December 31, 2011. The shareholders will be asked to ratify the appointment of KPMG LLP at the Meeting. The ratification of such appointment will require the affirmative vote of the holders of a majority of the outstanding Common Shares entitled to vote and present, in person or represented by proxy, at the Meeting. Representatives of KPMG LLP will be present at the Meeting, will be given an opportunity to make a statement (if they desire to do so) and will be available to respond to appropriate questions.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR* THE PROPOSAL TO RATIFY THE APPOINTMENT OF THE INDEPENDENT PUBLIC ACCOUNTING FIRM.

AUDIT COMMITTEE REPORT TO SHAREHOLDERS

The Audit Committee of the Board is responsible for providing independent, objective oversight of management s conduct of the Company s financial reporting process (including management s development and maintenance of systems of internal accounting and financial controls). The Audit Committee operates under a written charter, previously approved by the Board. The Audit Committee met twelve times during 2010 and each member attended at least 75% of the meetings during the period in which he was a member of such committee. The meetings were designed to facilitate and encourage communication between members of the Audit Committee and management as well as private communication between the members of the Audit Committee and our internal auditors, and our independent registered public accounting firm, KPMG LLP.

Management is responsible for the Company s internal controls and financial reporting process. In carrying out its oversight responsibilities, the Audit Committee has sole authority for selection and retention of the Company s independent accountants, subject to annual shareholder ratification. The independent accountants are responsible for performing an independent audit of the Company s consolidated financial statements in accordance with generally accepted auditing standards and issuing a report thereon. The Audit Committee s responsibility is to monitor and oversee these processes.

In connection with these responsibilities, the Audit Committee met with management, our internal auditor and KPMG LLP to review and discuss the December 31, 2010 audited financial statements and matters related to Section 404 of the Sarbanes-Oxley Act of 2002. The Audit Committee also discussed with the independent accountants the matters required by the Public Company Accounting Oversight Board (PCAOB) rules. The Audit Committee also received written disclosures and the letter from the independent accountants required by the PCAOB rules regarding the independent accountant s communications with the Audit Committee concerning independence, and the Audit Committee discussed with the independent accountants that firm s independence.

The Audit Committee currently is composed of three non-employee directors, each of whom is an independent director under the rules of the NYSE governing the qualifications of the members of audit committees. Mr. Dawson qualifies as an audit committee financial expert under the rules of the SEC. Please see the information under the caption Nominees for Election for Mr. Dawson s financial experience.

Based upon the Audit Committee s review of the audited consolidated financial statements, discussions with management, our internal auditor and the independent accountants, and the Audit Committee s review of the representations of management and discussions with the independent accountants as set forth above, the Audit Committee recommended that the Board include the audited consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on February 25, 2011.

The following table presents fees for professional services provided by KPMG LLP for 2010 and 2009, all of which were pre-approved by the Audit Committee.

	2010	2009
Audit Fees(1)	$ 1,894,615	$ 2,065,887
Audit-Related Fees(2)	13,289	25,169
Tax Fees(3)	240,972	299,154
All other fees(4)		
Total fees	$ 2,148,876	$ 2,390,210

(1) Includes fees billed for professional services rendered by KPMG LLP for the audit of our annual financial statements for the years ended December 31, 2010 and 2009, the reviews of the condensed financial statements included in our quarterly reports on Forms 10-Q for the years ended December 31, 2010 and 2009, the audit of the Company s internal control over financial reporting and the effectiveness of internal control over financial reporting, statutory audits required internationally and services rendered by KPMG LLP related to regulatory filings with the Securities and Exchange Commission.

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(2) Includes fees billed for professional services rendered by KPMG LLP for agreed upon procedures.

(3) Includes fees billed for professional services rendered by KPMG LLP for domestic and international income tax planning, compliance, expatriate and executive tax work, and tax work related to foreign entity statutory audits.

(4) There were no other fees billed by KPMG LLP for other professional services.

Audit Committee Pre-Approval Policy

The Audit Committee has adopted a specific policy for pre-approval of services to be provided by the Company s independent registered public accounting firm. Under the policy, in addition to the annual audit engagement terms and fees, the Audit Committee pre-approves specific types of audit, audit-related, tax and non-audit services to be performed by the independent registered public accounting firm throughout the year, as well as fee ranges for each specific service, based on the Audit Committee s determination that the provision of the services would not be likely to impair the accounting firm s independence. Unless a type of service to be provided by the independent registered public accountant has received general pre-approval, it will require specific pre-approval by the Audit Committee. Any proposed services exceeding pre-approved cost levels will require specific pre-approval by the Audit Committee. The pre-approval is effective for 12 months from the date of pre-approval, unless the Audit Committee specifically approves the provision of such services for a different period. The policy permits the Audit Committee to delegate pre-approval authority to one or more of its members to ensure prompt handling of unexpected matters, with such delegated pre-approvals to be reported to the Audit Committee at its next meeting. The policy also contains a list of prohibited non-audit services and requires that the independent registered public accounting firm ensure that all audit and non-audit services provided to the Company have been pre-approved by the Audit Committee or its designee.

The Audit Committee of the Company s Board has considered whether the services provided by KPMG LLP as they related to other non-audit services are compatible with maintaining the accounting firm s independence. The Audit Committee has determined that provision of those services is compatible with maintaining the independence of KPMG LLP as the Company s registered public accounting firm.

SUBMITTED BY THE AUDIT COMMITTEE OF
THE COMPANY S BOARD OF DIRECTORS

Michael R. Dawson, Chair
Peter G. Dorflinger
Douglas G. Duncan

EXPENSES OF SOLICITATION

The cost of soliciting proxies on behalf of the Board will be borne by the Company. Solicitations of proxies are being made by the Company through the mail and may also be made in person or by telephone. Directors and employees of the Company may be utilized in connection with such solicitations and no additional compensation will be paid to such individuals. The Company also will request brokers and nominees to forward soliciting materials to the beneficial owners of the Common Shares held of record by such persons and will reimburse them for their reasonable forwarding expenses.

DATE OF SUBMISSION OF SHAREHOLDER PROPOSALS

In order for proposals submitted by the shareholders of the Company pursuant to Rule 14a-8 of the General Rules and Regulations under the Exchange Act to be included in the Company s proxy statement and form of proxy relating to the 2012 Annual Meeting of the Shareholders, such proposals must be received at the Company s principal executive offices no later than December 6, 2011. A shareholder choosing not to use the procedures established in Rule 14a-8 but wishing to submit a proposal at the Company s 2012 Annual Meeting of the Shareholders must deliver the proposal at the Company s principal executive offices no later than February 4, 2012.

INTERNET AVAILABILITY OF PROXY MATERIALS AND ANNUAL REPORT

This Proxy Statement and the Company s 2010 Annual Report are available at *http://www.bench.com/viewer/investor_annual_reports.asp*.

FORM 10-K

A copy of our 2010 Annual Report to Shareholders, which excludes exhibits, but includes our financial statements for fiscal year 2010, is enclosed with this Proxy Statement. The Company s Annual Report on Form 10-K, including all exhibits, has been filed with the SEC. Upon payment of the Company s reasonable expenses, the Company will furnish a copy of any exhibit to the Form 10-K to any shareholder who makes a written request therefore to Investor Relations, Benchmark Electronics, Inc., 3000 Technology Drive, Angleton, Texas 77515.

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OTHER MATTERS

The Board does not intend to bring any other matter before the Meeting and has not been informed that any other matter is to be presented by others. If any other matter properly comes before the Meeting, the proxies will be voted in accordance with the discretion of the person or persons voting the proxies.

You are cordially invited to attend the Meeting. Regardless of whether you plan to attend the Meeting, you are urged to act promptly to vote your shares.

By order of the Board of Directors,
/s/ Kenneth S. Barrow
Kenneth S. Barrow
General Counsel and Secretary

herit;font-size:10pt;">%

0.53
%

1.19
%
Net interest rate spread

3.36
%

3.48
%

3.78
%

3.96
%

3.92
%
Net interest margin

3.46
%

3.59
%

3.91
%

4.14
%

4.13
%
Efficiency ratio (1)

76.18
%

78.75
%

72.52

%

70.92
%

68.11
%
(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.

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The following tables summarize the Corporation's unaudited net income and basic earnings per share at each quarter end for the years 2015 and 2014:

	2015			
(in thousands, except per share data)	Quarter Ended			
UNAUDITED QUARTERLY DATA	Mar. 31	June 30	Sept. 30	Dec. 31
Interest and dividend income	$13,234	$13,519	$13,595	$13,896
Interest expense	892	872	904	934
Net interest income	12,342	12,647	12,691	12,962
Provision for loan losses	390	259	307	615
Net interest income after provision for loan losses	11,952	12,388	12,384	12,347
Total other operating income	5,186	5,326	4,912	5,023
Total other operating expenses	13,736	13,823	13,634	14,234
Income before income tax expense	3,402	3,891	3,662	3,136
Income tax expense	1,126	1,314	1,211	1,007
Net income	$2,276	$2,577	$2,451	$2,129
Basic and diluted earnings per share	$0.48	$0.55	$0.52	$0.45

	2014			
(in thousands, except per share data)	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

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

The following is the MD&A of the Corporation in this Form 10-K for the years ended December 31, 2015 and 2014. 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 audited consolidated financial statements and footnotes, for an understanding of the following discussion and analysis. See the list of commonly used abbreviations and terms on pages 1-4.

The MD&A included in this Form 10-K contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on the current beliefs and expectations of the Corporations' management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. For a discussion of those risks and uncertainties and the factors that could cause the Corporation's actual results to differ materially from those risks and uncertainties, see Forward-looking Statements below.

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

Forward-looking Statements
This discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act, and the Private Securities Litigation Reform Act of 1995. The Corporation intends its forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these sections. All statements regarding the Corporation's expected financial position and operating results, the Corporation's business strategy, the Corporation's financial plans, forecasted demographic and economic trends relating to the Corporation's industry and similar matters are forward-looking statements. These statements can sometimes be identified by the Corporation's use of forward-looking words such as "may," "will," "anticipate," "estimate," "expect," or "intend." The Corporation cannot promise that its expectations in such forward-looking statements will turn out to be correct. The Corporation's actual results could be materially different from expectations because of various factors, including changes in economic conditions or interest rates, credit risk, difficulties in managing the Corporation's growth, competition, changes in law or the regulatory environment, including the Dodd-Frank Act, and changes in general business and economic trends. Information concerning these and other factors can be found in the Corporation's periodic filings with the SEC, including the discussion under the heading "Item 1A. Risk Factors" in the Corporation's 2015 Annual Report on Form 10-K. These filings are available publicly on the SEC's web site at http://www.sec.gov, on the Corporation's web site at http://www.chemungcanal.com or upon request from the Corporate Secretary at (607) 737-3746. Except as otherwise required by law, the Corporation undertakes no obligation to publicly update or revise its forward-looking statements, whether as a result of new information, future events or otherwise.

Consolidated Financial Highlights

	As of or for the Years Ended		
(in thousands, except per share data)	December 31, 2015	December 31, 2014	December 31, 2013
RESULTS OF OPERATIONS			
Interest income	$54,244	$53,213	$50,663
Interest expense	3,602	3,645	4,032
Net interest income	50,642	49,568	46,631
Provision for loan losses	1,571	3,981	2,755
Net interest income after provision for loan losses	49,071	45,587	43,876
Non-interest income	20,447	26,756	18,077
Non-interest expense	55,427	60,477	49,400
Income before income tax expense	14,091	11,866	12,553
Income tax expense	4,658	3,709	3,822
Net income	$9,433	$8,157	$8,731
Basic and diluted earnings per share	$2.00	$1.74	$1.87
Average basic and diluted shares outstanding	4,719	4,683	4,660

PERFORMANCE RATIOS						
Return on average assets	0.60	%	0.54	%	0.67	%
Return on average equity	6.84	%	5.74	%	6.50	%
Return on average tangible equity (a)	8.45	%	7.12	%	8.12	%
Efficiency ratio (b)	76.18	%	78.75	%	72.52	%
Non-interest expense to average assets (c)	3.51	%	3.73	%	3.78	%
Loans to deposits	83.46	%	87.62	%	78.65	%

YIELDS / RATES - Fully Taxable Equivalent						
Yield on loans	4.24	%	4.43	%	4.80	%
Yield on investments	1.91	%	1.98	%	2.29	%
Yield on interest-earning assets	3.71	%	3.85	%	4.25	%
Cost of interest-bearing deposits	0.20	%	0.22	%	0.30	%
Cost of borrowings	2.85	%	2.83	%	2.42	%
Cost of interest-bearing liabilities	0.35	%	0.37	%	0.47	%
Interest rate spread	3.36	%	3.48	%	3.78	%
Net interest margin, fully taxable equivalent	3.46	%	3.59	%	3.91	%
CAPITAL						
Total equity to total assets at end of period	8.47	%	8.77	%	9.39	%
Tangible equity to tangible assets at end of period (a)	6.99	%	7.13	%	7.62	%
Book value per share	$28.96		$28.44		$29.67	
Tangible book value per share	23.53		22.71		23.63	
Period-end market value per share	27.50		27.66		34.17	
Dividends declared per share	1.04		1.04		1.04	
AVERAGE BALANCES						
Loans (d)	$1,141,992		$1,066,379		$942,908	
Earning assets	1,477,529		1,399,285		1,209,673	
Total assets	1,577,831		1,506,324		1,306,367	
Deposits	1,367,717		1,297,443		1,092,840	
Total equity	137,891		142,046		134,285	
Tangible equity (a)	111,583		114,492		107,576	
ASSET QUALITY						
Net charge-offs (recoveries)	$997		$3,071		$412	
Non-performing loans (e)	12,232		7,778		8,511	
Non-performing assets (f)	13,762		10,843		9,055	
Allowance for loan losses	14,260		13,686		12,776	
Annualized net charge-offs to average loans	0.09	%	0.29	%	0.04	%
Non-performing loans to total loans	1.05	%	0.69	%	0.86	%
Non-performing assets to total assets	0.85	%	0.71	%	0.61	%
Allowance for loan losses to total loans	1.22	%	1.22	%	1.28	%
Allowance for loan losses to non-performing loans	116.58	%	175.96	%	150.01	%

(a) See the GAAP to Non-GAAP reconciliations.
(b) Efficiency ratio is non-interest expense less merger and acquisition expenses less amortization of intangible assets less legal settlement divided by the total of fully taxable equivalent net interest income plus non-interest income less net gains on securities transactions less gain from bargain purchase less gain on liquidation of trust preferred securities.
(c) For the non-interest expense to average assets ratio, non-interest expense does not include legal settlement expense. See footnote 15 for further discussion.
(d) Loans include loans held for sale. Loans do not reflect the allowance for loan losses.
(e) Non-performing loans include non-accrual loans only.
(f) Non-performing assets include non-performing loans plus other real estate owned.

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Executive Summary

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

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

	Years Ended December 31,			
	2015	2014	Change	Percentage Change
Net interest income	$50,642	$49,568	$1,074	2.2 %
Non-interest income	20,447	26,756	(6,309)	(23.6)%
Non-interest expense	55,427	60,477	(5,050)	(8.4)%
Pre-provision income	15,662	15,847	(185)	(1.2)%
Provision for loan losses	1,571	3,981	(2,410)	(60.5)%
Income tax expense	4,658	3,709	949	25.6 %
Net income	$9,433	$8,157	$1,276	15.6 %
Basic and diluted earnings per share	$2.00	$1.74	$0.26	14.9 %
Selected financial ratios				
Return on average assets	0.60 %	0.54 %		
Return on average equity	6.84 %	5.74 %		
Net interest margin, fully taxable equivalent	3.46 %	3.59 %		
Efficiency ratio	76.18 %	78.75 %		
Non-interest expense to average assets	3.51 %	3.73 %		

Net income for the year ended December 31, 2015 was $9.4 million, or $2.00 per share, compared with net income of $8.2 million, or $1.74 per share, for the prior year. Return on equity for the year was 6.84%, compared with 5.74% for the prior year. The increase in net income from the prior year was driven by a reduction in non-interest expense, mostly due to the $4.3 million WMG legal settlement in 2014, and higher net interest income and a reduction in the provision for loan losses, partially offset by a reduction in non-interest income, mostly due to the gain on the sale of securities, and an increase in income tax expense.

Net interest income

Net interest income increased $1.1 million, or 2.2%, compared with the prior year. The increase was due primarily to an increase of $78.2 million in average interest-earning assets, offset by a 13 basis point decline in net interest margin.

Non-interest income

Non-interest income decreased $6.3 million, or 23.6%, compared to the prior year. The decrease was due primarily to decreases in net gains on securities transactions, service charges on deposit accounts and other non-interest income, offset by an increase in WMG fee income.

Non-interest expense

Non-interest expense decreased $5.1 million million, or 8.4%, compared to the prior year. The decrease was due primarily to the $4.3 million legal settlement that occurred in 2014, relating to WMG, and a decline in professional services, amortization of intangibles, marketing and advertising, and other non-interest expense. These items were offset by increases in pension and other employee benefits, data processing expense and other real estate owned

expenses. For the years ended December 31, 2015 and 2014, non-interest expense to average assets was 3.51% and 3.73%, respectively.

Provision for loan losses

The provision for loan losses decreased $2.4 million, or 60.5%, compared to the prior year. The decrease was the result of lower specific allocations for PCI loans and lower net charge-offs during the year. Net charge-offs were $1.0 million, compared with $3.1 million for the prior year.

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

	Years Ended December 31,			
	2014	2013	Change	Percentage Change
Net interest income	$49,568	$46,631	$2,937	6.3 %
Non-interest income	26,756	18,077	8,679	48.0 %
Non-interest expense	60,477	49,400	11,077	22.4 %
Pre-provision income	15,847	15,308	539	3.5 %
Provision for loan losses	3,981	2,755	1,226	44.5 %
Income tax expense	3,709	3,822	(113)	(3.0)%
Net income	$8,157	$8,731	$(574)	(6.6)%
Basic and diluted earnings per share	$1.74	$1.87	$(0.13)	(7.0)%
Selected financial ratios				
Return on average assets	0.54 %	0.67 %		
Return on average equity	5.74 %	6.50 %		
Net interest margin, fully taxable equivalent	3.59 %	3.91 %		
Efficiency ratio	78.75 %	72.52 %		
Non-interest expense to average assets	3.73 %	3.78 %		

Net income for the year ended December 31, 2014 was $8.2 million, or $1.74 per share, compared with $8.7 million, or $1.87 per share, for the same period in the prior year. Return on equity for the year ended December 31, 2014 was 5.74%, compared with 6.50% for the same period in the prior year. The decrease in net income from the same period in the prior year was driven by an increase in non-interest expense and provision for loan losses, offset by increases in net interest income and non-interest income, along with a reduction in income tax expense.

Net interest income

Net interest income increased $2.9 million, or 6.3%, compared with the same period in the prior year. The increase was due primarily to an increase of $189.6 million in average interest-earning assets, offset by a 32 basis point decline in net interest margin.

Non-interest income

Non-interest income increased $8.7 million, or 48.0%, compared to the same period in the prior year. The increase was due to increases in WMG fee income, service charges on deposit accounts, net gains on securities transactions, and other non-interest income, offset by a decrease in net gain on sales of loans held for sale.

Non-interest expense

Non-interest expense increased $11.1 million, or 22.4%, compared to the same period in the prior year. The increase was primarily due to a legal settlement of $4.3 million in 2014, salaries and wages, net occupancy expenses, furniture and equipment expenses, data processing expense, professional services, amortization of intangible assets, FDIC insurance and other non-interest expense. These items were offset by decreases in pension and other employee benefits and merger and acquisition related expenses.

