Enhancing our community's resources.

Ensuring their future.

2015 ANNUAL REPORT AND FINANCIAL STATEMENTS

Canandaigua National Corporation

"The quality of our people and their interactions with our customers have always been our competitive advantage, and will continue to be our focus going forward."

— Frank H. Hamlin, III, President and CEO

Turning today's rich local resources into tomorrow's success stories.

Our area has been blessed with an abundance of resources. It offers top-notch educational institutions; premier healthcare systems; a thriving arts and cultural scene; plenty of fresh water and other natural treasures; and, of course, a first-class financial institution.

But even the richest of regions needs a driving force to help bring these diverse and dynamic elements together to maximize their potential. In 2015, CNC continued its heritage of providing responsible financial stewardship for the communities it serves.

Our new College Town bank office is at the center of the stunning revitalization of that neighborhood, providing those in the Strong Memorial Hospital and University of Rochester area with greater access to the CNB brand of banking services. We've also installed an "intelligent" drive-up ATM in Geneva—just another example of our ongoing commitment to deliver high-tech, high-touch, and high-convenience banking services to our customers.

The future appears bright, as well. Through the Finger Lakes Regional Economic Development Council, our area has been awarded 500 million dollars over the next five years for a number of economic development and infrastructure projects. As always, we'll be there to support individuals, businesses, and agencies that need our help to realize their vision.

MF CNB-14905/02-16

February 12, 2016

A message from
Frank H. Hamlin, III,
President and CEO

Dear Shareholders:

In spite of the fact that interest rates did not move until the very end of 2015, we had another successful year. From a financial standpoint, we saw diluted earnings totaling $11.05 per share. This was a 2% increase over last year's earnings of $10.84 per share. Cash dividends increased by more than 5% to $3.69 per share. Total deposits increased by 5% to $1,815 Million. Net Loans increased to $1,832 Million, representing a nearly 7% growth rate over 2014. Our Net Interest Income increased by more than 4% from 2014 to $72.9 Million. We saw movement of the Federal Funds rate in December 2015. This was six months after we believed the rate would move, thus we saw no benefit in 2015 from this quarter-point increase. Looking forward to 2016, we are expecting very little Federal Funds rate movement. Our budgeting process has contemplated two scenarios to remain flexible in our planning process: rates moving and rates staying stagnant. Once again, we are not reaching out long term for yield on our investments, but rather we are focusing on maintaining loan assets on our books with as short a term or re-pricing duration as possible. We continue to see intense competition in the market, yet we exceeded our loan production budget in 2015 by $30 Million.

Non-interest income increased 6% to $39.8 Million and represents approximately 35% of our revenues. This component is primarily composed of deposit servicing fees, asset management fees, investment advisory services, and proceeds from the sale of mortgages to the secondary market, as well as loan servicing fees. This is in stark contrast to our peers, who on average earn only around 15% of their income from non-interest income sources. Thus, we are well-situated to weather this low interest rate environment juxtaposed to the plight of our industry peers. This is especially true in light of the enhanced costs associated with the voluminous new regulations that are being thrust upon our industry.

Accomplishments

We opened our College Town Community Bank Office location in 2015, which provides us with greater access to Strong Memorial Hospital, the University of Rochester, and the surrounding area. This area has witnessed a substantial revitalization, and we are at its center! As is Canandaigua National Bank's (CNB's) custom, we tailored the design and technology of College Town in an effort to best meet the needs of that demographic. I strongly encourage you to visit the College Town branch, if you have not done so already.

Due to demand and opportunity, we installed a drive-up "intelligent" ATM in Geneva on Hamilton Street (Route 5 & 20), almost directly across from the Wegmans grocery store. Although we have no retail branch location in that jurisdiction, we have many individuals and businesses in Geneva that do their banking with us (despite the presence of more than five financial institutions physically located there). This full-service ATM allows those customers the ability to make cash and check deposits as well as cash withdrawals, and has been cited as the reason for a surprising number of additional account openings by Geneva residents. We are excited to track the usage of this machine for deeper market knowledge.

We increased the insurance offerings of CNB Insurance Agency to include property and casualty insurance. This has been accomplished through our online channel, whereby we are able to provide quotes from a variety of providers, often resulting in significant cost savings for our customers. If you have not already visited the CNB Insurance Agency website (CNBank.insuranceaisle.com), I invite you to take a look at our website and click on the "Insurance Solutions" link to obtain quotes for your home, vehicle, or any other insurance needs. Our customers, generally, have realized several hundred dollars of savings over their current providers for equivalent coverage. The insurance industry has long encroached upon the banking

industry. It is only appropriate that we would look to the insurance industry to provide us with another source of non-interest income in order to diversify our risk profile with respect to revenue streams. Previously, our agency had offered annuities, life insurance, and, to some extent, Medicare gap insurance. The Affordable Care Act has created notable disruption in the health insurance market, changing the way consumers think about and obtain health insurance. It is a very confusing topic, and consumers are seeking trusted advisors to guide them in their decision making. This provides an opportunity for us. We look forward to expanding our offerings within the insurance realm, in 2016 and beyond, to further deliver a comprehensive set of financial solutions for our customers with personalized attention to the unique needs of each customer.

This year, we also added the ability to offer an interest rate swap program to our commercial loan customers. This product is complex, and thus only discussed and used with our commercial clients for whom it might provide value. Other institutions have used swap products as a revenue generator and thus trapped unsuspecting borrowers into agreements that they did not fully understand. Although we do derive fee revenue from this product, revenue is NOT why we provide the service. Providing swap services gives us the opportunity to discuss lending opportunities with individuals and institutions of a more sophisticated nature, thus enhancing our ability to establish meaningful relationships within the community. I thank our Commercial and Credit Administration colleagues for their hard work in evaluating this product and bringing it to fruition.

Fraud

As is standard in this digital age, we continue to see clever (and some not so clever) ways in which criminals defraud our customers. Our cyber security and fraud teams have done an outstanding job protecting our data, as well as the data of our customers. Our Risk Department continuously monitors the transactional behavior of our clientele. They flag anything materially unusual and contact our clients to verify the authenticity of a given transaction. It is a delicate balance between disrupting uncharacteristic yet legitimate customer transactions, versus allowing uncharacteristic illegitimate transactions to process. We are continuously managing this process, as it is a constantly evolving environment.

In 2015, we saw a number of information breaches within the retail, insurance, and government sectors, allowing for a large array of personal consumer information to be sold and otherwise exchanged on the various digital black markets. It is becoming increasingly difficult to verify the identity of individuals interacting with our systems. This is true for establishing the veracity of transactions initiated online, and increasingly so for establishing the identity of those contacting our Call Center with requests to change their online password, their mailing address for statements, or any other number of actions that may allow a fraudster access to transactional control over consumer or commercial accounts. Through the personal information data leaks that are out of our control, fraudsters are able to answer questions related to personal identification and can validate information that was previously difficult to obtain, such as your first child's birth date or mother's maiden name. This is disturbing. For this reason, we are continuously looking for safer means to identify our clientele while not unduly disrupting their ability to transact their daily affairs.

As a tale of caution, I will share with you one form of fraud attempt that I have personally witnessed at least three times in the past year. All three times essentially consisted of a well-drafted, grammatically correct email to our CFO, purportedly from me, telling him that we are engaging in an acquisition and that he will receive a call from a third party with wiring instructions to consummate the deal and to email me if he has any questions. In each case, the email allegedly from me had been sent from an email address that was altered in a manner that would not be noticed as fraudulent unless it was carefully inspected. Thus, any reply to that email would go to the fraudster instead of me, giving the fraudster the opportunity to encourage our CFO to proceed with the transaction. Being a bank, we have a plethora of controls and education in place to prevent these schemes from being successful. However, many other businesses and customers have fallen prey to this and similar attacks. We must be very careful about any wire transaction without having had a face-to-face conversation. It is imperative that dual controls are in place and being honored. Beware!

We continuously upgrade our customer-facing systems to provide the best, safest environment to transact business. As we upgrade our systems, it is incumbent upon our customers to also update theirs. This is something we can't control, aside from no longer granting access to our online systems. If you are using an operating system that is no longer being supported (or patched)—such as Windows Vista, XP, or older—you are seriously vulnerable to fraud. If you are running an outdated and/or unsupported web browser, you are seriously vulnerable to fraud. If you are running a modern operating system or web browser without regularly installing the recommended updates, you are seriously vulnerable to fraud. This is true whether or not you are doing your banking online. The updates are intended to remedy vulnerabilities in the software that fraudsters use to access your system. The older the vulnerability, the less sophisticated one must be to exploit it. Please keep your systems up to date!

Market

The Rochester market has been blessed with an influx of funds from outside the area in the name of economic development. We received a visit from Vice President Joe Biden declaring us the "Photonics Capital" of the world. This is a fantastic area of study and development that will undoubtedly lead to the creation of many new opportunities within our community for employment and education!

Additionally, through the Finger Lakes Regional Economic Development Council, our area was awarded half a billion dollars over the next five years for a number of economic development and infrastructure projects. This area has suffered the decades-long demise of Kodak, and the downsizing of Bausch & Lomb and Xerox, yet it still remains viable, if not primed, for success even when considering the long-term financial headwinds endured by our region, state, and nation over the last eight years. We are the darling of this region, and the current is shifting to our area's advantage. Our future is bright!

From our institution's standpoint, we would love to see more movement by the Federal Reserve on interest rates. Two-thirds of our revenues are derived from interest income and thus interest rate movement results in less margin compression. Nonetheless, we are well-positioned due to our longstanding strategy to diversify our revenue streams in a manner that is less dependent overall on interest income, to hedge against times like these. We continue to diversify our income streams and continue to provide you, the shareholder, with the safe, sound, and profitable institution your investment philosophy has allowed us to be.

With that in mind, our market has recently seen two events that could disrupt our local economy, yet could be another opportunity for our institution. First, is the announcement of the purchase of First Niagara by KeyBank. This, if allowed to go through by regulators, is likely to result in the loss of decent-paying jobs in our market. However, this provides us with the opportunity to obtain an influx of deposit and lending relationships resulting from the market disruption, similar to what occurred with the departure of HSBC several years ago. Additionally, there has been recent public sabre-rattling by activist shareholders of Financial Institutions, Inc. (Five Star Bank). This creates disruption within our market, which we will take advantage of in order to increase our market share from a deposit and lending standpoint. That being said, a greater number of responsible lending institutions in our region will provide greater opportunity for access to credit. This produces more economic activity, more jobs, an expanded tax base, and overall expanded opportunities for those who live in our community. We continue to monitor both of these situations and assess the opportunities they may provide us as an institution.

