CHEMUNG FINANCIAL CORP
Form 10-Q
August 02, 2017

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

FORM 10-Q

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

For Quarterly period ended June 30, 2017
Or

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

Commission File No.
000-13888
CHEMUNG FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

New York	16-1237038
(State or other jurisdiction of incorporation or organization)	I.R.S. Employer Identification No.
One Chemung Canal Plaza, Elmira, NY	14901
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Large accelerated filer	[ ]	Non-accelerated filer	[ ]
Accelerated filer	[X]	Smaller reporting company	[ ]
		Emerging growth company	[ ]

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

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

The number of shares of the registrant's common stock, $.01 par value, outstanding on August 1, 2017 was 4,737,840.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES

INDEX

GLOSSARY OF ABBREVIATIONS AND TERMS

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

Abbreviations	
ALCO	Asset-Liability Committee
ASU	Accounting Standards Update
Bank	Chemung Canal Trust Company
Basel III	The Third Basel Accord of the Basel Committee on Banking Supervision
Board of Directors	Board of Directors of Chemung Financial Corporation
CDARS	Certificate of Deposit Account Registry Service
CDO	Collateralized Debt Obligation
CECL	Current expected credit loss
CFS	CFS Group, Inc.
Corporation	Chemung Financial Corporation
CRM	Chemung Risk Management, Inc.
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act
EPS	Earnings per share
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FHLBNY	Federal Home Loan Bank of New York
FRB	Board of Governors of the Federal Reserve System
FRBNY	Federal Reserve Bank of New York
Freddie Mac	Federal Home Loan Mortgage Corporation
GAAP	U.S. Generally Accepted Accounting Principles
ICS	Insured Cash Sweep Service
IFRS	International Financial Reporting Standards
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
NAICS	North American Industry Classification System
N/M	Not meaningful
OPEB	Other postemployment benefits
OREO	Other real estate owned
OTTI	Other-than-temporary impairment
PCI	Purchased credit impaired
ROA	Return on average assets
ROE	Return on average equity
RWA	Risk-weighted assets
SBA	Small Business Administration
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933
TDRs	Troubled debt restructurings
WMG	Wealth Management Group

Terms	
Allowance for loan losses to total loans	Represents period-end allowance for loan losses divided by retained loans.

3

Assets under administration	Represents assets that are beneficially owned by clients and all investment decisions pertaining to these assets are also made by clients.
Assets under management	Represents assets that are managed on behalf of clients.
Basel III	A comprehensive set of reform measures designed to improve the regulation, supervision, and risk management within the banking sector. The reforms require banks to maintain proper leverage ratios and meet certain capital requirements.
Benefit obligation	Refers to the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for OPEB plans.
Capital Bank	Division of Chemung Canal Trust Company located in the "Capital Region" of New York State and includes the counties of Albany and Saratoga.
CDARS	Product involving a network of financial institutions that exchange certificates of deposits among members in order to ensure FDIC insurance coverage on customer deposits above the single institution limit. Using a sophisticated matching system, funds are exchanged on a dollar-for-dollar basis, so that the equivalent of an original deposit comes back to the originating institution.
Captive insurance company	A company that provides risk-mitigation services for its parent company.
Collateralized debt obligation	A structured financial product that pools together cash flow-generating assets, such as mortgages, bonds, and loans.
Collateralized mortgage obligations	A type of mortgage-backed security with principal repayments organized according to their maturities and into different classes based on risk. The mortgages serve as collateral and are organized into classes based on their risk profile.
Dodd-Frank Act	The Dodd-Frank Act was enacted on July 21, 2010 and significantly changed the bank regulatory landscape and has impacted and will continue to impact the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare various studies and reports for Congress.
Fully taxable equivalent basis	Income from tax-exempt loans and investment securities that have been increased by an amount equivalent to the taxes that would have been paid if this income were taxable at statutory rates; the corresponding income tax impact related to tax-exempt items is recorded within income tax expense.
GAAP	Accounting principles generally accepted in the United States of America.
Holding company	Consists of the operations for Chemung Financial Corporation (parent only).
ICS	Product involving a network of financial institutions that exchange interest-bearing money market deposits among members in order to ensure FDIC insurance coverage on customer deposits above the single institution limit. Using a sophisticated matching system, funds are exchanged on a dollar-for-dollar basis, so that the equivalent of an original deposit comes back to the originating institution.
Loans held for sale	Residential real estate loans originated for sale on the secondary market with maturities from 15-30 years.
Long term lease obligation	An obligation extending beyond the current year, which is related to a long term capital lease that is considered to have the economic characteristics of asset ownership.
Mortgage-backed securities	A type of asset-backed security that is secured by a collection of mortgages.
Municipal clients	A political unit, such as a city, town, or village, incorporated for local self-government.
N/A	Data is not applicable or available for the period presented.
N/M	Not meaningful.
Non-GAAP	A calculation not made according to GAAP.