Provision for loan losses

The provision for loan losses increased $1.2 million, or 44.5%, compared to the same period in the prior year. The increase was the result of additional impairments on commercial loans and growth in the loan portfolio. Net charge-offs were $3.1 million, compared with $0.4 million for the same period in the prior year.

Consolidated Results of Operations

The following section of the MD&A provides a comparative discussion of the Corporation's Consolidated Results of Operations on a reported basis for the years ended December 31, 2015 and 2014. For a discussion of the Critical Accounting Policies, Estimates and Risks and Uncertainties that affect the Consolidated Results of Operations, see pages 16-21.

Net Interest Income

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

	Years Ended December 31,			
	2015	2014	Change	Percentage Change
Interest and dividend income	$54,244	$53,213	$1,031	1.9 %
Interest expense	3,602	3,645	(43)	(1.2)%
Net interest income	$50,642	$49,568	$1,074	2.2 %

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

Net interest income for the year ended December 31, 2015 totaled $50.6 million, an increase of $1.1 million, or 2.2%, compared with $49.6 million for the same period in the prior year. Fully taxable equivalent net interest margin was 3.46% for the year ended December 31, 2015 compared with 3.59% for the same period in the prior year. The increase in net interest income was due primarily to interest income from the commercial loan portfolio, as the year-to-date average commercial loan balance increased $88.6 million when compared to the prior year. The decline in interest margin was a result of the commercial loan portfolio repricing to current market rates. The yield on average interest-earning assets and cost of average interest-bearing liabilities decreased 14 and two basis points, respectively. Average interest-earning assets increased $78.2 million compared to the prior year, primarily in commercial loans.

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

	Years Ended December 31,			
	2014	2013	Change	Percentage Change
Interest and dividend income	$53,213	$50,663	$2,550	5.0 %
Interest expense	3,645	4,032	(387)	(9.6)%
Net interest income	$49,568	$46,631	$2,937	6.3 %

Net interest income for the year ended December 31, 2014 totaled $49.6 million, an increase of $2.9 million, or 6.3%, compared with $46.6 million for the same period in the prior year. Fully taxable equivalent net interest margin was 3.59% for the year ended December 31, 2014 compared with 3.91% for the same period in the prior year. The increase in net interest income was due primarily to an increase of $189.6 million in average interest-earning assets. The decline in net interest margin was due in part to a 40 basis point decline in the yield on average interest-earning assets, partially offset by a ten basis point decline in the cost of average interest-bearing liabilities. The decrease in yield on average interest-earning assets was attributable to a 37 basis point decrease in yield on loans, a result of loans continuing to reprice at current historically low market rates, primarily in the commercial loan portfolio.

Average Consolidated Balance Sheet and Interest Analysis

The following tables present certain information related to the Corporation's average consolidated balance sheets and its consolidated statements of income for the years ended December 31, 2015, 2014 and 2013. It also reflects the average yield on interest-earning assets and average cost of interest-bearing liabilities for the years ended December 31, 2015, 2014 and 2013. For the purpose of the table below, non-accruing loans are included in the daily average loan amounts outstanding. Daily balances were used for average balance computations. Investment securities

are stated at amortized cost. Tax equivalent adjustments have been made in calculating yields on obligations of states and political subdivisions, tax-free commercial loans and dividends on equity investments.

AVERAGE CONSOLIDATED BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS

(in thousands)	Year Ended December 31, 2015 Average Balance	Interest	Yield/ Rate	2014 Average Balance	Interest	Yield/ Rate	2013 Average Balance	Interest	Yield/Rate
Interest-earning assets:									
Commercial loans	$657,038	$29,824	4.54 %	$568,448	$28,181	4.96 %	$486,364	$26,146	5.38 %
Mortgage loans	198,332	8,063	4.07 %	195,266	8,134	4.17 %	198,903	8,638	4.34 %
Consumer loans	286,622	10,516	3.67 %	302,665	10,947	3.62 %	257,641	10,484	4.07 %
Taxable securities	262,181	4,963	1.89 %	267,117	5,122	1.92 %	209,676	4,468	2.13 %
Tax-exempt securities	43,081	1,356	3.15 %	39,890	1,415	3.55 %	42,253	1,605	3.80 %
Interest-bearing deposits	30,275	76	0.25 %	25,899	64	0.25 %	14,836	36	0.24 %
Total interest-earning assets	1,477,529	54,798	3.71 %	1,399,285	53,863	3.85 %	1,209,673	51,377	4.25 %
Non-earning assets:									
Cash and due from banks	26,959			26,653			23,739		
Premises and equipment, net	30,953			30,447			25,606		
Other assets	53,153			52,014			46,752		
Allowance for loan losses	(14,103)			(13,082)			(11,212)		
AFS valuation allowance	3,340			11,007			11,809		
Total assets	$1,577,831			$1,506,324			$1,306,367		
Interest-bearing liabilities:									
Interest-bearing demand deposits	$129,442	$113	0.09 %	$126,593	$101	0.08 %	$96,392	$91	0.09 %
Savings and insured money market deposits	671,829	1,214	0.18 %	585,616	988	0.17 %	464,976	833	0.18 %
Time deposits	182,177	676	0.37 %	223,841	954	0.43 %	229,426	1,426	0.62 %
FHLBNY advances, securities sold under agreements to repurchase, and other debt	56,202	1,599	2.85 %	56,625	1,602	2.83 %	69,498	1,682	2.42 %
Total interest-bearing liabilities	1,039,650	3,602	0.35 %	992,675	3,645	0.37 %	860,292	4,032	0.47 %
Non-interest-bearing liabilities:									
Demand deposits	384,268			361,393			302,046		

Other liabilities	16,022			10,210			9,744		
Total liabilities	1,439,940			1,364,278			1,172,082		
Shareholders' equity	137,891			142,046			134,285		
Total liabilities and shareholders’ equity	$1,577,831			$1,506,324			$1,306,367		
Fully taxable equivalent net interest income		51,196			50,218			47,345	
Net interest rate spread (1)			3.36 %			3.48 %			3.78 %
Net interest margin, fully taxable equivalent (2)			3.46 %			3.59 %			3.91 %
Taxable equivalent adjustment		(554)			(650)			(714)	
Net interest income		$50,642			$49,568			$46,631	

(1) Net interest rate spread is the difference in the average yield on interest-earning assets less the average rate on interest-bearing liabilities.
(2) Net interest margin is the ratio of fully taxable equivalent net interest income divided by average interest-earning assets.

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Changes Due to Rate and Volume

Net interest income can be analyzed in terms of the impact of changes in rates and volumes. The table belows 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.

RATE/VOLUME ANALYSIS OF NET INTEREST INCOME

	2015 vs. 2014 Increase/(Decrease)			2014 vs. 2013 Increase/(Decrease)		
(in thousands)	Total Change	Due to Volume	Due to Rate	Total Change	Due to Volume	Due to Rate
Interest income						
Commercial, agricultural and commercial mortgage loans	$1,643	$4,158	$(2,515)	$2,035	$4,178	$(2,143)
Mortgage loans	(71)	126	(197)	(504)	(156)	(348)
Consumer loans	(431)	(582)	151	463	1,708	(1,245)
Taxable investment securities	(159)	(86)	(73)	654	1,134	(480)
Tax-exempt investment securities	(59)	108	(167)	(190)	(87)	(103)
Interest-bearing deposits	12	12	—	28	27	1
Total interest income	935	3,736	(2,801)	2,486	6,804	(4,318)
Interest expense						
Interest-bearing demand deposits	12	2	10	10	26	(16)
Savings and insured money market deposits	226	161	65	155	206	(51)
Time deposits	(278)	(159)	(119)	(472)	(34)	(438)
FHLBNY advances, securities sold under agreements to repurchase and other debt	(3)	(13)	10	(80)	(339)	259
Total interest expense	(43)	(9)	(34)	(387)	(141)	(246)
Net interest income	$978	$3,745	$(2,767)	$2,873	$6,945	$(4,072)

Provision for loan losses

Management performs an ongoing assessment of the adequacy of the allowance for loan losses based upon a number of factors including an analysis of historical loss factors, collateral evaluations, recent charge-off experience, credit quality of the loan portfolio, current economic conditions and loan growth. Based on this analysis, the provision for loan losses for the years ended December 31, 2015, 2014 and 2013 were $1.6 million, $4.0 million and $2.8 million, respectively. Net charge-offs for the years ended December 31, 2015, 2014 and 2013 were $1.0 million, $3.1 million and $0.4 million, respectively.

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Non-interest income

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

	Years Ended December 31,			
	2015	2014	Change	Percentage Change
WMG fee income	$8,522	$7,747	$775	10.0 %
Service charges on deposit accounts	4,886	5,281	(395)	(7.5)%
Interchange revenue from debit card transactions	3,307	3,360	(53)	(1.6)%
Net gains on securities transactions	372	6,869	(6,497)	(94.6)%
Net gains on sales of loans held for sale	294	301	(7)	(2.3)%
Net gains (losses) on sales of other real estate owned	84	(64)	148	N/M
Income from bank owned life insurance	75	78	(3)	(3.8)%
CFS fee and commission income	906	830	76	9.2 %
Other	2,001	2,354	(353)	(15.0)%
Total non-interest income	$20,447	$26,756	$(6,309)	(23.6)%

Total non-interest income for the year ended December 31, 2015 decreased $6.3 million compared to the same period in the prior year. The decrease was due to decreases in service charges on deposit accounts, net gains on securities transactions, and other non-interest income, offset by an increase in WMG fee income and net gains on sales of other real estate owned.

WMG fee income

WMG fee income increased compared to the same period in the prior year due to an increase in fee levels, as fees were adjusted to reflect current market fee levels, offset by a decline in total assets under management or administration.

Service charges on deposit accounts

Service charges on deposit accounts decreased compared to the same period in the prior year due to a decline in overdraft fees.

Net gains (losses) on securities transactions

Net gains (losses) on securities transactions decreased compared to the same period in the prior year due to the $6.4 million gain on the sale of equity securities during the prior year.

CFS fee and commission income

CFS fee and commission income increased compared to the same period in the prior year due to an increase in commissions from insurance annuity products.

Other

Other non-interest income decreased due to a decline in gains on stock donations to charitable organizations and other non-interest income, offset by additional rental income in 2015 from properties included within OREO.

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

	Years Ended December 31,			
	2014	2013	Change	Percentage Change
WMG fee income	$7,747	$7,344	$403	5.5 %
Service charges on deposit accounts	5,281	4,706	575	12.2 %
Interchange from debit card transactions	3,360	2,562	798	31.1 %
Net gains on securities transactions	6,869	16	6,853	N/M
Net impairment loss on investment securities	—	(29)	29	N/M
Net gains on sales of loans held for sale	301	503	(202)	(40.2)%
Net gains (losses) on sales of other real estate owned	(64)	28	(92)	N/M
Gain from bargain purchase	—	470	(470)	(100.0)%
Income from bank owned life insurance	78	84	(6)	(7.1)%
CFS fee and commission income	830	694	136	19.6 %
Other	2,354	1,699	655	38.6 %
Total non-interest income	$26,756	$18,077	$8,679	48.0 %

Total non-interest income for year ended December 31, 2014 increased $8.7 million compared with the same period in the prior year. The increase was mostly due to increases in WMG fee income, services charges, net gains on securities transactions, CFS fee and commission income, check card interchange income, and other non-interest income, offset by decreases in net gains on sales of loans held for sale and gain from bargain purchase.

WMG fee income

WMG fee income increased compared to the same period in the prior year due to an increase in assets under management or administration.

Service charges on deposit accounts

Service charges on deposit accounts increased compared to the same period in the prior year due the acquisition of six branches during the fourth quarter of 2013.

Interchange from debit card transactions

Interchange from debit card transactions increased compared to the same period in the prior year due the acquisition of six branches during the fourth quarter of 2013.

Net gains on securities transactions

Net gains on securities transactions increased compared to the same period in the prior year due to the $6.4 million gain on the sale of equity securities during the fourth quarter of 2014.

Gain on bargain purchase

The Bank recognized a $0.5 million gain from bargain purchase from the acquisition of six Bank of America branches in 2013.

CFS fee and commission income

CFS fee and commission income increased compared to the same period in the prior year due to an increase in the volume of insurance annuity products and mutual funds sold.

Other

Other non-interest income increased due to a gain on the liquidation of the Corporation's investment in a pool of trust preferred securities recognized during the year.

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Non-interest expense

The following table presents non-interest expense for the periods indicated, and the dollar and percent change (in thousands):

	Years Ended December 31,			
	2015	2014	Change	Percentage Change
Compensation expense:				
Salaries and wages	$21,223	$21,315	$(92)	(0.4)%
Pension and other employee benefits	5,908	5,733	175	3.1%
Total compensation expense	27,131	27,048	83	0.3%
Non-compensation expense:				
Net occupancy	7,006	7,098	(92)	(1.3)%
Furniture and equipment	2,979	2,972	7	0.2%
Data processing	6,586	6,393	193	3.0%
Professional services	1,293	1,597	(304)	(19.0)%
Legal settlements	—	4,250	(4,250)	(100.0)%
Amortization of intangible assets	1,136	1,310	(174)	(13.3)%
Marketing and advertising	899	1,079	(180)	(16.7)%
Other real estate owned expense	812	247	565	228.7%
FDIC insurance	1,075	1,116	(41)	(3.7)%
Loan expense	693	811	(118)	(14.5)%
Merger and acquisition related expenses	—	115	(115)	(100.0)%
Other	5,817	6,441	(624)	(9.7)%
Total non-compensation expense	28,296	33,429	(5,133)	(15.4)%
Total non-interest expense	$55,427	$60,477	$(5,050)	(8.4)%

Total non-interest expense for the year ended December 31, 2015 decreased $5.1 million compared with the prior year. The decrease was primarily due to a decrease in non-compensation expense related to the $4.3 million legal settlement in the the prior year.

Compensation expense

Compensation expense increased compared to the same period in the prior year due to an increase in pension and other employee benefits, offset by a decrease in salaries and wages. The $0.2 million increase in pension and other employee benefits was due to the adoption of updated mortality tables in 2015, which reflected improved life expectancies of employees and a reduced discount rate for determining pension costs. The decrease in salaries and wages was due to a reduction in full-time equivalent employees.

Non-compensation expense

Non-compensation expense decreased compared to the same period in the prior year primarily due to the legal settlement that occurred in 2014, related to the Bank's WMG, offset by an increase in data processing expense and OREO expenses. The increase in data processing expense was primarily due to check card expense and data communication lines expense, while the increase in OREO expenses was due to two properties being carried in OREO for the entire year, along with a fair market value adjustment to one property.

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The following table presents non-interest expense for the periods indicated, and the dollar and percent change (in thousands):

	Years Ended December 31,			
	2014	2013	Change	Percentage Change
Compensation expense:				
Salaries and wages	$21,315	$19,365	$1,950	10.1 %
Pension and other employee benefits	5,733	5,939	(206)	(3.5)%
Total compensation expense	27,048	25,304	1,744	6.9 %
Non-compensation expense:				
Net occupancy	7,098	5,501	1,597	29.0 %
Furniture and equipment	2,972	2,326	646	27.8 %
Data processing	6,393	4,750	1,643	34.6 %
Professional services	1,597	928	669	72.1 %
Legal settlements	4,250	—	4,250	N/M
Amortization of intangible assets	1,310	921	389	42.2 %
Marketing and advertising	1,079	1,033	46	4.5 %
Other real estate owned expense	247	194	53	27.3 %
FDIC insurance	1,116	866	250	28.9 %
Loan expense	811	779	32	4.1 %
Merger and acquisition expenses	115	1,387	(1,272)	(91.7)%
Other	6,441	5,411	1,030	19.0 %
Total non-compensation expense	33,429	24,096	9,333	38.7 %
Total non-interest expense	$60,477	$49,400	$11,077	22.4 %

Total non-interest expense for the year ended December 31, 2014 increased $11.1 million compared with the same period in the prior year. The increase was due to increases in both compensation, due to additional full-time equivalent employees from the acquisition of six branches in the fourth quarter of 2013, and non-compensation expense, mostly related to the $4.3 million legal settlement in 2014 and additional operating expenses associated with the additional six branches acquired in the fourth quarter of 2013.

Compensation expense

Compensation expense increased compared to the same period in the prior year due to an increase in salaries and wages. The $2.0 million increase in salaries and wages was due to the acquisition of six branches from Bank of America in the fourth quarter of 2013, which impacted 2014 for the entire year.

Non-compensation expense

Non-compensation expense increased compared to the same period in the prior year primarily due to the legal settlement that occurred in 2014, related to the Bank's WMG, along with increases in net occupancy, furniture and equipment, data processing, professional services, amortization of intangible assets, FDIC insurance, and other non-interest expense. Offsetting these increases was a decline in merger and acquisition expenses, due to the acquisition of six Bank of America branches in 2013. The increases in net occupancy, furniture and equipment , data processing, and FDIC insurance can be attributed to the acquisition of six branches. Professional services increased due to consulting costs associated with the rebranding of the Bank's debit cards from Visa to Mastercard.

Income tax expense

The following table presents income tax expense and the effective tax rate for the periods indicated, and the dollar and percent change (in thousands):

	Years Ended December 31,			
	2015	2014	Change	Percentage Change
Income before income tax expense	$14,091	$11,866	$2,225	18.8 %
Income tax expense	$4,658	$3,709	$949	25.6 %
Effective tax rate	33.1 %	31.3 %		

The increase in the effective tax rate can be attributed to higher pre-tax income and changes in the mix of income and expense subject to U.S. federal, state, and local income taxes.

The following table presents income tax expense and the effective tax rate for the periods indicated, and the dollar and percent change (in thousands):

	Years Ended December 31,			
	2014	2013	Change	Percentage Change
Income before income tax expense	$11,866	$12,553	$(687)	(5.5)%
Income tax expense	$3,709	$3,822	$(113)	(3.0)%
Effective tax rate	31.3 %	30.4 %		

The increase in the effective tax rate can be attributed to higher pre-tax income and changes in the mix of income and expense subject to U.S. federal, state, and local income taxes.

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Financial Condition

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

	December 31, 2015	December 31, 2014	Change	Percentage Change
Assets				
Total cash and cash equivalents	$26,185	$29,163	$(2,978)	(10.2)%
Total investment securities	354,183	291,873	62,310	21.3%
Loans, net of deferred loan fees	1,168,633	1,121,574	47,059	4.2%
Allowance for loan losses	(14,260)	(13,686)	(574)	4.2%
Loans, net	1,154,373	1,107,888	46,485	4.2%
Goodwill and other intangible assets, net	25,755	26,891	(1,136)	(4.2)%
Other assets	59,468	68,724	(9,256)	(13.5)%
Total assets	$1,619,964	$1,524,539	$95,425	6.3%
Liabilities and Shareholders' Equity				
Total deposits	$1,400,295	$1,280,014	$120,281	9.4%
FHLBNY advances and other debt	64,429	82,768	(18,339)	(22.2)%
Other liabilities	17,998	28,129	(10,131)	(36.0)%
Total liabilities	1,482,722	1,390,911	91,811	6.6%
Total shareholders' equity	137,242	133,628	3,614	2.7%
Total liabilities and shareholders' equity	$1,619,964	$1,524,539	$95,425	6.3%

Cash and cash equivalents

The decrease in cash and cash equivalents can be attributed to the use of cash to purchase investment securities, fund new loans, and pay-down FHLBNY advances, offset primarily by the inflow of municipal deposits.

Investment securities

The increase in investment securities can be mostly attributed to the investment of excess cash primarily from municipal client deposits into higher yielding mortgage-backed securities. During the year, mortgage-backed securities and municipal securities increased $136.7 million and $13.0 million, respectively, while obligations of U.S. Government and U.S. Government sponsored enterprises decreased $81.5 million.

