

CONDENSED BALANCE SHEETS

June 30, 2018 and 2017 (Unaudited)
(dollars in thousands)

ASSETS

	2018	2017
Cash and due from banks	\$ 37,584	36,096
Interest bearing deposits with others	12,540	92,592
Federal funds sold	3,372	4,169
Securities:		
Available for sale, at fair value	335,776	249,685
Held to maturity	65,060	98,577
Total securities	<u>400,836</u>	<u>348,262</u>
Loans - net	2,259,802	2,044,261
Premises and equipment - net	13,571	14,296
Accrued interest receivable	8,500	7,263
Goodwill and intangibles	16,688	17,278
All other assets	<u>36,507</u>	<u>38,630</u>
Total Assets	<u>\$ 2,789,400</u>	<u>2,602,847</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

	2018	2017
Deposits:		
Demand		
Non-interest bearing	\$ 549,032	494,469
Interest bearing	258,949	251,173
Savings and money market	1,102,030	1,106,137
Time	<u>317,690</u>	<u>260,954</u>
Total deposits	<u>2,227,701</u>	<u>2,112,733</u>
Borrowings	269,668	210,414
Junior subordinated debt	51,547	51,547
All other liabilities	<u>21,541</u>	<u>24,363</u>
Total Liabilities	<u>2,570,457</u>	<u>2,399,057</u>
Stockholders' Equity:		
Preferred stock	-	-
Common stock	9,732	9,732
Additional paid-in-capital	12,809	13,062
Retained earnings	213,152	195,161
Treasury stock, at cost	(11,151)	(11,053)
Accumulated other comprehensive income	<u>(5,651)</u>	<u>(3,164)</u>
Total CNC Stockholders' Equity	218,891	203,738
Non-controlling interests	<u>52</u>	<u>52</u>
Total Equity	<u>218,943</u>	<u>203,790</u>
Total Liabilities and Equity	<u>\$ 2,789,400</u>	<u>2,602,847</u>

CONDENSED STATEMENTS OF INCOME

For the six months ended June 30, 2018 and 2017 (Unaudited)
(dollars in thousands, except per share data)

	2018	2017
Interest income:		
Loans, including fees	\$ 47,668	41,621
Securities	3,528	2,767
Other	<u>42</u>	<u>473</u>
Total interest income	<u>51,238</u>	<u>44,861</u>
Interest expense:		
Deposits	2,442	1,873
Borrowings	2,662	1,754
Junior subordinated debt	<u>1,148</u>	<u>1,150</u>
Total interest expense	<u>6,252</u>	<u>4,777</u>
Net interest income	44,985	40,084
Provision for loan losses	3,800	3,000
Net interest income after provision for loan losses	<u>41,185</u>	<u>37,084</u>
Non-interest income:		
Service charges on deposit accounts	8,734	7,966
Trust and investment services	10,080	9,236
Investment subadvisory services	2,184	1,357
Net gain on sale of mortgage loans	1,070	1,271
All other income	<u>1,793</u>	<u>1,566</u>
Total non-interest income	<u>23,861</u>	<u>21,396</u>
Operating expenses:		
Salaries and employee benefits	25,016	22,719
Occupancy, net	4,482	4,423
Technology and data processing	4,462	3,996
Professional and other services	2,281	2,429
Marketing and public relations	1,315	1,322
Intangible amortization	269	321
FDIC insurance	736	733
All other operating expenses	<u>4,589</u>	<u>4,243</u>
Total operating expenses	<u>43,150</u>	<u>40,186</u>
Income before income taxes	21,896	18,294
Income taxes	<u>4,766</u>	<u>6,291</u>
Net income, incl. non-controlling interest	17,130	12,003
Noncontrolling interests	-	-
Net income attributable to CNC	<u>\$ 17,130</u>	<u>12,003</u>
Basic earnings per share	<u>\$ 9.12</u>	<u>6.39</u>
Diluted earnings per share	<u>\$ 9.01</u>	<u>6.34</u>

