



CHEMUNG FINANCIAL CORPORATION

2012 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

(in thousands, except per share data)

OPERATING RESULTS - Year Ended December 31

	2012	2011	% of Change
Net Interest Income	\$ 46,781	\$ 43,849	6.69%
Provision for loan losses	828	958	-13.57%
Non-interest income:			
Securities gains, net	301	1,108	-72.83%
Wealth Management Group Services Income	6,827	6,710	1.74%
Other operating income	10,162	9,646	5.35%
Other operating expense	46,837	44,784	4.58%
Income tax expense	5,384	5,033	6.97%
Net income	11,022	10,538	4.59%

At Year End:

Assets	\$1,248,160	\$1,216,260	2.62%
Loans, net of deferred fees and costs, and unearned income	893,517	796,915	12.12%
Allowance for loan losses	10,433	9,659	8.01%
Deposits	1,044,734	998,493	4.63%
Shareholders' equity	131,115	125,929	4.12%
Employees (full time equivalent)	356	349	2.01%

Share and Per Share Data:

Net income	2.38	2.40	-0.83%
Book value, at year end	28.20	27.14	3.91%
Tangible book value, at year end	22.40	21.07	6.31%
Dividends declared	1.00	1.00	0.00%
Shares outstanding (average)	4,641	4,383	5.89%

Ratios:

Allowance to total loans	1.17%	1.21%
Return on average assets	0.88%	0.90%
Return on average equity	8.41%	8.77%

Trust Assets Under Administration (market value)

as Fiduciary	\$1,230,111	\$1,136,074	8.28%
as Custodian	504,733	459,866	9.76%
	<u>\$1,734,844</u>	<u>\$1,595,940</u>	8.70%

Common Stock Market Prices and Dividends Paid During Past Two Years (dollars)

December 31, 2012	High	Low	Dividends
4th Quarter	\$ 32.50	\$ 23.51	\$ 0.50
3rd Quarter	26.00	23.55	0.25
2nd Quarter	25.99	24.76	0.25
1st Quarter	26.00	22.65	0.25

December 31, 2011

4th Quarter	23.75	22.50	0.25
3rd Quarter	24.00	22.95	0.25
2nd Quarter	26.00	22.50	0.25
1st Quarter	26.75	21.77	0.25

As of December 31, 2012 there were 1,338 registered holders of record of the Corporation's stock, which includes 700 Non-Objecting Beneficial Owners ("NOBO") shares held in street name.

TO OUR SHAREHOLDERS

In 2012, we set new financial performance records for Chemung Financial Corporation while devoting much of our time and attention to preparing for the future. We are pleased to report that the Capital Bank merger is delivering as promised and our other business units also performed well. The following discusses our financial results and highlights some of the major accomplishments of the year.



David J. Dalrymple



Ronald M. Bentley

Financial Results

Net income for the year was a record \$11.0 million, an increase of \$.5 million or 4.6% over 2011. Earnings per share (EPS) of \$2.38 were \$0.02 lower than last year with additional average shares outstanding. Our return on average assets was .88% and our return on average equity was 8.41% compared to .90% and 8.77%, respectively for 2011. In 2012, \$4.6 million in dividends were declared continuing our long history of uninterrupted dividend payments. In February, we announced a \$.01 per quarter increase in our dividend bringing our annual dividend to \$1.04 per share. Driven entirely by organic growth, we experienced double digit growth in both loans and deposits. Commercial loans increased \$47.3 million or 11.6% and consumer loans increased \$42.5 million or 21.6% from December 31, 2011 balances. Demand deposits grew \$41.8 million or 16.1% while total core deposits (demand, NOW, savings and money market) grew \$86.5 million or 12% from year earlier levels.

At December 31, 2012, our balance sheet reflects total assets of \$1.25 billion, total loans of \$894 million, total deposits of \$1.0 billion and total shareholders' equity of \$131 million. Our capital ratios remain well above those considered to be "well capitalized" by regulators. The market value of total assets under management or administration in our Wealth Management Group was \$1.7 billion at year-end.

The Capital Bank Merger

The Capital Bank merger, which occurred in April 2011, has exceeded our expectations from both a financial and strategic standpoint. The transaction has been 20% accretive to EPS and this new market has been a potent source of new loans and deposits. We are pleased to report that this merger has been a win for all constituencies — Fort Orange and Chemung Financial shareholders, former Capital Bank clients and staff, and the communities in the Capital Region where we do business.

