

August 22, 2011

Dear Fellow Shareholders:

We are pleased to report on the recent activities of your company, as well as on second quarter and first half earnings of Chemung Financial Corporation. As you will recall, on Friday, April 8th, we completed our acquisition of the Albany, N.Y. based Fort Orange Financial Corp. (FOFC) and its subsidiary bank, Capital Bank & Trust Company (Capital Bank). On Monday, April 11th, the five branch offices acquired in this merger opened for business as Capital Bank, a division of Chemung Canal Trust Company. We are extremely pleased with this merger and our entry into this new market from both a financial and strategic standpoint. Excluding one-time transaction costs, this transaction has had a very positive impact on our second quarter and year-to-date financial results. In addition, we are excited about the level of new loan opportunities coming out of this region which is helping to absorb our excess liquidity. With the completion of this acquisition, Chemung Financial Corporation now has \$1.2 billion in total assets and 28 offices located in eight New York counties, as well as Bradford County in Pennsylvania.

Chemung Financial Corporation reported second quarter 2011 unaudited net income of \$2.620 million compared to year-earlier results of \$2.503 million, an increase of \$117 thousand. Earnings per share for the quarter totaled \$0.57 as compared with \$0.69 a year ago, a decrease of 17.4% on 1,026,724 additional average shares outstanding resulting from the Corporation's acquisition of Fort Orange Financial Corp. However, the decrease in earnings per share is attributed to one-time costs related to this transaction totaling \$1.187 million during the second quarter of this year. Excluding these one-time costs, second quarter 2011 income would have totaled approximately \$3.375 million or \$0.73 per share with the Capital Bank acquisition contributing an estimated \$1.141 million of that total or \$0.25 per share.

Net income for the first six months of 2011 totaled \$4.285 million, down \$218 thousand compared to last year. Earnings per share for the first six months of this year totaled \$1.04 compared to \$1.25 for the corresponding period last year on 522,355 additional average shares outstanding. Again, these decreases resulted from the recognition of \$2.223 million in one-time acquisition related costs during the first half of this year. Excluding these costs, net income for the first six months of this year would have totaled approximately \$5.720 million or \$1.39 per share with the Capital Bank acquisition contributing an estimated \$1.115 million or \$0.27 per share.

Second quarter net interest income of \$11.451 million was \$2.673 million or 30.4% higher than the second quarter of last year with the net interest margin increasing 24 basis points to 4.08%. This increase was due principally to the Capital Bank acquisition which resulted in a significantly higher level of average earning assets compared to the second quarter of last year, as well as a decrease in the cost of average interest bearing liabilities, somewhat offset by a decrease in the yield on average earning assets.

A \$250 thousand decrease in the provision for loan losses as compared to the second quarter of last year was due to improved asset quality throughout 2010 as well as a decrease in net charge-

offs, and 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 for the second quarter of 2011 was \$79 thousand or 1.7% higher than the second quarter of last year due principally to increases in check card interchange fee income, a decrease in other-than-temporary impairment ("OTTI") charges on trust preferred securities pools carried in our investment portfolio, higher revenue at our financial services subsidiary, CFS Group, Inc. and an increase in gains on the sale of other real estate owned. These increases were offset in part primarily by a decrease in Wealth Management Group fee income.

Excluding the above mentioned one-time acquisition related costs, all other operating expenses were \$1.599 million or 17.0% higher than last year impacted to a large extent by expenses at the new offices acquired. The increase in operating expenses was reflected primarily in increases in compensation, net occupancy costs, professional services and data processing.

Net interest income for the first half of 2011 totaling \$19.997 million was \$2.706 million or 15.7% higher than last year, with the net interest margin increasing 13 basis points to 3.97%. As was the case with second quarter results, we attribute this increase to an increase in average earning assets resulting from the Capital Bank acquisition, as well as to a decrease in the cost of interest bearing liabilities, somewhat offset by a decrease in the yield on average earning assets.

For reasons noted above, the provision for loan losses was \$500 thousand lower than the first half of 2010.

Year-to-date non-interest income was up \$432 thousand or 5.0% due in large part to an increase in revenue from our equity investment in Cephias Capital Partners, L.P., a decrease in OTTI charges on trust preferred securities pools and an increase in gains on the sale of securities. Additionally impacting the increase in non-interest income were increases in check card interchange fee income and revenue at CFS Group, Inc., with these increases offset in part by decreases in Wealth Management Group fee income and service charges.

Similar to second quarter results, and for reasons noted above, excluding the previously mentioned one-time acquisition costs, all other operating expenses were \$1.761 million or 9.4% higher than last year.

Since year-end 2010, total assets increased \$278.7 million or 29.1% to \$1.237 billion, due in large part to the Capital Bank acquisition. Total loans were up \$175.0 million, including \$165.9 million related to the Capital Bank acquisition, while total deposits increased \$227.6 million or 28.9% to \$1.014 billion, with \$183.3 million of this increase attributed to the Capital Bank acquisition. Capital at June 30, 2011 totaled \$126.6 million compared to \$97.4 million at year-end 2010. This increase is attributed principally to the issuance of 1,009,942 shares of common stock to acquire the common shares of former FOFC shareholders, resulting in an increase in common stock and additional paid-in-capital totaling \$23.7 million, as well as to increases in

accumulated other comprehensive income and retained earnings. All bank capital ratios are in excess of those required to be considered well-capitalized.

These are exciting times at Chemung Canal Trust Company. Our strategy has been to grow our company organically, by entering new markets and by acquisition. We have been successful on all fronts and this growth is delivering earnings improvement which creates value for of all our stakeholders. Thank you again for your continued support.

Sincerely,

A handwritten signature in black ink, appearing to read "Ronald M. Bentley". The signature is written in a cursive, flowing style.