Obligations of state and political subdivisions	An obligation that is guaranteed by the full faith and credit of a state or political subdivision that has the power to tax.
Obligations of U.S. Government	A federally guaranteed obligation backed by the full power of the U.S. government, including Treasury bills, Treasury notes and Treasury bonds.
Obligations of U.S. Government sponsored enterprise obligations	Obligations of agencies originally established or chartered by the U.S. government to serve public purposes as specified by the U.S. Congress; these obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

4

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

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(in thousands, except share and per share data)	June 30, 2017	December 31, 2016
ASSETS		
Cash and due from financial institutions	$26,684	$28,205
Interest-bearing deposits in other financial institutions	37,862	45,957
Total cash and cash equivalents	64,546	74,162
Trading assets, at fair value	877	774
Securities available for sale, at estimated fair value	324,293	303,402
Securities held to maturity, estimated fair value of $5,117 at June 30, 2017 and $4,912 at December 31, 2016	4,928	4,705
FHLBNY and FRBNY Stock, at cost	3,764	4,041
Loans, net of deferred loan fees	1,252,647	1,200,290
Allowance for loan losses	(15,104)	(14,253)
Loans, net	1,237,543	1,186,037
Loans held for sale	386	412
Premises and equipment, net	27,836	28,923
Goodwill	21,824	21,824
Other intangible assets, net	2,506	2,945
Bank-owned life insurance	2,947	2,912
Accrued interest receivable and other assets	27,122	27,042
Total assets	$1,718,572	$1,657,179
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	$436,017	$417,812
Interest-bearing	1,089,020	1,038,531
Total deposits	1,525,037	1,456,343
Securities sold under agreements to repurchase	11,937	27,606
FHLBNY term advances	9,038	9,093
Long term capital lease obligation	4,620	4,722
Dividends payable	1,231	1,225
Accrued interest payable and other liabilities	14,747	14,442
Total liabilities	1,566,610	1,513,431
Shareholders' equity:		
Common stock, $0.01 par value per share, 10,000,000 shares authorized; 5,310,076 issued at June 30, 2017 and December 31, 2016	53	53
Additional paid-in capital	45,966	45,603
Retained earnings	127,585	124,111

Treasury stock, at cost; 574,015 shares at June 30, 2017 and 597,843 shares at December 31, 2016	(14,670)	(15,265)
Accumulated other comprehensive loss	(6,972)	(10,754)
Total shareholders' equity	151,962	143,748
Total liabilities and shareholders' equity	$ 1,718,572	$ 1,657,179

See accompanying notes to unaudited consolidated financial statements.