Government

We continue to maintain healthy relations with our many regulatory agencies. In addition, we are committed to educating our legislative and agency representatives to the unintended consequences of their actions in both their legislative and regulatory capacities. We were successful in fighting off attempts by credit unions to obtain the ability to take on municipal deposits. It is appalling that legislators would consider granting such access to institutions that don't even pay the State and Federal taxes that contribute to those deposits. There has been a remarkable consolidation within the Credit Union industry, which has resulted in a number of very large institutions. It is becoming very hard for that industry to draw any distinction

between what it does versus a mutual bank; mutual banks lost their tax-exempt status in 1951. It's going to be a rude awakening when Congress finally looks to these mega credit unions to pay their fair share as you and I do.

During 2015, we also saw the implementation of the new disclosure rules for mortgage lending. Despite the fact that our vendors were unable to modify their mortgage software within the regulators' time frame, we were able to create workarounds in our process to comply. I applaud the agility of those in our IT and Consumer Loan Department, and CNB Mortgage Company.

Team/Board Developments

Our Board of Directors saw some changeover in 2015. On June 10, Michael Goonan joined our Board. Mr. Goonan comes to us after a distinguished career working as CFO of the University of Rochester Medical Center, where he continues to serve as a Senior Financial Advisor.

Sadly, after more than 40 years of service to CNB's Board of Directors and more than 30 years of service to the Canandaigua National Corporation (CNC) Board of Directors, Stephen Hamlin resigned. We thank him for his contributions over the years, and for his attention to the needs of the community at large.

We are very excited to announce the addition of Brian Pasley to the executive management team of CNB. Mr. Pasley started with CNB in 2011 overseeing our Consumer Lending Department and our Community Reinvestment Act Program. He will continue in those oversight roles, as well as being more actively engaged in the planning and implementation of our overall corporate goals. I am pleased that Brian agreed to take this on and look forward to utilizing his insights and experience.

Finally, at the end of December, Jeannie Blance retired. Jeannie served as my father's Executive Assistant for most of his career and for all of mine. She has worked for three generations of Hamlin leadership and did so with patience, grace, and professionalism. We wish Jeannie and her family the best as she transitions into retirement. Thank you, Jeannie, for all you have done for us!

Moving Forward

Looking to 2016, we have a rather aggressive set of initiatives we are planning to achieve. We are currently testing an enhanced online banking portal, which we believe presents a much nicer fit and finish across all platforms, whether it be your desktop computer, laptop, tablet, or any other mobile device. I am already using the platform as part of the test group and am delighted with the system to date; I think you will be, too.

Similarly, we will be upgrading our trust and investments platform through 2016 and into 2017. This upgrade will significantly enhance the customer experience from an ease-of-use standpoint as well as provide better reporting tools. This new system will deliver a quality investment experience in line with the quality of our people.

There are simply too many planned 2016 initiatives for me to articulate in this letter. Although most of the focus in this letter has been about online systems, I want to make it clear that we are committed to being a face-to-face institution. The quality of our people and their interactions with our customers have always been our competitive advantage and will continue to be our focus going forward. We are committed to the same balanced growth and profitability strategy that has proven to be the most sound model to provide you, the shareholder, with solid returns on your investment over the long term. Thank you for your confidence in Canandaigua National Corporation, and to the people who have worked so hard to make it what it is today! We look forward to an exciting 2016!

Frank H. Hamlin III

Frank H. Hamlin, III
President and CEO

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2015 Annual Report

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Annual Meeting

The Annual Meeting of Shareholders of Canandaigua National Corporation (the Company) will be held at the Main Office of The Canandaigua National Bank and Trust Company, 72 South Main Street, Canandaigua, NY, 14424; Wednesday, April 13, 2016, at 1:00 p.m.

Presented below is a summary of selected financial highlights to help you see a snapshot of our performance for the past five years. Balance sheet information is as of the year end, while income statement and average balance information is for the full-year period. This and all information concerning our financial performance should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

Financial Highlights
(Dollars in thousands except per share data)

	2015	% Change	2014	2013	2012	2011
Income Statement Information:						
Net interest income	$ 72,852	4.3 %	69,861	65,699	65,603	61,473
Provision for loan losses	$ 5,695	24.1 %	4,590	3,105	4,300	3,775
Non-interest income	$ 39,836	6.2 %	37,522	36,403	34,708	28,808
Operating expenses	$ 75,209	4.9 %	71,703	70,178	68,960	64,403
Income taxes	$ 10,793	3.1 %	10,466	9,791	8,434	6,178
Net income attributable to CNC	$ 21,064	1.7 %	20,712	19,422	18,837	16,312
Balance Sheet Data - Period End:						
Investments[1]	$ 324,043	13.6 %	285,300	297,438	281,357	284,139
Loans, net	$ 1,832,066	6.5 %	1,720,154	1,545,603	1,441,455	1,276,426
Assets	$ 2,271,509	7.3 %	2,117,469	1,963,014	1,887,028	1,760,764
Deposits	$ 1,815,383	5.0 %	1,728,522	1,722,857	1,662,863	1,546,610
Borrowings[2]	$ 249,195	27.1 %	196,072	60,307	55,843	58,383
Equity	$ 183,606	7.8 %	170,327	156,718	144,363	135,238
Balance Sheet Data - Average:						
Investments[1]	$ 287,571	(0.4) %	288,727	285,050	276,661	273,526
Loans, net	$ 1,771,981	7.2 %	1,653,108	1,469,954	1,383,345	1,194,213
Assets	$ 2,199,174	7.2 %	2,052,207	1,909,768	1,822,867	1,695,327
Deposits	$ 1,780,577	2.5 %	1,736,310	1,682,229	1,605,336	1,503,083
Borrowings[2]	$ 220,087	68.8 %	130,386	55,769	52,878	51,575
Equity	$ 174,399	8.6 %	160,564	150,486	138,171	128,393
Asset Under Administration:[3]						
Book value (cost basis)	$ 2,282,952	6.5 %	2,144,170	2,009,225	1,879,397	1,726,172
Market value	$ 2,576,610	0.8 %	2,557,250	2,436,334	2,115,346	1,858,130
Per Share Data:						
Net income, basic	$ 11.18	1.6 %	11.01	10.26	9.98	8.64
Net income, diluted	$ 11.05	1.9 %	10.84	10.09	9.76	8.48
Cash dividends[4]	$ 3.69	5.1 %	3.51	1.68	4.74	2.87
Book Value	$ 96.77	7.6 %	89.91	82.43	74.64	70.41
Closing stock price[5]	$ 148.72	(0.2) %	148.95	150.41	141.03	129.22
Weighted average share - diluted	$ 1,907,071	(0.2) %	1,910,895	1,925,486	1,929,360	1,923,777
Other ratios:						
Return on average assets	0.96 %	(5.0) %	1.01 %	1.02 %	1.03 %	0.96 %
Return on average equity	12.08 %	(6.4) %	12.90 %	12.91 %	13.63 %	12.70 %
Return on beginning equity	12.37 %	(6.4) %	13.22 %	13.45 %	13.93 %	13.18 %
Dividend payout[4]	33.41 %	3.2 %	32.38 %	16.65 %	48.57 %	33.84 %
Average equity to average assets	7.93 %	1.4 %	7.82 %	7.88 %	7.58 %	7.57 %
Net interest margin	3.58 %	(3.2) %	3.70 %	3.79 %	4.02 %	4.05 %
Efficiency[6]	65.86 %	0.2 %	65.75 %	67.52 %	67.25 %	70.02 %
Employees (year end)						
Total	548	0.7 %	544	526	537	519
FTE's	480	(2.2) %	491	478	480	459

(1) Includes the Company's investment in Federal Reserve Bank stock and Federal Home Loan Bank stock.
(2) Includes junior subordinated debentures.
(3) These assets are held in a fiduciary or agency capacity for clients and are not included in our balance sheet.
(4) 2012 includes $1.63 per share accelerated to December 2012 from February 2013.
(5) For the respective year, price is based upon last sealed-bid auction administered by the Bank's Trust Department in December 2015
(6) Operating expenses, exclusive of intangible amortization, divided by total revenues.

Our Common Stock

Information about beneficial ownership of the Company's stock by directors and certain officers is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders. Market value and dividend information is set forth in the table below. The Company currently pays a semi-annual dividend in February and August (exclusive of the acceleration of February 2013's dividend to December 2012). We expect to continue to pay cash dividends to our stockholders for the foreseeable future.

While the Company's stock is not actively traded, from time to time, shareholders sell shares to interested persons in sealed-bid public auctions administered by the Bank's Trust Department at the request of selling shareholders. Our stock is not listed with a national securities exchange. Due to the limited number of transactions, the quarterly high, low and weighted average sale prices may not be indicative of the actual market value of the Company's stock. The following table sets forth a summary of transactions by selling shareholders and bidders in the Company's common stock during each period for transactions that were administered by the Bank's Trust Department. Also included are the book value at quarter end, and semi-annual dividends paid per share since the first quarter of 2011. (All share and per-share information has been adjusted to reflect the 4-for-1 stock split in 2011). The $1.63 per share dividend paid in December 2012 was accelerated from the semi-annual dividend payment that would have been paid in February 2013.