COMMUNITY BANKING OFFICES

Bloomfield 4 Main St., Bloomfield 585.657.6112	Pittsford 18 State St., Pittsford 585.249.4980
Brighton 2075 Monroe Ave., Rochester 585.242.5874	Rochester Alexander Park 210 Alexander St., Rochester 585.568.8585
Canandaigua Lakeshore 709 South Main St., Canandaigua 585.393.6200	Rochester College Town 1341 Mount Hope Ave., Rochester 585.851.0350
Canandaigua Main Office 72 South Main St., Canandaigua 585.394.4260	Rochester East Main 45 East Main St., Rochester 585-262-0356
Chili 3228 Chili Ave., Rochester 585.247.7116	Victor 61 West Main St., Victor 585.742.4950
Farmington 6183 Route 96, Farmington 585.924.4611	Webster BayTowne 1998 Empire Blvd., Webster 585.670.8090
Greece Latta & Long Pond 3204 Latta Rd., Rochester 585.851.0200	Webster Jackson Ridge 1155 Ridge Rd., Webster 585.671.0300
Greece Ridge 2455 West Ridge Rd., Rochester 585.720.1160	Wealth Management Offices
Henrietta 1225 Commons Way, Rochester 585.214.4540	Basin Park Financial Center 1150 Pittsford-Victor Rd., Pittsford 585.419.0670
Honeoye 8633 Main St., Honeoye 585.229.5147	Canandaigua Office 72 South Main St., Canandaigua 585.394.4260
Honeoye Falls 99 West Main St., Honeoye Falls 585.624.1703	Canandaigua National Trust Co. 1586 Main St., Sarasota, FL 34236 941.366.7222
Irondequoit 2128 Hudson Ave., Rochester 585.544.3511	Rochester Office 600 East Ave., Suite 100, Rochester 585.419.0670
Manchester- Shortville 119 South Main St., Manchester 585.289.8937	
Mendon 51 Assembly Dr., Mendon 585.624.5921	CNB Mortgage Company
Penfield 1816 Penfield Rd., Penfield 585.899.4653	Pittsford Office 63 Monroe Ave., Suite A, Pittsford 585.385.2370
Perinton 6720 Pittsford-Palmyra Rd., Fariport 585.223.5084	Canandaigua Office 72 South Main St., Canandaigua 585.393.6150

Strong and stable in a changing environment.

Chairman of the Board
George W. Hamlin, IV

Vice Chairman of the Board
Daniel P. Fuller

Directors
Richard C. Fox
Michael C. Goonan
Frank H. Hamlin, III, Esq.
Lawrence A. Heilbronner-Kolthoff
Thomas S. Richards
Robert G. Sheridan
Caroline C. Shipley
Sue S. Stewart
Alan J. Stone

Emeritus Board Member
James S. Fralick



**Canandaigua
National
Corporation**

PRESIDENT'S MESSAGE



July 11, 2018

Frank H. Hamlin, III
President & CEO

Dear Shareholders:

School is out, the warm weather is here and Summer has begun in earnest. So far, 2018 has presented us with favorable winds. As anticipated, we saw tax reform at the end of 2017 which in simple terms returns over 10% of our earnings to be used for productive purposes of the organization. In 2018, the resulting higher net income has been replacing capital (equity) lost from the \$3.7 Million one-time non-cash expense we incurred at the end of 2017 when re-measuring our net deferred tax assets using the lower tax rate. Nonetheless we are left in a substantially more favorable position than had the tax paradigm not changed. Assuming no legislation to the contrary, we will continue to benefit in the years to come through enhanced capital accumulation which will allow us to accelerate lending within our community.

Our ability to satisfy high demand within our market for our loan products has been demonstrated once again, as evidenced by a double digit year-over-year increase in our total loan portfolio. We've accomplished this through growth experienced in deposits, and the ability to utilize borrowings with the Federal Home Loan Bank. In planning for 2018, we anticipated one 25 bps rate increase in the middle-latter part of the year, and a second in December of the year. Due to our planning, economic environment and financial structure, our interest income improves upon each increase of the Fed Funds rate.

