



2017 ANNUAL REPORT



FINANCIAL HIGHLIGHTS

(in thousands, except per share data & employee count)

Operating Results – Year Ended December 31:	2017	2016	% of Change
Net interest income	\$56,987	\$52,329	8.9%
Provision for loan losses	9,022	2,437	270.2%
Other operating income:			
Securities gains, net	109	987	(89.0)%
Wealth Management Group fee income	8,804	8,316	5.9%
Other income	11,578	11,846	(2.3)%
Other operating expenses:			
Legal accruals and settlements	850	1,200	(29.2)%
Other expenses	52,914	55,410	(4.5)%
Income tax expense	7,262	4,404	64.9%
Net income	7,430	10,027	(25.9)%

At Year End:

Assets	\$1,707,620	\$1,657,179	3.0%
Loans, net	1,311,824	1,200,290	9.3%
Allowance for loan losses	21,161	14,253	48.5%
Deposits	1,467,446	1,456,343	0.8%
Shareholders' equity	149,813	143,748	4.2%
Employees (full-time equivalent)	371	368	0.8%

Share and Per Share Data:

Net income	1.55	2.11	(26.5)%
Book value, at year end	31.10	30.07	3.4%
Tangible book value, at year end	26.14	24.89	5.0%
Dividends declared	1.04	1.04	—
Shares outstanding (average)	4,800	4,762	0.8%

Ratios:

Allowance for loan losses to total loans	1.61%	1.19%
Return on average assets	0.43%	0.60%
Return on average equity	4.91%	7.02%
Return on average tangible equity	5.85%	8.52%

Trust Assets Under Administration (market value):

as Fiduciary	\$1,531,433	\$1,340,362	14.3%
as Custodian	420,119	380,787	10.3%
	<u>\$1,951,552</u>	<u>\$1,721,149</u>	13.4%

Common Stock Market Prices & Dividends Paid During Past Two Years:

December 31, 2017

	High	Low	Dividends
4th Quarter	\$54.30	\$44.06	\$0.26
3rd Quarter	47.10	39.00	0.26
2nd Quarter	41.43	37.05	0.26
1st Quarter	39.50	32.72	0.26

December 31, 2016

	High	Low	Dividends
4th Quarter	\$36.74	\$28.29	\$0.26
3rd Quarter	32.19	27.47	0.26
2nd Quarter	32.95	26.20	0.26
1st Quarter	28.03	26.25	0.26

As of February 28, 2018, there were 512 registered holders of record of the Corporation's stock.

LETTER TO SHAREHOLDERS

April 2018



A. Tomson



D. Dalrymple

Fellow Shareholders:

We are pleased to report to you that 2017 was an important year for Chemung Financial Corporation (the "Corporation"). Our balance sheet exhibited strong and consistent growth, which had a direct and material

impact on net income. We invested significantly in our banking platforms, with an increasing focus on technology and digital banking. We welcomed new members to our Executive Management Team and our Board of Directors, who will add meaningful perspective and expertise. And through it all, we continued our long tradition of investing in our communities and validating our strong community bank tradition of service and execution.

We are encouraged that the strategies we've implemented are yielding positive results. We continue to grow our balance sheet resulting in a substantial increase in revenue, while maintaining our focus on operational efficiencies. These improved results underscore our commitment to deliver shareholder value.

Net income for 2017 was negatively influenced by two significant events. First, our 2017 earnings were impacted by the re-measurement of our net deferred tax asset ("DTA"), as a result of the enactment of the Tax Cuts and Jobs Act ("Tax Act"). Additionally, net income was negatively affected by a material increase in our provision for loan loss in the fourth quarter. Both of these items are addressed within this letter.

Financial Results

Balance sheet growth was extremely important as we converted excess liquidity to loans. Loans, net of deferred fees, increased \$111.5 million or 9.3%. Commercial loans increased \$98.1 million or 13.2%. This loan growth prompted net interest income to increase \$4.7 million, or 8.9% year over year. The Corporation remained disciplined in its cost containment as non-interest expense decreased \$2.8 million or 5.0%.

The Corporation's fully taxable net interest margin was 3.6%, compared to 3.4% for the preceding year. The increase in net interest margin was the result of repricing on our loan and securities portfolios to current market rates. Over the same period, we have maintained our low funding costs.

