



2019 ANNUAL REPORT

Chemung Financial
Corporation

Financial Highlights

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

Operating Results – Year Ended December 31:	2019	2018	% of Change
Net interest income	\$60,611	\$60,480	0.2%
Provision for loan losses	5,945	3,153	88.6%
Other operating income:			
Securities gains, net	19	—	N/A
Wealth Management Group fee income	9,503	9,317	2.0%
Other income	10,551	13,757	(23.3)%
Other operating expenses:			
Legal accruals and settlements	—	989	(100.0)%
Other expenses	55,696	55,777	(0.1)%
Income tax expense	3,434	4,009	(14.3)%
Net income	\$15,609	\$19,626	(20.5)%

At Year End:

Assets	\$1,787,827	\$1,755,343	1.9%
Loans, net of deferred loan fees	1,309,219	1,311,906	(0.2)%
Allowance for loan losses	23,478	18,944	23.9%
Deposits	1,572,138	1,569,237	0.2%
Shareholders' equity	182,627	165,029	10.7%
Employees (full-time equivalent)	362	374	(3.2)%

Share and Per Share Data:

Net income	3.21	4.06	(20.9)%
Book value, at year end	37.35	33.99	9.9%
Tangible book value, at year end	32.74	29.22	12.0%
Dividends declared	1.04	1.04	—
Shares outstanding (average)	4,869	4,832	0.8%

Ratios:

Allowance for loan losses to total loans	1.79%	1.44%
Return on average assets	0.88%	1.14%
Return on average equity	8.86%	12.76%
Return on average tangible equity	10.18%	15.07%

Trust Assets Under Administration (market value):

as Fiduciary	\$1,548,560	\$1,411,564	9.7%
as Custodian	366,757	356,615	2.8%
	<u>\$1,915,317</u>	<u>\$1,768,179</u>	8.3%

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

December 31, 2019

	High	Low	Dividends
4th Quarter	\$46.04	\$41.60	\$0.26
3rd Quarter	49.00	39.00	0.26
2nd Quarter	49.96	44.80	0.26
1st Quarter	48.36	39.69	0.26

December 31, 2018

	High	Low	Dividends
4th Quarter	\$44.52	\$38.50	\$0.26
3rd Quarter	51.69	41.02	0.26
2nd Quarter	52.99	46.01	0.26
1st Quarter	50.24	42.50	0.26

As of February 29th, 2020 there were 482 registered holders of record of the Corporation's stock.

Letter to Shareholders

2019 Annual Report

Fellow Shareholders:

We appreciate the opportunity to share the results of Chemung Financial Corporation during the past year. 2019 was a year of mixed results but concluded with net income of \$15.6 million, or \$3.21 per share, which represented the second highest level of earnings in our company's 186-year history. These outcomes have improved our capital position to record highs. Many quantitative factors have contributed to these results: the bank's low cost of deposits; a record high net interest income; ongoing emphasis on improving our efficiency ratio; and continuing increases in fee income generated from our Wealth Management Group.

This past year also provided meaningful challenges including the previously disclosed provisions to our allowance for loan losses required for two commercial credit relationships that resulted in one-time, pre-tax, \$6.1 million, charges to our earnings. As a result, our year-end net income missed our expectations. This, however, does not diminish the positive activities of 2019.

Moreover, as has been the case for our 186-year tenure, we remain steadfastly committed to our Community Banking philosophy. Our success is directly correlated to an overarching commitment to our stakeholders: the shareholders, clients, colleagues and communities who we proudly assist. This philosophy is deeply embedded in our Corporation's core values. Ultimately, our ability to provide sustainable value to all of these important constituents is how we measure our success.

Our Results

As noted earlier, our consolidated net income for 2019 totaled \$15.6 million. This increased our total shareholder's equity by 10.7% to \$182.6 million at December 31, 2019 compared to \$165.0 million at the beginning of the year. Our earnings resulted in a 0.88% Return on Average Assets (ROAA) and an 8.86% Return on Average Equity (ROAE). Our capital grew significantly even as we continued our long tradition of uninterrupted cash

dividend payments of \$1.04 per share, in 2019. Additionally, all of our capital ratios exceed regulatory standards and our banking regulators recognize us as a well-capitalized institution.

