

May 15, 2012

Dear Fellow Shareholder:

I am pleased to report that our first quarter 2012 unaudited net income totaled \$3.615 million compared to year-earlier results of \$1.665 million, an increase of \$1.950 million or 117.1%. As a result, earnings per share for the quarter totaled \$0.78 as compared with \$0.46 a year ago, an increase of 69.6% on 1,017,578 additional average shares outstanding resulting principally from the April 2011 acquisition of Fort Orange Financial Corp. (“FOFC”) and its subsidiary bank, Capital Bank & Trust Company (“Capital Bank”).

The significant increase in our first quarter net income compared to the first quarter of last year was due in part to a \$1.032 million decrease in one-time pre-tax costs related to our acquisition of FOFC, as well as the recognition of a \$759 thousand casualty gain from flood insurance reimbursements in excess of the carrying amount of fixed assets destroyed in the September 2011 flooding of our Owego and Tioga offices. I am very pleased to report that these offices were both reopened in February of this year, and we thank all of our clients for their support and patience during the renovation of these offices. We also attribute the increase in net income to the Capital Bank acquisition, particularly the increase in our net interest income.

Net interest income of \$12.016 million was \$3.470 million or 40.6% higher than the first quarter of 2011, while the net interest margin increased 44 basis points to 4.28%. A portion of the increase in both net interest income and margin was the result of payments received on certain loans acquired from Capital Bank which were considered to be purchased credit impaired (“PCI”) loans exceeding the amount expected to be received by approximately \$482 thousand, with this amount recorded in interest income. This had a positive impact on net interest margin of 17 basis points. The balance of the increase in net interest income was due primarily to the Capital Bank acquisition and the resulting increase in average earning assets, as well as an increase in yield on those assets and a decrease in the cost of average interest bearing liabilities.

A \$352 thousand increase in the first quarter provision for loan losses as compared to the first quarter of 2011 includes \$227 thousand of impairment charges related to PCI loans. The balance of the increase reflects management’s 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, overall credit quality, current economic conditions and loan growth.

Non-interest income increased \$549 thousand or 12.6% compared with year-earlier results due principally to the above mentioned casualty gain on flood insurance reimbursements, as well as increases in Wealth Management Group fee income, gains on the sale of securities and check card interchange fee income. These increases were somewhat offset primarily by a decrease in revenue from our equity investment in Cephaz Capital Partners, L.P.

Excluding the above mentioned decrease in one-time acquisition related costs, all other operating expenses were \$1.510 million or 16.1% higher than first quarter 2011 expenses due in large part to expenses at the Capital Bank offices acquired. The overall increase was primarily due to additional compensation and employee benefit costs, as well as increases in data processing costs, net occupancy costs, loan and other real estate owned expenses, amortization of intangible assets and marketing and advertising.

Since year-end 2011, total assets have increased \$38.2 million or 3.1% to \$1.254 billion and total deposits were up \$40.2 million or 4.0% to \$1.039 billion. Additionally, since December 31, 2011, total loans have grown by \$6.1 million or 0.8% to \$803.0 million due in large part to loan growth in our Capital Bank Division. Shareholders’ equity at the end of the quarter totaled \$128.8 million with all capital ratios in excess of those required to be considered well-capitalized.

While there are many challenges facing the banking industry, our growth and success has positioned us well for the future. Our community banking philosophy and business model is serving us well and, with your continued support, we will continue to create value for all of our stakeholders.



Ronald M. Bentley
President & CEO



Investor Relations Contacts:
 1) Jane H. Adamy, Corporate Secretary, (607) 737-3788
 2) John Battersby, Jr., Treasurer (607) 737-3817

**CHEMUNG FINANCIAL CORPORATION
 CONSOLIDATED STATEMENT OF INCOME
 UNAUDITED**

(\$ in thousands, except per share data)