Loans, net

The increase in loans can be attributed to an increase of $79.7 million in commercial loans, offset by decreases of $1.0 million in mortgages and $32.6 million in consumer loans, which was mostly attributed to the indirect loan portfolio. The increase in the commercial loan portfolio is primarily from the Capital Bank Division, while the decline in the indirect loan portfolio can be attributed to the run off of promotional interest rates. The increase in the allowance for loan losses can be primarily attributed to growth in the commercial loan portfolio.

Goodwill and other intangible assets, net

The decrease in goodwill and other intangible assets, net can be attributed to amortization of other intangible assets. There were no impairments of goodwill or other intangible assets during the years ended December 31, 2015 and 2014.

Other assets

The decrease in other assets can be mostly attributed to depreciation of premises and equipment, the sale of two commercial properties from other real estate owned and the receipt of insurance proceeds from the WMG legal settlement during the second quarter of 2015, which was accrued in 2014. See footnote 15 for further discussion.

Deposits

The increase in deposits can be attributed to increases of $104.8 million in money market accounts, $35.9 million in non-interest-bearing demand deposits, $19.8 million in interest-bearing demand deposits and $5.6 million in savings deposits. These items were offset by a $45.8 million decrease in time deposits. The changes in money market accounts and demand deposits can be attributed to the net inflow of deposits from municipal clients, as well as new municipal client relationships.

FHLBNY advances and other debt

FHLBNY term advances were reduced by normal scheduled payments. FHLBNY overnight advances were reduced with the large increase in deposits received from municipal clients.

Other liabilities

The decrease in other liabilities can be attributed to the $12.1 million payment from the WMG legal settlement during the second quarter of 2015, which was accrued for in 2014. See Note 15 for further discussion.

Shareholders' equity

The increase in shareholders' equity was primarily due to earnings of $9.4 million and a reduction of $1.0 million in treasury stock, offset by an increase of $2.2 million in accumulated other comprehensive loss and $4.8 million in dividends declared.

Assets under management or administration

The market value of total assets under management or administration in our WMG was $1.856 billion, including $304.1 million of assets held under management or administration for the Corporation, at December 31, 2015 compared with $1.956 billion, including $287.1 million of assets held under management or administration for the Corporation, at December 31, 2014, a decrease of $100.2 million, or 5.1%. The decrease in market value can be mostly attributed to a decline in the market value of assets during 2015.

Balance Sheet Comparisons

The table below contains selected average balance sheet information for each year in the six-year period ended December 31, 2015 (in millions):

SELECTED AVERAGE BALANCE SHEET INFORMATION

Average Balance Sheet	2015	2014	2013	2012	2011	2010	% Change 2014 to 2015		Compounded Annual Growth 5 Years	
Total Assets	$1,577.8	$1,506.3	$1,306.4	$1,253.7	$1,175.0	$988.6	4.7	%	9.8	%
Earning Assets (1)	1,477.5	1,399.3	1,209.7	1,150.4	1,078.4	905.5	5.6	%	10.3	%
Loans (2)	1,142.0	1,066.4	942.9	844.2	741.0	590.6	7.1	%	14.1	%
Investments (3)	335.5	332.9	266.8	306.2	337.4	314.9	0.8	%	1.3	%
Deposits	1,367.7	1,297.4	1,092.8	1,045.0	967.1	819.1	5.4	%	10.8	%
Borrowings (4)	56.2	56.7	69.5	70.7	81.3	68.4	(0.9	)%	(3.9	)%
Shareholders' Equity	137.9	142.0	134.3	131.1	120.2	94.9	(2.9	)%	7.8	%

(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.

The table below contains selected period-end balance sheet information for each year in the six-year period ended December 31, 2015 (in millions):

SELECTED PERIOD-END BALANCE SHEET INFORMATION

Ending Balance Sheet	2015	2014	2013	2012	2011	2010	% Change 2014 to 2015		Compounded Annual Growth 5 Years	
Total Assets	$1,620.0	$1,524.5	$1,476.1	$1,248.2	$1,216.3	$958.3	6.3	%	11.1	%
Earning Assets (1)	1,525.2	1,415.1	1,373.6	1,155.7	1,116.3	892.4	7.8	%	11.3	%
Loans (2)	1,169.7	1,122.2	996.6	894.6	797.3	614.2	4.2	%	13.8	%
Allowance for loan losses	14.3	13.7	12.8	10.4	9.7	9.5	4.4	%	8.5	%
Investments (3)	355.5	292.9	377.0	261.2	319.4	278.7	21.4	%	5.0	%
Deposits	1,400.3	1,280.0	1,266.3	1,047.5	1,001.1	788.5	9.4	%	12.2	%
Borrowings (4)	64.4	82.8	57.9	59.9	80.5	64.8	(22.2	)%	(0.1	)%
Shareholders' Equity	137.2	133.6	138.6	131.1	125.9	97.4	2.7	%	7.1	%

(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 $3.0 million since December 31, 2014, due primarily to a $3.2 million decrease in cash and due from financial institutions, offset by a $0.3 million increase in interest-bearing deposits in other 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 the table as follows (in thousands):

SECURITIES AVAILABLE FOR SALE

	December 31, 2015				December 31, 2014			
	Amortized Cost	Unrealized Gains (Losses)	Estimated Fair Value	Percent of Total Estimated Fair Value	Amortized Cost	Unrealized Gains (Losses)	Estimated Fair Value	Percent of Total Estimated Fair Value
Obligations of U.S. Government	$14,507	$277	$14,784	4.3 %	$30,841	$274	$31,115	11.1 %
Obligations of U.S. Government sponsored enterprises	84,923	459	85,382	24.8 %	149,694	864	150,558	53.7 %
Mortgage-backed securities, residential and collateralized mortgage obligations	199,680	(1,314)	198,366	57.5 %	61,122	876	61,998	22.1 %
Obligations of states and political subdivisions	43,695	731	44,426	12.9 %	30,677	774	31,451	11.2 %
Other securities	1,675	187	1,862	0.5 %	4,989	396	5,385	1.9 %
Totals	$344,480	$340	$344,820	100.0 %	$277,323	$3,184	$280,507	100.0 %

The available for sale segment of the securities portfolio totaled $344.8 million at December 31, 2015, an increase of $64.3 million, or 22.9%, from $280.5 million at December 31, 2014. The increase resulted primarily from purchases of mortgage-backed securities and obligations of states and political subdivisions, offset by sales, calls, and maturities of obligations of U.S. Government and U.S. Government sponsored enterprises.

The held to maturity segment of the securities portfolio consists of obligations of political subdivisions in the Corporation's market areas. These securities totaled $4.6 million at December 31, 2015, a decrease of $1.3 million from December 31, 2014, due primarily to maturities and principal collected, offset by additional purchases.

Non-marketable equity securities at December 31, 2015 include shares of FRBNY stock and FHLBNY stock, carried at their cost of $1.7 million and $3.1 million, respectively. The fair value of thee securities is assumed to approximate their cost. The investment in these stocks is regulated by regulatory policies of the respective institutions.

The table below sets forth the carrying amounts and maturities of available for sale and held to maturity debt securities at December 31, 2015 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 (in thousands):

MATURIES AND YIELDS OF AVAILABLE FOR SALE AND HELD TO MATURITY SECURITIES

	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	$42,946	1.72	%	$42,436	1.45	%	$14,784	2.45	%	$—	—	%
Mortgage-backed securities, residential	302	4.19	%	116,145	1.87	%	66,548	2.16	%	15,371	2.72	%
Obligations of states and political subdivisions	8,461	3.17	%	28,471	3.36	%	12,316	2.86	%	—	—	%
Corporate bonds and notes	504	4.13	%	248	3.25	%	—	—	%	—	—	%
SBA loan pools	—	—	%	647	1.86	%	—	—	%	—	—	%
Total	$52,213	1.99	%	$187,947	2.00	%	$93,648	2.30	%	$15,371	2.72	%

Management evaluates securities for OTTI on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For the years ended December 31, 2015 and 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. 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.

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.

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The table below presents the Corporation’s loan composition by segment and percentage of total loans at the end of each of the last five years (in thousands):

	LOANS December 31, 2015	%	2014	%	2013	%	2012	%	2011	%
Commercial and agricultural	$193,233	16.5	$166,406	14.8	$145,363	14.6	$133,851	15.0	$142,209	17.8
Commercial mortgages	506,478	43.3	452,593	40.4	373,147	37.5	320,198	35.9	264,589	33.2
Residential mortgages	195,778	16.8	196,809	17.5	195,997	19.7	200,475	22.4	193,600	24.3
Indirect consumer loans	151,327	13.0	184,763	16.5	164,846	16.5	130,573	14.6	97,165	12.2
Consumer loans	121,817	10.4	121,003	10.8	116,513	11.7	108,420	12.1	99,352	12.5
Total	$1,168,633	100.0	$1,121,574	100.0	$995,866	100.0	$893,517	100.0	$796,915	100.0

Portfolio loans totaled $1.169 billion at December 31, 2015, an increase of $47.1 million, or 4.2%, from $1.122 billion at December 31, 2014. The increase in portfolio loans was due to strong growth of $80.7 million, or 13.0%, in commercial loans, offset by a decrease of $33.4 million, or 18.1%, 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 decline in indirect consumer loans was a result of the Corporation's decision to end its reduced pricing loan program during the fourth quarter of 2014.

Residential mortgage loans totaled $195.8 million at December 31, 2015, a decrease of $1.0 million, or 0.5%, from December 31, 2014. In addition, during 2015, $12.8 million of residential mortgages were sold in the secondary market to Freddie Mac, with an additional $0.5 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 commercial mortgages and commercial and industrial loans, especially within the Capital Bank division of the Bank. The table below presents the Corporation’s outstanding loan balance by bank division (in thousands):

LOANS BY DIVISION

	December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011
Chemung Canal Trust Company*	$683,137	$724,099	$687,256	$645,808	$609,778
Capital Bank Division	485,496	397,475	308,610	247,709	187,137
Total loans	$1,168,633	$1,121,574	$995,866	$893,517	$796,915

*All loans, excluding those originated by the Capital Bank Division.

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 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, 2015 and 2014, commercial loans to borrowers involved in the real estate, and real estate rental and lending businesses were 40.6% and 36.1% 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, 2015 and 2014.

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The table below shows the maturity of only commercial and agricultural loans and commercial mortgages outstanding as of December 31, 2015. Also provided are the amounts due after one year, classified according to the sensitivity to changes in interest rates (in thousands):

	LOAN AMOUNTS CONTRACTUALLY DUE AFTER DECEMBER 31, 2015			
	Within One Year	After One But Within Five Years	After Five Years	Total
Commercial and agricultural and commercial mortgages	$96,825	$161,694	$441,192	$699,711
Loans maturing after one year with:				
Fixed interest rates	$36,880	$139,948	$211,520	$388,348
Variable interest rates	59,945	21,746	229,672	311,363
Total	$96,825	$161,694	$441,192	$699,711

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.

The following table summarizes the Corporation's non-performing assets, excluding purchased credit impaired loans (in thousands):

NON-PERFORMING ASSETS										
December 31,	2015		2014		2013		2012		2011	
Non-accrual loans	$7,821		$6,798		$7,456		$5,667		$9,554	
Non-accrual troubled debt restructurings	4,411		980		1,061		365		4,057	
Total non-performing loans	12,232		7,778		8,517		6,032		13,611	
Other real estate owned	1,530		3,065		538		565		898	
Total non-performing assets	$13,762		$10,843		$9,055		$6,597		$14,509	
Ratio of non-performing loans to total loans	1.05	%	0.69	%	0.86	%	0.68	%	1.71	%
Ratio of non-performing assets to total assets	0.85	%	0.71	%	0.61	%	0.53	%	1.19	%
Ratio of allowance for loan losses to non-performing loans	116.58	%	175.96	%	150.01	%	172.96	%	70.97	%

Accruing loans past due 90 days or more (1)	$18	$1,454	$1,473	$4,484	$7,304
Accruing troubled debt restructurings (1)	$7,609	$8,705	$6,831	$5,364	$—

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

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

INTEREST INCOME ON NON-ACCRUAL AND TROUBLED DEBT RESTRUCTURED LOANS

	2015	2014	2013
Interest income that would have been recorded under original terms	$578	$463	$541
Interest income recorded during the period	$424	$367	$336

Non-Performing Loans

Non-performing loans totaled $12.2 million at December 31, 2015, or 1.05% of total loans, compared with $7.8 million at December 31, 2014, or 0.69% of total loans. The increase in non-performing loans at December 31, 2015 was primarily due to two commercial real estate loans that were place in non-accrual status during the year. Non-performing assets, which are comprised of non-performing loans and other real estate owned, was $13.8 million, or 0.85% of total assets, at December 31, 2015, compared with $10.8 million, or 0.71% of total assets, at December 31, 2014.

The recorded investment in accruing loans past due 90 days or more totaled less than $0.1 million at December 31, 2015, a decrease of $1.5 million from December 31, 2014. The decline in accruing loans past due 90 days or more can be attributed to payoffs.

Not included in non-performing loan totals are $2.1 million and $2.6 million of acquired loans which the Corporation has identified as PCI loans at December 31, 2015 and 2014, 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 modified the terms of select loans to maximize their collectability. The modified loans are considered TDRs under current accounting guidance. Modifications generally involve short-term deferrals of principal and/or interest payments, reductions of scheduled payment amounts, interest rates or principal of the loan, and forgiveness of accrued interest. As of December 31, 2015, the Corporation had $4.4 million of non-accrual TDRs compared with $1.0 million as of December 31, 2014. As of December 31, 2015, the Corporation had $7.6 million of accruing TDRs compared with $8.7 million as of December 31, 2014. The increase in non-accrual TDRs was primarily due to commercial loans moving to non-accrual status.

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, 2015 totaled $15.0 million, including TDRs of $12.0 million, compared to $15.9 million at December 31, 2014, including TDRs of $9.7 million. 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. The decrease in impaired loans was primarily in the commercial loan segment of the loan portfolio. Included in the recorded investment of impaired loans at December 31, 2015, are loans totaling $5.2 million for which impairment allowances of $1.6 million have been specifically allocated to the allowance for loan losses. As of December 31, 2014, the impaired loan total included $4.2 million of loans for which specific impairment allowances of $1.2 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

primarily to an increase in impaired commercial loans.

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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.

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 non-accrual 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.

The allowance for loan losses was $14.3 million at December 31, 2015, up from $13.7 million at December 31, 2014. The ratio of allowance for loan losses to total loans was 1.22% at December 31, 2015 and 2014, respectively. Net charge-offs for the years ended December 31, 2015 and 2014 were $1.0 million and $3.1 million.

The table below 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, 2015 (in thousands):

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES

Balance at end of period applicable to:	2015	%	2014	%	2013	%	2012	%	2011	%
Commercial and agricultural	$1,831	16.5	$1,460	14.8	$1,979	14.6	$1,708	15.0	$3,143	17.8
Commercial mortgages	7,112	43.3	6,326	40.4	6,243	37.5	4,428	35.9	2,570	33.2
Residential mortgages	1,464	16.8	1,572	17.5	1,517	19.7	1,565	22.4	1,310	24.3
Consumer loans	3,853	23.4	4,328	27.3	3,037	28.2	2,706	26.7	2,193	24.7
	14,260	100.0	13,686	100.0	12,776	100.0	10,407	100.0	9,216	100.0
Unallocated	—		—		—		26		443	
Total	$14,260		$13,686		$12,776		$10,433		$9,659	

The table below summarizes the Corporation's loan loss experience for each year in the five-year period ended December 31, 2015 (in thousands, except ratio data):

SUMMARY OF LOAN LOSS EXPERIENCE

	Years Ended December 31,									
	2015		2014		2013		2012		2011	
Allowance for loan losses at beginning of year	$13,686		$12,776		$10,433		$9,659		$9,498	
Reclassification of acquired loan discount	—		—		—		124		—	
Charge-offs:										
Commercial and agricultural	186		444		186		181		686	
Commercial mortgages	104		2,229		44		335		19	
Residential mortgages	47		97		124		83		67	
Consumer loans	1,294		1,508		1,139		674		726	
Total	1,631		4,278		1,493		1,273		1,498	
Recoveries:										
Commercial and agricultural	96		385		537		802		423	
Commercial mortgages	131		156		98		55		41	
Residential mortgages	—		32		65		—		45	
Consumer loans	407		634		381		238		192	
Total	634		1,207		1,081		1,095		701	
Net charge-offs	997		3,071		412		178		797	
Provision charged to operations	1,571		3,981		2,755		828		958	
Allowance for loan losses at end of year	$14,260		$13,686		$12,776		$10,433		$9,659	
Ratio of net charge-offs during year to average loans outstanding	0.09	%	0.29	%	0.04	%	0.02	%	0.11	%
Ratio of allowance for loan losses to total loans outstanding	1.22	%	1.22	%	1.28	%	1.17	%	1.21	%

Net charge-offs for December 31, 2015 were $1.0 million compared with $3.1 million for December 31, 2014. The ratio of net charge-offs to average loans outstanding was 0.09% for 2015 compared to 0.29% for 2014. The decrease in net charge-offs was due primarily to a $2.1 million decrease in commercial loan net charge-offs.

Other Real Estate Owned

At December 31, 2015, OREO totaled $1.5 million compared to $3.1 million at December 31, 2014. The decrease in other real estate owned was due primarily to the sale of two commercial properties and a fair market value adjustment, based upon an accepted offer on a commercial property.

Other Assets

The $7.0 million decrease in other assets was due primarily to the receipt of insurance proceeds from the WMG legal settlement, which was accrued in the prior year, and sale of two commercial properties in other real estate owned.

Deposits

The table below summarizes the Corporation’s deposit composition by segment for the periods indicated, and the dollar and percent change from December 31, 2014 to December 31, 2015 (in thousands):
DEPOSITS

	December 31, 2015	December 31, 2014	Dollar Change	Percentage Change
Non-interest-bearing demand deposits	$402,236	$366,298	$35,938	9.8 %
Interest-bearing demand deposits	130,573	110,819	19,754	17.8 %
Insured money market accounts	497,658	392,871	104,787	26.7 %
Savings deposits	203,749	198,183	5,566	2.8 %
Time deposits	166,079	211,843	(45,764)	(21.6)%
Total	$1,400,295	$1,280,014	$120,281	9.4 %

Deposits totaled $1.400 billion at December 31, 2015, compared with $1.280 billion at December 31, 2014, an increase of $120.3 million, or 9.4%. At December 31, 2015, demand deposit and money market accounts comprised 73.6% of total deposits compared with 68.0% at December 31, 2014. Sorted by public, commercial, consumer and broker sources, the growth in deposits was due primarily to increases of $86.0 million in brokered, $16.7 million in commercial deposits, $9.0 million in consumer and $8.6 million in public deposit accounts.

The table below presents the Corporation's deposits balance by bank division (in thousands):
DEPOSITS BY DIVISION

	December 31, 2015	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011
Chemung Canal Trust Company*	$1,219,282	$1,119,377	$1,097,920	$888,181	$832,429
Capital Bank Division	181,013	160,637	168,336	159,316	168,624
Total loans	$1,400,295	$1,280,014	1,266,256	$1,047,497	$1,001,053

*All deposits, excluding those originated by the Capital Bank Division.

Brokered deposits include funds obtained through brokers, and the Bank’s participation in CDARS and 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. The Corporation had no deposits obtained through brokers as of December 31, 2015, compared with $2.3 million as of December 31, 2014, respectively. Deposits obtained through the CDARS and ICS programs were $165.0 million and $76.7 million as of December 31, 2015 and 2014,

respectively. The increase in CDARS and ICS deposits was due to the Corporation offering the programs to local municipalities.