Overall, our company's balance sheet increased 1.9%, or \$32.5 million, during 2019, to \$1.8 billion. Year over year, net loans remained relatively stable totaling \$1.3 billion, as principal pay downs nearly equaled the \$280 million in new loan production. Total cash and cash equivalents decreased by \$8.1 million, while the Corporation's investment securities portfolio increased by \$40.3 million, or 16.2%, in 2019, as we managed liquidity needs against the opportunity for higher yields earned on

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our investments. Total deposits rose slightly, increasing by \$2.9 million to \$1.6 billion at December 31, 2019. The continued strengthening of our liquidity position supports our expectations for increased lending during 2020.

In 2019, we experienced an eight basis point decrease in the bank's net interest margin, fully taxable equivalent. Given the Federal Reserve's pattern of interest rate adjustments, four increases in 2018 and three decreases in the second half of 2019, management of the bank's net interest margin remains a top priority. This has been especially challenging in this year of declining rates, as interest rates on adjustable loans tend to reprice more rapidly than deposits. This year, the total average yield on the bank's loan portfolio increased by 11 basis points to 4.50%, however the total average cost of interest bearing deposits increased by 25 basis points to 0.56%.

Throughout the bank's footprint, there remains intense competition for loan originations, which has resulted

in very competitive pricing for new loan activity. At the same time, credit union and other banks' CD and money market specials generate pricing pressure on the funding side of the balance sheet. Despite the reduction in the bank's net interest margin, our net interest income during 2019 totaled \$60.6 million, which is approximately \$131 thousand more than the prior year.

This was also a year of balance sheet management as we prepare for the future growth of the company. In particular, we realigned our commercial loan concentrations by increasing our commercial & industrial loan balances while decreasing the outstanding non-owner occupied commercial real estate loan portfolio. This change, combined with the positive results of our liquidity management strategy, is providing a pathway for future growth. This is especially evident in our Capital Bank division, where we continue to serve as one of the region's top commercial lending institutions. At December 31, 2019, the Capital Bank division's commercial loan portfolio totaled \$647.5 million which was 73.7% of our bank's total commercial loan portfolio.

Throughout the year, there was appropriate focus on the credit quality of our loan portfolios. At year-end, our nonperforming loans to total loans ratio increased from 0.93% to 1.38%, and our nonperforming assets to total assets ratio increased from 0.73% to 1.04%. While these increases are disappointing, they are largely attributable to the two commercial credit relationships, previously disclosed, which prompted a \$6.1 million, pre-tax, specific reserve allowance.

At year-end, our commercial loan portfolio accounted for nearly 68% of our total loan portfolio. Based on this growth and the increasing complexity of the loans that the bank now originates, we added a Chief Credit Officer to our Executive Management team. In September, we recruited Peter Cosgrove to join the bank in this newly created position. Peter is a seasoned banking professional with significant lending and senior management experience at both big and small financial institutions.

This addition will strengthen the credit process and improve the efficiency of delivering capital to our clients. And, it will streamline origination activities and provide additional oversight and diligence to our commercial lending processes. We also expect that this addition will enhance our broader credit review, collection and risk management functions.

The bank's Wealth Management Group (WMG) continues to grow in impact for our clients and its financial results are positively affecting our bottom line. The market value of assets under management or administration increased by 8.3% during the last year and totaled \$1.9 billion at December 31, 2019. A broader increase within the securities markets boosted these results, as well as significant new account relationships throughout our three core WMG businesses. WMG fee income for 2019 totaled \$9.5 million, nearly \$200 thousand more than the previous year.

Our Platform

Our distribution channels continue to evolve as clients' demand for these services expand through their use of our digital platforms, while visiting our traditional branches less frequently. Industry statistics indicate that approximately 40% of bank customers never visit a branch office and our experience parallels that. This changing dynamic necessitates a near continual evaluation of product and service delivery and requires thoughtful adjustments to our staffing levels and office hours. We maintain a consistent goal of providing top tier client experience whenever these changes are contemplated.

This year, we again executed significant changes to our branch network. Over the past 14 months, we consolidated two traditional branch offices (located in Johnson City and Painted Post). We are pleased our client retention after consolidation has been very high. And, in January 2020, we announced that we would be closing our Towanda, PA branch office, effective April 30th.

In 2019, we continued to invest in digital improvements to our offerings with upgrades to our mobile banking & mobile deposit applications, online account origination, as well as many of our fraud and security controls. In 2020, we will be focusing on data analytics for our clients and prospects as well as "end to end" digital loan processing. Of significant importance in 2020, we will continue our thoughtful investment in anti-fraud and security enhancements. While traditional banking through branch offices will never go away, it is essential that we remain keenly attentive to the expectations of our clients as we evaluate future opportunities to be more efficient and enhance the client experience.