The integration of Capital Bank is progressing as planned. All lines of business — commercial, retail and wealth management — have adopted our sales, relationship management and client service practices and procedures, and we are very pleased with the results. Last year, the Capital Bank Division grew its loan portfolio over 30% which enabled us to channel our excess liquidity into high-quality, higher-yielding assets. We are making an impact in the Capital Region and building our brand as a competitive and responsive community bank.

Efforts to reconfigure the branch network in Albany continue. We recently relocated our Latham office to a full service, free-standing building with a 2-bay drive-up and ATM across the street from our current storefront location and we added a drive-up at our Slingerlands office. We are confident our clients will enjoy and value the greatly enhanced convenience and service. We are excited about our future prospects in the Capital Region.

Credit Quality and Reserves

Credit quality remained strong as the level of both classified and nonperforming loans declined from year-earlier levels. Excluding some performing but past due construction loans acquired in connection with the Capital Bank merger, the ratio of total nonperforming assets to total assets at year end was 0.53%, a level attesting to our solid and stable credit quality and better than most of our peers. The allowance for loan and lease losses (ALLL) at year-end was \$10.4 million, representing an ALLL to total loans ratio of 1.2%, a level also considering strong in view of the fact that loans acquired in connection with the Capital Bank merger were accounted for under purchase accounting rules and recorded at fair value.

Growth and Acquisitions

In recent years, we have grown our company through a combination of organic growth, de novo branch expansion, branch purchases, a trust business purchase and two whole bank acquisitions. Organic growth has been achieved by sharpening our sales effectiveness, delivering outstanding client service, deepening client relationships and bringing new products to market that meet the financial needs of existing and prospective clients. The growth we achieved in 2012 was all organic, demonstrating that we know how to drive the business and execute our strategies.

While much attention was directed internally this past year, we fully expect acquisitions to be a part of our future growth and we remain alert to opportunities.

Preparing for the Future

We examined our network infrastructure and core systems to insure that our “engine room” can support future growth. While we identified some areas for improvement, we were pleased with the findings. We need to be prepared for the future. This past year, we also introduced a “new and improved” web banking program for personal and business clients and successfully installed a major upgrade to our core banking computer applications. With the aid of an outside firm we continued our search for revenue enhancement opportunities. We were glad to find some opportunities which, unlike some of our competitors, will not mean eliminating or changing our most popular and widely-used free checking product.

CanalCare and CapitalCare — Our Competitive Advantage

Next generation “CanalCare” is taking shape. All employees are participating in a refresher training course and are renewing their commitment to one of our core values — the delivery of our superior client service. Our service quality metrics and client surveys are telling us we are on the right track and exceeding client expectations.

The Management Team and Future Leadership

Over the past few years, we strengthened and deepened our executive ranks with the addition of Anders Tomson as our Division President in Albany, Karen Makowski as Executive Vice President and Chief Administrative and Risk Officer and Mark Severson as Executive Vice President and Chief Financial Officer. They each bring a wealth of experience and knowledge to Chemung Canal.

We are doing a good job developing the future leaders of our company. We have identified many in our organization who have the ability and desire to take on more responsibility and they are pursuing professional educational and training opportunities to get them ready when the call comes.



A Move to the NASDAQ

On Friday, November 16, 2012, our common stock began trading on the NASDAQ Global Market under its old ticker symbol: CHMG. This is a significant event in the 179 year history of our company and we believe the move to NASDAQ should improve liquidity in our shares for our current and future shareholders. Shareholders should benefit from a more efficient trading platform and we expect our listing to enhance our visibility among the investment community. Listing our company on a national stock exchange is another important step in our strategic plan to position our Company for the future. Evidenced by the behavior and activity in our stock since we went on the NASDAQ, it appears we are accomplishing our goals.

Our Wealth Management Group

Our Wealth Management Group had a strong year and contributed \$1.4 million to pre-tax income. With our expanded offering of investment management solutions, we can meet the investment needs of most investors. Whether constructing an individual investment portfolio, designing a portfolio of mutual funds, ETFs and/or other professional money managers, or using our sophisticated asset allocation and rebalancing models, we have a contemporary platform that can deliver competitive investment returns.

Management Retirements

John Battersby, our Executive Vice President and Chief Financial Officer, retired at year-end after 24 years of service with the bank and Linda Struble, Senior Vice President and Human Resources Manager, retired in February after nearly 30 years of service. John and Linda have been key members of our executive management team and both have made many important contributions to our success. We wish them good health and happiness in their retirement.