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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 decreased $17.0 million to $33.1 million at December 31, 2015 from $50.1 million at December 31, 2014. FHLBNY overnight advances decreased $16.9 million million during 2015 while FHLBNY term advances decreased $0.1 million.

For each of the three years ended December 31, 2015, 2014 and 2013, 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.

Derivatives

The Corporation offers interest rate swap agreements to qualified commercial loan customers. These agreements allow the Corporation's customers to effectively fix the interest rate on a variable rate loan by entering into a separate agreement. Simultaneous with the execution of such an agreement with a customer, the Corporation enters into a matching interest rate swap agreement with an unrelated third party provider, which allows the Corporation to continue to receive the variable rate under the loan agreement with the customer. The agreement with the third party is not designated as a hedge contract, therefore changes in fair value are recorded through other non-interest income. Assets and liabilities associated with the agreements are recorded in other assets and other liabilities on the balance sheet. Gains and losses are recorded as other non-interest income. The Corporation is exposed to credit loss equal to the fair value of the interest rate swaps, not the notional amount of the derivatives, in the event of nonperformance by the counterparty to the interest rate swap agreements. Additionally, the swap agreements are free-standing derivatives and are recorded at fair value in the Corporation's consolidated balance sheets, which typically involves a day one gain. Since the terms of the two interest rate swap agreements are identical, the income statement impact to the Corporation is limited to the day one gain and an allowance for credit loss exposure, in the event of nonperformance. The Corporation recognized $0.1 million in swap fee income for the years ended in December 31, 2015 and 2014. The Corporation also participates in the credit exposure of certain interest rate swaps in which it participates in the related commercial loan. The Corporation receives an upfront fee for participating in the credit exposure of the interest rate swap and recognizes the fee to other non-interest income immediately. The Corporation is exposed to its share of the credit loss equal to the fair value of the derivatives in the event of nonperformance by the counter-party of the interest rate swap. The Corporation determines the fair value of the credit loss exposure using historical losses of the

loan category associated with the credit exposure.
Information regarding derivatives is included in Note 10 to the consolidated financial statements appearing elsewhere in this report.

Shareholders’ Equity

Total shareholders’ equity was $137.2 million at December 31, 2015, compared with $133.6 million at December 31, 2014, a increase of $3.6 million, or 2.7%. The increase was due primarily to earnings of $9.4 million and a reduction of $1.0 million in treasury stock, offset by an increase of $2.2 million in accumulated other comprehensive loss and $4.8 million in dividends declared. The total shareholders’ equity to total assets ratio was 8.47% at December 31, 2015 compared with 8.77% at December 31, 2014. Tangible equity to tangible assets ratio decreased to 6.99% at December 31, 2015, from 7.13% at December 31, 2014.

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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, 2015, 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, 2015 and 2014, is included in note 18 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 2015, 2014, and 2013 totaled $4.8 million or $1.04 per share, respectively. Dividends declared during 2015 amounted to 51.34% of net income compared to 58.80% and 41.04% of net income for 2014 and 2013, respectively. Management seeks to continue generating sufficient capital internally, while continuing to pay 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 2015 and 2014. The Corporation purchased 3,094 shares at a total cost of $93 thousand under the new plan since its inception.

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, commitments to fund new loans, interest rate swaps, and risk participation agreements. The Corporation's policy is to record such instruments when funded. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are generally used by the Corporation to manage clients' requests for funding and other client needs.

The table below shows the Corporation's off-balance sheet arrangements as of December 31, 2015 (in thousands):

COMMITMENT MATURITY BY PERIOD

	Total	2016	2017 - 2018	2019 - 2020	2021 and thereafter
Standby letters of credit	$14,646	$13,496	$258	$597	$295
Unused portions of lines of credit (1)	114,577	114,577	—	—	—
Commitments to fund new loans	42,418	42,418	—	—	—
Total	$171,641	$170,491	$258	$597	$295

(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 $44,521, $12,508 and $6,663, respectively, at December 31, 2015.

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Contractual Obligations

The table below shows the Corporation's contractual obligations under long-term agreements as of December 31, 2015 (in thousands). Note references are to the Notes of the Consolidated Financial Statements:

CONTRACTUAL OBLIGATIONS

	Payments Due by Period				
	Total	2016	2017 - 2018	2019 - 2020	2021 and thereafter
Time Deposits (Note 7)	$166,079	$115,129	$38,404	$10,921	$1,625
FHLBNY advances (Note 9)	33,103	23,900	9,203	—	—
Securities sold under agreements to repurchase (Note 8)	28,453	8,453	20,000	—	—
Operating leases (Note 5)	8,431	1,166	2,286	1,389	3,590
Capital leases (Note 5)	3,577	234	468	468	2,407
Data processing services and other	3,685	1,126	1,773	745	41
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 12 for information regarding these obligations at December 31, 2015.

Liquidity

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 $106.2 million and $86.0 million at December 31, 2015 and 2014, respectively. The Corporation also had a total of $28.0 million of unsecured lines of credit with four different financial institutions, all of which was available at December 31, 2015 and 2014.

Consolidated Cash Flows Analysis

The table below summarizes the Corporation's cash flows for the periods indicated (in thousands):

CONSOLIDATED SUMMARY OF CASH FLOWS

	Years Ended December 31,	
(in thousands)	2015	2014
Net cash provided by operating activities	$14,123	$18,443
Net cash used by investing activities	(114,648)	(71,138)
Net cash provided by financing activities	97,547	30,249
Net decrease in cash and cash equivalents	$(2,978)	$(22,446)

Operating activities

The Corporation believes cash flows from operations, available cash balances and its ability to generate cash through short- and long-term borrowings are sufficient to fund the Corporation's operating liquidity needs.

Cash provided by operating activities in years ended 2015 and 2014 predominantly resulted from net income after non-cash operating adjustments.

Investing activities

Cash used in investing activities during the years ended 2015 and 2014 predominantly resulted from purchases of securities available for sale and a net increase in loans, offset by sales, calls, maturities, and principal collected on securities available for sale.

Financing activities

Cash provided by financing activities during the years ended 2015 and 2014 predominantly resulted from an increase in deposits. The increase in deposits reflected the seasonable inflow of funds from municipal clients into demand and money market accounts. Cash inflows in 2015 were offset by a reduction of FHLBNY overnight advances.

Capital Resources

Basel III Capital Rules

On October 11, 2013, the FRB approved a final rule that amends the regulatory capital rules for state member banks effective January 1, 2015. The FRB approved the new capital rules in coordination with substantially identical final rules approved by the FDIC and the Office of the Comptroller of the Currency for other types of banking organizations. The revisions make the capital rules consistent with agreements that were reached by Basel III and certain provisions of the Dodd-Frank Act. In general, the new capital rules revise regulatory capital definitions and minimum ratios; redefine Tier 1 Capital as two components (common equity Tier 1 capital and additional Tier 1 capital); create a new “common equity Tier 1 risk-based capital ratio”; implement a capital conservation buffer; revise prompt corrective action thresholds; and change risk weights for certain assets and off-balance sheet exposures.

The new capital rules implement a revised definition of regulatory capital, a new common equity Tier 1 minimum capital requirement of 4.5%, and a higher minimum Tier 1 capital requirement of 6.0% (which is an increase from 4.0%). Under the new rules, the total capital ratio remains at 8.0%, and the minimum leverage ratio (Tier 1 capital to total assets) for all banking organizations, regardless of supervisory rating, is 4.0%. Additionally, under the new capital rules, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements. The buffer is measured relative to risk-weighted assets. The final rules also enhance risk sensitivity and address weaknesses identified by the regulators over recent years with the measure of risk-weighted assets, including through new measures of creditworthiness to replace references to credit ratings, consistent with the requirements of the Dodd-Frank Act.

The new capital requirements also include changes in the risk-weights of assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and the unsecured portion of non-residential mortgage loans that are 90 days past due or otherwise on non-accrual status; a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; a 250% risk weight (up from 100%) for mortgage servicing rights and deferred tax assets that are not deducted from capital; and increased risk weights (from 0% to up to 600%) for equity exposures.

The new minimum capital requirements became effective for all banking organizations (except for the largest internationally active banking organizations) on January 1, 2015, whereas the capital conservation buffer and the deductions from common equity Tier 1 capital phase in over time, beginning on January 1, 2016.

The Corporation is subject to FRB capital requirements applicable to bank holding companies, which are similar to those applicable to the Bank.

In assessing a state member bank's capital adequacy, the FRB takes into consideration not only these numeric factors but also qualitative factors, and has the authority to establish higher capital requirements for individual banks where necessary. The Bank, in accordance with its internal prudential standards, targets as its goal the maintenance of capital ratios which exceed these minimum requirements and that are consistent with its risk profile. As of December 31, 2015, the Bank exceeded all regulatory capital ratios necessary to be considered well capitalized.

The new capital rules maintain the general structure of the current prompt corrective action framework while increasing some of the thresholds for the prompt corrective action capital categories. For example, an adequately capitalized bank is required to maintain a Tier 1 risk-based capital ratio of 6.0% (increased from the current level of 4.0%). The rule also introduces the common equity Tier 1 capital ratio as a new prompt corrective action capital category threshold.

As an institution's capital decreases within the three undercapitalized categories listed above, the severity of the action that is authorized or required to be taken by the FRB for state member banks under the prompt corrective action regulations increases. All banks are prohibited from paying dividends or other capital distributions or paying management fees to any controlling person if, following such distribution, the bank would be undercapitalized. The FRB is required to monitor closely the condition of an undercapitalized institution and to restrict the growth of its assets.

An undercapitalized state member bank is required to file a capital restoration plan with the FRB within 45 days (or other time frame prescribed by the FRB) of the date the bank receives notice that it is within any of the three undercapitalized categories, and the plan must be guaranteed by its parent holding company, subject to a cap on the guarantee that is the lesser of: (i) an amount equal to 5.0% of the bank's total assets at the time it was notified that it became undercapitalized; and (ii) the amount that is necessary to restore the bank's capital ratios to the levels required to be classified as "adequately classified," as those ratios and levels are defined as of the time the bank failed to comply with the plan. If the bank fails to submit an acceptable plan, it is treated as if it were "significantly undercapitalized." Banks that are significantly or critically undercapitalized are subject to a wider range of regulatory requirements and restrictions.

The regulatory capital ratios as of December 31, 2015 were calculated under Basel III rules and the regulatory capital ratios as of December 31, 2014 were calculated under Basel I rules. There is no threshold for well-capitalized status for bank holding companies.

The Corporation's and the Bank's actual and required regulatory capital ratios were as follows (in thousands, except ratio data):

	Actual			Required To Be Adequately Capitalized			Required To Be Well Capitalized		
December 31, 2015	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Total Capital (to Risk Weighted Assets):									
Consolidated	$139,049	12.26	%	$90,704	8.00	%	N/A	N/A	
Bank	$135,058	11.93	%	$90,548	8.00	%	$113,185	10.00	%
Tier 1 Capital (to Risk Weighted Assets):									
Consolidated	$124,787	11.01	%	$68,028	6.00	%	N/A	N/A	
Bank	$120,881	10.68	%	$67,911	6.00	%	$90,548	8.00	%
Common Equity Tier 1 Capital (to Risk Weighted Assets):									
Consolidated	$124,787	11.01	%	$51,021	4.50	%	N/A	N/A	
Bank	$120,881	10.68	%	$50,933	4.50	%	$73,571	6.50	%
Tier 1 Capital (to Average Assets):									
Consolidated	$124,787	7.83	%	$63,772	4.00	%	N/A	N/A	
Bank	$120,881	7.59	%	$63,701	4.00	%	$79,626	5.00	%

As of December 31, 2014	Actual Amount	Ratio		Required To Be Adequately Capitalized Amount	Ratio		Required To Be Well Capitalized 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	%

Dividend Restrictions

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. At December 31, 2015, the Bank could, without prior approval, declare dividends of approximately $14.2 million million.

Adoption of New Accounting Standards

For a discussion of the impact of recently issued accounting standards, please see Note 1 to the Corporation's consolidated financial statements which begins on page F-9.

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.

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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.

Explanation and Reconciliation of the Corporation's Use of Non-GAAP Measures

The Corporation prepares its Consolidated Financial Statements in accordance with GAAP; these financial statements appear on pages F-2 through F-8. That presentation provides the reader with an understanding of the Corporation's results that can be tracked consistently from year-to-year and enables a comparison of the Corporation's performance with other companies' GAAP financial statements.

In addition to analyzing the Corporation's results on a reported basis, management uses certain non-GAAP financial measures, because it believes these non-GAAP financial measures provide information to investors about the underlying operational performance and trends of the Corporation and, therefore, facilitate a comparison of the Corporation with the performance of its competitors. Non-GAAP financial measures used by the Corporation may not be comparable to similarly named non-GAAP financial measures used by other companies.

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.

Fully Taxable Equivalent Net Interest Income, Net Interest Margin, and Efficiency Ratio

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.

The efficiency ratio is a non-GAAP financial measures which represents the Corporation's ability to turn resources into revenue and is calculated as non-interest expense divided by total revenue (fully taxable equivalent net interest income and non-interest income), adjusted for one-time occurrences and amortization. This measure is meaningful to the Corporation, as well as investors and analysts, in assessing the Corporation's productivity measured by the amount of revenue generated for each dollar spent.

(in thousands, except ratio data)	As of or for the Years Ended December 31, 2015	December 31, 2014	December 31, 2013
NET INTEREST MARGIN - FULLY TAXABLE EQUIVALENT AND EFFICIENCY RATIO			
Net interest income (GAAP)	$50,642	$49,568	$46,631
Fully taxable equivalent adjustment	554	650	714
Fully taxable equivalent net interest income (non-GAAP)	$51,196	$50,218	$47,345
Non-interest income (GAAP)	$20,447	$26,756	$18,077
Less: net gains (losses) on security transactions	(372)	(6,869)	(16)
Less: recoveries from other-than-temporary impairments	—	(515)	—
Less: gain from bargain purchase	—	—	(470)
Adjusted non-interest income (non-GAAP)	$20,075	$19,372	$17,591
Non-interest expense (GAAP)	$55,427	$60,477	$49,400
Less: merger and acquisition expenses	—	(115)	(1,387)
Less: amortization of intangible assets	(1,136)	(1,310)	(921)
Less: legal settlements	—	(4,250)	—
Adjusted non-interest expense (non-GAAP)	$54,291	$54,802	$47,092
Average interest-earning assets (GAAP)	$1,477,529	$1,399,285	$1,209,673
Net interest margin - fully taxable equivalent (non-GAAP)	3.46%	3.59%	3.91%
Efficiency ratio (non-GAAP)	76.18%	78.75%	72.52%

Tangible Equity and Tangible Assets (Period-End)

Tangible equity, tangible assets, and tangible book value per share are each non-GAAP financial measures. Tangible equity represents the Corporation's stockholders' equity, less goodwill and intangible assets. Tangible assets represents the Corporation's total assets, less goodwill and other intangible assets. Tangible book value per share represents the Corporation's equity divided by common shares at period-end. These measures are meaningful to the Corporation, as well as investors and analysts, in assessing the Corporation's use of equity.

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(in thousands, except per share and ratio data)	As of or for the Years Ended December 31, 2015	December 31, 2014	December 31, 2013
TANGIBLE EQUITY AND TANGIBLE ASSETS (PERIOD END)			
Total shareholders' equity (GAAP)	$137,242	$133,628	$138,578
Less: intangible assets	(25,755)	(26,891)	(28,201)
Tangible equity (non-GAAP)	$111,487	$106,737	$110,377
Total assets (GAAP)	$1,619,926	$1,524,539	$1,476,143
Less: intangible assets	(25,755)	(26,891)	(28,201)
Tangible assets (non-GAAP)	$1,594,171	$1,497,648	$1,447,942
Total equity to total assets at end of period (GAAP)	8.47%	8.77%	9.39%
Book value per share (GAAP)	$28.96	$28.44	$29.67
Tangible equity to tangible assets at end of period (non-GAAP)	6.99%	7.13%	7.62%
Tangible book value per share (non-GAAP)	$23.53	$22.71	$23.63

Tangible Equity (Average)

Average tangible equity and return on average tangible equity are each non-GAAP financial measures. Average tangible equity represents the Corporation’s average stockholders’ equity, less average goodwill and intangible assets for the period. Return on average tangible equity measures the Corporation’s earnings as a percentage of average tangible equity. These measures are meaningful to the Corporation, as well as investors and analysts, in assessing the Corporation’s use of equity.

(in thousands, except ratio data)	As of or for the Years Ended December 31, 2015	December 31, 2014	December 31, 2013
TANGIBLE EQUITY (AVERAGE)			
Total average shareholders' equity (GAAP)	$137,891	$142,046	$134,285
Less: average intangible assets	(26,308)	(27,554)	(26,709)
Average tangible equity (non-GAAP)	$111,583	$114,492	$107,576
Return on average equity (GAAP)	6.84%	5.74%	6.50%
Return on average tangible equity (non-GAAP)	8.45%	7.12%	8.12%

Adjustments for Certain Items of Income or Expense

In addition to disclosures of certain GAAP financial measures, including net income, EPS, ROA, and 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.

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(in thousands, except per share and ratio data)	As of or for the Years Ended December 31, 2015	December 31, 2014	December 31, 2013
CORE NET INCOME			
Reported net income (loss) (GAAP)	$9,433	$8,157	$8,731
Net gains (losses) on security transactions (net of tax)	(230)	(4,229)	(10)
Gain from bargain purchase (net of tax)	—	—	(470)
Legal settlements (net of tax)	—	2,617	—
Merger and acquisition related expenses (net of tax)	—	71	854
Core net income (non-GAAP)	$9,203	$6,616	$9,105
Average basic and diluted shares outstanding	4,719	4,683	4,660
Reported basic and diluted earnings (loss) per share (GAAP)	$2.00	$1.74	$1.87
Reported return on average assets (GAAP)	0.60%	0.54%	0.67%
Reported return on average equity (GAAP)	6.84%	5.74%	6.50%
Core basic and diluted earnings per share (non-GAAP)	$1.95	$1.41	$1.95
Core return on average assets (non-GAAP)	0.58%	0.44%	0.70%
Core return on average equity (non-GAAP)	6.67%	4.66%	6.78%

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 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 Chief Executive Officer, the President and Chief Operating 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, 2015, it is estimated that an immediate 200-basis point decrease in interest rates would negatively impact the next 12 months net interest income by 11.80% and an immediate 200-basis point increase would negatively impact the next 12 months net interest income by 10.01%. 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 5.20% and 15.03%, respectively.

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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, 2015, 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 9.18% and an immediate 200-basis point increase in interest rates would negatively impact the market value by 6.52%. 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 3.76% and 9.77%, 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.

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 Chief Executive Officer, President and Chief Operating Officer, Chief Financial Officer and Treasurer (non-voting member), Chief Administrative and Risk Officer (non-voting member), Business Client Division Manager, Retail Client Division Manager, Retail Loan Manager, Senior Commercial Real Estate Lender, and Commercial Loan Managers, implements the Board-approved loan policy.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements listed in Part IV, Item 15 are filed as part of this report and appear on pages F-1 through F-65.

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 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, evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Exchange Act) as of December 31, 2015. Based upon that evaluation, the 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, 2015.

(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 as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. 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

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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, 2015 management assessed the effectiveness of the Corporation's internal control over financial reporting utilizing the criteria discussed in the "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. The objective of this assessment was to determine whether the Corporation's internal control over financial reporting was effective as of December 31, 2015. Based on the assessment, we assert that the Corporation maintained effective internal control over financial reporting as of December 31, 2015 based on the specified criteria.

