

## CONDENSED BALANCE SHEETS

June 30, 2019 and 2018 (Unaudited)  
(dollars in thousands)

### ASSETS

	2019	2018
Cash and due from banks	\$ 33,871	37,584
Interest bearing deposits with others	23,759	12,540
Federal funds sold	3,246	3,372
Securities:		
Debt, available for sale, at fair value	361,243	327,305
Debt, held to maturity	33,181	65,060
Equity, at fair value	9,089	8,471
Total securities	<u>403,513</u>	<u>400,836</u>
Loans - net	2,393,014	2,259,802
Premises and equipment - net	13,209	13,571
Accrued interest receivable	9,858	8,500
Goodwill and intangibles	16,211	16,688
All other assets	<u>39,719</u>	<u>36,507</u>
<b>Total Assets</b>	<b>\$ <u>2,936,400</u></b>	<b><u>2,789,400</u></b>

### LIABILITIES AND STOCKHOLDERS' EQUITY

	2019	2018
Deposits:		
Demand		
Non-interest bearing	\$ 542,227	549,032
Interest bearing	285,001	258,949
Savings and money market	1,035,189	1,102,030
Time	<u>477,046</u>	<u>317,690</u>
Total deposits	<u>2,339,463</u>	<u>2,227,701</u>
Borrowings	260,932	269,668
Junior subordinated debt	51,547	51,547
All other liabilities	<u>31,687</u>	<u>21,541</u>
Total Liabilities	<u>2,683,629</u>	<u>2,570,457</u>
Stockholders' Equity:		
Preferred stock	-	-
Common stock	9,732	9,732
Additional paid-in-capital	12,866	12,809
Retained earnings	242,266	213,152
Treasury stock, at cost	(11,642)	(11,151)
Accumulated other comprehensive income	(503)	(5,651)
Total CNC Stockholders' Equity	252,719	218,891
Non-controlling interests	<u>52</u>	<u>52</u>
Total Equity	<u>252,771</u>	<u>218,943</u>
<b>Total Liabilities and Equity</b>	<b>\$ <u>2,936,400</u></b>	<b><u>2,789,400</u></b>

## CONDENSED STATEMENTS OF INCOME

For the six months ended June 30, 2019 and 2018 (Unaudited)  
(dollars in thousands, except per share data)

	2019	2018
Interest income:		
Loans, including fees	\$ 55,565	47,668
Securities	3,949	3,528
Other	377	42
Total interest income	<u>59,891</u>	<u>51,238</u>
Interest expense:		
Deposits	6,491	2,442
Borrowings	3,020	2,662
Junior subordinated debt	1,148	1,148
Total interest expense	<u>10,659</u>	<u>6,252</u>
Net interest income	49,232	44,985
Provision for loan losses	3,425	3,800
Net interest income after provision for loan losses	<u>45,807</u>	<u>41,185</u>
Non-interest income:		
Service charges on deposit accounts	8,894	8,734
Trust and investment services	10,492	10,080
Investment subadvisory services	1,843	2,184
Net gain on sale of mortgage loans	830	1,070
All other income	<u>3,452</u>	<u>1,793</u>
Total non-interest income	<u>25,511</u>	<u>23,861</u>
Operating expenses:		
Salaries and employee benefits	26,267	25,016
Occupancy, net	4,416	4,482
Technology and data processing	4,429	4,462
Professional and other services	2,458	2,281
Marketing and public relations	1,339	1,315
Intangible amortization	207	269
FDIC insurance	615	736
All other operating expenses	<u>4,464</u>	<u>4,589</u>
Total operating expenses	<u>44,195</u>	<u>43,150</u>
Income before income taxes	27,123	21,896
Income taxes	6,232	4,766
Net income, incl. non-controlling interest	<u>20,891</u>	<u>17,130</u>
Noncontrolling interests	-	-
Net income attributable to CNC	<u>\$ 20,891</u>	<u>17,130</u>
Basic earnings per share	<u>\$ 11.15</u>	<u>9.12</u>
Diluted earnings per share	<u>\$ 11.07</u>	<u>9.03</u>

## COMMUNITY BANKING OFFICES

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

## STATEMENT OF CONDITION JUNE 30, 2019



Capitalizing on favorable winds.

Chairman of the Board  
George W. Hamlin, IV

Vice Chairman of the Board  
Daniel P. Fuller

Directors  
Gary L. Babbitt  
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 19, 2019

Frank H. Hamlin, III  
President & CEO

Dear Shareholder:

We ended 2018 with unusually strong financial results due to a number of one-time occurrences in the second half of the year. We've been able to build off the success of 2018 during the first half of 2019. Net Income in the first half of 2019 was \$20.9 million, which is 22% higher than the \$17.1 million achieved during the same period in 2018. The impact of the prior year's rate increases and strong loan growth had a positive impact on 2019 interest income. An offsetting impact was experienced within interest expense due to an unexpected surge in time-deposit growth. Overall, net interest income increased by 9.4%. Total operating expenses increased a modest 2.4%. On and off balance sheet growth has occurred, driven by production that was slightly above expectations. Loans have grown nearly 6%. Deposits have grown 5%. The market value of assets under administration has grown over 10%, eclipsing the \$3.5 billion mark as of June 30, 2019.