	# Shares Sold	Quarterly Average Sales Price	Quarterly High Sales Price	Quarterly Low Sales Price	Book Value	Dividend Paid
2015						
4th Quarter	3,673	$ 147.33	$ 151.60	$ 141.00	$ 96.77	-
3rd Quarter	1,880	$ 142.81	$ 150.00	$ 140.00	$ 93.79	$ 1.86
2nd Quarter	5,704	$ 145.65	$ 151.00	$ 140.00	$ 92.60	-
1st Quarter	2,809	$ 147.44	$ 153.00	$ 140.00	$ 89.57	$ 1.83
2014						
4th Quarter	4,449	$ 149.27	$ 156.30	$ 147.00	$ 89.91	-
3rd Quarter	4,141	$ 150.05	$ 156.78	$ 146.00	$ 87.38	$ 1.83
2nd Quarter	5,051	$ 149.22	$ 163.03	$ 144.00	$ 85.60	-
1st Quarter	2,696	$ 151.76	$ 163.00	$ 148.00	$ 83.11	$ 1.68
2013						
4th Quarter	5,495	$ 148.83	$ 162.60	$ 145.00	$ 82.43	-
3rd Quarter	None	$ N/A	$ N/A	$ N/A	$ 80.45	$ 1.68
2nd Quarter	5,941	$ 144.39	$ 155.00	$ 137.50	$ 80.28	-
1st Quarter	4,909	$ 141.96	$ 175.00	$ 135.00	$ 77.55	-
2012						
4th Quarter	5,034	$ 145.51	$ 170.00	$ 125.00	$ 74.64	$ 1.63
3rd Quarter	2,748	$ 148.70	$ 190.00	138.00	$ 73.42	$ 1.61
2nd Quarter	10,635	$ 152.17	$ 185.00	$ 137.51	$ 72.57	-
1st Quarter	1,926	$ 147.48	$ 165.78	$ 141.93	$ 71.00	$ 1.50
2011						
4th Quarter	1,492	$ 129.22	$ 150.00	$ 123.75	$ 71.95	-
3rd Quarter	3,216	$ 111.34	$ 118.13	$ 107.50	$ 69.55	$ 1.44
2nd Quarter	3,036	$ 103.87	$ 110.00	$ 102.50	$ 69.34	-
1st Quarter	2,948	$ 99.89	$ 107.21	$ 98.69	$ 66.71	$ 1.43

Management Report on the Effectiveness of Internal Controls over Financial Reporting

Canandaigua National Corporation and subsidiaries' (the "Company") internal control over financial reporting is a process designed and effected by those charged with governance, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, i.e., the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C). The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

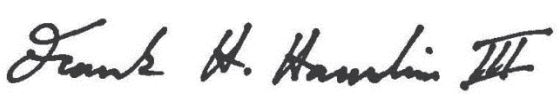
Management is responsible for establishing and maintaining effective internal control over financial reporting including controls. Management assessed the effectiveness of the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C), as of December 31, 2015, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control--Integrated Framework (1992). Based on that assessment, management concluded that, as of December 31, 2015, the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies, is effective based on the criteria established in Internal Control--Integrated Framework (1992).

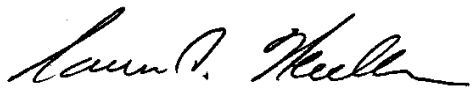
Management's assertion of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C), as of December 31, 2015, has been examined by KPMG LLP, an independent public accounting firm, as stated in their report dated March 3, 2016.

Management is also responsible for complying with federal laws and regulations concerning dividends to insiders, designated by the FDIC as safety and soundness laws and regulations.

Management assessed compliance with the aforementioned designated safety and soundness laws and regulations. Based on this assessment, management believes that the Company complied, in all material respects, with such designated laws and regulations relating to safety and soundness during the year ended December 31, 2015.

March 3, 2016





Frank H. Hamlin, III
President and Chief Executive Officer

Lawrence A. Heilbronner
Executive Vice President and Chief Financial Officer

Independent Auditors' Report

The Board of Directors and Stockholders
Canandaigua National Corporation:

We have examined management's assertion, included in the accompanying Management Report on the Effectiveness of Internal Control over Financial Reporting, that Canandaigua National Corporation and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on the Effectiveness of Internal Control over Financial Reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our examination also included performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles. Because management's assessment and our examination were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our examination of management's assertion regarding the Company's internal control over financial reporting included controls over the preparation of financial statements in accordance with U.S. generally accepted accounting principles and with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C). An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that the Company maintained effective internal control over financial reporting as of December 31, 2015 is fairly stated, in all material respects, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We do not express an opinion or any other form of assurance on management's statement referring to compliance with laws and regulations.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of the Company as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and our report dated March 3, 2016 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Rochester, New York
March 3, 2016

Independent Auditors' Report

The Board of Directors and Stockholders
Canandaigua National Corporation:

We have audited the accompanying consolidated balance sheets of Canandaigua National Corporation and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Canandaigua National Corporation and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

We also have examined in accordance with attestation standards established by the American Institute of Certified Public Accountants, the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 3, 2016 expressed an unqualified opinion on management's assertion of the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Rochester, New York
March 3, 2016

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2015 and 2014
(dollars in thousands, except per share data)

		2015	2014
Assets			
Cash and due from banks	$	43,900	43,732
Interest-bearing deposits with other financial institutions of which $3,581 and $3,460 respectively, is restricted		5,571	4,277
Federal funds sold		101	109
Securities:			
- Available for sale, at fair value		146,828	94,671
- Held-to-maturity (fair value of $166,632 and $182,464, respectively)		165,591	181,559
Loans - net		1,832,066	1,720,154
Premises and equipment – net		15,169	14,000
Accrued interest receivable		6,770	6,557
Federal Home Loan Bank stock and Federal Reserve Bank stock		11,624	9,070
Goodwill		15,570	15,570
Intangible assets – net		2,906	3,897
Other assets		25,413	23,873
Total Assets	$	2,271,509	2,117,469
Liabilities and Stockholders' Equity			
Deposits:			
Demand			
Non-interest bearing	$	392,199	376,357
Interest bearing		217,847	203,761
Savings and money market		927,354	848,162
Time		277,983	300,242
Total deposits		1,815,383	1,728,522
Borrowings		197,648	144,525
Junior subordinated debentures		51,547	51,547
Accrued interest payable and other liabilities		23,325	22,548
Total Liabilities		2,087,903	1,947,142
Canandaigua National Corporation stockholders' equity:			
Preferred stock, $.01 par value; 4,000,000 shares authorized, no shares issued or outstanding		-	-
Common stock, $5.00 par value; 16,000,000 shares authorized, 1,946,496 shares issued		9,732	9,732
Additional paid-in-capital		11,325	10,394
Retained earnings		172,920	159,572
Treasury stock, at cost (65,177 shares and 70,223 shares, respectively)		(9,656)	(9,053)
Accumulated other comprehensive income, net		(2,274)	(1,955)
Total Canandaigua National Corporation Stockholders' Equity		182,047	168,690
Non-controlling interests		1,559	1,637
Total Stockholders' Equity		183,606	170,327
Total Liabilities and Stockholders' Equity	$	2,271,509	2,117,469

See accompanying notes to consolidated financial statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2015 and 2014
(dollars in thousands, except per share data)

		2015	2014
Interest income:			
Loans, including fees	$	74,644	70,340
Securities		5,121	5,574
Federal funds sold		73	14
Other		-	2
Total interest income		79,838	75,930
Interest expense:			
Deposits		3,227	3,483
Borrowings		1,444	267
Junior subordinated debentures		2,315	2,319
Total interest expense		6,986	6,069
Net interest income		72,852	69,861
Provision for loan losses		5,695	4,590
Net interest income after provision for loan losses		67,157	65,271
Non-interest income:			
Service charges on deposit accounts		13,400	12,962
Trust and investment services		17,529	16,451
Brokerage and investment subadvisory services		2,976	2,758
Net gain on sale of mortgage loans		2,657	1,406
Loan servicing, net		852	953
Loan-related fees		355	375
(Loss) gain on securities transactions, net		(56)	557
Other non-interest income		2,123	2,060
Total non-interest income		39,836	37,522
Operating expenses:			
Salaries and employee benefits		43,098	39,102
Occupancy, net		8,289	7,932
Technology and data processing		6,734	6,234
Professional and other services		3,460	3,880
Marketing and public relations		2,584	2,352
Office supplies, printing and postage		1,649	1,670
Intangible amortization		991	1,095
Other real estate operations		450	641
FDIC insurance		1,294	1,314
Other operating expenses		6,660	7,483
Total operating expenses		75,209	71,703
Income before income taxes		31,784	31,090
Income taxes		10,793	10,466
Net income attributable to noncontrolling interests and Canandaigua National Corporation		20,991	20,624
Net loss attributable to noncontrolling interests		(73)	(88)
Net income attributable to Canandaigua National Corporation	$	21,064	20,712
Basic earnings per share	$	11.18	11.01
Diluted earnings per share	$	11.05	10.84

See accompanying notes to consolidated financial statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2015 and 2014
(dollars in thousands)

		2015	2014
Net income attributable to noncontrolling interest and Canandaigua National Corporation	$	20,991	20,624
Other comprehensive income:			
Change in fair value of interest rate swaps, net of taxes of ($45) and ($861) respectively		(70)	(1,290)
Change in unrealized gain on on securities available for sale, net of taxes of ($145) and $1,112 respectively		(307)	2,065
Plus reclassification adjustment for realized gains and losses included in "(loss) gain on securities transactions, net" net of taxes of $37 and ($190) respectively		58	(352)
Other comprehensive income		(319)	423
Total comprehensive income	$	20,672	21,047
Comprehensive income attributable to the noncontrolling interest	$	(73)	(88)
Comprehensive income attributable to the Company	$	20,745	21,135

See accompanying notes to consolidated financial statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2015 and 2014
(dollars in thousands, except share data)

	Number of Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total
Balance at December 31, 2013	1,880,305	$ 9,732	10,160	145,593	(8,121)	(2,378)	1,732	156,718
Comprehensive income:								
Change in fair value of interest rate swaps, net of taxes of ($861)	-	-	-	-	-	(1,290)	-	(1,290)
Change in unrealized gain on on securities available for sale, net of taxes of $1,112	-	-	-	-	-	2,065	-	2,065
Plus reclassification adjustment for realized gains included in net income on called securities, net of taxes of ($190)	-	-	-	-	-	(352)	-	(352)
Net income (loss) attributable to non-controlling interest and Canandaigua National Corporation		-	-	20,712	-	-	(88)	20,624
Total comprehensive income		-	-	20,712	-	423	(88)	21,047
Purchase of treasury stock	(8,598)	-	-	-	(1,286)	-	-	(1,286)
Shares issued as compensation	1,138	-	82	-	88	-	-	170
Exercise of stock options ($152 tax benefit)	3,428	-	152	(130)	266	-	-	288
Cash dividend - $3.51 per share		-	-	(6,603)	-	-	-	(6,603)
Dividend to non-controlling interests		-	-	-	-	-	(7)	(7)
Balance at December 31, 2014	1,876,273	$ 9,732	10,394	159,572	(9,053)	(1,955)	1,637	170,327
Comprehensive income:								
Change in fair value of interest rate swaps, net of taxes of ($45)	-	-	-	-	-	(70)	-	(70)
Change in unrealized gain on on securities available for sale, net of taxes of ($145)	-	-	-	-	-	(307)	-	(307)
Plus reclassification adjustment for realized gains included in net income on called securities, net of taxes of $37	-	-	-	-	-	58	-	58
Net income (loss) attributable to non-controlling interest and Canandaigua National Corporation		-	-	21,064	-	-	(73)	20,991
Total comprehensive income		-	-	21,064	-	(319)	(73)	20,672
Purchase of treasury stock	(15,992)	-	-	-	(2,336)	-	-	(2,336)
Sale of treasury stock	983	-	67	-	79	-	-	146
Shares issued as compensation	1,321	-	87	-	108	-	-	195
Exercise of stock options ($777 tax benefit)	18,734	-	777	(761)	1,546	-	-	1,562
Cash dividend - $3.69 per share	-	-	-	(6,955)	-	-	-	(6,955)
Dividend to non-controlling interests		-	-	-	-	-	(5)	(5)
Balance at December 31, 2015	1,881,319	$ 9,732	11,325	172,920	(9,656)	(2,274)	1,559	183,606