Crowe Horwath LLP, an independent registered public accounting firm, which audited the Corporation's 2015 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 the fourth quarter, 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
Ronald M. Bentley
Chief Executive Officer
March 11, 2016

/s/ Karl F. Krebs
Karl F. Krebs
Chief Financial Officer and Treasurer
March 11, 2016

Item 9B. OTHER INFORMATION
None.

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 2016 Annual Meeting of Shareholders, which will be filed with the SEC within 120 days after the Corporation’s 2015 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 2016 Annual Meeting of Shareholders, which will be filed with the SEC within 120 days after the Corporation’s 2015 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 2016 Annual Meeting of Shareholders, which will be filed with the SEC within 120 days after the Corporation’s 2015 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 2016 Annual Meeting of Shareholders, which will be filed with the SEC within 120 days after the Corporation’s 2015 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 2016 Annual Meeting of Shareholders, which will be filed with the SEC within 120 days after the Corporation’s 2015 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-65 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, 2015 and 2014

Consolidated Statements of Income for the three years ended December 31, 2015

Consolidated Statements of Comprehensive Income for the three years ended December 31, 2015

Consolidated Statements of Shareholders' Equity for the three years ended December 31, 2015

Consolidated Statements of Cash Flows for the three years ended December 31, 2015

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.

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 June 17, 2015 (as incorporated by reference to Exhibit 3.1 to Registrant’s Form 8-K filed with the Commission on June 18, 2015).
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).

Exhibit	
10.4	Change of Control Agreement dated September 1, 2015 between Chemung Canal Trust Company and Thomas W. Wirth, Executive Vice President. (Filed as Exhibit 10.1 to Registrant's Form 8-K filed with the SEC on September 3, 2015 and incorporated herein by reference).
10.5	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).
10.6	Change of Control Agreement dated August 28, 2015 between Chemung Canal Trust Company and Anders M. Tomson, President and Chief Operating Officer. (Filed as Exhibit 10.1 to Registrant's Form 8-K filed with the SEC on September 1, 2015 and incorporated herein by reference).
10.7	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).
10.8	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.*
99.1	Additional information mailed or made available online to shareholders with proxy statement and Form 10-K on March 31, 2016*
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.

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, 2015 and 2014, 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, 2015. We also have audited Chemung Financial Corporation’s internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 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, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2015, 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, 2015 based on criteria established in the 2013 Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Crowe Horwath LLP
Livingston, New Jersey
March 11, 2016

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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)	YEARS ENDED DECEMBER 31 2015	2014
ASSETS		
Cash and due from financial institutions	$24,886	$28,130
Interest-bearing deposits in other financial institutions	1,299	1,033
Total cash and cash equivalents	26,185	29,163
Trading assets, at fair value	701	549
Securities available for sale, at estimated fair value	344,820	280,507
Securities held to maturity, estimated fair value of $4,822 at December 31, 2015 and $6,197 at December 31, 2014	4,566	5,831
FHLBNY and FRBNY Stock, at cost	4,797	5,535
Loans, net of deferred loan fees	1,168,633	1,121,574
Allowance for loan losses	(14,260)	(13,686)
Loans, net	1,154,373	1,107,888
Loans held for sale	1,076	665
Premises and equipment, net	29,397	32,287
Goodwill	21,824	21,824
Other intangible assets, net	3,931	5,067
Bank owned life insurance	2,839	2,764
Accrued interest and other assets	25,455	32,459
Total assets	$1,619,964	$1,524,539
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	$402,236	$366,298
Interest-bearing	998,059	913,716
Total deposits	1,400,295	1,280,014
FHLBNY overnight advances	13,900	30,830
Securities sold under agreements to repurchase	28,453	29,652
FHLBNY term advances	19,203	19,310
Long term capital lease obligation	2,873	2,976
Dividends payable	1,214	1,204
Accrued interest payable and other liabilities	16,784	26,925
Total liabilities	1,482,722	1,390,911
Shareholders' equity:		
Common stock, $.01 par value per share, 10,000,000 shares authorized; 5,310,076 issued at December 31, 2015 and December 31, 2014	53	53
Additional-paid-in capital	45,537	45,355
Retained earnings	118,973	114,383

Treasury stock, at cost (641,721 shares at December 31, 2015; 680,948 shares at December 31, 2014)	(16,379)	(17,378)
Accumulated other comprehensive loss	(10,942)	(8,785)
Total shareholders' equity	137,242	133,628
Total liabilities and shareholders' equity	$1,619,964	$1,524,539

See accompanying notes to consolidated financial statements.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	YEARS ENDED DECEMBER 31		
(in thousands, except per share amounts)	2015	2014	2013
Interest and Dividend Income:			
Loans, including fees	$48,271	$47,139	$45,136
Taxable securities	4,958	5,043	4,391
Tax exempt securities	939	967	1,100
Interest-bearing deposits	76	64	36
Total interest and dividend income	54,244	53,213	50,663
Interest Expense:			
Deposits	2,003	2,043	2,350
Securities sold under agreements to repurchase	848	848	858
Borrowed funds	751	754	824
Total interest expense	3,602	3,645	4,032
Net interest income	50,642	49,568	46,631
Provision for loan losses	1,571	3,981	2,755
Net interest income after provision for loan losses	49,071	45,587	43,876
Other operating income:			
Wealth management group fee income	8,522	7,747	7,344
Service charges on deposit accounts	4,886	5,281	4,706
Interchange revenue from debit card transactions	3,307	3,360	2,562
Net gains on securities transactions	372	6,869	16
Net impairment loss on investment securities	—	—	(29)
Net gain on sales of loans held for sale	294	301	503
Net gains (losses) on sales of other real estate owned	84	(64)	28
Gain from bargain purchase	—	—	470
Income from bank owned life insurance	75	78	84
Other	2,907	3,184	2,393
Total other operating income	20,447	26,756	18,077
Other operating expenses:			
Salaries and wages	21,223	21,315	19,365
Pension and other employee benefits	5,908	5,733	5,939
Net occupancy expenses	7,006	7,098	5,501
Furniture and equipment expenses	2,979	2,972	2,326
Data processing expense	6,586	6,393	4,750
Professional services	1,293	1,597	928
Legal settlements	—	4,250	—
Amortization of intangible assets	1,136	1,310	921
Marketing and advertising expense	899	1,079	1,033
Other real estate owned expenses	812	247	194
FDIC insurance	1,075	1,116	866
Loan expense	693	811	779
Merger and acquisition related expenses	—	115	1,387
Other	5,817	6,441	5,411
Total other operating expenses	55,427	60,477	49,400

Income before income tax expense	14,091	11,866	12,553
Income tax expense	4,658	3,709	3,822
Net income	$9,433	$8,157	$8,731
Weighted average shares outstanding	4,719	4,683	4,660
Basic and diluted earnings per share	$2.00	$1.74	$1.87

See accompanying notes to consolidated financial statements.

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

	YEARS ENDED DECEMBER 31		
(in thousands)	2015	2014	2013
Net income	$9,433	$8,157	$8,731
Other comprehensive income (loss):			
Unrealized holding (losses) gains on securities available for sale	(2,472)	236	(3,229)
Reclassification adjustment for other-than-temporary losses realized in net income	—	—	29
Reclassification adjustment gains realized in net income	(372)	(6,869)	(16)
Net unrealized losses	(2,844)	(6,633)	(3,216)
Tax effect	1,094	2,550	1,236
Net of tax amount	(1,750)	(4,083)	(1,980)
Change in funded status of defined benefit pension plan and other benefit plans:			
Net gain (loss) arising during the period	(2,052)	(8,481)	6,487
Reclassification adjustment for amortization of prior service costs	(90)	(90)	(83)
Reclassification adjustment for amortization of net actuarial loss	1,484	681	1,624
Total before tax effect	(658)	(7,890)	8,028
Tax effect	251	3,033	(3,086)
Net of tax amount	(407)	(4,857)	4,942
Total other comprehensive income (loss)	(2,157)	(8,940)	2,962
Comprehensive income (loss)	$7,276	$(783)	$11,693

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, 2013	$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
Repurchase of 3,094 shares of common stock	—	—	—	(93)	—	(93)
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
	—	25	—	92	—	117

Distribution of 3,595 shares of treasury stock for employee compensation						
Balances at December 31, 2014 (continued)	$53	$45,355	$114,383	$(17,378)	$ (8,785)	$133,628

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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 December 31, 2014	$53	$45,355	$114,383	$(17,378)	$ (8,785)	$133,628
Net income	—	—	9,433	—		9,433
Other comprehensive loss	—	—	—	—	(2,157)	(2,157)
Restricted stock awards	—	314	—	—	—	314
Distribution of 3,598 shares of treasury stock granted for directors' deferred compensation plan	—	(89)	—	92	—	3
Distribution of 7,628 shares of treasury stock granted for employee restricted stock awards, net	—	(195)	—	195	—	—
Restricted stock units for directors' deferred compensation plan	—	95	—	—	—	95
Cash dividends declared ($1.04 per share)	—	—	(4,843)	—		(4,843)
Distribution of 9,673 shares of treasury stock for directors' compensation	—	24	—	247	—	271
Distribution of 3,303 shares of treasury stock for employee compensation	—	8	—	85	—	93
Sale of 16,209 shares of treasury stock	—	25	—	413	—	438
Repurchase of 1,184 shares of common stock	—	—	—	(33)	—	(33)
Balances at December 31, 2015	$53	$45,537	$118,973	$(16,379)	$ (10,942)	$137,242

See accompanying notes to consolidated financial statements.

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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Years Ended December 31,		
CASH FLOWS FROM OPERATING ACTIVITIES:	2015	2014	2013
Net income	$9,433	$8,157	$8,731
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of intangible assets	1,136	1,310	921
Deferred income tax (benefit) expense	774	(2,263)	(121)
Provision for loan losses	1,571	3,981	2,755
(Gain) loss on disposal of fixed assets	(18)	14	—
Depreciation and amortization of fixed assets	4,044	3,861	3,236
Amortization of premiums on securities, net	1,903	2,398	2,280
Gains on sales of loans held for sale, net	(294)	(301)	(503)
Proceeds from sales of loans held for sale	13,669	14,062	20,076
Loans originated and held for sale	(13,786)	(13,731)	(19,210)
Gain on bargain purchase	—	—	(470)
Net (gains) losses on sale of other real estate owned	(84)	64	(28)
Writedowns on OREO	390	141	3
Net (gains) losses on trading assets	2	(50)	(43)
Net gains on securities transactions	(372)	(6,869)	(16)
Net impairment loss recognized on investment securities	—	—	29
Proceeds from sales of trading assets	16	7	112
Purchase of trading assets	(170)	(140)	(87)
(Increase) decrease in other assets	4,931	(7,579)	(4,246)
Decrease in accrued interest payable	(28)	(99)	(108)
Expense related to restricted stock units for directors' deferred compensation plan	95	94	99
Expense related to employee stock compensation	93	117	112
Expense related to employee restricted stock awards	314	151	131
Increase (decrease) in other liabilities	(9,421)	15,086	9,403
Proceeds from bank owned life insurance	—	110	—
Income from bank owned life insurance	(75)	(78)	(84)
Net cash provided by operating activities	14,123	18,443	22,972
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and calls of securities available for sale	73,823	62,738	18,150
Proceeds from maturities and principal collected on securities available for sale	48,601	24,222	44,046
Proceeds from maturities and principal collected on securities held to maturity	3,290	3,201	5,703
Purchases of securities available for sale	(191,112)	(23,613)	(174,034)
Purchases of securities held to maturity	(2,025)	(2,537)	(6,449)
Purchase of FHLBNY and FRBNY stock	(8,552)	(3,907)	(16,124)
Redemption of FHLBNY and FRBNY stock	9,290	2,854	16,353
Proceeds from sales of fixed assets	18	—	—
Purchases of premises and equipment	(1,154)	(2,586)	(3,711)
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	1,329	342	155

Net increase in loans	(48,156)	(131,852)	(101,481)
Net cash used by investing activities	(114,648)	(71,138)	(46,487)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in demand deposits, interest-bearing demand accounts, savings accounts, and insured money market accounts	166,045	46,407	67,566
Net decrease in time deposits	(45,764)	(32,649)	(27,085)
Net decrease in securities sold under agreements to repurchase	(1,199)	(3,049)	(9)
Net change in FHLBNY overnight advances	(16,930)	30,830	—
Repayments of FHLBNY long term advances	(107)	(5,933)	(1,983)
Payments made on capital lease	(103)	(561)	—
Purchase of treasury stock	—	—	(93)
Sale of treasury stock	438	—	71
Cash dividends paid	(4,833)	(4,796)	(3,584)
Net cash provided by financing activities	97,547	30,249	34,883
Net (decrease) increase in cash and cash equivalents	(2,978)	(22,446)	11,368
Cash and cash equivalents, beginning of period	29,163	51,609	40,241
Cash and cash equivalents, end of period	$26,185	$29,163	$51,609

(Continued)

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CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2015	2014	2013
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$3,630	$3,744	$4,163
Income Taxes	$7,047	$3,346	$5,304
Supplemental disclosure of non-cash activity:			
Transfer of loans to other real estate owned	$100	$3,074	$103
Dividends declared, not yet paid	$1,214	$1,204	$1,195
Assets acquired through long term capital lease obligation	$—	$3,537	$—
Repurchase of common stock in lieu of employee payroll taxes	$(33)	$—	$—
Distribution of treasury stock for directors' deferred compensation plan	$3	$3	$11
Distribution of treasury stock for directors' compensation	$271	$273	$217

See accompanying notes to consolidated financial statements.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015, 2014 and 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The Corporation, through its wholly owned subsidiaries, the Bank and CFS Group, Inc., provides a wide range of banking, financing, fiduciary and other financial services to its clients. The Corporation 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.

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 and interest and dividend income included in earnings.

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.

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 and when, in the opinion of management, the Corporation expects to receive all of its contractual principal and interest due under the restructured terms.

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.

LOANS HELD FOR SALE

Certain mortgage loans are originated with the intent to sell. The Corporation typically retains the right to service the mortgages upon sale. Loans held for sale are recorded at the lower of cost or fair value in the aggregate and are regularly evaluated for changes in fair value. Commitments to sell the loans that are originated for sale are recorded at fair value. If necessary, a valuation allowance is established with a charge to income for unrealized losses attributable to a change in market rates.

CAPITAL LEASES

Capital leases are recorded at the lesser of the present value of future cash outlays using a discounted cash flow, or fair value at the beginning of the lease term. Initially the capital lease is recorded as a building asset, which is depreciated over the shorter of the term of the lease or the estimated life of the asset, and a corresponding long term lease obligation, which amortizes as payments are made toward the lease. Interest expense is also incurred using the discount rate determined at the beginning of the lease term.

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. Leases of branch offices, which have been capitalized, are included within buildings and depreciated on the straight-line method over the shorter of the lease term or the estimated life of the asset.

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.

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 $1.856 billion, including $304.1 million of assets held under management or administration for the Corporation, at December 31, 2015 and $1.956 billion, including $287.1 million of assets held under management or administration for the Corporation, at December 31, 2014.

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.

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 0.65% 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 operating 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 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. See Note 13 for more information regarding this Plan.

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 provides 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.

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Incentive Compensation Plan:

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 of Directors 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 of Directors. 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 of Directors 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, 2015.

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 Canton Bancorp, Inc. in May 2009, the acquisition of FOFC in April 2011 and the acquisition of six branches of Bank of America in November of 2013, with balances of $2.0 million, $2 thousand, $0.8 million and $1.1 million, respectively, at December 31, 2015. The intangible assets related

to the acquisition of three former M&T Bank branch offices in March 2008 were fully amortized at December 31, 2015. 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 accelerated method.

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.

DERIVATIVES

The Corporation utilizes interest rate swaps with commercial borrowers and third-party counterparties as well as agreements with lead banks in participation loan relationships wherein the Corporation guarantees a portion of the fair value of an interest rate swap entered into by the lead bank. These transactions are accounted for as derivatives. The Company's derivatives are entered into in connection with its asset and liability management activities and not for trading purposes.

The Company does not have any derivatives that are designated as hedges and therefore all derivatives are considered free standing and are recorded at fair value as derivative assets or liabilities on the consolidated balance sheets, with changes in fair value recognized in the consolidated statements of income as non-interest income.

Premiums received when entering into derivative contracts are recognized as part of the fair value of the derivative asset or liability and are carried at fair value with any gain/loss at inception and any changes in fair value reflected in income

The Corporation did not have to pledge collateral to derivative counterparties as of December 31, 2015. The Corporation does not typically require its commercial customers to post cash or securities as collateral on its program of back-to-back interest rate swap program. The Corporation may need to post collateral, either cash or certain qualified securities, in the future in proportion to potential increases in unrealized loss positions.

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.

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.

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.

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RECENT ACCOUNTING PRONOUNCEMENTS

In January 2016 the FASB issued ASU 2016-01, an amendment to Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). The objectives of the ASU are to (1) require equity investments to be measured at fair value, with changes in fair value recognized in net income, (2) simplify the impairment assessment of equity investments without readily determinable fair values, (3) eliminate the requirement to disclose methods and significant assumptions used to estimate fair value for financial instruments measured at amortized cost on the balance sheet, (4) require the use of the exit price notion when measuring the fair value of financial instruments, and (5) clarify the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Corporation will adopt all provisions of this ASU as of January 1, 2017. The Corporation is currently evaluating the potential impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). ASU 2016-02 requires companies that lease valuable assets to recognize on their balance sheets the assets and liabilities generated by contracts longer than a year. ASU 2016-02 is effective for the Corporation beginning January 1, 2019, though early adoption is permitted. The Corporation is evaluating the impact on the Corporation's financial statements.

SUBSEQUENT EVENTS

On March 2, 2016, the Corporation notified the NYSDFS and FRB of its plan to vacate its Ithaca Commons branch office located in Ithaca, New York at 202 East State Street during the second quarter of 2016. As of December 31, 2015, the branch office had $20.6 million in total deposits. The Corporation expects to recognize approximately $450 thousand in accelerated depreciation and moving costs associated with vacating the premises during the first and second quarters of 2016.

During February 2016, the Corporation sold two treasury notes with a notional value of $14.5 million for a gain of $908 thousand. The proceeds from the sale of the two treasury notes were used to pay down FHLB overnight advances.

(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, 2015.

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, 2015 and 2014.

(3) SECURITIES

Amortized cost and estimated fair value of securities available for sale at December 31, 2015 and 2014 are as follows (in thousands):

	2015		2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	$99,430	$100,166	$180,535	$181,673

Obligations of U.S. Government and U.S. Government sponsored enterprises				
Mortgage-backed securities, residential	199,680	198,366	60,787	61,660
Collateralized mortgage obligations	—	—	335	338
Obligations of states and political subdivisions	43,695	44,426	30,677	31,451
Corporate bonds and notes	747	752	1,502	1,533
SBA loan pools	643	647	1,296	1,304
Trust preferred securities	—	—	1,906	2,028
Corporate stocks	285	463	285	520
Total	$344,480	$344,820	$277,323	$280,507

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Gross unrealized gains and losses on securities available for sale at December 31, 2015 and 2014, were as follows (in thousands):

	2015 Unrealized Gains	Unrealized Losses	2014 Unrealized Gains	Unrealized Losses
Obligations of U.S. Government and U.S. Government sponsored enterprises	$752	$16	$1,300	$162
Mortgage-backed securities, residential	427	1,741	892	19
Collateralized mortgage obligations	—	—	3	—
Obligations of states and political subdivisions	737	6	802	28
Corporate bonds and notes	5	—	35	4
SBA loan pools	5	1	11	3
Trust preferred securities	—	—	122	—
Corporate stocks	178	—	235	—
Total	$2,104	$1,764	$3,400	$216

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 (in thousands):

	December 31, 2015 Amortized Cost	Fair Value
Within one year	$49,359	$49,621
After one, but within five years	68,076	68,847
After five, but within ten years	26,437	26,876
After ten years	—	—
Mortgage-backed securities, residential	199,680	198,366
SBA loan pools	643	647
Total	$344,195	$344,357

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 (in thousands):

	2015	2014	2013
Proceeds	$72,718	$36,258	$2,650
Gross gains	$410	$6,869	$16
Gross losses	$(38)	$—	$—
Tax expense	$142	$2,641	$6

Amortized cost and estimated fair value of securities held to maturity at December 31, 2015 and 2014 are as follows (in thousands):

	2015 Amortized Cost	Estimated Fair Value	2014 Amortized Cost	Estimated Fair Value
Obligations of states and political subdivisions	$4,566	$4,822	$5,175	$5,535

Time deposits with other financial institutions	—	—	656	662
	$4,566	$4,822	$5,831	$6,197

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Gross unrealized gains and losses on securities held to maturity at December 31, 2015 and 2014, were as follows (in thousands):

	2015		2014	
	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses
Obligations of states and political subdivisions	$256	$—	$360	$—
Time deposits with other financial institutions	—	—	6	—
Total	$256	$—	$366	$—

There were no sales of securities held to maturity in 2015 or 2014.