Total equity was \$149.8 million at year end, an increase of \$6.1 million or 4.2%. Book value per share increased to \$31.10 from \$30.07 year over year, an increase of 3.4%. Tangible book value per share increased to \$26.14 at year end, an increase of 5.0% from December 31, 2016. In 2017, the Corporation paid \$4.9 million in dividends, continuing its long history of uninterrupted dividend payments.

As stated above, our net income was reduced by two significant fourth-quarter events. First, net income for the year included a \$2.9 million, one-time tax expense, resulting from the re-measurement of our DTA following the enactment of the Tax Act. Going forward, the Tax Act will reduce our federal statutory tax rate from 34% to 21%. As a

result of the implementation of the Tax Act, the Corporation's effective tax rate increased to 49.4% for 2017, compared to 30.5% for the prior year. Our effective rate for the year ending December 31, 2017, excluding the one-time impact of the re-measurement of our DTA, was 29.5%. Second, impairment on a long-standing commercial credit resulted in an increase of \$3.9 million in our provision for loan losses during the fourth quarter ending December 31, 2017. Although we believe this to be an isolated event, it is none the less disappointing. We are working vigorously to pursue recovery and look forward to its resolution.

We are pleased with the progress we've made this year to strengthen our foundation. We are confident that our strong earnings, our commitment to balance sheet growth and the reduction in our federal statutory tax rate, position our Corporation for a more profitable future. We are encouraged that our steadfast focus on our community banking philosophy will allow us to continue gathering low-cost, stable deposits, and invest in the clients and communities that we proudly assist. As has been true for nearly 185 years, this long-term strategy provides sustained value for our shareholders and the other constituencies we serve across our 13-county footprint.

Growing Our Franchise, Planning for the Future

2017 was a year of growth. As stated above, our balance sheet growth warrants specific mention. Of note, loans in the Capital Region grew \$117.6 million, or 20.9%, compared to the prior year. Redeploying deposits and securities into loans, coupled with increases in short-term rates, had a meaningful impact on our interest margin and net interest income growth. Also significant was our ability to pay off high-cost borrowings in 2017, which prompted a 23 basis point decline in our cost of borrowings.

In addition, we announced that our physical distribution network will change in 2018. As of the date of this letter, we have opened our new Schenectady, NY branch and



are well along in the development of a new branch in Wilton, NY. Our Schenectady branch is crisp, clean and modern with all of the bells and whistles of the branch of today, while planning for the future needs of "tomorrow's clients." Most importantly, we've assembled a seasoned team of professionals who embrace our core community-focused principles and stand ready to make a difference. These two locations will greatly enhance our distribution capabilities for our growing client base in the Capital Region. Upon completion, our branch network will consist of 35 offices directly serving 13 counties in two states.

We continue to focus on our retail branch network. In Auburn, we successfully relocated our Genesee Street office into a smaller, more efficient space. As we progress, we will look for opportunities to right size our branch network while providing uncompromising service to our valued clients.

Investing in our digital banking capacity remains a high priority. In fact, nearly one-third of our clients do not set foot inside of a branch. We are committed to providing these clients the same superior service they would receive with a face-to-face experience with one of our

BOARD OF DIRECTORS



Anders M. Tomson
President & CEO,
Chemung Financial Corporation,
Chemung Canal Trust Company
and CFS Group, Inc.



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



Larry H. Becker
COO,
Windsor Development
Group, Inc.

bankers. Our clients interact with us not only in person, but also via email, text, social media and video. We have deployed technology to allow them to apply for loans and open deposit accounts online. In 2018, we will deliver new technology, which will connect clients to our Contact Center directly through our new intelligent video teller machines. Today, our Contact Center is one of the busiest branches in our franchise and no one sets foot inside its walls except our well-trained and highly professional colleagues.

This year we enacted a three-year strategic plan for information technology and deployed technology enhancements throughout our entire platform. Led by our new Chief Information Officer and restructured information technology team, the Corporation has increased its investment and targeted its resources to ensure that the bank remains competitive and provides cutting-edge banking services for our clients in the 21st century.

Another opportunity for continued growth is small business lending. At Chemung Canal and Capital Bank—small business is big business. We expect our small business lending to accelerate in 2018 as we focus on this important market sector. Small business is the commercial backbone of our communities. It is imperative that we remain a vital source of capital, a banking partner and trusted advisor to these clients and stakeholders. To accomplish these goals, we've reorganized our lending teams and created a new focus on this very significant community resource. With new leadership, new lending parameters and a fresh commitment of capital, we are ready to broaden our efforts on behalf of these very important businesses.