See accompanying notes to consolidated financial statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2015 and 2014
(dollars in thousands)

		2015	2014
Cash flow from operating activities:			
Net income attributable to Canandaigua National Corporation	$	21,064	20,712
Adjustments to reconcile net income to			
Net cash provided by operating activities:			
Depreciation, amortization and accretion		6,603	6,592
Provision for loan losses		5,695	4,590
Gain on sale of fixed and other assets and other real estate, net		(194)	(89)
Writedown of other real estate		145	396
Deferred income tax benefit		911	(236)
Income from equity-method investments, net		61	(194)
Loss (gain) on security transactions, net		56	(557)
Gain on sale of mortgage loans, net		(2,657)	(1,406)
Originations of loans held for sale		(162,455)	(118,000)
Proceeds from sale of loans held for sale		164,760	116,343
Change in other assets		(4,780)	506
Change in other liabilities		661	(2,735)
Net cash provided by operating activities		29,870	25,922
Cash flow from investing activities:			
Securities available-for-sale:			
Proceeds from sales, maturities and calls		110,586	109,527
Purchases		(163,255)	(86,644)
Securities held to maturity:			
Proceeds from maturities and calls		48,710	54,570
Purchases		(34,396)	(58,166)
Loan originations in excess of principal collections, net		(118,499)	(177,869)
Purchase of premises and equipment, net		(3,558)	(1,295)
Purchases of FHLB and FRB stock, net of calls		(2,554)	(5,788)
Other investments, net		345	290
Proceeds from sale of other real estate		1,687	1,797
Net cash used by investing activities		(160,934)	(163,578)
Cash flow from financing activities:			
Net increase in demand, savings and money market deposits		109,120	46,387
Net decrease in time deposits		(22,259)	(40,722)
Overnight and short-term borrowings, net		(106,800)	135,800
Proceeds from long-term borrowings		160,000	-
Principal repayments of long-term borrowings		(77)	(42)
Proceeds from sale of treasury stock		341	170
Payments to acquire treasury stock		(2,336)	(1,286)
Proceeds from issuance of treasury stock under stock option plan		785	138
Tax benefit from stock option exercise		777	152
Change in noncontrolling interest, net		(78)	(95)
Dividends paid		(6,955)	(6,603)
Net cash provided by financing activities		132,518	133,899
Net decrease in cash and cash equivalents		1,454	(3,757)
Cash and cash equivalents - beginning of period		48,118	51,875
Cash and cash equivalents - end of period	$	49,572	48,118
Supplemental disclosure of cash flow information:			
Interest paid	$	6,919	6,074
Income taxes paid		9,364	12,695
Supplemental schedule of noncash investing activities			
Real estate acquired in settlement of loans	$	1,244	1,791

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

Business

Canandaigua National Corporation (the Company) and subsidiaries provides a full range of financial services, including banking, trust, investment, and insurance services to individuals, corporations, and municipalities. The Company is subject to competition from other financial services and commercial companies in various regulated and unregulated industries. The Company and its subsidiaries are subject to the regulations of certain federal and state agencies and undergo regular examinations by those regulatory authorities.

Basis of Presentation

The Consolidated Financial Statements include the accounts of the Company and its wholly- and majority-owned subsidiaries. Its principal operations comprise the activities of The Canandaigua National Bank and Trust Company (the Bank), CNB Mortgage Company (CNBM), Genesee Valley Trust Company (GVT), Canandaigua National Trust Company of Florida (CNTF), and WBI OBS Financial, LLC (WBI). Although the Company owns 65% of WBI, pursuant to U.S. Generally Accepted Accounting Principles, the Company is required to consolidate 100% of WBI within the financial statements. The 35% of WBI, which the Company did not own as of December 31, 2015, is separately accounted for as Non-controlling interests within the consolidated financial statements. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company accounts for investments in less-than-majority-owned entities under the equity method. The Consolidated Financial Statements have been prepared in conformity with U.S. Generally Accepted Accounting Principles and conform to predominant practices within the financial services industry.

In preparing the Consolidated Financial Statements, management made estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements; as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, particularly with respect to the allowance for loan losses, income taxes, and securities with other than temporary impairment.

Amounts in prior years' Consolidated Financial Statements are reclassified whenever necessary to conform to the current year's presentation.

The Company has evaluated subsequent events through March 3, 2016, the date the financial statements were made available to be issued. As discussed in Note 2, the Company acquired the remaining 35% ownership interest in WBI in January 2016.

Cash Equivalents

For the purpose of reporting cash flows, cash and cash equivalents include cash, interest-bearing deposits with other financial institutions, and federal funds sold.

Securities

The Company classifies its securities as either available for sale or held to maturity as the Company does not hold any securities considered to be trading. Held to maturity securities are those that the Company has the ability and intent to hold until maturity. Held to maturity securities are recorded at amortized cost. All other securities are classified as available for sale.

Available for sale securities are recorded at fair value. Except for unrealized losses charged to earnings for other-than-temporary-impairment deemed to be credit-related or based on intent to sell, unrealized holding gains and losses, net of the related tax effect, are recognized in accumulated other comprehensive income (loss) in stockholders' equity until realized.

Management conducts a quarterly review and evaluation of the investment securities portfolio to determine if any declines in fair value below amortized cost are other-than-temporary. In making this determination, we consider some or all of the following factors: the period of time the securities have been in an unrealized loss position, the percentage decline in fair value in comparison to the securities' amortized cost, credit rating, the financial condition of the issuer and guarantor, where applicable, the delinquency or default rates of underlying collateral, credit enhancement, projected losses, level of credit loss, and projected cash flows. If we intend to sell a security with a fair value below amortized cost or if it is more likely than not that we will be required to sell such a security before recovery, we record an other-than-temporary impairment charge through current period earnings for the full decline in fair value below amortized cost. For debt securities that we do not intend to sell or it is more likely than not that we will not be required to sell before recovery, we record an other-than-temporary impairment charge through current period earnings for the amount of the valuation decline below amortized cost that is attributable to credit losses. The remaining difference between the debt security's fair value and amortized cost (that is, decline in fair value not attributable to credit losses) is recognized in other comprehensive income.

Interest income and dividends are recognized when earned. Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the interest method. Realized gains and losses are included in earnings and are determined using the specific identification method.

Loans

Loans, other than loans designated as held for sale, are stated at the principal amount outstanding net of deferred origination fees and costs. Interest and deferred fees and costs on loans are credited to income based on the effective interest method. Loans held for sale are carried at the lower of cost or fair value.

The accrual of interest on commercial and real estate loans is generally discontinued, and previously accrued interest is reversed, when the loans become 90 days delinquent or when, in management's judgment, the collection of principal and interest is uncertain. Loans are returned to accrual status when the doubt no longer exists about the loan's collectability and the borrower has demonstrated a sustained period of timely payment history. Specifically, the borrower will have resumed paying the full amount of scheduled interest and principal payments; all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within a reasonable period (6 months); and there is a sustained period of repayment performance (generally a minimum of six months) by the borrower, in accordance with the contractual terms involving payments of cash or cash equivalents. Interest on consumer loans is accrued until the loan becomes 120 days past due at which time principal and interest are generally charged off.

Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a loan to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is considered to be impaired, and sufficient information exists to make a reasonable estimate of the inherent loss, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or as a practical expedient, at the loan's observable fair value or the fair value of underlying collateral if the loan is collateral-dependent. In the absence of sufficient, current data to make a detailed assessment of collateral values or cash flows, management measures impairment on a pool basis using historical loss factors equivalent to similarly impaired loans. Impairment reserves are included in the allowance for loan losses through a charge to the provision for loan losses. Cash receipts on impaired loans are generally applied to reduce the principal balance outstanding. In considering loans for evaluation of specific impairment, management generally excludes smaller balance, homogeneous loans: residential mortgage loans, home equity loans, and all consumer loans. These loans are collectively evaluated for risk of loss on a pool basis.

Allowance for Loan Losses

The allowance for loan losses is a valuation reserve for probable and inherent incurred losses in the loan portfolio. Credit losses arise primarily from the loan portfolio, but may also be derived from other credit-related sources, when drawn upon, such as commitments, guarantees, and standby letters of credit. Additions are made to the allowance through periodic provisions, which are charged to expense. All losses of principal are charged to the allowance when incurred or when a determination is made that a loss is expected. Subsequent recoveries, if any, are credited to the allowance.

The Company has established a process to assess the adequacy of the allowance for loan losses and to identify the risks in the loan portfolio. This process consists of the identification of specific reserves for impaired commercial loans and material residential mortgages, and the calculation of general reserves, which is a formula-driven allocation.

The calculation of the general reserve involves several steps. A historical loss factor is applied to each loan by loan type and loan classification. The historical loss factors are calculated using a loan-by-loan, trailing eight-quarter net loss migration analysis for commercial loans. For all other loans, a portfolio-wide, trailing eight-quarter net loss migration analysis is used. Adjustments are then made to the historical loss factors based on current-period quantitative objective elements (delinquency, non-performing assets, classified/criticized loan trends, charge-offs, concentrations of credit, recoveries, etc.) and qualitative elements (economic conditions, portfolio growth rate, portfolio management, credit policy, and others). This methodology is applied to the commercial, residential mortgage, and consumer portfolios, and their related off-balance sheet exposures. Any allowance for off-balance sheet exposures is recorded in accrued interest payable and other liabilities.

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Troubled Debt Restructurings

In the process of resolving nonperforming loans, we may choose to restructure the contractual terms of certain loans and attempt to work out alternative payment schedules with the borrower in order to avoid foreclosure of collateral. Any loans that are modified are evaluated to determine if they are "troubled debt restructurings" (TDR) and if so, are evaluated for impairment. A TDR is defined as a loan restructure which for legal or economic reasons related to a borrower's financial difficulties, the creditor grants one or more concessions to the borrower that it would not otherwise consider. Terms of loan agreements may be modified to fit the ability of the borrower to repay in respect of its current financial status; and restructuring of loans may include the transfer of assets from the borrower to satisfy debt, a modification of loan terms, or a combination of the two. If a satisfactory restructure and payment arrangement cannot be reached, the loan may be referred to legal counsel for foreclosure.