The contractual maturity of securities held to maturity is as follows at December 31, 2015 (in thousands):

	December 31, 2015	
	Amortized Cost	Fair Value
Within one year	$2,266	$2,290
After one, but within five years	2,103	2,308
After five, but within ten years	197	224
After ten years	—	—
Total	$4,566	$4,822

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

	Less than 12 months		12 months or longer		Total	
2015	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government and U.S. Government sponsored enterprises	$15,169	$16	$—	$—	$15,169	$16
Mortgage-backed securities, residential	177,058	1,741	—	—	177,058	1,741
Obligations of states and political subdivisions	3,756	4	592	2	4,348	6
SBA loan pools	—	—	251	1	251	1
Total temporarily impaired securities	$195,983	$1,761	$843	$3	$196,826	$1,764

	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
	4,625	22	1,056	6	5,681	28

Obligations of states and political subdivisions						
Corporate bonds and notes	—	—	243	4	243	4
Corporate stocks	276	1	316	2	592	3
Total temporarily impaired securities	$73,464	$150	$6,560	$66	$80,024	$216

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Other-Than-Temporary-Impairment

As of December 31, 2015, the majority of the Corporation's unrealized losses in the investment securities portfolio related to mortgage-backed securities. At December 31, 2015, all of the unrealized losses related to mortgage-backed securities were issued by U.S. government sponsored entities, Fannie Mae and Freddie Mac. 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, 2015.

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.

The table below presents a roll forward of the cumulative credit losses recognized in earnings for the periods ended December 31, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Beginning balance, January 1,	$—	$1,939	$3,506
Additions/Subtractions:			
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

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 $515 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.

Pledged Securities

The fair value of securities pledged to secure public funds on deposit or for other purposes as required by law was $196.1 million at December 31, 2015 and $190.7 million at December 31, 2014.

The table below shows the securities pledged to secure securities sold under agreements to repurchase at December 31, 2015 and 2014 (in thousands):

	2015		2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Obligations of U.S. Government and U. S. Government sponsored enterprises	$22,988	$23,267	$36,195	$36,641
Mortgage-backed securities, residential	20,453	20,589	7,934	8,350
Collateralized mortgage obligations	—	—	48	48
Total	$43,441	$43,856	$44,177	$45,039

Concentrations

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, 2015 or 2014.

Equity Method Investments

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, 2015 and 2014, these investments totaled $0.5 million and $0.7 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 (in thousands):

	December 31, 2015	December 31, 2014
Commercial and agricultural:		
Commercial and industrial	$192,197	$165,385
Agricultural	1,036	1,021
Commercial mortgages:		
Construction	41,131	54,831
Commercial mortgages	465,347	397,762
Residential mortgages	195,778	196,809
Consumer loans:		
Credit cards	1,483	1,654
Home equity lines and loans	101,726	99,354
Indirect consumer loans	151,327	184,763
Direct consumer loans	18,608	19,995
Total loans, net of deferred loan fees	$1,168,633	$1,121,574
Interest receivable on loans	2,870	2,780
Total recorded investment in loans	$1,171,503	$1,124,354

Residential mortgages held for sale as of December 31, 2015 and 2014 totaling $1.1 million and $0.7 million, respectively, are not included in the above table.

Residential mortgages totaling $156.3 million at December 31, 2015 and $152.7 million at December 31, 2014 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, 2015, 2014 and 2013, respectively (in thousands):

	December 31, 2015					
Allowance for loan losses	Commercial, and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Unallocated	Total
Beginning balance:	$1,460	$6,326	$1,572	$4,328	$—	$13,686
Charge Offs:	(186)	(104)	(47)	(1,294)	—	(1,631)
Recoveries:	96	131	—	407	—	634
Net (charge offs) recoveries	(90)	27	(47)	(887)	—	(997)
Provision	461	759	(61)	412	—	1,571

Ending balance	$1,831	$7,112	$1,464	$3,853	$—	$14,260

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Allowance for loan losses	December 31, 2014 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 recoveries (charge offs)	(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

Allowance for loan losses	December 31, 2013 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

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

Allowance for loan losses	December 31, 2015 Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$8	$1,481	$—	$77	$1,566
Collectively evaluated for impairment	1,823	5,572	1,424	3,776	12,595
Loans acquired with deteriorated credit quality	—	59	40	—	99
Total ending allowance balance	$1,831	$7,112	$1,464	$3,853	$14,260

Allowance for loan losses	December 31, 2014 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

Loans:	December 31, 2015 Commercial and Agricultural	Commercial Mortgages	Residential Mortgages	Consumer Loans	Total
Loans individually evaluated for impairment	$1,498	$12,773	$235	$474	$14,980
Loans collectively evaluated for impairment	192,202	493,102	195,731	273,393	1,154,428
Loans acquired with deteriorated credit quality	—	1,825	270	—	2,095
Total ending loans balance	$193,700	$507,700	$196,236	$273,867	$1,171,503

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

The following tables present loans individually evaluated for impairment recognized by class of loans as of December 31, 2015 and December 31, 2014, the average recorded investment and interest income recognized by class of loans as of the years ended December 31, 2015, 2014 and 2013 (in thousands):

	December 31, 2015			December 31, 2014		
	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	$1,487	$1,489	$—	$1,359	$1,364	$—
Commercial mortgages:						
Construction	349	350	—	1,927	1,910	—
Commercial mortgages	7,551	7,577	—	7,803	7,708	—
Residential mortgages	234	235	—	253	253	—
Consumer loans:						
Home equity lines and loans	107	108	—	429	432	—
With an allowance recorded:						
Commercial and agricultural:						
Commercial and industrial	9	9	8	89	89	89
Commercial mortgages:						
Commercial mortgages	4,913	4,846	1,481	4,210	4,094	1,145
Consumer loans:						

Home equity lines and loans	364	366	77	54	54	1
Total	$15,014	$14,980	$1,566	$16,124	$15,904	$1,235

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	December 31, 2015		December 31, 2014		December 31, 2013	
	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	$1,358	$64	$1,463	$40	$1,605	$71
Commercial mortgages:						
Construction	992	36	2,104	102	3,364	95
Commercial mortgages	7,728	264	7,492	259	5,991	249
Residential mortgages	244	4	141	1	125	—
Consumer loans:						
Home equity lines & loans	396	6	143	6	47	2
With an allowance recorded:						
Commercial and agricultural:						
Commercial and industrial	146	3	502	—	719	—
Commercial mortgages:						
Construction	—	—	—	—	—	—
Commercial mortgages	4,503	49	1,611	41	867	—
Consumer loans:						
Home equity lines and loans	84	18	56	4	47	3
Direct consumer loans	—	—	—	—	3	—
Total	$15,451	$444	$13,512	$453	$12,768	$420

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

The following tables present the recorded investment in non-accrual and loans past due 90 days or more and still accruing by class of loans as of December 31, 2015 and December 31, 2014 (in thousands):

	Non-accrual		Loans Past Due 90 Days or More and Still Accruing	
	2015	2014	2015	2014
Commercial and agricultural:				
Commercial and industrial	$13	$312	$3	$—
Agricultural	—	—	—	—
Commercial mortgages:				
Construction	63	150	—	1,446
Commercial mortgages	7,203	2,831	—	—
Residential mortgages	3,610	3,615	—	—
Consumer loans:				
Credit cards	—	—	15	8
Home equity lines and loans	758	515	—	—
Indirect consumer loans	542	325	—	—
Direct consumer loans	43	30	—	—
Total	$12,232	$7,778	$18	$1,454

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The following tables present the aging of the recorded investment in loans as of December 31, 2015 and December 31, 2014 (in thousands):

	December 31, 2015						
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Acquired with Deteriorated Credit Quality	Loans Not Past Due	Total
Commercial and agricultural:							
Commercial and industrial	$398	$3	$12	$413	$—	$192,248	$192,661
Agricultural	—	—	—	—	—	1,039	1,039
Commercial mortgages:							
Construction	—	—	—	—	—	41,231	41,231
Commercial mortgages	4,197	199	5,239	9,635	1,825	455,009	466,469
Residential mortgages	2,983	725	1,703	5,411	270	190,555	196,236
Consumer loans:							
Credit cards	30	4	15	49	—	1,433	1,482
Home equity lines and loans	233	77	239	549	—	101,428	101,977
Indirect consumer loans	1,744	4	447	2,195	—	149,531	151,726
Direct consumer loans	208	—	19	227	—	18,455	18,682
Total	$9,793	$1,012	$7,674	$18,479	$2,095	$1,150,929	$1,171,503

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	December 31, 2014						
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Acquired with Deteriorated Credit Quality	Loans Not Past Due	Total
Commercial and agricultural:							
Commercial and industrial	$551	$257	$37	$845	$620	$164,332	$165,797
Agricultural	—	—	—	—	—	1,023	1,023
Commercial mortgages:							
Construction	—	—	1,446	1,446	—	53,521	54,967
Commercial mortgages	276	3,151	1,160	4,587	1,761	392,404	398,752
Residential mortgages	2,327	1,161	1,533	5,021	250	192,016	197,287
Consumer loans:							
Credit cards	2	3	8	13	—	1,641	1,654
Home equity lines and loans	635	217	167	1,019	—	98,572	99,591
Indirect consumer loans	1,444	345	292	2,081	—	183,136	185,217
Direct consumer loans	35	13	30	78	—	19,988	20,066
Total	$5,270	$5,147	$4,673	$15,090	$2,631	$1,106,633	$1,124,354

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, 2015, 2014 and 2013, the Corporation has a recorded investment in TDRs of $12.0 million, $9.7 million, and $7.9 million, respectively. There were specific reserves of $1.4 million allocated for TDRs at December 31, 2015, and $0.3 million allocated for both December 31, 2014 and December 31, 2013. As of December 31, 2015, TDRs totaling $7.6 million were accruing interest under the modified terms and $4.4 million were on non-accrual status. As of December 31, 2014, TDRs totaling $8.7 million were accruing interest under the modified terms and $1.0 million were on non-accrual status. As of December 31, 2013, TDRs totaling $6.8 million were accruing interest under the modified terms and $1.1 million were on non-accrual status. The Corporation has committed additional amounts totaling up to $0.1 million, $0.1 million, and $0.2 million as of December 31, 2015, December 31, 2014, December 31, 2013, respectively, to customers with outstanding loans that are classified as TDRs.

During the years ended December 31, 2015, 2014 and 2013, the terms of certain loans were modified as TDRs. The modification of the terms of such commercial loans performed during the year ended December 31, 2015 included renewing a line of credit and extending the maturity date at a rate lower than the current market rate, decreases of scheduled amortization payments for five loans and reductions of interest rates for two loans.

The modification of the terms of such commercial loans performed during the year ended December 31, 2014 included a permanent reduction of the recorded investment and a change in the schedule of payments for one loan and renewing lines of credit or loans and extending maturity dates at rates lower than the current market rates for six other loans. The modification of the terms of the residential mortgage loan included extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk. The modification of the terms of the home equity line of credit included a change in the schedule of payments and extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk.

The modification of the terms of a commercial construction loan and a commercial mortgage loan performed during the year ended December 31, 2013 included extending the maturity dates at interest rates lower than the current market rates for new debt with similar risk. The modification of terms of such commercial loans performed during the year ended December 31, 2013 included renewing lines of credit or loans and extending maturity dates at rates lower than the current market rates. The modification of the terms of the three home equity loans performed during the year ended December 31, 2013 included extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk for two loans and reducing amortized payments greater than three months for one loan.

The following table presents loans by class modified as troubled debt restructurings that occurred during the years ended December 31, 2015, 2014 and 2013 (in thousands):

December 31, 2015	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled debt restructurings:			
Commercial and agricultural:			
Commercial and industrial	1	$477	$477
Commercial mortgages:			
Commercial mortgages	5	2,810	2,810
Total	6	$3,287	$3,287

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

The TDRs described above increased the allowance for loan losses by $1.1 million and resulted in no charge offs during the year ended December 31, 2015. The TDRs 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 year ended December 31, 2014. The TDRs 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.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. The following table presents loans by class modified as TDRs for which there was a payment default within twelve months following the modification during the year ended December 31, 2015:

December 31, 2015	Number of Loans	Recorded Investment
Commercial mortgages:		
Commercial mortgages	2	$ 1,877
Total	2	$ 1,877

The TDRs that subsequently defaulted described above did not increase the allowance for loan losses and resulted in no charge offs during the year ended December 31, 2015.

There were no payment defaults on any loans previously modified as troubled debt restructurings during the years ended December 31, 2014 or December 31, 2013, within twelve months following the modification.

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. Retail loans are not rated until they become 90 days past due.

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, 2015 and December 31, 2014, the risk category of the recorded investment of loans by class of loans is as follows (in thousands):

	December 31, 2015						
	Not Rated	Pass	Loans acquired with deteriorated credit quality	Special Mention	Substandard	Doubtful	Total
Commercial and agricultural:							
Commercial and industrial	$—	$186,359	$—	$3,772	$2,521	$9	$192,661
Agricultural	—	1,039	—	—	—	—	1,039
Commercial mortgages:							
Construction	—	40,881	—	287	63	—	41,231
Commercial mortgages	—	437,549	1,825	8,437	14,454	4,204	466,469
Residential mortgages	192,245	—	270	—	3,721	—	196,236
Consumer loans							
Credit cards	1,482	—	—	—	—	—	1,482
Home equity lines and loans	101,219	—	—	—	758	—	101,977
Indirect consumer loans	151,184	—	—	—	542	—	151,726
Direct consumer loans	18,639	—	—	—	43	—	18,682
Total	$464,769	$665,828	$2,095	$12,496	$22,102	$4,213	$1,171,503

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

The Corporation considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, the Corporation also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity as of December 31, 2015 and December 31, 2014 (in thousands):

	December 31, 2015				
		Consumer Loans			
	Residential Mortgages	Credit Card	Home Equity Lines and Loans	Indirect Consumer Loans	Other Direct Consumer Loans
Performing	$192,626	$1,482	$101,219	$151,184	$18,639
Non-Performing	3,610	—	758	542	43
Total	$196,236	$1,482	$101,977	$151,726	$18,682

	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

Total	$197,287	$1,654	$99,591	$185,217	$20,066

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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 tables below summarize 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, 2013 to December 31, 2015 (in thousands):

	Balance at December 31, 2014	Income Accretion	All Other Adjustments	Balance at December 31, 2015
Contractually required principal and interest	$3,621	$—	$(709)	$2,912
Contractual cash flows not expected to be collected (non accretable discount)	(570)	—	64	(506)
Cash flows expected to be collected	3,051	—	(645)	2,406
Interest component of expected cash flows (accretable yield)	(420)	174	(65)	(311)
Recorded investment in loans acquired with deteriorating credit quality	$2,631	$174	$(710)	$2,095

	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)
Recorded investment in loans acquired with deteriorating credit quality	$9,696	$515	$(7,580)	$2,631

	Balance at December 31, 2012	Income Accretion	All Other Adjustments	Balance at December 31, 2013
Contractually required principal and interest	$16,896	$—	$(5,666)	$11,230
Contractual cash flows not expected to be collected (non accretable discount)	(3,656)	—	3,113	(543)
Cash flows expected to be collected	13,240	—	(2,553)	10,687
Interest component of expected cash flows (accretable yield)	(2,529)	1,163	375	(991)
Recorded investment in loans acquired with deteriorating credit quality	$10,711	$1,163	$(2,178)	$9,696

For those purchased credit impaired loans disclosed above, the Corporation increased the allowance for loan losses by $41 thousand, $917 thousand and $640 thousand during the years ended December 31, 2015, 2014 and 2013. For

those purchased credit impaired loans disclosed above, the Corporation reversed the allowance for loan losses by $86 thousand, $154 thousand and $33 thousand during the years ended December 31, 2015, 2014 and 2013.

(5) PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2015 and 2014 are as follows (in thousands):

	2015	2014
Land	$4,803	$4,803
Buildings	38,660	38,604
Projects in progress	167	132
Equipment and furniture	35,734	36,551
Leasehold improvements	5,759	6,094
	85,123	86,184
Less accumulated depreciation and amortization	55,726	53,897
Net book value	$29,397	$32,287

Depreciation expense was $4.0 million, $3.9 million and $3.2 million for 2015, 2014, and 2013, respectively.

Operating Leases

The Corporation leases certain branch properties under operating leases. Rent expense was $1.3 million, $1.5 million and $1.0 million for the years ended December 31, 2015, 2014 and 2013, respectively. Rent commitments, before considering renewal options that generally are present, were as follows (in thousands):

Year	Estimated Expense
2016	$1,166
2017	1,143
2018	1,143
2019	830
2020	559
2021 and thereafter	3,590
Total	$8,431

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:

	2015	2014
Buildings	$3,537	$3,537
Accumulated depreciation	(232)	—
Net book value	$3,305	$3,537

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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, 2015 (in thousands):

Year	Amount
2016	$234
2017	234
2018	234
2019	234
2020	234
2021 and thereafter	2,407
Total minimum lease payments	3,577
Less amount representing interest	704
Present value of net minimum lease payments	$2,873

(6) GOODWILL AND INTANGIBLE ASSETS

The changes in goodwill included in the core banking segment during the years ended December 31, 2015 and 2014 were as follows (in thousands):

	2015	2014
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, 2015 and 2014 (in thousands):

	At December 31, 2015		At December 31, 2014	
	Balance Acquired	Accumulated Amortization	Balance Acquired	Accumulated Amortization
Core deposit intangibles	$5,975	$4,057	$5,975	$3,279
Other customer relationship intangibles	5,633	3,620	5,633	3,262
Total	$11,608	$7,677	$11,608	$6,541

Aggregate amortization expense was $1.1 million, $1.3 million, and $0.9 million for 2015, 2014 and 2013, respectively.

The remaining estimated aggregate amortization expense at December 31, 2015 is listed below (in thousands):

Year	Estimated Expense
2016	$986
2017	859
2018	734
2019	609
2020	484
2021 and thereafter	259
Total	$3,931

(7) DEPOSITS

A summary of deposits at December 31, 2015 and 2014 is as follows (in thousands):

	2015	2014
Non-interest-bearing demand deposits	$402,236	$366,298
Interest-bearing demand deposits	130,573	110,819
Insured money market accounts	497,658	392,871
Savings deposits	203,749	198,183
Time deposits	166,079	211,843
Total	$1,400,295	$1,280,014

Scheduled maturities of time deposits at December 31, 2015, are summarized as follows (in thousands):

Year	Maturities
2016	$115,129
2017	31,181
2018	7,223
2019	5,527
2020	5,394
2021	1,625
Total	$166,079

Time deposits that meet or exceed the FDIC Insurance limit of $250 thousand at December 31, 2015 and 2014 were $20.6 million and $42.8 million, respectively.