6

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2017	2016	2017	2016
Interest and dividend income:				
Loans, including fees	$12,817	$12,321	$25,316	$24,567
Taxable securities	1,398	1,281	2,820	2,718
Tax exempt securities	276	240	514	494
Interest-bearing deposits	193	83	348	95
Total interest and dividend income	14,684	13,925	28,998	27,874
Interest expense:				
Deposits	549	539	1,087	1,046
Securities sold under agreements to repurchase	95	211	288	422
Borrowed funds	90	207	179	413
Total interest expense	734	957	1,554	1,881
Net interest income	13,950	12,968	27,444	25,993
Provision for loan losses	421	388	1,461	983
Net interest income after provision for loan losses	13,529	12,580	25,983	25,010
Non-interest income:				
WMG fee income	2,269	2,201	4,378	4,213
Service charges on deposit accounts	1,225	1,285	2,409	2,420
Interchange revenue from debit card transactions	964	939	1,884	1,832
Net gains on securities transactions	12	—	12	908
Net gains on sales of loans held for sale	53	97	122	158
Net gains (losses) on sales of other real estate owned	(9)	(11)	8	(16)
Income from bank-owned life insurance	18	18	35	36
Other	490	687	1,021	1,266
Total non-interest income	5,022	5,216	9,869	10,817
Non-interest expenses:				
Salaries and wages	5,422	5,182	10,697	10,365
Pension and other employee benefits	1,207	1,646	2,425	3,321
Net occupancy expenses	1,702	1,878	3,308	3,784
Furniture and equipment expenses	781	829	1,462	1,601
Data processing expense	1,587	1,720	3,191	3,434
Professional services	417	575	717	916
Legal accruals and settlements	850	1,200	850	1,200
Amortization of intangible assets	213	245	439	503
Marketing and advertising expenses	118	325	367	547
Other real estate owned expenses	11	57	31	109
FDIC insurance	309	277	634	571
Loan expense	166	188	282	300
Other	1,549	1,448	2,974	2,927
Total non-interest expenses	14,332	15,570	27,377	29,578
Income before income tax expense	4,219	2,226	8,475	6,249

Income tax expense	1,263	605	2,540	1,921
Net income	$2,956	$1,621	5,935	$4,328
Weighted average shares outstanding	4,797	4,760	4,793	4,754
Basic and diluted earnings per share	$0.62	$0.34	$1.24	$0.91

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2017	2016	2017	2016
Net income	$2,956	$1,621	$5,935	$4,328
Other comprehensive income				
Unrealized holding gains on securities available for sale	2,854	2,523	6,020	5,632
Reclassification adjustment for gains realized in net income	(12)	—	(12)	(908)
Net unrealized gains	2,842	2,523	6,008	4,724
Tax effect	1,078	952	2,267	1,782
Net of tax amount	1,764	1,571	3,741	2,942
Change in funded status of defined benefit pension plan and other benefit plans:				
Reclassification adjustment for amortization of prior service costs	(55)	(23)	(110)	(45)
Reclassification adjustment for amortization of net actuarial loss	88	396	176	792
Total before tax effect	33	373	66	747
Tax effect	13	141	25	282
Net of tax amount	20	232	41	465
Total other comprehensive income	1,784	1,803	3,782	3,407
Comprehensive income	$4,740	$3,424	$9,717	$7,735

See accompanying notes to unaudited consolidated financial statements.