Premises and Equipment

Land is carried at cost. Land improvements, buildings, leasehold improvements and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation is computed using straight-line and accelerated methods over the estimated useful lives of the assets, three to twenty-five years. Amortization of leasehold improvements is provided over the lesser of the term of the lease, including renewal options, when applicable, or the estimated useful lives of the assets.

Other Real Estate

Real estate acquired through foreclosure or deed in lieu of foreclosure (other real estate) is included in other assets, upon receipt of title, and is recorded at the lower of the unpaid loan balance on the property at the date of transfer, or fair value, less estimated costs to sell. Adjustments made to the value at transfer are charged to the allowance for loan losses. After transfer, the property is carried at the lower of cost or fair value less estimated costs to sell. Adjustments to the carrying values of such properties that result from subsequent declines in value are charged to operations in the period in which the declines occur. Operating earnings and costs associated with the properties are charged to other non-interest income and operating expense as incurred. Gains or losses on the sale of other real estate are included in results of operations when the sale occurs.

Loan Servicing Assets

The Company services first-lien, residential loans for the Federal Home Loan Mortgage Company (FHLMC), also known as Freddie Mac, and certain commercial loans as lead participant. The associated servicing rights (assets) entitle the Company to a future stream of cash flows based on the outstanding principal balance of the loans and contractual servicing fees. Failure to service the loans in accordance with contractual requirements may lead to a termination of the servicing rights and the loss of future servicing fees.

The Company services all loans for FHLMC on a non-recourse basis; therefore, its credit risk is limited to temporary advances of funds to FHLMC, while FHLMC retains all credit risk associated with the loans. Commercial loans are serviced on a non-recourse basis, whereby the Company is subject to credit losses only to the extent of the proportionate share of the loan's principal balance owned. The Company's contract to sell loans to FHLMC and to the Federal Housing Administration (FHA) via third-parties contain certain representations and warranties that if not met by the Company would require the repurchase of such loans. The Company has not historically been subject to a material volume of repurchases nor is it as of the current year end.

Loan servicing assets are amortized to loan servicing income in the statement of income. In computing amortization expense, the Company uses historical prepayment rates for similar loan pools and applies this amortization rate to each pool. If prepayments occur at a rate different than the applied rate, the Company adjusts the specific pool's amortization in the period in which the change occurs.

For purposes of evaluating and measuring impairment of loan servicing rights, the Company stratifies these assets based on predominant risk characteristics of the underlying loans that are expected to have the most impact on projected prepayments, cost of servicing, and other factors affecting future cash flows associated with the servicing rights, such as loan type, rate, and term. The amount of impairment recognized is the amount by which the carrying value of the loan servicing rights for a stratum exceeds fair value. Impairment is recognized through the income statement.

Goodwill and Intangible Assets

Goodwill has an indefinite useful life and is not amortized, but is tested for impairment. Goodwill impairment tests are performed on an annual basis or when events or circumstances dictate. A qualitative assessment of goodwill is first performed, factoring company-specific and economic characteristics that might impact its carrying value. If the assessment indicates goodwill might be impaired, a quantitative test is performed in which the fair value of the reporting unit with goodwill is compared to the carrying amount of that reporting unit in order to determine if impairment is indicated. If so, the implied fair value of the reporting unit's goodwill is compared to its carrying amount and an impairment loss is measured by the excess of the carrying value over fair value. Fair value of goodwill is estimated using a weighted average of market-based analysis and discounted cash-flow income analysis of the underlying reporting unit.

Intangible assets that have finite useful lives, such as customer relationships, technology, and trade name intangibles, are amortized over their useful lives. Customer relationship intangibles are amortized annually using an accelerated method for up to 15 years. Technology is generally amortized over a five year period also using an accelerated method. Trade name intangible has been amortized on a straight-line basis over three years. Amortization of these assets is reported in other operating expenses. The amortization period is monitored to determine if circumstances require the period to be revised. The Company also periodically reviews its intangible assets for changes in circumstances that may indicate that the carrying amount of the assets are impaired. The Company tests its intangible assets for impairment if conditions indicate that an impairment loss has more likely than not been incurred by evaluating the recoverability of the assets' carrying value using estimates of undiscounted future cash flows over the remaining assets' lives. Any impairment loss is measured by the excess of carrying value over fair value and is recorded in the measured period as additional amortization expense.

Stock-Based Compensation

Stock-based compensation expense is recognized in the statement of income over the awards' vesting period based on the fair value of the award at the grant date.

The Company accounts for the liability associated with its stock appreciation rights plan at fair value which is re-measured quarterly. Fair value is measured using the Black-Scholes-Merton option pricing model. The associated compensation expense or credit reported in the statement of income represents the change in the re-measured liability.

Income Taxes

The Company and its wholly-owned subsidiaries file income tax returns in the U.S. Federal jurisdiction and in the states of New York and Florida. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

The Company recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense.

Derivative Financial Instruments

Derivatives are recognized as either assets or liabilities in the balance sheet and are measured at fair value. If certain conditions are met, a derivative may be specifically designated as: (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (b) a hedge of the exposure to variable cash flows of a forecasted transaction; or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available for sale security, or a foreign currency denominated forecasted transaction. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. At inception of the hedge, management establishes the application of hedge accounting and the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. These are consistent with management's approach to managing risk.

The Company's derivative financial instruments include: (1) commitments to originate fixed-rate residential real estate loans to be held for sale; (2) commitments to sell fixed-rate residential loans; and (3) interest rate swap agreements.

Commitments to originate and commitments to sell fixed-rate residential real estate loans are recorded in the consolidated balance sheet at estimated fair value. Neither of these derivative instruments are considered hedges; therefore, periodic changes in the fair value of these instruments are recognized in mortgage banking income in the period in which the change occurs. However, due to the minimal volume and short-term nature of these instruments, the net impact of a change in fair value from the instruments' initially recognized fair value is generally immaterial.

The Company utilizes interest rate swap agreements as part of its management of interest rate risk to modify the repricing characteristics of its floating-rate junior subordinated debentures. For swap agreements, amounts receivable or payable are recognized as accrued under the terms of the agreement, and the net differential is recorded as an adjustment to interest expense of the related debentures. Interest rate swap agreements are designated as cash flow hedges. Therefore, the effective portion of the swaps' unrealized gain or loss was initially recorded as a component of other comprehensive income, and subsequent effective portions are recognized in interest expense. The ineffective portion of the unrealized gain or loss, if any, is reported in other operating income.

The Company also utilizes interest rate swap agreements for certain variable rate commercial loans whereby the Company and clients enter into interest rate swap agreements that result in clients paying a fixed rate to the Company and the Company paying a variable rate to borrowers. The transaction allows the client to effectively convert a variable rate loan to a fixed rate. The Company then enters into separate interest rate swap agreements having exact opposite matching terms with another financial institution. The Company does not designate either interest rate swap as hedging instruments. Because the terms of the swaps with the client and the other financial institution offset each other, with the only difference being counterparty credit risk, changes in the fair value of the underlying derivative contracts are not materially different and do not significantly impact the Company's results of operation.

Accumulated Other Comprehensive Income

The Company's comprehensive income consists of net income, changes in the net unrealized holding gains and losses of securities available for sale, and changes in the net unrealized gain or loss on the effective portion of cash flow hedges. Accumulated other comprehensive income on the consolidated statements of stockholders' equity is presented net of taxes.

Treasury Stock

Treasury stock is carried on the consolidated balance sheet at cost as a reduction of stockholders' equity. Shares are released from treasury at original cost on a first-in, first-out basis, with any gain on the sale reflected as an adjustment to additional paid-in capital. Losses are reflected as an adjustment to additional paid-in capital to the extent of gains previously recognized, otherwise as an adjustment to retained earnings.

Trust and Investment Services Income

Assets held in fiduciary or agency capacity for clients are not included in the accompanying consolidated balance sheets, since such assets are not assets of the Company. Fees are calculated based generally upon the market value of the underlying assets. Fee income is recognized when earned, and is not subject to return-performance contingencies.

Earnings Per Share

Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share includes the maximum dilutive effect of stock issuable upon exercise of stock options.

New Accounting Standards

There were no Accounting Standards Updates (ASU) implemented during 2015.

The Financial Accounting Standards Board issues, from time to time, updates containing technical amendments. These updates are generally effective immediately upon their issuance, but have no practical impact on our financial condition or results of operations. Because these are technical in nature, and have no material impact, a summary is not included herein.

(2) Acquisitions

Over time, the Company has made several acquisitions. A summary of those for which transactions impact the current period follows:

On September 29, 2006, the Bank acquired investment management accounts from another bank and assumed the successor trustee role for personal trusts. The market value of the underlying assets was approximately $66.6 million and was added to existing assets under administration. In connection with the acquisition, the Company recorded, at cost, a customer list intangible asset of approximately $1.4 million. The asset is being amortized on an accelerated basis over fifteen years. As a result of the Company's annual fair value estimation in 2011, an additional $50,000 amortization expense over expected amortization was recorded to reflect customer account attrition in excess of original estimates.

On January 2, 2008, the Company completed its acquisition of 100% of the voting shares of Genesee Valley Trust Company (GVT), a Rochester-based New York State chartered trust company. The acquisition of GVT provided the Company with additional trust and investment services income. The total cash purchase price approximated $18.8 million. The acquisition resulted in the recording of certain intangible assets (customer list: $6.9 million; trade name: $0.1 million) and goodwill, all of which totaled $8.8 million and substantially all of which was deductible for income tax purposes. In addition, a non-interest bearing note payable totaling $5.5 million, fully paid by January 2011, was recorded along with a discount on the note of $0.5 million. The customer list intangible is being amortized on an accelerated basis over fifteen years, the trade name was amortized over three years. The note discount was amortized over three years to interest expense. As a result of the Company's annual fair value estimation in 2011, an additional $250,000 amortization expense over expected amortization was recorded to reflect customer account attrition in excess of original estimates.

On December 31, 2008, the Bank acquired from an investment management company, investment management accounts. The market value of the underlying assets was approximately $42.6 million and was added to existing assets under administration. Purchase payments totaled $0.7 million, which resulted in the recording of a customer list intangible asset of $0.7 million, substantially all of which was deductible for income tax purposes. The Company also recorded a non-interest bearing note totaling $0.3 million, which was paid as of December 31, 2010. The intangible asset is being amortized on an accelerated basis over fifteen years.