Time deposits include certificates of deposit in denominations of $100 thousand or more aggregating $52.5 million and $80.5 million at December 31, 2015 and 2014, respectively. Interest expense on such certificates was $0.3 million, $0.5 million and $0.8 million for 2015, 2014 and 2013, respectively.

Maturities of time deposits in denominations of $100 thousand or more outstanding at December 31, 2015 are summarized as follows (in thousands):

3 months or less	$9,246
Over 3 through 6 months	11,332
Over 6 through 12 months	16,541
Over 12 months	15,427
Total	$52,546

(8) SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Repurchase agreements are secured borrowings. The Corporation pledges investment securities to secure these borrowings. A summary of securities sold under agreements to repurchase as of and for the years ended December 31, 2015, 2014 and 2013 is as follows (in thousands):

	2015		2014		2013	
Balance at December 31	$28,453		$29,652		$32,701	
Maximum month-end balance	$32,145		$31,914		$32,701	
Average balance during year	$30,236		$30,667		$31,102	
Weighted-average interest rate at December 31	2.93	%	2.82	%	2.93	%
Average interest rate paid during year	2.80	%	2.77	%	2.76	%

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The contractual maturity of securities sold under agreements to repurchase by collateral pledged as of December 31, 2015 and 2014 is as follows (in thousands):

	December 31, 2015				
	Overnight and Continuous	Up to 1 Year	1 - 3 Years	3+ Years	Total
Obligations of U.S. Government and U.S. Government sponsored enterprises	$12,163	$1,781	$9,323	$—	$23,267
Mortgage-backed securities, residential	8,280	9,174	3,135	—	20,589
Total	$20,443	$10,955	$12,458	$—	43,856
Excess collateral held					(15,403)
Gross amount of recognized liabilities for repurchase agreements					$28,453

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

The Corporation enters into sales of securities under agreements to repurchase and the amounts received under these agreements represent borrowings and are reflected as a liability in the consolidated balance sheets. The securities underlying these agreements are included in investment securities in the consolidated balance sheets. See Note 3 for additional information regarding securities pledged as collateral for securities sold under the repurchase agreements.

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

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

The following is a summary of FHLBNY fixed rate advances at December 31, 2015 and 2014. The carrying amount includes the advance balance plus purchase accounting adjustments that are amortized over the term of the advance (in thousands):

2015			
Amount	Rate	Maturity Date	Call Date
$13,900	0.52 %	January 4, 2016	-
10,000	4.60 %	December 22, 2016	-
4,090	3.90 %	October 19, 2017	January 19, 2016
3,068	2.91 %	December 4, 2017	March 3, 2016

2,045	3.05	%	January 2, 2018	April 1, 2016
$33,103	2.54	%		

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	%		

Each advance is payable at its maturity date, with a prepayment penalty for term advances. The advances were collateralized by $156.3 million and $152.7 million of first mortgage loans under a blanket lien arrangement at December 31, 2015 and 2014, respectively. Based on this collateral and the Corporation's holdings of FHLBNY stock, the Corporation is eligible to borrow up to a total of $106.2 million at year-end 2015.

Payments over the next five years are as follows:

Year	Amount
2016	$23,900
2017	7,000
2018	2,000
2019	—
2020	—
Total	$32,900

(10) DERIVATIVES

As part of the Corporation's product offerings, the Corporation acts as an interest rate swap counterparty for certain commercial borrowers in the normal course of servicing our customers. The interest rate swap agreements are free-standing derivatives and are recorded at fair value in the Corporation's consolidated balance sheets. The Corporation manages its exposure to such interest rate swaps by entering into corresponding and offsetting interest rate swaps with third parties that mirror the terms of the interest rate swaps it has with the commercial borrowers. These positions directly offset each other and its exposure is the fair value of the derivatives due to changes in credit risk of our commercial borrowers and third parties. The Corporation also enters into risk participation agreements with dealer banks on commercial loans in which it participates. The Corporation receives an upfront fee for participating in the credit exposure of the interest rate swap associated with the commercial loan in which it is a participant and the fee received is recognized immediately in other non-interest income. The Corporation is exposed to its share of the credit loss equal to the fair value of the interest rate swap in the event of nonperformance by the counterparty of the interest rate swap. The Corporation determines the fair value of the credit loss exposure using an estimated credit default rate based on the historical performance of similar assets.

The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements. At December 31, 2015, the Corporation held derivatives not designated as hedging instruments with a total notional amount of $14.4 million. Derivatives not designated as hedging instruments included interest rate swaps of $3.9 million and risk participation agreements with dealer banks of $10.5 million. Non-hedging derivatives are not designated as hedges for accounting purposes and are therefore recorded at fair value with changes in fair value recorded in other non-interest income.

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The following table presents information regarding our derivative financial instruments, at December 31:

2015	Number of Instruments	Notional Amount	Weighted Average Maturity (in years)	Weighted Average Interest Rate Received	Weighted Average Contract Pay Rate	Fair Value Other Assets/ (Other Liabilities)
Derivatives not designated as hedging instruments:						
Interest rate swap agreements on loans with commercial loan customers	1	$1,934	5.9	4.33 %	3.02 %	$15
Reverse interest rate swaps on loans with commercial loan customers	1	1,934	5.9	3.02 %	4.33 %	(16)
Risk participation agreements	4	10,528	26.2			(47)
Total	6	$14,396				$(48)

2014	Number of Instruments	Notional Amount	Weighted Average Maturity (in years)	Weighted Average Interest Rate Received	Weighted Average Contract Pay Rate	Fair Value Other Assets/ (Other Liabilities)
Derivatives not designated as hedging instruments:						
Risk participation agreements	3	$8,335	31.5	N/A	N/A	$(18)
Total	3	$8,335				$(18)

The Corporation did not have any derivative financial instruments at December 31, 2013.

Off-balance sheet exposure for the risk participation agreements was $0.9 million and $0.3 million for December 31, 2015 and 2014, respectively.

Amounts included in the Consolidated Statements of Income related to derivatives not designated as hedging were as follows:

	Years Ended December 31, 2015	2014
Derivatives not designated as hedging instruments		
Interest rate swap agreements with commercial loan customers:		
Unrealized gain (loss) recognized in other non-interest income	$15	$—
Reverse interest rate swap agreements with commercial loan customers:		
Unrealized gain (loss) recognized in other non-interest income	(16)	—
Risk participation agreements:		
Unrealized gain (loss) recognized in other non-interest income	(29)	(18)
Unrealized gain (loss) recognized in non-interest income	$(30)	$(18)

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(11) INCOME TAXES

For the years ended December 31, 2015, 2014 and 2013, income tax expense attributable to income from operations consisted of the following (in thousands):

Current:	2015	2014	2013
State	$216	$606	$395
Federal	3,668	5,366	3,548
Total current	3,884	5,972	3,943
Deferred expense/(benefit)	774	(2,263)	(121)
Income tax expense	$4,658	$3,709	$3,822

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 (in thousands):

	2015	2014	2013
Tax computed at statutory rate	$4,791	$4,034	$4,268
Tax-exempt interest	(441)	(456)	(483)
Dividend exclusion	(41)	(60)	(46)
State taxes, net of Federal impact	238	227	188
Nondeductible interest expense	8	8	11
Other items, net	103	(44)	(116)
Income tax expense	$4,658	$3,709	$3,822

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2015 and 2014, are presented below (in thousands):

	2015	2014
Deferred tax assets:		
Allowance for loan losses	$5,385	$5,182
Accrual for employee benefit plans	597	709
Depreciation	1,553	1,010
Deferred compensation and directors' fees	1,136	1,076
Purchase accounting adjustment – deposits	37	65
Purchase accounting adjustment – loans	130	259
Purchase accounting adjustment - fixed assets	221	221
Accounting for defined benefit pension and other benefit plans	6,975	6,624
Trust preferred impairment write down	—	540
Nonaccrued interest	868	617
Accrued expense	—	1,580
Other	288	456
Total gross deferred tax assets	17,190	18,339
Deferred tax liabilities:		
Deferred loan fees and costs	933	910
Prepaid pension	4,609	5,179
Net unrealized gains on securities available for sale	130	1,359
Discount accretion	427	410
Core deposit intangible	1,437	1,479
Other	149	153
Total gross deferred tax liabilities	7,685	9,490
Net deferred tax asset	$9,505	$8,849

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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, 2015, December 31, 2014 and December 31, 2013 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, 2015, 2014 and 2013, 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 2012 and for New York State taxing authorities for the years prior to 2012.

(12) 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.

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, 2015 and 2014 (in thousands):

Change in projected benefit obligation:	2015		2014	
Benefit obligation at beginning of year	$45,544		$36,186	
Service cost	1,231		1,045	
Interest cost	1,806		1,738	
Actuarial (gain) loss	(3,199	)	8,064	
Benefits paid	(1,585	)	(1,489	)
Benefit obligation at end of year	$43,797		$45,544	
Change in plan assets:	2015		2014	
Fair value of plan assets at beginning of year	$43,336		$41,782	
Actual return on plan assets	(1,800	)	3,043	
Employer contributions	—		—	
Benefits paid	(1,585	)	(1,489	)
Fair value of plan assets at end of year	$39,951		$43,336	

Funded status	$(3,846)	$(2,208)

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Amount recognized in accumulated other comprehensive income (loss) at December 31, 2015 and 2014 consist of the following (in thousands):

	2015	2014
Net actuarial loss	$17,863	$17,388
Prior service cost	7	15
Total before tax effects	$17,870	$17,403

The accumulated benefit obligation at December 31, 2015 and 2014 was $37.7 million and $38.7 million, respectively.

The principal actuarial assumptions used in determining the projected benefit obligation as of December 31, 2015, 2014 and 2013 were as follows:

	2015	2014	2013
Discount rate	4.39 %	4.09 %	4.92 %
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 2015, 2014 and 2013 consist of the following (in thousands):

Net periodic benefit cost	2015	2014	2013
Service cost, benefits earned during the year	$1,231	$1,045	$1,195
Interest cost on projected benefit obligation	1,806	1,738	1,587
Expected return on plan assets	(3,287)	(3,174)	(2,824)
Amortization of net loss	1,414	649	1,579
Amortization of prior service cost	7	7	14
Net periodic cost	$1,171	$265	$1,551

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss):	2015	2014	2013
Net actuarial (gain) loss	$1,888	$8,195	$(6,367)
Recognized loss	(1,414)	(649)	(1,579)
Amortization of prior service cost	(7)	(7)	(14)
Total recognized in other comprehensive income (loss) (before tax effect)	$467	$7,539	$(7,960)

	2015	2014	2013
Total recognized in net benefit cost and other comprehensive income (loss) (before tax effect)	$1,638	$7,804	$(6,409)

Amounts expected to be recognized in net periodic cost during 2016 (in thousands):

Loss recognition	$1,534
Prior service cost recognition	$7

The principal actuarial assumptions used in determining the net periodic benefit cost for the years ended December 31, 2015, 2014 and 2013 were as follows:

	2015	2014	2013
Discount rate	4.09 %	4.92 %	4.26 %
Expected long-term rate of return on assets	7.75 %	7.75 %	7.75 %
Assumed rate of future compensation increase	5.00 %	5.00 %	5.00 %

The Corporation changes important assumptions whenever changing conditions warrant. At December 31, 2015, the Corporation used Retirement Plan 2014 (RP-2014) and Mortality Improvement Scale 2015 (MP-2015) as a basis for the Plan's valuation. At December 31, 2014, the Corporation adopted the Retirement Plan 2014 (RP-2014) and Mortality Projection 2014 (MP-2014) mortality tables as a basis for the Plan's valuation. 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 2016, the Corporation may make changes at any time.

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

Asset Class	Target Allocation 2015	Percentage of Plan Assets at December 31,				Expected Long-Term Rate of Return	
		2015		2014			
Large cap domestic equities	30% - 60%	58	%	50	%	10.3	%
Mid-cap domestic equities	0% - 20%	4	%	14	%	10.6	%
Small-cap domestic equities	0% - 15%	3	%	3	%	10.8	%
International equities	0% - 25%	6	%	4	%	10.3	%
Intermediate fixed income	20% - 50%	23	%	26	%	4.7	%
Alternative assets	0% - 10%	2	%	2	%	7.5	%
Cash	0% - 20%	4	%	1	%	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 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, 2015 and 2014, 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, 2015 and 2014, by asset class are as follows (in thousands):

		Fair Value Measurement at December 31, 2015 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	$1,486	$1,486	$—	$—
Equity securities:				
U.S. companies	23,424	23,424	—	—
International companies	1,277	1,277	—	—
Mutual funds	8,548	8,548	—	—
Debt securities:				
U.S. Treasuries/Government bonds	2,468	—	2,468	—
U.S. Corporate bonds	2,748	—	2,748	—
Total plan assets	$39,951	$34,735	$5,216	$—

		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	$—

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 (in thousands):

Calendar Year	Future Expected Benefit Payments
2016	$1,913
2017	$1,963
2018	$2,058
2019	$2,105
2020	$2,172
2021-2025	$12,037

The Corporation does not expect to contribute to the plan during 2016. 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.

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 $639 thousand, $620 thousand, and $521 thousand for the years ended December 31, 2015, 2014 and 2013, respectively. The plan's assets at December 31, 2015, 2014 and 2013 include 169,398, 170,714, and 178,113 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, 2015 and 2014 (in thousands):

Changes in accumulated postretirement benefit obligation:	2015	2014
Accumulated postretirement benefit obligation - beginning of year	$1,663	$1,490
Service cost	46	39
Interest cost	70	72
Participant contributions	83	84
Actuarial (gain) loss	215	177
Benefits paid	(413)	(199)
Accumulated postretirement benefit obligation at end of year	$1,664	$1,663
Change in plan assets:	2015	2014
Fair value of plan assets at beginning of year	$—	$—

Employer contribution	330	115
Plan participants’ contributions	83	84
Benefits paid	(413)	(199)
Fair value of plan assets at end of year	$—	$—
Funded status	$(1,664)	$(1,663)

Amount recognized in accumulated other comprehensive income (loss) at December 31, 2015 and 2014 consist of the following (in thousands):

	2015	2014
Net actuarial loss	$517	$322
Prior service benefit	(434)	(531)
Total before tax effects	$83	$(209)

Weighted-average assumption for disclosure as of December 31:	2015	2014	2013
Discount rate	4.39%	4.09%	4.92%
Health care cost trend: Initial	7.00%	7.00%	8.00%
Health care cost trend: Ultimate	5.00%	5.00%	5.00%
Year ultimate cost trend reached	2019	2018	2018

The components of net periodic postretirement benefit cost for the years ended December 31, 2015, 2014 and 2013 are as follows (in thousands):

Net periodic benefit cost	2015	2014	2013
Service cost	$46	$39	$44
Interest cost	70	72	66
Amortization of prior service benefit	(97)	(97)	(97)
Recognized actuarial loss	20	3	10
Net periodic postretirement cost	$39	$17	$23
Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss):	2015	2014	2013
Net actuarial (gain) loss	$216	$177	$(61)
Recognized actuarial loss	(20)	(3)	(10)
Amortization of prior service benefit	97	97	97
Total recognized in other comprehensive income (loss)(before tax effect)	$293	$271	$26
Total recognized in net benefit cost and other comprehensive income (loss) (before tax effect)	$332	$288	$49

During 2015 the plan's total unrecognized net loss increased by $196 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, 2015, the average future working lifetime of active participants was 15.6 years. Actual results for 2016 will depend on the 2016 actuarial valuation of the plan.

Amounts expected to be recognized in net periodic cost during 2016 (in thousands):	
Loss recognition	$23
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 (in thousands):

Effect of a 1% increase in health care trend rate on:	2015	2014	2013
Benefit obligation	$3	$5	$15
Total service and interest cost	$—	$—	$—
Effect of a 1% decrease in health care trend rate on:	2015	2014	2013
Benefit obligation	$(3)	$(6)	$(23)
Total service and interest cost	$—	$—	$(2)

Weighted-average assumptions for net periodic cost as of December 31:	2015		2014		2013	
Discount rate	4.09	%	4.92	%	4.26	%
Health care cost trend: Initial	7.00	%	8.00	%	9.00	%
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 (in thousands):

Calendar Year	Future Estimated Benefit Payments
2016	$217
2017	$170
2018	$180
2019	$168
2020	$150
2021-2025	$645

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 2016 is $217 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, 2015 and 2014.

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, 2015 and 2014 (in thousands):

Change in projected benefit obligation:	2015		2014	
Benefit obligation at beginning of year	$1,244		$1,116	
Service cost	44		38	
Interest cost	49		55	
Actuarial (gain) loss	(52	)	110	
Benefits paid	(75	)	(75	)
Projected benefit obligation at end of year	$1,210		$1,244	

Changes in plan assets:	2015		2014	
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	$(1,210	)	$(1,244	)

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Amounts recognized in accumulated other comprehensive income (loss) at December 31, 2015 and 2014 consist of the following (in thousands):

	2015	2014
Net actuarial loss	$173	$275
Prior service cost	—	—
Total before tax effects	$173	$275

Accumulated benefit obligation at December 31, 2015 and 2014 was $1.2 million.

Weighted-average assumption for disclosure as of December 31:	2015	2014	2013
Discount rate	4.39 %	4.09 %	4.92 %
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, 2015, 2014 and 2013 are as follows (in thousands):

Net periodic benefit cost	2015	2014	2013
Service cost	$44	$38	$40
Interest cost	49	55	48
Recognized actuarial loss	50	29	34
Net periodic postretirement benefit cost	$143	$122	$122
Other changes in plan assets and benefit obligation recognized in other comprehensive income (loss):	2015	2014	2013
Net actuarial (gain) loss	$(52)	$110	$(59)
Recognized actuarial loss	(50)	(29)	(34)
Total recognized in other comprehensive income (loss) (before tax effect)	$(102)	$81	$(93)
Total recognized in net benefit cost and other comprehensive income (loss) (before tax effect)	$41	$203	$29

Amounts expected to be recognized in net periodic cost during 2016 (in thousands):	
Loss recognition	$26
Prior service cost recognition	$—

Weighted-average assumptions for net periodic cost as of December 31:	2015	2014	2013
Discount rate	4.09 %	4.92 %	4.26 %
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 (in thousands):

Calendar Year	Future Estimated Benefit Payments
2016	$74
2017	$73
2018	$112
2019	$111
2020	$108
2021-2025	$498

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The Corporation expects to contribute $75 thousand to the plan during 2016. 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, 2015 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, 2015 and 2014 was $772 thousand and $550 thousand, respectively. A total of $231 thousand, $213 thousand, and $155 thousand was expensed during the years ended December 31, 2015, 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.

(13) 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 of Directors members from treasury shares of the Corporation on or about January 15 following the calendar year of service.

Additionally, the 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 of Directors members not employed by the Corporation who have served for 12 months during the prior year.

During January 2016, 2015, and 2014, 9,532, 9,673 and 8,385 shares, respectively, were re-issued from treasury to fund the stock component of the directors' and the Chief Executive Officer’s compensation. An expense of $262 thousand, $271 thousand and $273 thousand related to this compensation was recognized during the years ended December 31, 2015, 2014 and 2013, 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 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, 2015, and changes during the year ended is presented below:

	Shares	Weighted–Average Grant Date Fair Value
Nonvested at December 31, 2014	26,428	$ 27.92
Granted	7,628	27.55
Vested	(11,487)	27.34
Forfeited or Cancelled	—	—
Nonvested at December 31, 2015	22,569	$ 28.09

As of December 31, 2015, there was $615 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 3.76 years. The total fair value of shares vested during the years ended December 31, 2015, 2014 and 2013 were $314 thousand, $152 thousand and $181 thousand, respectively.