	Three months ending	
	<u>3/31/2012</u>	<u>3/31/2011</u>
INTEREST AND DIVIDEND INCOME		
Interest and Fees on Loans	\$ 11,671	\$ 8,575
Interest and Dividends on Securities	1,754	1,518
Dividends on Federal Home Loan and Federal Reserve Bank Stock	73	46
Interest on Fed Funds Sold	-	-
Interest on Deposits	<u>42</u>	<u>40</u>
Total Interest and Dividend Income	13,540	10,179
INTEREST EXPENSE		
Interest on Deposits	928	1,027
Repurchase Agreements and Funds Borrowed	<u>596</u>	<u>606</u>
Total Interest Expense	<u>1,524</u>	<u>1,633</u>
NET INTEREST INCOME	12,016	8,546
Provision for Loan Losses	<u>477</u>	<u>125</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	11,539	8,421
Realized Gains on Security Transactions, Net	297	193
Net Impairment Loss on Investment Securities	-	-
Other Operating Income	<u>4,600</u>	<u>4,155</u>
Total Operating Income	<u>4,897</u>	<u>4,348</u>
Total Revenue	16,436	12,769
Other Operating Expense	10,922	10,444
Income Before Taxes	5,514	2,325
Income Taxes	<u>1,899</u>	<u>660</u>
NET INCOME	\$ 3,615	\$ 1,665
EARNINGS PER COMMON SHARE	\$ 0.78	\$ 0.46
No. Shs Used in Calculation (Thousands)	4,642	3,624
DIVIDENDS DECLARED PER SHARE	\$ 0.25	\$ 0.25

**CHEMUNG FINANCIAL CORPORATION
 CONSOLIDATED STATEMENT OF CONDITION
 (UNAUDITED)**

(\$ in thousands, except per share data)

	<u>3/31/2012</u>	<u>12/31/2011</u>
ASSETS		
CASH AND DUE FROM BANKS	\$ 27,311	\$ 28,205
INTEREST BEARING DEPOSITS	<u>83,203</u>	<u>24,697</u>
TOTAL CASH AND CASH EQUIVALENTS	110,514	52,902
TRADING ASSETS	254	294
INVESTMENT SECURITIES:		
Securities Held to Maturity	7,447	8,312
Securities Available for Sale at estimated Fair Value	259,449	280,870
Federal Home Loan Bank and Federal Reserve Bank stock	<u>5,436</u>	<u>5,509</u>
TOTAL INVESTMENT SECURITIES	272,332	294,691
LOANS, NET OF DEFERRED ORIG FEES AND COSTS, AND UNEARNED INCOME	803,033	796,915
ALLOWANCE FOR LOAN LOSSES	<u>(10,283)</u>	<u>(9,659)</u>
LOANS, NET	792,750	787,256
LOANS HELD FOR SALE	826	395
PREMISES AND EQUIPMENT, NET	24,977	24,762
GOODWILL	21,824	21,984
OTHER INTANGIBLE ASSETS, NET	5,906	6,191
BANK OWNED LIFE INSURANCE	2,647	2,625
OTHER ASSETS	<u>22,465</u>	<u>25,160</u>
TOTAL ASSETS	\$ 1,254,495	\$ 1,216,260
LIABILITIES		
DEPOSITS:		
Non-Interest Bearing	\$ 272,055	\$ 258,836
Interest-Bearing	<u>766,650</u>	<u>739,657</u>
TOTAL DEPOSITS	1,038,705	998,493
FEDERAL HOME LOAN BANK TERM ADVANCES	43,227	43,344
REPURCHASE AGREEMENTS	34,998	37,107
OTHER LIABILITIES	<u>8,736</u>	<u>11,386</u>
TOTAL LIABILITIES	1,125,666	1,090,330
SHAREHOLDERS' EQUITY		
COMMON STOCK: \$.01 par value per share		
Authorized 10,000,000 shares; Issued 5,310,076 shares	53	53
SURPLUS	45,556	45,583
RETAINED EARNINGS	103,100	100,629
TREASURY SHARES (734,887 shrs 2012; 741,003 shrs 2011)	<u>(18,734)</u>	<u>(18,894)</u>
ACCUM OTHER COMPREHENSIVE INCOME	<u>(1,146)</u>	<u>(1,441)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>128,829</u>	<u>125,930</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,254,495	\$ 1,216,260
Tangible Book Value Per Share	\$ 21.79	\$ 21.07
Book Value Per Share	\$ 27.77	\$ 27.14
Market Value Trust Assets (Thousands)	\$ 1,703,780	\$ 1,595,940