The Outlook

Record earnings is the good news. The not-so-good news is that the business climate for community banks has never been more challenging. In this historic low interest rate environment, earnings will continue to come under significant pressure from margin compression. Deposit rates are at floors not seen in our lifetime and we cannot lower deposit rates enough to offset the decline in loan and investment yields. Most of our income is derived from net interest income, the difference between what we pay for deposits and borrowings and what we earn on loans and investments. This is the basic business of a community bank and there are few things we can do to counter these negative trends. Couple this with an anemic economic recovery, stubbornly high unemployment and a costly regulatory and compliance burden and you can grasp the strength of the headwinds we face. Despite the immediate challenges, however, we strongly believe in the future viability and success of community banking and Chemung Canal is well positioned to emerge from this period a stronger and more prosperous institution.

We are grateful for the continued support of our clients, employees, shareholders and the communities we serve.

David J. Dalrymple
Chairman of the Board

Ronald M. Bentley
President and Chief Executive Officer



Sitting (l to r) E. Sneeringer, Jr., J. Updegraff, R. Dalrymple, R. Bentley, R. Storch
Standing (l to r) D. Dalrymple, W. Eggers, R. Swan, S. Lounsberry III, C. Drinkwater, L. Becker, J. Potter, and B. Boyea

BOARD OF DIRECTORS

Ronald M. Bentley
 President and Chief Executive Officer
 Chemung Financial Corporation,
 Chemung Canal Trust Company and
 CFS Group, Inc.

Larry H. Becker
 Chief Operating Officer
 Windsor Development Group, Inc.

Bruce W. Boyea
 Chairman, President and
 Chief Executive Officer
 Security Mutual Life Insurance
 Company of New York

David J. Dalrymple
 Chairman of the Board
 Chemung Financial Corporation,
 Chemung Canal Trust Company
 and
 President
 Dalrymple Holding Corporation

Robert H. Dalrymple
 Vice President and Secretary
 Dalrymple Holding Corporation

Clover M. Drinkwater
 Partner
 Sayles & Evans

William D. Eggers
 Senior Counsel
 Nixon Peabody LLP

Stephen M. Lounsberry, III
 President
 Applied Technology
 Manufacturing

John F. Potter
 President
 Seneca Beverage Corp.

Eugene M. Sneeringer, Jr.
 Principal
 Sneeringer Monahan Provost
 Redgrave Title Agency, Inc.

Robert L. Storch
 Retired Owner
 Storchmont Dairy Farms

Richard W. Swan
 Chairman of the Board
 Swan and Sons-Morss Co., Inc.

Jan P. Updegraff
 Retired President and
 Chief Executive Officer
 Chemung Financial Corporation
 and Chemung Canal Trust
 Company

CAPITAL BANK DIVISION ADVISORY BOARD



Elizabeth T. Coco
 Executive Vice President
 Microknowledge, Inc.

Gerald D. Jennings
 Mayor
 City of Albany

Paul G. Kasselmann
 President
 Kasselmann Electric Inc.

Raymond J. Kinley, Jr.
 Retired President and
 Chief Executive Officer
 Clough Harbour & Assoc.

Dr. Lee McElroy
 Vice President for
 Athletic Administration
 University of Albany

Jim Menzies
 Founder
 Leontine Consulting LLC
 Retired Chief Executive Officer
 KeyBank, New York

Daniel P. Nolan
 President and
 Chief Executive Officer
 Hugh Johnson Advisors

Gregory F. Oberting
 President
 Interstate Commodities, Inc.

Joseph A. Reilly
 Retired President and
 Executive Director
 NYS Broadcasters Assoc. Inc.

Dean A. Rueckert
 President
 Rueckert Advertising and
 Public Relations

Edward J. Trombly
 Partner, Hiscock & Barclay

OTHER INFORMATION

Dividend Reinvestment and Stock Purchase Plan: Registered shareholders of Chemung Financial Corporation, through The Dividend Reinvestment and Stock Purchase Plan, may reinvest their dividends or make quarterly cash payments to purchase additional stock of the Corporation. Shareholders not enrolled in the plan may view and print a descriptive brochure and enrollment form at www.amstock.com or receive the plan documents upon written request to the Corporation's secretary at the following address:

Chemung Financial Corporation
 Attn: Corporate Secretary
 P.O. Box 1522
 Elmira, New York 14902-1522
www.chemungcanal.com

Form 10-K Annual Report: A copy of the Corporation's Form 10-K Annual Report is available without charge to shareholders after March 31, 2013 upon written request to the Corporation's secretary. A copy is also available on our Transfer Agent, American Stock Transfer & Trust Company's website at www.amstock.com/proxyservices/viewmaterials.asp.