On November 30, 2011, the Company acquired a majority interest in WBI OBS Financial, LLC (WBI), a company formed to concurrently acquire OBS Holdings, Inc. (OBS). OBS, an Ohio-based company, provides brokerage and investment sub-advisory services to the Bank and several other financial institutions, primarily community banks and credit unions. Under the terms of WBI's acquisition of OBS, it will pay the seller a total of $7 million, consisting of a $2.5 million payment in May 2012, a $3.5 million payment in November 2013, and $1 million cumulative quarterly non-maturity payments contingent upon net revenue improvements at OBS. Under the terms of the Company's purchase of WBI, in exchange for a 65% ownership interest, the Company paid WBI a total of $2.5 million in 2011 and 2012, and the company funded the $2.5 million payment due May 31, 2012 for a total of $5.0 million. Future obligations of WBI are shared pro-rata with other WBI investors. WBI investors have

agreed to allocate up to 15% of the ownership structure of OBS to certain employees of OBS, subject to conditions. The acquisition resulted in the recording of certain intangible assets (customer list: $2.3 million and technology: $0.9 million), related deferred tax liabilities of $1.3 million, and goodwill of $6.8 million. In addition, a non-interest bearing note payable totaling $7.0 million was recorded along with a discount on the note of $0.2 million. The fair value of the non-controlling interest was estimated at $2.7 million. The customer list intangible is being amortized on an accelerated basis over twelve years and technology over five years. The note discount was amortized over three years to interest expense. In January 2016, the Company acquired the remaining 35% ownership interest in WBI from the other WBI investors for $0.3 million pursuant to the Company's notice of exercise rights included under the terms of the operating agreement of WBI.

Acquisition-related identifiable intangible assets were comprised of the following at December 31, (in thousands):

		2015	2014
Gross carrying amounts			
Customer list intangible from 2006	$	1,420	1,420
Customer list intangible from GVT		6,870	6,870
Trade name from GVT		100	100
Customer list intangible from investment company		665	665
Customer list intangible from OBS		2,300	2,300
Technology intangible from OBS		900	900
Total		12,255	12,255
Less accumulated amortization		(9,349)	(8,358)
Intangible asset – net	$	2,906	3,897

Amortization expense amounted to $1.0 million and $1.1 million for the years ended December 31, 2015 and 2014, respectively. Amortization expense is projected over the next five years as follows: 2016: $0.9 million; 2017: $0.6 million; 2018: $0.5 million; 2019: $0.4 million and 2020: $0.2 million.

(3) Securities

Amortized cost, gross unrealized gains (losses), and fair value of available-for-sale and held-to-maturity securities at December 31, 2015 are summarized as follows:

		December 31, 2015			
			Gross Unrealized		
		Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale:					
U.S. Treasury	$	505	-	(1)	504
U.S. government sponsored enterprise obligations		125,787	153	(507)	125,433
State and municipal obligations		18,113	117	(15)	18,216
Equity securities		2,700	16	(41)	2,675
Total Securities Available for Sale	$	147,105	286	(564)	146,828
Securities Held to Maturity:					
U.S. government sponsored enterprise obligations	$	3,502	4	-	3,506
State and municipal obligations		161,573	913	(134)	162,352
Corporate obligations		517	257	-	774
Total Securities Held to Maturity	$	165,591	1,175	(134)	166,632

The amortized cost and fair value of debt securities by years to maturity as of December 31, 2015, is as follows (in thousands). Maturities of amortizing securities are classified in accordance with their contractual repayment schedules. Expected maturities will differ from contractual maturities since issuers may have the right to call or prepay obligations without penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Years				
Under 1	$ 4,395	4,427	35,886	36,037
1 to 5	20,752	20,787	124,011	124,627
5 to 10	115,155	114,785	5,177	5,195
10 and over	4,104	4,154	517	774
Total	$ 144,405	144,153	165,591	166,632

Amortized cost and fair value of available-for-sale and held-to-maturity securities at December 31, 2014 are summarized as follows:

	December 31, 2014			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale:				
U.S. Treasury	$ 500	-	-	500
U.S. government sponsored enterprise obligations	74,445	179	(336)	74,288
State and municipal obligations	17,447	276	(28)	17,695
Equity securities	2,200	23	(35)	2,188
Total securities Available for Sale	$ 94,592	478	(399)	94,671
Securities Held to Maturity:				
U.S. government sponsored enterprise obligations	$ 13,851	5	(22)	13,834
State and municipal obligations	167,103	1,150	(523)	167,730
Corporate obligations	605	295	-	900
Total Securities Held to Maturity	$ 181,559	1,450	(545)	182,464

At December 31, 2015, and 2014, securities at amortized cost of $197.9 million and $197.1 million, respectively, were pledged to secure municipal deposits and for other purposes required or permitted by law.

No held-to-maturity securities were sold in 2015 or 2014. No available-for-sale securities were sold in 2015. In 2014 proceeds from the sale of available-for-sale securities totaled $1.7 million, which generated a net gain on sale of $0.6 million.

Interest on securities segregated between taxable interest and tax-exempt interest for the years ended December 31, 2015 and 2014, follows (in thousands):

	2015	2014
Taxable	$ 2,189	1,993
Tax-exempt	2,932	3,581
Total	$ 5,121	5,574

The following table presents the fair value of securities with gross unrealized losses at December 31, 2015, aggregated by category and length of time that individual securities have been in a continuous loss position (in thousands).

	Less than 12 months		Over 12 months		Total	
Securities Available for Sale:	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury	$ 405	1	-	-	405	1
U.S. government sponsored enterprise obligations	71,196	419	4,502	88	75,699	507
State and municipal obligations	2,248	10	1,189	5	3,437	15
Equity securities	500	1	1,000	40	1,500	41
Total temporarily impaired securities	$ 74,350	431	6,692	133	81,041	564
Securities Held to Maturity:						
State and municipal obligations	5,332	17	21,284	117	26,615	134
Total temporarily impaired securities	$ 5,332	17	21,284	117	26,615	134

Substantially all of the unrealized losses on the Company's securities were caused by market interest rate changes from those in effect when the specific securities were purchased by the Company. The contractual terms of these securities do not permit the issuer to settle the securities at a price less than par value. All securities rated by an independent rating agency carry an investment grade rating. Because the Company generally does not intend to sell securities and it believes it is not likely to be required to sell the securities before recovery of their amortized cost basis, which may be, and is likely to be, maturity, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2015.

The following table presents the fair value of securities with gross unrealized losses at December 31, 2014, aggregated by category and length of time that individual securities have been in a continuous loss position (in thousands).

	Less than 12 months		Over 12 months		Total	
Securities Available for Sale:	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government sponsored enterprise obligations	$ 26,981	47	23,259	289	50,240	336
State and municipal obligations	1,956	24	379	4	2,335	28
Equity securities	-	-	1,000	35	1,000	35
Total temporarily impaired securities	$ 28,937	71	24,638	328	53,575	399
Securities Held to Maturity:						
U.S. government sponsored enterprise obligations	$ 7,348	22	-	-	7,348	22
State and municipal obligations	31,455	274	27,274	249	58,729	523
Total temporarily impaired securities	$ 38,803	296	27,274	249	66,077	545

The aggregate cost of the Company's cost-method investments totaled $15.7 million and $13.5 million at December 31, 2015 and 2014 respectively, of which $11.6 million and $9.1 million at each year end were in Federal Home Loan Bank stock and Federal Reserve Bank stock, as required by law.

(4) Loans and Allowance for Loan Losses

Loans

The Company's market area is generally Ontario County and Monroe County of New York State. Substantially all loans are made in this market area. Accordingly, the ultimate collectability of a substantial portion of the Company's loan portfolio is susceptible to changes in the economic conditions in this area. The Company's concentrations of credit risk are as disclosed in the following table of loan classifications. The concentrations of credit risk in related loan commitments and letters of credit parallel the loan classifications reflected. Other than general economic risks, management is not aware of any material concentrations of credit risk to any industry or individual borrower.

The major classifications of loans at December 31, 2015 and 2014, follow (in thousands), along with a description of their underwriting and risk characteristics:

		December 31, 2015	December 31, 2014
Commercial and industrial	$	254,510	236,541
Mortgages:			
Commercial		633,881	620,332
Residential - first lien		417,330	378,003
Residential - junior lien		123,213	109,781
Consumer:			
Automobile - indirect		378,403	352,899
Other		25,233	23,515
Other, including loans held for sale		7,305	6,953
Total loans		1,839,875	1,728,024
Plus - Net deferred loan costs		12,756	11,622
Less - Allowance for loan losses		(20,565)	(19,492)
Loans - net	$	1,832,066	1,720,154

Commercial and Industrial Loans: These loans generally include term loans and lines of credit. Such loans are made available to businesses for working capital (including inventory and receivables), business expansion (including acquisition of real estate, expansion and improvements) and equipment purchases. As a general practice, a collateral lien is placed on equipment or other assets owned by the borrower. These loans carry a higher risk than commercial real estate loans by the nature of the underlying collateral, which can be business assets such as equipment and accounts receivable. To reduce the risk, management also attempts to secure secondary collateral, such as real estate, and obtain personal guarantees of the borrowers. To further reduce risk and enhance liquidity, these loans generally carry variable rates of interest, repricing in three- to five-year periods, and have a maturity of five years or less. Lines of credit generally have terms of one year or less and carry floating rates of interest (e.g., prime plus a margin).

Commercial Mortgages: Commercial real estate loans are made to finance the purchases of real property which generally consists of real estate with completed structures. These commercial real estate loans are secured by first liens on the real estate, which may include apartments, commercial structures housing businesses, healthcare facilities, and other non-owner occupied facilities. These loans are considered by the Company to be less risky than commercial and industrial loans, since they are secured by real estate and buildings. The loans typically have adjustable interest rates, repricing in three- to five-year periods, and require principal payments over a 10- to 25-year period. Many of these loans include call provisions within 10 to 15 years of their origination. The Company's underwriting analysis includes credit verification, independent appraisals, a review of the borrower's financial condition, and the underlying cash flows. These loans are typically originated in amounts of no more than 80% of the appraised value of the property serving as collateral.