Ronald M. Bentley
President &CEO



Investor Relations Contacts:
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**CHEMUNG FINANCIAL CORPORATION
 CONSOLIDATED STATEMENT OF INCOME
 UNAUDITED**

(\$ in thousands, except per share data)

	<u>Six months ending</u>		<u>Three months ending</u>	
	<u>6/30/2011</u>	<u>6/30/2010</u>	<u>6/30/2011</u>	<u>6/30/2010</u>
INTEREST AND DIVIDEND INCOME				
Interest and Fees on Loans	\$ 19,783	\$ 17,670	\$ 11,207	\$ 8,846
Interest and Dividends on Securities	3,425	3,922	1,908	1,968
Dividends on Federal Home Loan and Federal Reserve Bank Stock	102	80	56	36
Interest on Fed Funds Sold	-	-	-	-
Interest on Deposits	<u>102</u>	<u>82</u>	<u>62</u>	<u>35</u>
Total Interest and Dividend Income	\$ 23,412	\$ 21,754	\$ 13,233	\$ 10,885
INTEREST EXPENSE				
Interest on Deposits	\$ 2,188	\$ 3,117	\$ 1,160	\$ 1,452
Repurchase Agreements and Funds Borrowed	<u>1,227</u>	<u>1,346</u>	<u>622</u>	<u>654</u>
Total Interest Expense	\$ 3,415	\$ 4,463	\$ 1,782	\$ 2,106
NET INTEREST INCOME	\$ 19,997	\$ 17,291	\$ 11,451	\$ 8,779
Provision for Loan Losses	<u>250</u>	<u>750</u>	<u>125</u>	<u>375</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	\$ 19,747	\$ 16,541	\$ 11,326	\$ 8,404
Realized Gains on Security Transactions, Net	679	451	486	451
Net Impairment Loss on Investment Securities	-	(337)	-	(76)
Other Operating Income	<u>8,413</u>	<u>8,546</u>	<u>4,258</u>	<u>4,290</u>
Total Operating Income	\$ 9,092	\$ 8,660	\$ 4,744	\$ 4,665
Total Revenue	\$ 28,839	\$ 25,201	\$ 16,070	\$ 13,069
Other Operating Expense	<u>22,645</u>	<u>18,661</u>	<u>12,201</u>	<u>9,415</u>
Income Before Taxes	6,194	6,540	3,869	3,654
Income Taxes	<u>1,909</u>	<u>2,037</u>	<u>1,249</u>	<u>1,151</u>
NET INCOME	\$ 4,285	\$ 4,503	\$ 2,620	\$ 2,503
EARNINGS PER COMMON SHARE	\$ 1.04	\$ 1.25	\$ 0.57	\$ 0.69
Number of Shares Used in Calculation (Thousands)	4,128	3,606	4,632	3,605
DIVIDENDS DECLARED PER SHARE	\$ 0.50	\$ 0.50	\$ 0.25	\$ 0.25

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

(\$ in thousands, except per share data)

	<u>6/30/2011</u>	<u>12/31/2010</u>
ASSETS		
CASH AND DUE FROM BANKS	\$ 27,787	\$ 16,540
INTEREST BEARING DEPOSITS	<u>56,157</u>	<u>44,080</u>
TOTAL CASH AND CASH EQUIVALENTS	83,944	60,620
INVESTMENT SECURITIES:		
Securities Held to Maturity	8,041	7,715
Securities Available for Sale at estimated Fair Value	284,133	223,545
Federal Home Loan Bank and Federal Reserve Bank stock	<u>4,724</u>	<u>3,329</u>
TOTAL INVESTMENT SECURITIES	296,898	234,589
LOANS, NET OF DEFERRED ORIG FEES AND COSTS, AND UNEARNED INCOME	788,720	613,684
ALLOWANCE FOR LOAN LOSSES	<u>(9,756)</u>	<u>(9,498)</u>
LOANS, NET	778,964	604,186
LOANS HELD FOR SALE	351	487
PREMISES AND EQUIPMENT, NET	24,345	24,193
GOODWILL	22,551	9,872
OTHER INTANGIBLE ASSETS, NET	6,767	4,656
BANK OWNED LIFE INSURANCE	2,580	2,537
OTHER ASSETS	<u>20,636</u>	<u>17,187</u>
TOTAL ASSETS	\$ 1,237,036	\$ 958,327
LIABILITIES		
DEPOSITS:		
Non-Interest Bearing	\$ 245,274	\$ 197,322
Interest-Bearing	<u>768,688</u>	<u>589,037</u>
TOTAL DEPOSITS	1,013,962	786,359
FEDERAL HOME LOAN BANK TERM ADVANCES	44,096	20,000
REPURCHASE AGREEMENTS	42,218	44,775
OTHER LIABILITIES	<u>10,200</u>	<u>9,784</u>
TOTAL LIABILITIES	1,110,476	860,918
SHAREHOLDERS' EQUITY		
COMMON STOCK: \$.01 par value per share	53	43
Authorized 10,000,000 shares; Issued 5,310,076 shrs 2011; 4,300,134 shrs 2010		
SURPLUS	45,719	22,022
RETAINED EARNINGS	96,659	94,409
TREASURY SHARES; (741,281 shrs 2011; 749,880 shrs 2010)		
4,300,134 shrs 2010	(18,930)	(19,167)
ACCUM OTHER COMPREHENSIVE INCOME	<u>3,059</u>	<u>102</u>
TOTAL SHAREHOLDERS' EQUITY	<u>126,560</u>	<u>97,409</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,237,036	\$ 958,327
Tangible Book Value Per Share	\$ 20.99	\$ 22.90
Book Value Per Share	\$ 27.32	\$ 26.92
Market Value Trust Assets (Thousands)	\$1,664,522	\$1,625,385