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

(in thousands, except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balances at January 1, 2016	$ 53	$ 45,537	$ 118,973	$ (16,379)	$ (10,942)	$ 137,242
Net income	—	—	4,328	—	—	4,328
Other comprehensive income	—	—	—	—	3,407	3,407
Restricted stock awards	—	96	—	—	—	96
Restricted stock units for directors' deferred compensation plan	—	48	—	—	—	48
Cash dividends declared ($0.52 per share)	—	—	(2,441)	—	—	(2,441)
Distribution of 9,532 shares of treasury stock for directors' compensation	—	19	—	243	—	262
Distribution of 7,661 shares of treasury stock for employee compensation	—	15	—	195	—	210
Distribution of 3,740 shares of treasury stock for deferred directors’ compensation	—	(92)	—	95	—	3
Sale of 9,269 shares of treasury stock (a)	—	16	—	238	—	254
Balances at June 30, 2016	$ 53	$ 45,639	$ 120,860	$ (15,608)	$ (7,535)	$ 143,409
Balances at January 1, 2017	$ 53	$ 45,603	$ 124,111	$ (15,265)	$ (10,754)	$ 143,748
Net income	—	—	5,935	—	—	5,935
Other comprehensive income	—	—	—	—	3,782	3,782
Restricted stock awards	—	107	—	—	—	107
Restricted stock units for directors' deferred compensation plan	—	49	—	—	—	49
Cash dividends declared ($0.52 per share)	—	—	(2,461)	—	—	(2,461)
Distribution of 7,880 shares of treasury stock for directors' compensation	—	68	—	201	—	269
Distribution of 5,861 shares of treasury stock for employee compensation	—	50	—	150	—	200
Distribution of 2,438 shares of treasury stock for deferred directors’ compensation	—	(51)	—	62	—	11
Sale of 8,788 shares of treasury stock (a)	—	97	—	225	—	322
Forfeiture of 1,139 shares of restricted stock awards	—	43	—	(43)	—	—
Balances at June 30, 2017	$ 53	$ 45,966	$ 127,585	$ (14,670)	$ (6,972)	$ 151,962

(a) All treasury stock sales were completed at the prevailing market price with the Chemung Canal Trust Company Profit Sharing, Savings, and Investment Plan which is a defined contribution plan sponsored by the Bank.

See accompanying notes to unaudited consolidated financial statements.

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

(in thousands)	Six Months Ended June 30,	
CASH FLOWS FROM OPERATING ACTIVITIES:	2017	2016
Net income	$5,935	$4,328
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	439	503
Provision for loan losses	1,461	983
Losses on disposal of fixed assets	31	—
Depreciation and amortization of fixed assets	1,946	2,374
Amortization of premiums on securities, net	736	911
Gains on sales of loans held for sale, net	(122)	(158)
Proceeds from sales of loans held for sale	6,204	7,265
Loans originated and held for sale	(6,056)	(6,840)
Net gains on trading assets	(64)	(19)
Net gains on securities transactions	(12)	(908)
Net (gains) losses on sales of other real estate owned	(8)	16
Purchase of trading assets	(39)	(47)
Expense related to restricted stock units for directors' deferred compensation plan	49	48
Expense related to employee stock compensation	200	210
Expense related to employee restricted stock awards	107	96
Income from bank-owned life insurance	(35)	(36)
(Increase)/decrease in other assets and accrued interest receivable	(132)	1,923
(Increase)/decrease in accrued interest payable	(47)	4
Increase/(decrease) in other liabilities	(1,594)	793
Net cash provided by operating activities	8,999	11,446
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and calls of securities available for sale	1,075	15,422
Proceeds from maturities and principal collected on securities available for sale	24,624	34,302
Proceeds from maturities and principal collected on securities held to maturity	1,544	1,873
Purchases of securities available for sale	(41,306)	(460)
Purchases of securities held to maturity	(1,767)	(825)
Purchase of FHLBNY and FRBNY stock	(173)	(5,458)
Redemption of FHLBNY and FRBNY stock	450	5,764
Purchases of premises and equipment	(890)	(648)
Proceeds from sales of other real estate owned	176	1,463
Net increase in loans	(53,083)	(33,440)
Net cash (used in) provided by investing activities	(69,350)	17,993
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, interest-bearing demand accounts, savings accounts, and insured money market accounts	79,997	75,049
Net decrease in time deposits	(11,303)	(7,424)
Net increase (decrease) in securities sold under agreements to repurchase	(15,669)	325
Net change in FHLBNY overnight advances, net	—	(13,900)
Repayments of FHLBNY long term advances	(55)	(55)

Payments made on capital lease	(102)	(86)
Sale of treasury stock	322	254
Cash dividends paid	(2,455)	(2,433)
Net cash provided by financing activities	50,735	51,730
Net increase (decrease) in cash and cash equivalents	(9,616)	81,169
Cash and cash equivalents, beginning of period	74,162	26,185
Cash and cash equivalents, end of period	$64,546	$107,354

(continued)

See accompanying notes to unaudited consolidated financial statements.