Contrary to our predictions, the Federal Reserve increased the rate at the end of the 1st quarter, which has accelerated our earnings sooner than anticipated. This is a good thing. The rate was raised again in June thus we are currently earning greater interest income sooner in the year than anticipated. This bodes well for our year end final results.

Recent Federal legislation has been passed which at least suggests that the environment in Washington is shifting with respect to some aspects of banking legislation. For the first time in 7 years, it appeared that legislators were willing to engage in fact-based discussions surrounding how issues effect their constituents instead of focusing on merely doing the opposite of their opposition party. From a practical effect, this legislation does not materially benefit CNC; however, its mere passage suggests a significant shift in how our industry is being viewed juxtaposed to a decade ago.

From an internal perspective, we continue to affect substantial change to both our infrastructure and processes in efforts to maintain and improve upon our ability to provide enhanced value to our customer base. We continue to focus upon better ways to provide a comprehensive financial approach across the entire financial spectrum to meet all of our clients' financial needs. Similarly, we are actively designing and modifying our processes to ensure this analysis of products and services continues on an ongoing basis.

We continue our enhanced strategic focus on technology and its implication upon how we address the needs of the organization and customer expectations now and in the future. In a very short amount of time, material changes have been made toward ensuring we maintain an agile

posture to meet future technology challenges and opportunities.

With changes in the tax code, minimum wage and the various Department of Labor mandates, we are paying close attention to the corresponding wage and benefit pressures in our local labor market. Substantial year over year increases in health care costs continue to be a concern which for some reason has disappeared from public discussion. We are already entering a dialogue for 2019 pricing which I fully expect to be a double digit percentage increase, as has been the case for my entire professional career here at CNC. The continual increases in health care costs directly impact and complicate the overall wage pressure discussion and will not be going away anytime soon.

Thankfully, our culture remains very strong as evidenced by the remarkable talent we continue to attract from our competitors and others. I routinely hear bank leaders complaining at conferences about difficulties attracting and retaining talent. We continue to be very blessed that we remain a destination employer in our region. Similarly, we benefit from attracting those who recognize the necessity of maintaining a strong culture to ensure sustained future success.

Due to the specific audience of this letter, I am happy to inform you that Scott Trumbower of our Wealth Management area has agreed to oversee our Shareholder Relations functions. As such, he will be your point of contact to answer and address any questions regarding ownership of CNC stock.

In summary, 2018 has treated us quite well thus far and we see nothing in the immediate future that would suggest a material change through the end of 2018. Having just successfully

navigated the longest and most severe economic recovery since the great depression, I feel confident that we have an unusually exceptional work force that has demonstrated their ability to navigate what ever is thrown at CNC. You don't need to take my word for it, just look at our recent historical data!

Thank you for sharing in our mission and trusting in our execution!

Very Truly Yours,

Frank H. Hamlin, III

FINANCIAL HIGHLIGHTS

As of and for the six months ended
June 30, 2018 and 2017 (Unaudited)
(dollars in thousands, except per share data)

	2018	2017
Net income attributable to CNC	\$ 17,130	12,003
Total assets	\$ 2,789,400	2,602,847
Investment securities	\$ 400,836	348,262
Loans - net	\$ 2,259,802	2,044,261
Deposits	\$ 2,227,701	2,112,733
Total equity	\$ 218,943	203,790
Assets Under Administration- <i>Book value</i>	\$ 2,620,488	2,471,426
Assets Under Administration- <i>Market value</i>	\$ 3,171,649	2,968,989
Weighted avg shares outstanding-diluted	1,901,958	1,892,671
Diluted earnings per share	\$ 9.01	6.34
Dividends per share	\$ 2.30	2.00
Book value per share	\$ 116.75	108.76
Closing stock price	\$ 179.01	161.55
Return on average assets, annualized	1.26%	0.94%
Return on average equity, annualized	16.11%	12.11%
Return on beginning equity, annualized	16.48%	12.34%