Annual Meeting

The Annual Meeting of Shareholders will be held on Thursday, May 9, 2013 at 2:00 p.m. at the downtown Holiday Inn, Elmira — Riverview.

CHEMUNG CANAL TRUST COMPANY, CAPITAL BANK & CFS GROUP, INC. OFFICERS

EXECUTIVE MANAGEMENT TEAM

Ronald M. Bentley President & Chief Executive Officer, **Richard G. Carr** Executive Vice President, Business Client Services, **Louis C. DiFabio** Executive Vice President, Retail Client Services, **Karen R. Makowski** Executive Vice President, Chief Administrative & Risk Officer, **Mark A. Severson** Executive Vice President, Chief Financial Officer, **Melinda A. Sartori** Executive Vice President, Wealth Management Group, **Anders M. Tomson** Division President, Capital Bank, **Michael J. Crimmins** Senior Vice President, Support Services, **Michael J. Wayne** Senior Vice President, Marketing, **Pamela D. Burns** Vice President, Human Resources, **Brendan P. McCormick** Vice President & Auditor, **Kathleen S. McKillip** Corporate Secretary & Assistant Treasurer

SENIOR VICE PRESIDENTS

Catherine B. Crandall Trust & Estate Administration, **Robert M. Pichette** Commercial Lending, **Timothy P. Rubery** Commercial Lending, **Thomas J. Whitaker** Finance, **Thomas W. Wirth**, CFA Investment Services

VICE PRESIDENTS

Yvonne L. Albee Regulatory Risk, **Judy L. Barton** Bank Operations, **Michael J. Battersby** Branch Administration, **Douglas F. Bissonette** Trust & Estate Administration, **Michael D. Blatt**, CFA Investment Services, **John H. Brand**, CFA Investment Services, **Marci L. Cartwright** Wealth Management Group, **Daniel R. Donovan** Consumer Lending, **Lucimar Foo-Siam Escudero** Commercial Credit, **Yvette M. Francisco** Loan Review, **Thomas E. Funk** Finance, **Victoria A. Harkins** Private Banking, **James S. Hartle** Branch Administration, **Craig B. Heffner** Commercial Lending, **William M. Hodel** Commercial Lending, **Marianne T. Kalec** Real Estate Lending, **Pamela A. Kelley** Regional Trust Officer, **John T. Kite** Commercial Lending, **Celeste D. Knickerbocker** Finance, **Michael S. Lares** Trust & Estate Administration, **Ronald W. Lesch** Commercial Lending, **Christopher B. Loughridge** Trust & Estate Administration, **Robert P. Luther** Commercial Lending, **Audrey Manchester** Branch Administration, **Eileen M. McCarthy** Wealth Management Group, Support Services, **D. Tavis McKeon** Branch Administration, **J. Edmond Morton IV** Regional Wealth Management Executive, **Ronald W. Poole** Commercial Lending, **Chester L. Reed** Commercial Lending, **James D. Ripley** Logistical Support, **Robert A. Roemmelt Jr.** Arnot Road Branch, **Larry W. Rudawsky** Retirement Services Group, **John J. Sentigar** Information Technology, **Jacqueline L. Stevens** Owego Branch, **Kenneth J. Wilson** Business Development

ASSISTANT VICE PRESIDENTS

Kimberly A. Bailey Canton Branch, **Joan M. Bernas** Finance, **David E. Carlson** Troy Branch, **Richard W. Carroll** Watkins Glen Branch, **Donna M. Coles** Elmira Heights Branch, **Alison J. Conklin-DeVita** Waverly Branch, **Deborah A. Cram** Southport Branch, **Joel A. Crimmins** Commercial Lending, **Gary K. Earley** Trust & Estate Administration, **Troy J. Edwards** Commercial Lending, **Constance L. English** Corning Branch, **Sandra L. Grooms** The Station (Ithaca) Branch, **Scott T. Heffner** Marketing, **Mary L. Keefe** Business Services, **Matthew T. Keefe** Information Technology, **Christopher Kennedy** Commercial Lending, **Tina M. McGurgan** Information Technology, **Denise G. Mughetti** Binghamton Branch, **Mary Anne Narosky** Business Client Services, **Debra A. Newcomer** Main Office Branch, **Randi Richer** Loan Operations, **Sheryl J. Scott** Big Flats Branch, **Jennifer Sczepanski** Horseheads Branch, **Debra L. Stanton**, Security, **Theresa A. Wagner** Deposit Operations, **David A. Wakeman** Resource Recovery, **Sheila A. Washburn** Bank Operations, **Joan M. Wittig-Smith**, Audit