10

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

(in thousands)	Six Months Ended June 30,	
Supplemental disclosure of cash flow information:	2017	2016
Cash paid for:		
Interest	$1,601	$1,877
Income taxes	$4,050	$1,830
Supplemental disclosure of non-cash activity:		
Transfer of loans to other real estate owned	$116	$342
Dividends declared, not yet paid	$1,231	$1,222
Distribution of treasury stock for directors' compensation	$269	$262
Distribution of treasury stock for deferred directors' compensation	$11	$3
Assets acquired through long term capital lease obligations	$—	$2,035

See accompanying notes to unaudited consolidated financial statements.

CHEMUNG FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

CRM, a wholly-owned subsidiary of the Corporation which was formed and began operations on May 31, 2016, is a Nevada-based captive insurance company which insures against certain risks unique to the operations of the Corporation and its subsidiaries and for which insurance may not be currently available or economically feasible in today's insurance marketplace. CRM pools resources with several other similar insurance company subsidiaries of financial institutions to spread a limited amount of risk among themselves. CRM is subject to regulations of the State of Nevada and undergoes periodic examinations by the Nevada Division of Insurance.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Article 10 of Regulation S-X of the Exchange Act. These financial statements include the accounts of the Corporation and its subsidiaries, and all significant intercompany balances and transactions are eliminated in consolidation. Amounts in the prior periods' consolidated financial statements are reclassified whenever necessary to conform to the current period's presentation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and disclosures provided, and actual results could differ. In the opinion of management, all adjustments (consisting of normal recurring adjustments) and disclosures necessary for the fair presentation of the accompanying consolidated financial statements have been included. The unconsolidated financial statements should be read in conjunction with the Corporation's 2016 Annual Report on Form 10-K for the year ended December 31, 2016. The results of operations for any interim periods are not necessarily indicative of the results which may be expected for the entire year.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, an amendment to Revenue from Contracts with Customers (Topic 606). The objective of this amendment is to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS. This update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are in the scope of other standards. In August 2015, the FASB issued ASU 2015-14 to defer for one year the effective date of the new revenue standard. The requirements are effective for annual periods and interim periods within fiscal years beginning after December 15, 2017. During 2016, the FASB issued further implementation guidance regarding revenue recognition. This additional guidance included clarification on certain principal versus agent considerations within the implementation of the guidance as well as clarification related to identifying performance obligations and licensing, assessing collectability, presenting sales taxes, measuring noncash consideration, and certain transition matters. The Corporation intends to adopt the new revenue guidance as of January 1, 2018 and does not expect a significant change upon adoption of the standard, as the new standard will not materially change the way the Corporation currently records revenue for its WMG and fee income from mortgage servicing fees, financial guarantees, and deposit related fees.

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 intends to adopt the new guidance as of January 1, 2018 and believes the ASU will not have a material impact on its consolidated financial statements, as the Corporation's equity investment portfolio is less than $1.0 million as of June 30, 2017.