Residential First-Lien Mortgages: We originate adjustable-rate and fixed-rate, one-to-four-family residential real estate loans for the construction, purchase or refinancing of a mortgage. These loans are collateralized by owner- and non-owner-occupied properties located in the Company's market area. They are amortized over five to 30 years. Substantially all residential loans secured by first mortgage liens are originated by CNB Mortgage and sold to either the Bank or third-party investors. Generally, fixed-rate mortgage loans with a maturity or call date of ten years or less and a rate of 4% or more are retained in the Company's portfolio. For longer term, fixed-rate residential mortgages without escrow, the Company generally retains the servicing, but sells the right to receive principal and interest to Federal Home Loan Mortgage Company, also known as Freddie Mac. All loans not retained in the portfolio or sold to Freddie Mac are sold to unrelated third parties with servicing released. This practice allows the Company to manage interest rate risk, liquidity risk, and credit risk. From time to time, the Company may also purchase residential mortgage loans which are originated and serviced by third parties. In an effort to manage risk of loss and strengthen secondary market liquidity opportunities, management typically uses secondary market underwriting, appraisal, and servicing guidelines. Loans on one-to-four-family residential real estate are mostly originated in amounts of no more than 85% of appraised value or have private mortgage insurance. Mortgage title insurance and hazard insurance are normally required. Construction loans have a unique risk, because they are secured by an incomplete dwelling. This risk is reduced through periodic site inspections, including at each loan draw period.

Residential Junior-Lien Mortgages: The Company originates home equity lines of credit and second mortgage loans (loans secured by a second (junior) lien position on one-to-four-family residential real estate). These loans carry a higher risk than first mortgage residential loans as they are in a second position relating to collateral. Risk is reduced through underwriting criteria, which include credit verification, appraisals, a review of the borrower's financial condition, and personal cash flows. A security interest, with title insurance when necessary, is taken in the underlying real estate.

Consumer Automobile- Indirect Loans: The Company funds indirect automobile loans - loans processed by automobile dealers on behalf of the Bank. These loans carry a fixed rate of interest with principal repayment terms typically ranging from one to seven years, based upon the nature of the automobile, the size of the loan, and the credit score of the borrower. Although secured by a vehicle these loans carry a higher risk of loss than real-estate secured loans, particularly in the early years of the loan, because automobiles are depreciating assets whose value declines over time, and at a more rapid rate than the related loan's principal balance.

Other Consumer Loans: The Company funds a variety of other consumer loans, including automobile loans, recreational vehicle loans, boat loans, aircraft loans, home improvement loans, and personal loans (collateralized and uncollateralized). Most of these loans carry a fixed rate of interest with principal repayment terms typically ranging from one to ten years, based upon the nature of the collateral and the size of the loan. The majority of consumer loans are underwritten on a secured basis using the underlying collateral being financed or a customer's deposit account. A small amount of loans are unsecured, which carry a higher risk of loss.

Loans Held for Sale: These are the Residential First-Lien Mortgages, discussed above, which are sold to Freddie Mac and other third parties. These loans are carried at their lower of cost or fair value, calculated on a loan-by-loan basis.

Commercial loan participations serviced for others amounted to $112.5 million and $125.7 million at December 31, 2015 and 2014, respectively. Residential mortgage loans serviced for Freddie Mac, amounted to $577.6 million and $561.6 million at December 31, 2015 and 2014, respectively. None of these loans are included in the Consolidated Financial Statements or the tables within this Note.

Certain executive officers, directors and their business interests are customers of the Company. Transactions with these parties are based on substantially the same terms as similar transactions with unrelated third parties and do not carry more than normal credit risk. Borrowings by these related parties amounted to $8.2 million and $8.4 million at December 31, 2015 and 2014, respectively. During 2015, new borrowings amounted to $0.5 million (including borrowings of executive officers and directors that were outstanding at the time of their election), and repayments and other reductions were $0.7 million.

Allowance for Loan Losses

The following tables present an analysis of the allowance for loan losses by loan type, including a summary of the loan types individually and collectively evaluated for impairment as of December 31, 2015 and, 2014, respectively (in thousands). Notwithstanding the estimated allocations set forth in any table, the entirety of the allowance is available to absorb losses in any portfolio. Loan balances included in the "Unallocated" column represent the balance of net deferred loan costs.

December 31, 2015		**Commercial and industrial**	**Commercial mortgage**	**Residential mortgage - first lien**	**Residential mortgage - junior lien**	**Consumer - indirect**	**Consumer - other**	**Loans held for sale**	**Unallocated**	**Total**
Beginning Balance	$	3,138	2,382	3,023	475	8,216	1,168	-	1,090	19,492
Charge-offs		(623)	(2,463)	(274)	(7)	(2,573)	(634)	-	-	(6,574)
Recoveries		347	1	207	30	1,048	319	-	-	1,952
Provision		(189)	4,287	(495)	(204)	2,022	799	-	(525)	5,695
Ending Balance	$	2,673	4,207	2,461	294	8,713	1,652	-	565	20,565
of which:										
Amount for loans individually evaluated for impairment	$	42	1,875	-	-	-	-	-	-	1,917
Amount for loans collectively evaluated for impairment	$	2,631	2,332	2,461	294	8,713	1,652	-	565	18,648
Balance of loans individually evaluated for impairment	$	6,396	5,738	-	-	-	-	-	-	12,134
Balance of loans collectively evaluated for impairment	$	248,114	628,143	417,330	123,213	378,403	25,233	7,305	12,756	1,840,497

December 31, 2014		Commercial and industrial	Commercial mortgage	Residential mortgage - first lien	Residential mortgage - junior lien	Consumer - indirect	Consumer - other	Loans held for sale	Unallocated	Total
Beginning Balance	$	3,165	1,896	3,095	527	7,649	973	-	1,021	18,326
Charge-offs		(816)	(968)	(811)	(39)	(1,858)	(508)	-	-	(5,000)
Recoveries		193	-	135	17	809	422	-	-	1,576
Provision		596	1,454	604	(30)	1,616	281	-	69	4,590
Ending Balance	$	3,138	2,382	3,023	475	8,216	1,168	-	1,090	19,492
of which:										
Amount for loans individually evaluated for impairment	$	159	873	-	-	-	-	-	-	1,032
Amount for loans collectively evaluated for impairment	$	2,979	1,509	3,023	475	8,216	1,168	-	1,090	18,460
Balance of loans individually evaluated for impairment	$	937	9,411	-	-	-	-	-	-	10,348
Balance of loans collectively evaluated for impairment	$	235,604	610,921	378,003	109,781	352,899	23,515	6,953	11,622	1,729,298

The ratio of the allowance to total loans approximated 1.12% at December 31, 2015 as compared to 1.13% at December 31, 2014. The ratio remains nearly unchanged despite loan growth of approximately 6%, and unfavorable variances from December 31, 2014 to December 31, 2015 in the following asset quality metrics: (a) net charge off ratio increased from 0.21% to 0.26%, (b) non-accrual loans to total loans ratio increased from 0.85% to 0.89%, (c) total past due loans to total loans ratio increased from 1.58% to 1.67% and (d) higher amount of specific related allowance at period end from $1.0 million to $1.9 million. These factors were offset by (a) significant improvement in the Classified (Substandard rated) Loans to Total Loans ratio reducing to 1.93% from 2.20%, (b) a general improvement in key risk metrics evaluated for the residential mortgage secured loan portfolios (i.e. lower past due rates, lower sub 660 FICO scores, reduced charge-offs, etc.) and (c) a reduced economic factor adjustment applied across all portfolios due to continued improving economic conditions in our market for the year (increased auto sales, lower unemployment, stable median home prices, improved consumer confidence).

In monitoring the credit quality of the portfolio, management applies a credit quality indicator to substantially all commercial loan relationships over $250,000. These quality indicators range from one through eight in increasing risk of loss. These ratings are used as inputs to the calculation of the allowance for loan losses. Loans rated 1 through 4 are generally allocated a lesser percentage allocation in the allowance for loan losses than loans rated from 5 through 8. Residential Mortgage Loans are generally rated 9, unless they are used to partially collateralize commercial loans, in which case they carry the rating of the respective commercial loan relationship, or if management wishes to recognize a well defined weakness or loss potential to more accurately reflect credit risk. Unrated loans, including performing commercial loan relationships less than $250,000, are allocated a percentage of the allowance for loan losses on a pooled basis.

Loans rated 1 include borrowers whose financial condition, liquidity, capitalization, earnings, cash flow, management and capacity to repay are strong. If deficient in any of these areas, a borrower may still be considered for a 1 rating, if fully secured by cash, or properly margined, listed stock, investment grade corporate bonds or U.S. Government Securities, (125% collateral value to loan commitment).

A loan rated 2 would include borrowers who are somewhat more of a credit risk than a 1 rated borrower and therefore require more frequent monitoring. Those borrowers would have the following qualities: cash flow has been and is expected to be adequate to meet debt service requirements; financial statement is current, of good quality and in adequate detail; financial condition of company compares favorably with the industry averages; earnings are generally stable; borrower consistently adheres to repayment schedule for both principal and interest and covenants; management integrity and ability is considered sound; and industry outlook is acceptable.

Loans rated 3 include credits whose performance is generally stable. Also included in this category are credits where the guarantor is sufficiently strong to support operating losses and has demonstrated a willingness to do so. Additionally, loans risk rated 3 may include the following qualities: borrower's business is tied to more economically sensitive industries; borrower may have violated one or more financial covenants; occasional requirements for waivers, or amendments may occur, however liquidity and capitalization are expected to continue to be acceptable; integrity of management is acceptable but ability remains to be proven; borrower may not compare well to industry standards; relationship requires a high level of monitoring due to its complexity. Also, financial data of affiliates may not be available or difficult to track; borrower may not provide sufficient documentation for confirming all taxable income/losses but consistently adheres to repayment schedules for both principal and interest. Also, borrower may report a high level of contingent liabilities.

Loans rated 4 would include credits which demonstrate any or all of the following criteria: borrower's or guarantor's financial performance shows negative trends and yet cash flow remains still adequate to repay debt; loans which continue to pay as agreed but the Bank has not received current financial statements to confirm repayment ability and to enable management to complete a timely annual review; most commercial construction loans; loan has been processed through automated underwriting and does not meet management's scoring threshold; loans to start-up companies until the borrower's have achieved stabilized operations (i.e., 1-

3 years); and loans recommended for upgrade from problem loan status (5 through 8) would generally pass through this category for 6 months to a year unless there are sufficient reasons to bypass this rating and be upgraded to a 3 or higher.