Looking forward, we are diligently evaluating operational and structural efficiencies to create cost savings and streamline productivity. During the past year, we completed numerous efficiency improvements to our banking platforms. We transitioned our core systems from in-house to an outsourced environment, hosted by Fiserv. In addition, we consolidated our data and phone communications across the entire footprint. This conversion maximizes efficiency, speed and disaster recovery capabilities through one, industry-recognized vendor. We also implemented and expanded robotic automation again improving the efficiency

of the Corporation and mitigating risk. This year, we engaged an efficiency expert to streamline and create efficiencies, reduce risk, and improve the client experience. This effort was a major undertaking that solicited bank wide input and developed a forward-looking plan to create consistency, minimize the duplication of effort, and accelerate the adoption of procedural changes.

Through these many initiatives, we anticipate short-term and long-term benefits through increased fee income, cost savings, productivity improvement, and the diminution of risk. We are starting to see the benefit of these efforts as the number of our full-time equivalent employees has decreased from 374 at December 31, 2018 to 362 at December 31, 2019.

Market Developments

During 2019, there was a noticeable increase in M&A (mergers and acquisitions) activity within the banking industry, including markets within our footprint. After many years of inactivity, several smaller, long tenured institutions elected to merge with larger, out-of-market financial institutions in 2019. These transactions often create disruption within a community. As in the past, we will consider strategies to capitalize on these changes as we focus our customer acquisition tactics on quality clients that are searching for a new financial institution.

We recognize that the growth of our franchise, either organically, through expansion or through acquisition, are important strategic opportunities. This growth can leverage our institutional overhead, provide product and pricing advantages, management expertise, as well as expand the positive impact of our unique community banking model. We strongly believe our proficiency and execution could help other institutions that are looking for a partner where our brand of banking would make a positive difference.

Our Communities

Throughout our history, an important part of our success has been our immense commitment to the communities we serve. On a daily basis, our employees are serving as volunteers in a variety of not-for-profit organizations that are making an important difference in the lives of our clients, families, friends and neighbors. It is encouraging to see them accept leadership roles, helping direct meaningful efforts that positively influence the quality of life for so many. The efforts of our employees help supplement our corporate contribution and sponsorship budgets. The results from the combination of all three of these community outreach efforts provides a lasting positive force in the cities, towns and villages that we serve.

Our Leadership Team

There have been important leadership changes within the past year that are notable to report. As mentioned earlier, Peter Cosgrove joined our company this past September. He joined the bank as Chief Credit Officer and, upon the retirement of Karen Makowski in December, he assumed the role of Chief Risk Officer as well. With more than three decades of banking experience, Peter has the expertise, stature and respect to make a positive impact at our bank through these

"We continued our investment in our communities and provided sophisticated and reliable financial services and products for our clients across our broad footprint."

two important positions. As Chief Risk Officer, Peter replaces Karen Makowski who created our enterprise risk management operation and served as its leader throughout her eight year tenure with our bank. We extend our thanks and best wishes to Karen upon her retirement.

In addition, the May 2020 annual shareholders' meeting will mark the end of the term of Bruce Boyea, who joined the Chemung Canal and Chemung Financial Boards in 2011. During his tenure on the Board, Bruce's business acumen, advocacy for the bank, and his significant community involvement, both in Broome County and throughout New York State, has proven invaluable to our company. We extend our thanks and appreciation for his commitment of time and energy to help us grow and flourish. Bruce's departure follows the recent retirement of another Director, Kevin Tully. While Kevin's tenure on the Board was short, his understanding of banking issues, his accounting and tax expertise, and his friendly demeanor are surely missed.

In Conclusion

2019 was certainly an eventful year. We again executed the community banking strategies that are the hallmark of our great company. We continued our investment in our communities and provided sophisticated and reliable financial services and products to our clients across our broad footprint. We accomplished these results always with the preeminent consideration of our shareholders' interests. We are thankful for their investment and confidence in our bank.

Today, we look forward to the promise of an exciting future for New York State's oldest locally-owned and managed community bank. We have developed a rigorous plan of initiatives that focuses on delivering exceptional client service, finding efficiencies in our platform, executing on our technology plan, and prudently managing risk. As always, we remain committed to our community banking philosophy that is paramount to our future success.

Thank you for your continued confidence and support of our company.