(14) 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, 2015 and 2014 (in thousands):

	2015	2014
Balance at beginning of year	$37,802	$26,408
New loans or additional advances	7,116	33,282
Repayments	(8,007)	(21,888)
Balance at end of year	$36,911	$37,802

Deposits from principal officers, directors, and their affiliates at year-end 2015 and 2014 were $11.8 million and $12.0 million, respectively.

The Bank leases its branch located at 7 Southside Drive, Clifton Park, New York under a month to month lease from a member of the Corporation's Board of Directors with monthly rent expense totaling $4 thousand. The Bank also leases from this Board of Directors member its branch located at 1365 New Scotland Road, Slingerlands, New York, under a lease agreement through August 2019 with monthly rent expense totaling $3 thousand per month. Annual rent paid to this Board of Directors member totaled $90 thousand, $73 thousand and $88 thousand for the years ended December 31, 2015, and 2014 and 2013, respectively. The Bank has entered into a lease agreement with this Board of Directors member to move its current Clifton Park location to a new location. For further information regarding this agreement, refer to Note 15.

The Bank utilized legal services from a local law firm in which a member of the Board of Directors is a principal owner. Services totaled $88 thousand, $67 thousand and $25 thousand for the years ended December 31, 2015, 2014 and 2013, respectively.

(15) 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 (in thousands):

	2015		2014	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$17,167	$25,251	$23,756	$11,082
Unused lines of credit	$1,265	$177,004	$812	$185,235
Standby letters of credit	$—	$14,646	$—	$16,747

Commitments to make real estate and home equity loans are generally made for periods of sixty days or less. As of December 31, 2015, the fixed rate commitments to make loans have interest rates ranging from 2.75% to 5.88% 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, 2015, the fixed rate commitments have interest rates ranging from 3.75% 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 $14.6 million at December 31, 2015 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, 2015 was not significant.

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

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

In the normal course of business, there are various outstanding claims and legal proceedings involving the Corporation or its subsidiaries. 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.

On September 25, 2015, the Corporation entered a lease agreement with a related party to occupy a building located in Clifton Park, New York, with an anticipated lease commencement date occurring during the first quarter of 2016. The initial term of the lease is 20 years, with a total of 10 years of renewal options. The lease will be capitalized on the balance sheet, as of the lease commencement date, within premises and equipment, net, with a corresponding long term capital lease obligation. The purpose of the lease is to move the Clifton Park branch from a shopping plaza to a stand alone building. Minimum lease commitments, before considering renewal options, are as follows (in thousands):

Years	Annual Rent	Total Rent
2016 - 2020	$133	$666
2021 - 2025	145	725
2026 - 2030	158	790
2031 - 2035	172	861
Total		$3,042

(16) 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) (in thousands):

BALANCE SHEETS - DECEMBER 31	2015	2014
Assets:		
Cash on deposit with subsidiary bank	$1,795	$3,200
Investment in subsidiary - Chemung Canal Trust Company	133,263	128,081
Investment in subsidiary - CFS Group, Inc.	994	908
Dividends receivable from subsidiary bank	1,214	1,204
Securities available for sale, at estimated fair value	337	346
Other assets	907	1,129
Total assets	$138,510	$134,868
Liabilities and shareholders' equity:		
Dividends payable	1,214	1,204
Other liabilities	54	36
Total liabilities	1,268	1,240
Shareholders' equity:		
Total shareholders' equity	137,242	133,628
Total liabilities and shareholders' equity	$138,510	$134,868

STATEMENTS OF INCOME - YEARS ENDED DECEMBER 31	2015	2014	2013
Dividends from subsidiary bank	$2,424	$4,805	$4,778
Interest and dividend income	9	10	9
Other income	—	—	132
Operating expenses	270	261	324
Income before impact of subsidiaries' undistributed earnings	2,163	4,554	4,595
Equity in undistributed earnings of Chemung Canal Trust Company	7,015	3,307	3,873
Equity in undistributed earnings of CFS Group, Inc.	86	129	139
Income before income tax	9,264	7,990	8,607
Income tax benefit	(169)	(167)	(124)
Net Income	$9,433	$8,157	$8,731

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STATEMENTS OF CASH FLOWS - YEARS ENDED DECEMBER 31	2015	2014	2013
Cash flows from operating activities:			
Net Income	$9,433	$8,157	$8,731
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of Chemung Canal Trust Company	(7,015)	(3,307)	(3,873)
Equity in undistributed earnings of CFS Group, Inc.	(86)	(129)	(139)
Change in dividend receivable	(10)	(9)	(1,195)
Change in other assets	222	126	558
Change in other liabilities	(23)	110	79
Expense related to employee stock compensation	93	117	112
Expense related to restricted stock units for directors' deferred compensation plan	95	94	99
Expense to employee restricted stock awards	314	151	131
Net cash provided by operating activities	3,023	5,310	4,503
Cash flow from financing activities:			
Cash dividends paid	(4,833)	(4,796)	(3,583)
Purchase of treasury stock	(33)	—	(93)
Sale of treasury stock	438	—	71
Net cash used in financing activities	(4,428)	(4,796)	(3,605)
Increase (decrease) in cash and cash equivalents	(1,405)	514	898
Cash and cash equivalents at beginning of year	3,200	2,686	1,788
Cash and cash equivalents at end of year	$1,795	$3,200	$2,686

(17) 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). 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 inputs).

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

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

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

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

Derivatives: The fair values of interest rate swaps are based on valuation models using observable market data as of the measurement date (Level 2 inputs). Derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices, and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The Corporation also incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counter-party's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Corporation has considered the impact of any applicable credit enhancements, such as collateral postings. Although the Corporation has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize credit default rate assumptions (Level 3 inputs).

The fair values of credit risk participations are based on credit default rate assumptions (Level 3 inputs).

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

		Fair Value Measurement at December 31, 2015 Using		
Financial Assets:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Obligations of U.S. Government and U.S. Government sponsored enterprises	$100,166	$14,784	$85,382	$—
Mortgage-backed securities, residential	198,366	—	198,366	—
Obligations of states and political subdivisions	44,426	—	44,426	—
Corporate bonds and notes	752	—	504	248
SBA loan pools	647	—	647	—
Corporate stocks	463	56	407	—
Total available for sale securities	$344,820	$14,840	$329,732	$248
Trading assets	$701	$701	$—	$—
Derivative assets	15	—	15	—
Financial Liabilities:				
Derivative liabilities	$63	$—	$15	$48

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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 Liabilities:				
Derivative liabilities	$18	$—	$—	$18

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2015 and December 31, 2014.

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 table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31:

	Assets (Liabilities)			
	Corporate Bonds and Notes		Derivative Liabilities	
(in thousands)	2015	2014	2015	2014
Balance of recurring Level 3 assets at January 1	$—	$—	$(18)	$—
Derivative instruments entered into	—	—	(1)	(18)
Total gains or losses for the period:				
Included in earnings - other non-interest income	—	—	(29)	—
Included in other comprehensive income	—	—	—	—
Transfers into Level 3	248	—	—	—
Balance of recurring Level 3 assets at December 31	$248	$—	$(48)	$(18)

As of December 31, 2015, one corporate bond was transferred from Level 2 and into Level 3 because of a lack of observable market data for these investments due to a decrease in the market activity of these securities. The Corporation's valuations for the corporate bond was supported by an analysis prepared by an independent third party and approved by management.

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

Description	Fair Value at December 31, 2015	Valuation Technique	Unobservable Inputs	Range [Weighted Average] at December 31, 2015
Corporate bonds and notes	$248	Discounted cash flow	Credit spread	1.73% - 1.73% [1.73%]
Derivative liabilities	$48	Historical trend	Credit default rate	5.83% - 5.83% [5.83%]

Description	Fair Value at December 31, 2014	Valuation Technique	Unobservable Inputs	Range [Weighted Average] at December 31, 2014
Derivative liabilities	$18	Historical trend	Credit default rate	6.24% - 6.24% [6.24%]

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

		Fair Value Measurement at December 31, 2015 Using		
Financial Assets:	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans:				
Commercial mortgages:				
Commercial mortgages	$2,629	$—	$—	$2,629
Consumer loans:				
Home equity lines and loans	287	—	—	287
Total impaired loans	$2,916	$—	$—	$2,916
Other real estate owned:				
Commercial mortgages:				
Commercial mortgages	$1,491	$—	$1,491	$—
Residential mortgages	39	—	—	39
Total other real estate owned, net	$1,530	$—	$1,491	$39

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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	$—	$—	$3,593
Consumer loans:				
Home equity lines and loans	52	—	—	52
Total impaired loans	$3,645	$—	$—	$3,645
Other real estate owned:				
Commercial mortgages	$3,063	$—	$—	$3,063
Consumer loans:				
Home equity lines and loans	2	—	—	2
Total other real estate owned, net	$3,065	$—	$—	$3,065

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

Asset	Fair Value at December 31, 2015	Valuation Technique	Unobservable Inputs	Range [Weighted Average] at December 31, 2015
Impaired loans:				
Commercial mortgages:				
Commercial mortgages	$2,629	Sales comparison	Discount to appraised value	10.00% - 17.19% [16.06%]
Consumer loans:				
Home equity lines and loans	287	Sales comparison	Discount to appraised value	18.04% - 18.04% [18.04%]
	$2,916			
OREO:				
Residential mortgages	39	Sales comparison	Discount to appraised value	22.30% - 22.30% [22.30%]
	$39			

Asset	Fair Value at December 31, 2014	Valuation Technique	Unobservable Inputs	Range [Weighted Average] at December 31, 2014
Impaired loans:				
Commercial mortgages:				
Commercial mortgages	$3,593	Sales comparison	Discount to appraised value	10.00% - 53.92% [11.84%]
Consumer loans:				
Home equity lines and loans	52	Sales comparison	Discount to appraised value	12.29% - 12.29% [12.29%]
	$3,645			
OREO:				
Commercial mortgages:				
Commercial mortgages	$3,063	Sales comparison	Discount to appraised value	5.00% - 30.32% [7.73%]
Consumer loans:				
Home equity lines and loans	2	Sales comparison	Discount to appraised value	20.00% - 20.00% [20.00%]
	$3,065			

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $5.2 million with a valuation allowance of $1.5 million as of December 31, 2015, resulting in an increase of $288 thousand in the provision for loan losses for the year ending December 31, 2015. Impaired loans had a principal balance of $4.9 million with a valuation allowance of $1.2 million as of December 31, 2014, resulting in an increase of $232 thousand in the provision for loan losses for the year ending December 31, 2014.

OREO, which is measured by the lower of carrying or fair value less costs to sell, had an outstanding balance of $1.8 million, before a valuation allowance of $270 thousand at December 31, 2015. For properties held as of December 31, 2015, expense associated with the valuation allowance was $390 thousand recognized for the year. OREO had an outstanding balance of $3.1 million, before a valuation allowance of $2 thousand at December 31, 2014. For properties held as of December 31, 2014, there was no expense associated with the valuation allowance recognized during the year.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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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, 2015 and 2014.

Accrued Interest Receivable and Payable

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

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

		Fair Value Measurements at December 31, 2015 Using			
Financial assets:	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Estimated Fair Value (1)
Cash and due from financial institutions	$24,886	$24,886	$—	$—	$24,886
Interest-bearing deposits in other financial institutions	1,299	1,299	—	—	1,299
Trading assets	701	701	—	—	701
Securities available for sale	344,820	14,840	329,732	248	344,820
Securities held to maturity	4,566	—	—	4,822	4,822
FHLBNY and FRBNY stock	4,797	—	—	—	N/A
Loans, net	1,154,373	—	—	1,178,081	1,178,081
Loans held for sale	1,076	—	1,076	—	1,076
Accrued interest receivable	4,015	39	1,141	2,835	4,015
Derivative assets	15	—	15	—	15
Financial liabilities:					
Deposits:					
Demand, savings, and insured money market accounts	$1,234,216	$1,234,216	$—	$—	$1,234,216
Time deposits	166,079	—	166,551	—	166,551
Securities sold under agreements to repurchase	28,453	—	29,128	—	29,128
FHLBNY overnight advances	13,900	—	13,901	—	13,901
FHLBNY term advances	19,203	—	19,658	—	19,658
Accrued interest payable	209	17	192	—	209
Derivative liabilities	63	—	15	48	63

(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.

Financial Assets:	Carrying Amount	Fair Value Measurements 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)	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
Derivative liabilities	18	—	—	18	18

(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.

(18) REGULATORY CAPITAL REQUIREMENTS

The Corporation and the Bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additional for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel III rules became effective for the Corporation on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities and changes in the funded status of the defined benefit pension plan and other benefit plans are not included in computing regulatory capital. Capital amounts and ratios for December 31, 2014 are calculated using Basel I rules. As capital ratios as of December 31, 2015 are calculated under the requirements of Basel III and capital ratios as of December 31, 2014 are calculated under the Basel requirements of Basel I, these capital ratios are not considered

comparative. Management believes as of December 31, 2015, the Corporation and the Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. Management believes that, as of December 31, 2015 and 2014, the Corporation and the Bank met all capital adequacy requirements to which they were subject.

As of December 31, 2015, 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, common equity 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 2016, the Bank could, without prior approval, declare dividends of approximately $14.2 million plus any 2016 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 (in thousands):

	Actual			Required To Be Adequately Capitalized			Required To Be Well Capitalized		
As of December 31, 2015	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Total Capital (to Risk Weighted Assets):									
Consolidated	$139,049	12.26	%	$90,704	8.00	%	N/A	N/A	
Bank	$135,058	11.93	%	$90,548	8.00	%	$113,185	10.00	%
Tier 1 Capital (to Risk Weighted Assets):									
Consolidated	$124,787	11.01	%	$68,028	6.00	%	N/A	N/A	
Bank	$120,881	10.68	%	$67,911	6.00	%	$90,548	8.00	%
Common Equity Tier 1 Capital (to Risk Weighted Assets):									
Consolidated	$124,787	11.01	%	$51,021	4.50	%	N/A	N/A	
Bank	$120,881	10.68	%	$50,933	4.50	%	$73,571	6.50	%
Tier 1 Capital (to Average Assets):									
Consolidated	$124,787	7.83	%	$63,772	4.00	%	N/A	N/A	
Bank	$120,881	7.59	%	$63,701	4.00	%	$79,626	5.00	%
As of December 31, 2014									
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	%

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(19) ACCUMULATED OTHER COMPREHENSIVE INCOME OR LOSS

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

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

	Unrealized Gains and Losses on Securities Available for Sale	Defined Benefit and Other Benefit Plans	Total
Balance at December 31, 2014	$1,960	$(10,745)	$(8,785)
Other comprehensive loss before reclassification	(1,520)	(1,268)	(2,788)
Amounts reclassified from accumulated other comprehensive income (loss)	(230)	861	631
Net current period other comprehensive loss	(1,750)	(407)	(2,157)
Balance at December 31, 2015	$210	$(11,152)	$(10,942)

	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 January 1, 2013	$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 income (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 (in thousands):

Details about Accumulated Other Comprehensive Income (Loss) Components	Year Ended December 31,			Affected Line Item in the Statement Where Net Income is Presented
	2015	2014	2013	
Unrealized gains and losses on securities available for sale:				
Reclassification adjustment for other-than-temporary losses realized in income	$—	$—	$29	Total impairment losses
Realized gains on securities available for sale	(372)	(6,869)	(16)	Net gains on securities transactions
Tax effect	142	2,640	(5)	Income tax expense (benefit)
Net of tax	(230)	(4,229)	8	
Amortization of defined pension plan and other benefit plan items:				
Prior service costs (a)	(90)	(90)	(83)	Pension and other employee benefits
Actuarial losses (a)	1,484	681	1,624	Pension and other employee benefits
Tax effect	(533)	(227)	(593)	Income tax benefit
Net of tax	861	364	948	
Total reclassification for the period, net of tax	$631	$(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 12 for additional information).

(20) SEGMENT REPORTING

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

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

Year ended December 31, 2015	Core Banking	WMG	Holding Company and CFS	Consolidated Totals
Interest and dividend income	$54,240	$—	$4	$54,244
Interest expense	3,602	—	—	$3,602
Net interest income	50,638	—	4	50,642
Provision for loan losses	1,571	—	—	1,571
Net interest income after provision for loan losses	49,067	—	4	49,071
Other operating income	11,019	8,522	906	20,447
Other operating expenses	48,882	5,517	1,028	55,427
Income (loss) before income tax expense	11,204	3,005	(118)	14,091
Income tax expense (benefit)	3,620	1,149	(111)	4,658
Segment net income (loss)	$7,584	$1,856	$(7)	$9,433
Segment assets	$1,614,481	$4,282	$1,201	$1,619,964

Year ended December 31, 2014	Core Banking	WMG	Holding Company and CFS	Consolidated Totals
Interest and dividend income	$53,201	$—	$12	$53,213
Interest expense	3,645	—	—	$3,645
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 before income tax expense	13,764	(1,859)	(39)	11,866
Income tax expense (benefit)	4,507	(715)	(83)	3,709
Segment net income	$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	WMG	Holding Company and CFS	Consolidated Totals
Interest and dividend income	$50,653	$—	$10	$50,663
Interest expense	4,032	—	—	4,032
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 (loss) 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

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(21) 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.

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 11, 2016	By: /s/ Ronald M. Bentley Ronald M. Bentley, Chief Executive Officer (Principal Executive Officer)
DATED: MARCH 11, 2016	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 11, 2016
/s/ Bruce W. Boyea Bruce W. Boyea	Director	March 11, 2016
/s/ David J. Dalrymple David J. Dalrymple	Director and Chairman of the Board of Directors	March 11, 2016
Robert H. Dalrymple	Director	
/s/ Clover M. Drinkwater Clover M. Drinkwater	Director	March 11, 2016
/s/ William D. Eggers William D. Eggers	Director	March 11, 2016
/s/ Stephen M. Lounsberry, III Stephen M. Lounsberry, III	Director	March 11, 2016
/s/ John F. Potter John F. Potter	Director	March 11, 2016
Eugene M. Sneeringer, Jr.	Director	

(signature's continued)

Signature	Title	Date
/s/ Richard W. Swan Richard W. Swan	Director	March 11, 2016
/s/ G. Thomas Tranter, Jr. G. Thomas Tranter, Jr.	Director	March 11, 2016
/s/ Thomas R. Tyrrell Thomas R. Tyrrell	Director	March 11, 2016
/s/ Ronald M. Bentley Ronald M. Bentley	Chief Executive Officer	March 11, 2016
/s/ Karl F. Krebs Karl F. Krebs	Chief Financial Officer and Treasurer	March 11, 2016

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 June 17, 2015 (as incorporated by reference to Exhibit 3.1 to Registrant's Form 8-K filed with the Commission on June 18, 2015).
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 September 1, 2015 between Chemung Canal Trust Company and Thomas W. Wirth, Executive Vice President. (Filed as Exhibit 10.1 to Registrant's Form 8-K filed with the SEC on September 3, 2015 and incorporated herein by reference).
10.5	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).
10.6	Change of Control Agreement dated August 28, 2015 between Chemung Canal Trust Company and Anders M. Tomson, President and Chief Operating Officer. (Filed as Exhibit 10.1 to Registrant's Form 8-K filed with the SEC on September 1, 2015 and incorporated herein by reference).
10.7	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).
10.8	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.*
99.1	Additional information mailed or made available online to shareholders with proxy statement and Form 10-K on March 31, 2016*
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.