In February 2016, the FASB issued ASU 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. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018, though early adoption is permitted. The Corporation intends to adopt the new lease guidance as of January 1, 2019 and is currently evaluating the impact that adoption of these updates will have on its consolidated financial statements. Currently, the Corporation believes the implementation of this ASU will create a right of use asset of less than $5.0 million for the Corporation's 13 leased facilities and a related capital obligation of the same amount as of January 1, 2019.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The objectives of the ASU are to simplify accounting for a stock payment's tax consequences and amend how excess tax benefits and a business's payments to cover the tax bills for the shares' recipients should be classified. The amendments allow companies to estimate the number of stock awards they expect to vest, and they revise the withholding requirements for classifying stock awards as equity. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2016, though early adoption is permitted. The adoption of ASU 2016-09 did not have a significant impact on the Corporation's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The objective of the ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date by replacing the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2019, though entities may adopt the amendments earlier for fiscal year beginning after December 15, 2018. The Corporation is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements. The Corporation anticipates that the adoption of the CECL model will result in an increase to the Corporation's allowance for loan losses. The Corporation has established a committee to oversee the implementation of CECL. This committee is currently assessing the data and system requirements necessary for adoption. The Corporation plans to run its current incurred loss model and a CECL model concurrently for 12 months prior to the adoption of this guidance on January 1, 2020.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The objective of the ASU is to reduce the existing diversity in practice relating to eight specific cash flow issues: (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (6) distributions received from equity method investees, (7) beneficial interests in securitization transactions, and (8) separately identifiable cash flows and application of the predominance principal. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, though early adoption is permitted. The adoption of the ASU is not expected to have a significant impact on the Corporation's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The objective of the ASU is to simplify the manner in which an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Additionally, the ASU removes the requirement for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails such qualitative test, to perform Step 2 of the goodwill impairment test. The amendments in this ASU are effective for annual, or any interim, goodwill impairment tests in fiscal years beginning after December 15, 2019. The adoption of the ASU is not expected to have a significant impact on the Corporation's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715) - Improving the Presentation of Net Periodic Cost and Net Periodic Postretirement Benefit Cost. The objective of the ASU is to improve guidance related to the presentation of defined benefit costs in the income statement. Specifically, the ASU requires that an employer report the service cost component in the same line item(s) as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. Additionally, the ASU allows only the service cost component to be eligible for capitalization, when applicable. The amendments in this ASU are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The adoption of the ASU is not expected to have a significant impact on the Corporation's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The objective of the ASU is to align the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities. The amendment requires that the premium be amortized to the earliest call date, but does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this ASU are effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018. The adoption of the ASU is not expected to have a significant impact on the Corporation's consolidated financial statements.

NOTE 2 EARNING PER COMMON SHARE (shares in thousands)

Basic earnings per share is net income divided by the weighted average number of common shares outstanding during the period. Issuable shares, including those related to directors' restricted stock units and directors' stock compensation, are considered outstanding and are included in the computation of basic earnings per share. All outstanding unvested share based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Restricted stock awards are grants of participating securities and are considered outstanding at grant date. Earnings per share information is adjusted to present comparative results for stock splits and stock dividends that occur. Earnings per share were computed by dividing net income by 4,797 and 4,760 weighted average shares outstanding for the three-month periods ended June 30, 2017 and 2016, respectively. Earnings per share were computed by dividing net income by 4,793 and 4,754 weighted average shares outstanding for the six-month periods ended June 30, 2017 and 2016, respectively. There were no common stock equivalents during the three and six-month periods ended June 30, 2017 or 2016.

NOTE 3 SECURITIES

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

	June 30, 2017			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government and U.S. Government sponsored enterprises	$16,245	$ 115	$ —	$16,360
Mortgage-backed securities, residential	249,163	617	2,803	246,977
Obligations of states and political subdivisions	54,751	846	20	55,577
Corporate bonds and notes	248	4	—	252
SBA loan pools	4,612	4	5	4,611

Corporate stocks	265	251	—	516
Total	$325,284	$ 1,837	$ 2,828	$324,293

	December 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of U.S. Government and U.S. Government sponsored enterprises	$ 17,300	$ 155	$ —	$ 17,455
Mortgage-backed securities, residential	253,156	202	7,492	245,866
Obligations of states and political subdivisions	38,843	209	312	38,740
Corporate bonds and notes	249	1	—	250
SBA loan pools				