We are committed to making deliberate and prudent investments that enhance our risk profile over the long term. One measure we have taken to meet this challenge is to separate our Board Audit and Risk Committee, creating a new and distinct Enterprise Risk Committee. The new committee's charter is to ensure that the investments we make and the risks we're taking are in-line with our risk appetite and follow our traditional community banking philosophy.

We cannot discuss our community banking philosophy without mentioning our commitment to our clients and neighbors within the

cities, towns and villages where we offer products and services. Led by designated and empowered Market Team Executives in each of our key areas, we are making a material, lasting and positive impact in all of the communities across our footprint. We are proud and thankful for our colleagues who commit so much of their time, talents and resources—volunteering to help those in need, endeavoring to enhance the quality of life of their fellow citizens. We engage in community forums, lead neighborhood organizations, and dedicate countless hours of support to ensure no one is left behind. In fact, our Corporation received an outstanding rating for our service test, as a component of our overall Community Reinvestment Act rating.

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**WE ARE ENCOURAGED THAT
THE STRATEGIES WE'VE
IMPLEMENTED ARE YIELDING
POSITIVE RESULTS ... THESE
IMPROVED RESULTS UNDERSCORE
OUR COMMITMENT TO DELIVER
SHAREHOLDER VALUE.**
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Board & Executive Management Developments

We are pleased to have expanded our Executive Management Team in 2017. Dale Cole now serves as our Chief Information Officer and Duane Mittan joined the Corporation as our Chief Internal Auditor. Additionally, we named Dan Fariello President of Capital Bank, our Capital Region division. We are excited about the positive impact they are already having on our Corporation, and that we are a “company of choice” when we recruit experienced professionals.

Recently, we welcomed new board members: David Buicko, Denise Gonick and Jeff Streeter. All of these individuals lead significant businesses in addition to being recognized community leaders. Dave, Denise and Jeff will provide unique and invaluable leadership, perspective and direction in support of the Corporation. We appreciate their willingness to serve and look forward to their contributions.

At the same time, John Potter, one of our longest tenured Directors, will be retiring at this year's annual meeting. John's leadership, his unwavering support and commitment to our community banking philosophy have been evident throughout his 27 years of service to our Corporation. We extend our sincere thanks and appreciation to John for his service, dedication and loyalty.

This year was also a difficult year for the Chemung Canal family. With tremendous respect and admiration, we acknowledge the



Clover M. Drinkwater
Partner
Sayles & Evans



Stephen M. Lounsberry III
President,
Applied Technology
Manufacturing



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



Ronald M. Bentley
Retired President & CEO,
Chemung Financial Corporation,
Chemung Canal Trust Company
and CFS Group, Inc.



Bruce W. Boyea
Chairman, President
& CEO, Security Mutual
Life Insurance
Co. of New York



Robert H. Dalrymple
Vice President & Secretary
Dalrymple Holding Corporation

passing of two retired board members. Both Nelson Mooers van den Blink and Charlie Streeter are remembered for their many years of service and incredible passion for this Corporation and our communities. In their life, they touched many and we are fortunate to have had their friendship and commitment to Chemung Canal Trust Company. Their legacy of service is a standard we aspire to and has had a lasting effect on all of us who are privileged to work for this Corporation.

Final Thoughts

Despite a challenging end to the year, we are pleased with our overall results for 2017. We again validated the direct and material impact that our strong community banking strategy has on our shareholders, clients, colleagues and communities. We embraced our strategy and delivered tremendous results in the face of intense competition and challenging regulatory constraints. 2017 was another year that affirmed our commitment and ability to deliver value to our stakeholders.

Today, we carefully consider the prospect of rising rates and the hope for a steeper yield curve. There is renewed optimism across our footprint that is fueled in some part by the newly enacted Tax Act. I am hopeful that the country will benefit from the promise of more rational regulation and a fairer tax plan. Unequivocally, the Tax Act will have a positive effect on our net income. We will watch these developments closely and react prudently to market changes. Looking forward, we have set another aggressive plan of initiatives that focuses on delivering exceptional client service, finding efficiencies in our banking platform, executing on our long-term strategic technology plan and, as always, carefully managing risk.

This has been a year of incredible activity. We are committed to continuing our initiatives to support our clients and the communities we serve. Our success is the direct result of our hard-working and talented staff, and the guidance and dedication of our Board of Directors. We are grateful for their assistance and support.