Anders M. Tomson
President & CEO



David J. Dalrymple
Chairman of the Board



Board of Directors

Annual Meeting : The Annual Meeting of Shareholders will be held on Wednesday, May 13, 2020, at 2:00 p.m. at the downtown Holiday Inn, Elmira – Riverview.



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



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



Stephen M. Lounsberry III
President
Applied Technology
Manufacturing Corporation



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



David M. Buicko
President & CEO
Galesi Group



Jeffrey B. Streeter
President
Streeter Associates



Larry H. Becker
Chief Operating Officer
The Windsor Companies



Robert H. Dalrymple
Vice President & Secretary
Dalrymple Holding Corporation
President
Seneca Stone Corporation
Vice President
Chemung Contracting Corporation



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



G. Thomas Tranter Jr.
President
Corning Enterprises
(Retired 3/31/2020)



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



Denise V. Gonick
Strategic Advisor



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

Executive Management Team



Anders M. Tomson
President &
Chief Executive Officer



Daniel D. Fariello
President
Capital Bank Division



Duane W. Mittan
Vice President
& Chief Auditor



Pamela D. Burns
Senior Vice President
Human Resources



Kimberly A. Hazelton
Executive Vice President
Retail Client Services



Michael J. Wayne
Senior Vice President
Marketing
(Retired 3/31/2020)



L. Dale Cole
Executive Vice President
& Chief Information Officer



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



Thomas W. Wirth
Executive Vice President
Wealth Management Group



Peter K. Cosgrove
Executive Vice President
& Chief Credit Officer



Karen R. Makowski
Executive Vice President
& Chief Risk Officer
(Retired 1/2/2020)



Louis C. DiFabio
Executive Vice President
Business Client Services



Kathleen S. McKillip
Assistant Vice President
& Corporate Secretary

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.

Capital Bank Division Advisory Board

Raimundo Archibold Jr.
Managing Director
Schwartz Heslin Group

Carl Becker
Vice President & Counsel
The Windsor Companies

Kenneth Brownell
Managing Director
Vanguard-Fine, LLC

Paola Horvath
Owner
Orange Theory Fitness

Gerald Jennings
Former Mayor
City of Albany

Dave Jersen
CEO
Jersen Construction Group

Spencer Jones
Executive
Dawn Homes Management

Raymond Kinley Jr.
Retired President & CEO
Clough Harbour & Associates

John Maloy
Managing Partner
James H. Maloy, Inc.

Dr. Lee McElroy
Director of Athletics
& Associate Vice President
Rensselaer Polytechnic Institute

Mark Rosen
President
Dawn Homes Management

Jacqueline Rosetti-Falvey
President
Rosetti Properties

Dean Rueckert
Past President
Rueckert Advertising

Edward Trombly
Partner
Barclay Damon

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 2019 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.

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, 2020, 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.

Bank Officers

Senior Vice Presidents

Catherine Crandall
WMG Estate Administration

Marianne Kalec
Retail Lending

Christopher Kelly
Retirement Services

Jeffrey Kenefick
Commercial Lending

Mark Lasch
WMG Regional Manager

Mary Meisner
Regulatory Risk

J. Edmond Morton IV
WMG Regional Manager

Timothy Rubery
Small Business Lending

Joseph Tascone
WMG Investment Services

Thomas Whitaker
Finance

Vice Presidents

Yvonne Albee
Regulatory Risk

Dawn Aubin
Auburn & Seneca Falls

Roberta Bastow
Commercial Lending

Michael Battersby
Support Services

Kellea Bauda
Business Development

Michael Blatt
WMG Investment Services

Peter Capozzola
WMG Investment Services

Marci Cartwright
CFS Group, Inc.