ASSISTANT TREASURERS

Sherry L. Armstrong Community Corners (Ithaca) Branch, **Larissa A. Benderskaya** Latham Branch, **Gregory J. Bruno** Slingerlands Branch, **Elizabeth M. Courtright** Compliance, **Cheryl A. DeBlock** Vestal Branch, **Karen A. Dimmick** Westside (Elmira) Branch, **Brandon J.S. Downie** Commercial Lending, **Lashonda R. Love** Washington Ave. Branch, **Christine Perlee** Wolf Rd. Branch, **Tina M. Sabina** Real Estate Lending, **Kenneth H. Seeber** Clifton Park Branch, **Andrea L. Seymour** Logistical Support, **Allison A. Strife** Human Resources, **Meredith L. Tigue** Regulatory Risk, **Todd N. Trencansky** Tioga (Owego) Branch, **Charolette R. Truxal** Oakdale Mall Branch, **Devin E. Wandell** Trust & Estate Administration, **Linda L. Wead** Montour Falls Branch, **Jennifer L. White** Bath Branch, **Sue A. Williams** Towanda Branch, **Jean A. Wise-Wicks** Painted Post Branch

CFS GROUP, INC.

Joseph M. Cascio, Sr. Vice President

Officer listing as of March 8, 2013





Building relationships since 1833

MAIN OFFICE

One Chemung Canal Plaza, Elmira, NY 14902-1522 (800) 836-3711 (607) 737-3711

BRADFORD COUNTY

Canton: 5 West Main St., Canton, PA 17724 (570) 673-5127

Towanda: 304 Main St., Towanda, PA 18848 (570) 265-7169

Troy: 159 Canton St., Troy, PA 16947 (570) 297-0657

BROOME COUNTY

Binghamton: 127 Court St., Binghamton, NY 13901 (607) 771-6369

Johnson City: Oakdale Mall, 601-635 Harry L. Dr., Johnson City, NY 13790 (607) 729-6347

Vestal: 100 Rano Blvd., Vestal, NY 13850 (607) 797-1721

CHEMUNG COUNTY

Big Flats: 437 Maple St., Big Flats, NY 14814 (607) 562-8474

Elmira: One Chemung Canal Plaza, Elmira, NY 14901 (800) 836-3711 (607) 737-3711

Elmira: 628 W. Church St., Elmira, NY 14905 (607) 734-7204

Elmira Heights: 100 W. McCanns Blvd., Elmira Heights, NY 14903 (607) 734-1323

Horseheads: 29 Arnot Rd., Horseheads, NY 14845 (607) 739-0373

Horseheads: 602 S. Main St., Horseheads, NY 14845 (607) 739-8735

Southport: 951 Pennsylvania Ave., Elmira, NY 14904 (607) 734-2111

SCHUYLER COUNTY

Montour Falls: 303 W. Main St., Montour Falls, NY 14865 (607) 535-7103

Watkins Glen: 318 N. Franklin St., Watkins Glen, NY 14891 (607) 535-7186

STEUBEN COUNTY

Bath: 410 W. Morris St., Bath, NY 14810 (607) 776-3361

Corning: 149 W. Market St., Corning, NY 14830 (607) 962-4668

Painted Post: 243 N. Hamilton St., Painted Post, NY 14870 (607) 962-6811

TIOGA COUNTY

Owego: 203 Main St., Owego, NY 13827 (607) 687-0670

Owego: 1054 State Route 17C, Owego, NY 13827 (607) 687-5757

Waverly: 405 Chemung St., Waverly, NY 14892 (607) 565-8168

TOMPKINS COUNTY

Ithaca: Community Corners, 909 Hanshaw Rd, Ithaca, NY 14850 (607) 257-2194

Ithaca: The Station, 806 W. Buffalo St., Ithaca, NY 14850 (607) 277-2609



CAPITAL REGION

Albany: 1375 Washington Ave., Albany, NY 12206 (518) 434-1212

Albany: 65 Wolf Rd., Suite 107, Albany, NY 12205 (518) 438-0046

Clifton Park: 7 Southside Dr., Clifton Park, NY 12065 (518) 579-2080

Latham: 581 Loudon Rd, Latham, NY 12110 (518) 694-3670

Slingerlands: 1365 New Scotland Rd, Slingerlands, NY 12159 (518) 694-5620

All locations offer 24-hour ATM services. For office hours and a list of all ATMs, please visit: chemungcanal.com and/or capitalbank.com.

GENERAL INFORMATION 800-836-3711 Member FDIC Equal Housing Lender