On behalf of the Board, our management and staff, thank you for your support of our Corporation.

Anders Tomson

Anders M. Tomson
President & CEO

David J. Dalrymple

David J. Dalrymple
Chairman of the Board

Capital Bank Division ADVISORY BOARD

Carl Becker

Vice President & Counsel
The Windsor Company

Jim Menzies

Founder
Leontine Consulting LLC

Denise Gonick

President & CEO
MVP Healthcare

Gregory Oberting

President
Interstate Commodities, Inc.

Gerald D. Jennings

Former Mayor
City of Albany

Joseph A. Reilly

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NYS Broadcasters Association

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Dawn Homes Management

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President
Dawn Homes Management

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President
Kasselmann Electric Inc.

Dean A. Rueckert

Past President
Rueckert Advertising
and Public Relations

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Sneeringer Monahan Provost
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Dr. Lee McElroy

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& Vice President
Rensselaer Polytechnic Institute

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President,
Seneca Beverage
Corporation



**G. Thomas
Tranter Jr.**
President
Corning
Enterprises



Kevin Tully
Partner,
Teal, Becker &
Chiaromonte,
CPAs PC



**Thomas R.
Tyrrell**
Vice President
Rose & Kiernan, Inc.

BOARD OF DIRECTORS

EXECUTIVE MANAGEMENT TEAM



Anders M. Tomson
President &
Chief Executive Officer



Loren D. Cole
Senior Vice President
Chief Information Officer



Louis C. DiFabio
Executive Vice President
Business Client Services



Pamela D. Burns
Senior Vice President
Human Resources



Michael J. Crimmins
Senior Vice President
**retired March 31, 2018*



Daniel D. Fariello
President
Capital Bank

Senior Vice Presidents

Catherine B. Crandall, WMG Estate Administration • Marianne T. Kalec, Retail Lending • Mark P. Lasch, WMG Regional Manager • J. Edmond Morton IV, WMG Regional Manager
Robert M. Pichette, Commercial Lending • Timothy P. Rubery, Small Business Lending • Joseph J. Tascone, WMG Investment Services • Thomas J. Whitaker, Finance

Vice Presidents

Yvonne L. Albee, Regulatory Risk • Dawn L. Aubin, Auburn/Seneca Falls • Roberta S. Bastow, Commercial Lending • Michael J. Battersby, Support Services • Michael D. Blatt, WMG Investment Services • Matthew R. Crabtree, Finance • Bryce E. Cutler, Business Development • Mark J. Fife, Commercial Lending • Yvette M. Francisco, Loan Review • Thomas E. Funk, Finance • Victoria A. Harkins, WMG Prestige Banking • Kevin P. Harrigan, Commercial Lending • James S. Hartle, Branch Administration • Scott T. Heffner, Marketing • Mary L. Keefe, Business Services • Christopher K. Kelly, WMG Retirement Services Group • Christopher Kennedy, Commercial Lending • John T. Kite, Commercial Lending • Michael S. Lares, WMG Investment Services • James M. Kresge, Commercial Credit • D. Tavis McKeon, E-Retail • Mary E. Meisner, BSA AML Officer • Mary Anne Narosky, Business Client Services • Nino J. Pellegrino, Business Development • Ronald W. Poole, Commercial Lending • Jennifer Sczepanski, Branch Administration • John J. Sentigar, Information Technology • Andrea L. Seymour, Logistical Support • John E. Shea, WMG Relationship Manager • George R. Spencer, Business Development • Gregory Stewart, WMG Sr. Relationship Manager • Sheila A. Washburn, ATM & Card Services

Assistant Vice Presidents

Kimberly A. Bailey, Canton • Bruce E. Boughton, Montour Falls/Watkins Glen • Gregory J. Bruno, Clifton Park/Schenectady • David E. Carlson, Elmira Heights
Maureen L. Clarke, State St./Slingerlands • Pamela L. Colomaio, Bath • Alison J. Conklin-DeVita, Southport/Westside • Joel A. Crimmins, Commercial Lending
Jennifer J. Cruise, WMG Support Services • Jennifer L. Fulton, Finance • Sandra L. Grooms, Elmira Rd./The Station • Michael L. Hart, WMG Estate Administration
Matthew T. Keefe, Regulatory Risk • Sanya C. Lam, Latham/Wolf Rd. • Andrea D. McClure, WMG Tax Services • Jack O. Narosky, BCSG Relationship Manager
Brenda S. Praschunus, Arnot Rd/Big Flats • Randi Richer, Commercial Loan Operations • Sheryl J. Scott, Corning/Painted Post • Heidi J. Wahl, WMG Relationship Manager • David A. Wakeman, Resource Recovery • Sue A. Williams, Waverly • Lauren K. Zell, WMG Retirement Services