Bryce Cutler
Business Development

Mark Fife
Commercial Lending

Yvette Francisco
Loan Review

Victoria Harkins
WMG Prestige Banking

Kevin Harrigan
Commercial Lending

James Hartle
Branch Administration

Scott Heffner
Marketing

Mary Keefe
Business Services

John Kite
Special Assets

James Kresge
Commercial Credit

Danielle Krisko
Business Client Services

D. Tavis McKeon
E-Retail

Mary Anne Narosky
Business Client Services

Nino Pellegrino
Business Development

Jennifer Sczepanski
Branch Administration

John Sentigar
Information Technology

Andrea Seymour
Logistical Support

John Shea
WMG Relationship Manager

Gregory Stewart
WMG Sr. Relationship Manager

Frank Vassallo
Finance

Sheila Washburn
ATM & Card Services

Assistant Vice Presidents

Kimberly Bailey
Canton & Troy

Laura Bennett
Real Estate Lending

Bruce Boughton
Montour Falls & Watkins Glen

Kevin Brimmer
WMG Investment Services

Gregory Bruno
Clifton Park & Schenectady

David Carlson
Elmira Heights

Maureen Clarke
State St. & Slingerlands

Christopher Coletta
Commercial Loans

Pamela Colomaio
Bath

Alison Conklin-DeVita
Southport & Westside

Joel Crimmins
Commerical Loans

Jennifer Cruise
WMG Support Services

Shelby Fay
WMG Investment Services

Sandra Grooms
Elmira Rd. & Ithaca Station

Michael Hart
WMG Estate Administration

Amy Howell
Consumer Lending

Tara Humphrey
Loan Operations

Matthew Keefe
Regulatory Risk

Sanya Lam
Latham & Wolf Rd.

Andrea McClure
WMG Tax Services

Patrick McFarland
Regulatory Risk

Julianne Meeker
Computer Operations

Jack Narosky
BCSG Relationship Manager

Michael Novotny
Branch Administration

Brenda Praszchunus
Amot Rd. & Big Flats

Monica Ridosh
Human Resources

Sheryl Scott
Corning

Heidi Wahl
WMG Estate Administration

Patrick Ward
WMG Presitge Banking

Tracey Wardwell
Wilton

Sue Williams
Waverly

Kristen Woodward
E-Retail

Lauren Zell
WMG Retirement Services

Assistant Treasurers

Ann Burns
Special Assets

Dena Carrigan
Elmira Heights

Sarah Darling
Owego & Tioga

Austin Farrell
Horseheads

Judith Frisk
Westside

Noelle Gilchrist
Treasury Management

Tonya Johnson
Regulatory Risk

Barbara Keller
Consumer Lending

Alice Kiser
Bank Operations

Megan Kozdemba
Real Estate Lending

Aimee O'Connor
Towanda

Andrew Stockwell
Community Corners & Cortland

Megan Thomson
Main Office

Charolette Truxal
Vestal & Binghamton

Sarah Vergason
Computer Operations

Devin Wandell
WMG Estate Administration

Cortni Wickham
Credit Department

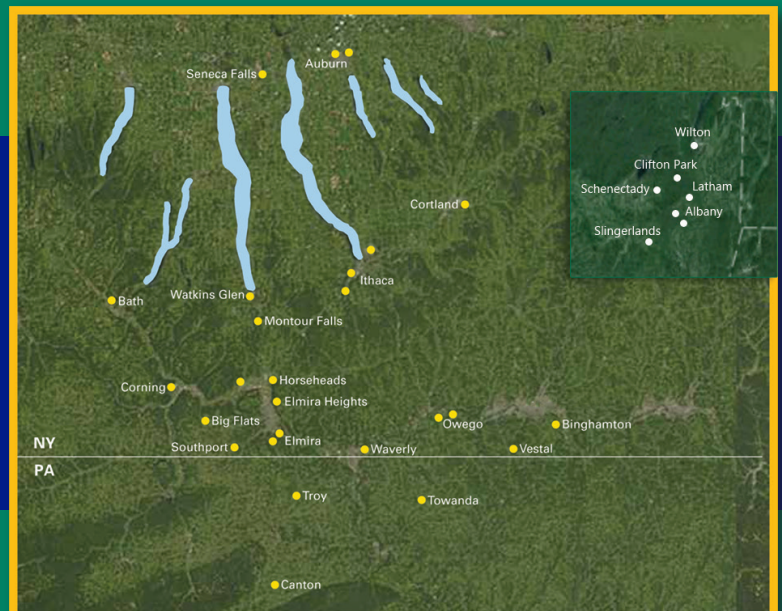
Sarah Williamson
Contact Center

Tyler Wilson
Regulatory Risk

Heidi Wood
Resource Recovery

Listing as of February 28, 2020

Serving
13 Counties
in Two States



Bank Anywhere, Anytime.

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

Towanda branch will be closing 4/30/2020

BROOME

127 Court St., Binghamton
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 Amot 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 (Wilton)

SCHENECTADY

2 Rush St., Schenectady

SCHUYLER

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

SENECA

54 Fall St., Seneca Falls

STEBEN

410 W. Morris St., Bath
149 W. Market St., Corning

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



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