During our budgeting process, industry analysts predicted continued upward interest rate movement by the Federal Reserve of three to four 25bps increases. Our own analysis predicted two rate increases; one in June, which would materially affect 2019 net interest income, and the other in December of 2019, which would not.

Six months later, predictions have materially changed. The Fed did not raise rates in June and there are indications that the Fed could even lower rates before the year is out. If and when this happens over the next half of the year will determine the extent to which our net interest income will be impacted. Nonetheless, we expect to achieve very strong net income and production results that will be comfortably in excess of 2018

results and within reasonable proximity to our budget for 2019.

On the legislative front, Community banks have again fought off the annual attempt by the Credit Union industry to take in municipal deposits. These corporate welfare banks continuously seek the opportunity to hold and use the deposits to which they do not contribute. Thankfully the legislature recognizes the inequity of allowing income tax exempt corporations to profit directly from tax proceeds in pursuit of "for-profit" activities.

Additionally, we continue to watch the Cannabis debate on both Federal and State levels. Cannabis continues to be listed as a Schedule 1 dangerous drug by the Federal Government which by definition means it is highly addictive and lacks any medicinal purpose. We know from factual and scientific data that Cannabis fails both prongs of that definition. Nonetheless, it is illegal to provide financial services to any person or entity believed to derive proceeds from the production sale or distribution of Cannabis. To do so subjects financial institutions and their employees to severe civil and criminal penalties. Currently, approximately 35 States have legalized medical marijuana while approximately 10 States (and Canada) have legalized recreational use similar to alcohol. In approximately 10 States, marijuana remains completely prohibited. Federally-chartered financial institutions are prohibited from providing deposit services to marijuana businesses; thus, throughout the United States, the expanding marijuana industry is largely operating on a cash only basis with all the associated troubles in handling huge sums of cash. In 2018, the United States Legislature pushed through law (2018 Farm Act) which specifically allows financial institutions to "bank" businesses that produce and distribute hemp which contains a de minimus amount of THC. In sum, this legislation completely fails to address the legal conflict between Federal law and a super-majority of States. Legislators on both State and Federal levels appear more concerned with creating clever legislative carve-outs rather than showing leadership and advocating for the intellectually honest position of removing Cannabis as a schedule 1 drug.

On another front, those watching the news are aware that

Robert Morgan and others have been indicted on allegations of Fraud and SEC violations. It is important to note that an indictment is predicated upon unchallenged evidence presented outside the presence of the accused. Thus, the bar for obtaining an indictment is extraordinarily low. Nonetheless, the consequences of this indictment have been huge. Projects within the community have been destabilized by Federal Prosecutors not having clearly defined their seizure and forfeiture intentions. Financing for non-mature projects has dried up due to the uncertainty surrounding the potential forfeiture of assets potentially involved. Several projects have been foreclosed (not related to CNB) due to lenders' fears that the conversion of temporary financing to permanent financing could disturb priority of lien from a forfeiture perspective and also due to the cloud created by allegations of fraud. The damage resulting from this prosecution, regardless of actual culpability of those accused, will be felt by the community for years. It is important to understand that CNB's loans on the two projects included in the Indictment have been paid in full. We are watching this situation closely and feel confident that our remaining exposure on projects including a second phase of one of the projects in the Indictment are supported by strong primary and secondary sources of repayment.

On a much brighter note our Chief Lender, Gary Babbitt joined the Board in January. This addition provides us with oversight and consistency of our lending philosophy as we work through the transition of his roles in contemplation of his eventual retirement. Mr. Babbitt served as Chief Lender during the most devastating financial crisis since the Great Depression. Since 2008, hundreds of banks and credit unions have failed while we thrived! Although it was a team effort, Mr. Babbitt's stewardship has been material to our continued success and we are lucky to retain his talents as a Board member.

In all, we are vigorously pursuing a number of infrastructure and service initiatives in order to meet current and future business needs and customer expectations. As a community bank, we are very excited for how these initiatives position CNC within the competitive landscape. The community banking model is very stable especially

when you consider the manner in which other financial institutions market their services. To the extent we continue to serve our customers as individuals instead of commodity units we will always be perfectly positioned in the stream of economic progress.

Thank you for your continued faith in our community banking model and our people who execute this model flawlessly! Have a wonderful second half of the year!

Yours,

Frank H. Hamlin, CEO & President

## FINANCIAL HIGHLIGHTS

As of and for the six months ended  
June 30, 2019 and 2018 (Unaudited)  
(dollars in thousands, except per share data)

	2019	2018
Net income attributable to CNC	\$ 20,891	17,130
Total assets	\$ 2,936,400	2,789,400
Investment securities	\$ 403,513	400,836
Loans - net	\$ 2,393,014	2,259,802
Deposits	\$ 2,339,463	2,227,701
Total equity	\$ 252,771	218,943
Assets Under Administration- Book value	\$ 2,916,899	2,620,488
Assets Under Administration- Market value	\$ 3,507,234	3,171,649
Weighted avg shares outstanding-diluted	1,887,291	1,896,973
Diluted earnings per share	\$ 11.07	9.03
Dividends per share	\$ 2.70	2.30
Book value per share	\$ 134.83	116.75
Closing stock price	\$ 193.57	179.01
Return on average assets, annualized	1.43%	1.26%
Return on average equity, annualized	17.40%	16.11%
Return on beginning equity, annualized	17.88%	16.48%