Assistant Treasurers

Laura L. Bennett, Real Estate Lending • Marcia L. Boor, Business Services • Amy S. Chervinsky, Commercial Lending • Elizabeth M. Courtright, Regulatory Risk
Sarah A. Darling, Owego • Austin T. Farrell, Horseheads • Tara J. Humphrey, Retail & Small Business Loan Operations • Tonya L. Johnson, CRA/Fair Lending Officer
Barbara L. Keller, Consumer Lending • Alice J. Kiser, Bank Operations • Megan J. Kozdomba, Real Estate Lending • Patrick J. McFarland, Regulatory Risk • Julianne E. Meeker, Computer Operations • Michael J. Novotny, Branch Administration • Aimee G. O'Connor, Towanda/Troy • Monica L. Ridosh, Human Resources • Jessica L. Ryan, Main Office • Todd N. Trencansky, Vestal • Charolette R. Truxal, Binghamton/Oakdale Mall • Devin E. Wandell, WMG Estate Administration • Kristen E. Wolowitz, Real Estate Lending • Kristen N. Woodward, Contact Center

CFS Group, Inc.

Marci L. Cartwright, Vice President

Effective as of February 28, 2018.



Kimberly A. Hazelton
Executive Vice President
Retail Client Services



Karen R. Makowski
Executive Vice President
Chief Risk Officer



Duane W. Mittan
Vice President,
Chief Auditor



Thomas W. Wirth
Executive Vice President
Wealth Management
Group (WMG)



Karl F. Krebs
Executive Vice President
Chief Financial Officer
& Treasurer



Kathleen S. McKillip
Assistant Treasurer,
Corporate Secretary



Michael J. Wayne
Senior Vice President,
Marketing

EXECUTIVE MANAGEMENT TEAM

OTHER INFORMATION

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 2017 Annual Report on Form 10-K. These filings are available publicly on the SEC's website at www.sec.gov, on the Corporation's website at 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.

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.astfinancial.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, NY 14902-1522.

Form 10-K Annual Report: A copy of the Corporation's Form 10-K Annual Report is available without charge to shareholders after March 30, 2018, 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.astproxyportal.com/ast/01079.

Annual Meeting: The Annual Meeting of Shareholders will be held on Thursday, May 10, 2018, at 2:00 p.m. at the downtown Holiday Inn, Elmira – Riverview.



ALBANY

132 State St., Albany
 65 Wolf Rd., Albany
 581 Loudon Rd., Latham
 1365 New Scotland Rd., Slingerlands

BRADFORD

5 W. Main St., Canton
 304 Main St., Towanda
 159 Canton St., Troy

BROOME

127 Court St., Binghamton
 601-635 Harry L. Dr., Johnson City
 100 Rano Blvd., Vestal

CAYUGA

110 Genesee St., Auburn
 185 Grant Ave., Auburn

CHEMUNG

437 Maple St., Big Flats
 One Chemung Canal Plaza, Elmira
 628 W. Church St., Elmira
 100 W. McCann's Blvd., Elmira Heights
 29 Arnot Rd., Horseheads
 602 S. Main St., Horseheads
 951 Pennsylvania Ave., Southport

CORTLAND

1094 Highway 222, Cortland

SARATOGA

25 Park Ave., Clifton Park
 3057 Route 50, Saratoga Springs*

SCHENECTADY

2 Rush St., Schenectady

**To open mid-April*

SCHUYLER

303 W. Main St., Montour Falls
 318 N. Franklin St., Watkins Glen

SENECA

54 Fall St., Seneca Falls

STEUBEN

410 W. Morris St., Bath
 149 W. Market St., Corning
 243 N. Hamilton St., Painted Post

TIOGA

203 Main St., Owego
 1054 St. Rte. 17C, Owego
 405 Chemung St., Waverly

TOMPKINS

909 Hanshaw Rd., Ithaca
 304 Elmira Rd., Ithaca
 806 W. Buffalo St., Ithaca

For a complete list of office hours and directions, visit chemungcanal.com or capitalbank.com.
 For general information, call our Contact Center at 800.836.3711.