Loans risk rated 5 are currently protected but are potentially weak. These loans, in management's judgment, constitute an undue and unwarranted credit risk but not to the point of justifying a classification of substandard. The credit risk may be relatively minor yet constitute an unwarranted risk in light of the circumstances surrounding a specific asset. Loans in this category have potential weaknesses which may, if not checked or corrected, weaken the loan or inadequately protect the Bank's credit position at some future date. This might include loans which the lending officer may be unable to supervise properly because of: lack of expertise, inadequate loan agreement, the poor condition of or lack of control over collateral, failure to obtain proper documentation or any other deviations from prudent lending practices. Economic or market conditions which may, in the future, affect the obligor may warrant special mention of the asset. Loans for which an adverse trend in the borrower's operations or an imbalanced position in the balance sheet which has not reached a point where the liquidation is jeopardized may be included in this classification.

Loans risk rated 6 are considered substandard. A substandard loan is inadequately protected by the sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified substandard. Residential mortgages are not subject to substandard classification unless the following well defined weaknesses have occurred: the ability of the borrower to repay the debt is questionable as evidenced by delinquency of 90 days, and repayment of the debt is dependent on the sale of the underlying real estate. A consumer loan is considered a substandard asset only when it is 90 days past due.

Loans risk rated 7 are categorized as doubtful. These loans have all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral and refinancing plans. The entire amount of the loan might not be classified as doubtful when collection of a specific portion appears highly probable. Loans are generally not classified doubtful for an extended period of time (i.e., over a year).

Loans classified 8, or loss, are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. Losses are taken in the period in which they surface as uncollectible.

Loans in category 9 and unrated are evaluated for credit quality after origination principally based upon delinquency status, but may also include credit scores and collateral valuations.

The following tables present the loan portfolio as of December 31, 2015 and 2014 by credit quality indicator (in thousands). Except for loans in the 9 and unrated categories, credit quality indicators are reassessed for each applicable loan at least annually, generally upon the anniversary of the loan's origination or receipt and analysis of the borrower's financial statements, when applicable, or in the event that information becomes available that would cause us to re-evaluate.

Credit Quality Indicator Analysis as of December 31, 2015

	Commercial and industrial	Commercial mortgage	Residential mortgage - first lien	Residential mortgage - junior lien	Consumer - indirect	Consumer - other	Loans held for sale	Deferred Fees and Costs	Total
1-Superior	$ 27,659	-	-	-	-	5,494	-	-	33,153
2-Good	44,681	81,770	905	283	-	-	-	-	127,639
3-Satisfactory	38,960	210,043	2,569	1,075	-	-	-	-	252,647
4-Watch	57,688	269,634	24,314	187	-	-	-	-	351,823
5-Special Mention	3,666	11,569	111	-	-	-	-	-	15,346
6-Substandard	18,097	13,304	3,328	778	-	30	-	-	35,537
7-Doubtful	-	-	-	-	-	-	-	-	-
8-Loss	-	-	-	-	-	-	-	-	-
Subtotal	$ 190,751	586,320	31,227	2,323	-	5,524	-	-	816,145
9 and not rated	63,759	47,561	386,103	120,890	378,403	19,709	7,305	12,756	1,036,486
Total	$ 254,510	633,881	417,330	123,213	378,403	25,233	7,305	12,756	1,852,631

Credit Quality Indicator Analysis as of December 31, 2014

		Commercial and industrial	Commercial mortgage	Residential mortgage - first lien	Residential mortgage - junior lien	Consumer - indirect	Consumer - other	Loans held for sale	Deferred Fees and Costs	Total
1-Superior	$	16,441	92	-	-	-	899	-	-	17,432
2-Good		39,704	78,192	694	120	-	-	-	-	118,710
3-Satisfactory		42,849	230,372	2,573	94	-	-	-	-	275,888
4-Watch		54,147	226,593	9,189	237	-	-	-	-	290,166
5-Special Mention		9,694	14,434	1,114	-	-	-	-	-	25,242
6-Substandard		14,591	19,173	3,602	717	-	-	-	-	38,083
7-Doubtful		-	-	-	-	-	-	-	-	-
8-Loss		-	-	-	-	-	-	-	-	-
Subtotal	$	177,426	568,856	17,172	1,168	-	899	-	-	765,521
9 and not rated		59,115	51,476	360,831	108,613	352,899	22,616	6,953	11,622	974,125
Total	$	236,541	620,332	378,003	109,781	352,899	23,515	6,953	11,622	1,739,646

The following table presents a summary of information regarding nonaccruing loans and other nonperforming assets as of the end of the respective periods (in thousands):

		December 31, 2015	December 31, 2014
Accruing loans 90 days or more delinquent	$	836	607
Nonaccruing loans		16,303	14,622
Total nonperforming loans		17,139	15,229
Other real estate owned		1,643	2,229
(less write-down of other real estate owned)		(228)	(225)
Total nonperforming assets	$	18,554	17,233

The following tables present, as of December 31, 2015 and December 31, 2014, additional details about the loan portfolio in the form of an aging analysis. Amounts exclude deferred fees and costs (in thousands).

Aging Analysis as of December 31, 2015

		30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater	Total Past Due	Current	Total Loans	> 90 Days and Accruing	Non-Accrual Loans
Commercial and industrial	$	806		6,420	7,625	246,885	254,510	24	6,396
Commercial mortgages		389	1,366	5,772	7,527	626,354	633,881	-	5,772
Residential - first lien		3,160	753	3,580	7,493	409,837	417,330	252	3,328
Residential - junior lien		265	-	777	1,042	122,171	123,213	-	777
Consumer:									
Automobile - Indirect		5,073	1,197	538	6,808	371,595	378,403	538	-
Other		209	52	52	313	24,920	25,233	22	30
Loans held-for-sale		-	-	-	-	7,305	7,305	-	-
	$	9,902	3,767	17,139	30,808	1,809,067	1,839,875	836	16,303

Aging Analysis as of December 31, 2014

		30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater	Total Past Due	Current	Total Loans	> 90 Days and Accruing	Non-Accrual Loans
Commercial and industrial	$	1,265	89	1,078	2,432	234,109	236,541	141	937
Commercial mortgages		1,370	-	9,411	10,781	609,551	620,332	-	9,411
Residential - first lien		3,545	19	3,557	7,121	370,882	378,003	-	3,557
Residential - junior lien		130	795	814	1,739	108,042	109,781	97	717
Consumer:									
Automobile - Indirect		4,006	768	341	5,115	347,784	352,899	341	-
Other		76	39	28	143	23,372	23,515	28	-
Loans held-for-sale		-	-	-	-	6,953	6,953	-	-
Total	$	10,392	1,710	15,229	27,331	1,700,693	1,728,024	607	14,622

A summary of information regarding impaired loans follows (in thousands):

		As of and for the year ended December 31, 2015	As of and for the year ended December 31, 2014
Recorded investment at period end	$	16,303	14,622
Impaired loans with specific related allowance at period end	$	3,150	1,418
Amount of specific related allowance at period end	$	1,917	1,032
Average investment during the period	$	14,191	16,855
Interest income recognized on a cash basis during the period	$	1,571	482
Interest income forgone on impaired loans	$	553	698

The details of impaired loans follow (in thousands). “Recorded investment”, “Unpaid Principal Balance”, and “Specific Related Allowance” are as of the years ended December 31, 2015 and 2014 , respectively. “Average Recorded Investment” is a four-quarter rolling average for the respective periods. “Interest Income Recognized” is for the respective year-to-date periods:

December 31, 2015

		Recorded Investment	Unpaid Principal Balance	Specific Related Allowance	Average Recorded Investment	Interest Income Recognized
With no specific allowance						
Commercial and industrial	$	6,211	6,234	-	2,011	246
Commercial mortgage		2,807	3,390	-	4,199	1,235
Residential mortgage - first lien		3,328	3,680	-	3,125	79
Residential mortgage - junior lien		777	832	-	791	11
Consumer - other		30	30	-	24	-
Subtotal		13,153	14,166	-	10,150	1,571
With specific allowance						
Commercial and industrial		185	186	42	180	-
Commercial mortgage		2,965	3,029	1,875	3,674	-
Residential mortgage - first lien		-	-	-	187	-
Subtotal		3,150	3,215	1,917	4,041	-
Total	$	16,303	17,381	1,917	14,191	1,571
Summary by portfolio:						
Commercial	$	12,168	12,839	1,917	10,064	1,481
Residential		4,105	4,512	-	4,103	90
Consumer and other		30	30	-	24	-
Total	$	16,303	17,381	1,917	14,191	1,571

December 31, 2014

		Recorded Investment	Unpaid Principal Balance	Specific Related Allowance	Average Recorded Investment	Interest Income Recognized
With no specific allowance						
Commercial and industrial	$	560	706	-	913	35
Commercial mortgage		8,370	9,803	-	7,814	298
Residential mortgage - first lien		3,557	3,873	-	5,058	139
Residential mortgage - junior lien		717	759	-	823	10
Subtotal		13,204	15,141	-	14,608	482
With specific allowance						
Commercial and industrial		377	523	159	717	-
Commercial mortgage		1,041	1,172	873	1,530	-
Subtotal		1,418	1,695	1,032	2,247	-
Total	$	14,622	16,836	1,032	16,855	482
Summary by portfolio:						
Commercial	$	10,348	12,204	1,032	10,974	333
Residential		4,274	4,632	-	5,881	149
Total	$	14,622	16,836	1,032	16,855	482

Troubled Debt Restructurings (TDR)

As of December 31, 2015, there were two commercial relationships totaling $3.1 million that were considered TDRs due to the nature of the concessions granted to the borrowers. The balances of the underlying loans are included in non-performing loans.

One relationship totaling $2.2 million was restructured in 2014. As of December 31, 2015, $0.5 million of impairment reserves were included in the allowance for loan losses based on the current collateral and management recovery expectations for this relationship. The significant term modified was the monthly principal and interest amount. We agreed to forbear our rights under the default provisions in the original loan agreements on the condition that the borrower would make lesser payments and provide certain financial information pursuant to the terms of a Forbearance Agreement.

The other commercial relationship totaling $0.9 million was restructured during 2015. As of December 31, 2015, $0.6 million of impairment reserves were included in the allowance for loan losses based on the current collateral and management recovery expectations for this relationship. An open line of credit was discontinued and a repayment program was established for the principal amount outstanding on the line. At the same time, a new smaller line of credit was put in place to facilitate additional inventory purchases. The repayment schedule established on the original line balance did not represent market rate and terms.

As of December 31, 2015, there were six residential loans totaling $1.6 million that were classified as TDRs. One $0.1 million loan became a TDR in 2015, one $0.4 million loan became a TDR in 2014, and the remaining four loans totaling $1.1 million became TDRs in 2013. There were no impairment reserves for the residential loans based on the underlying collateral and management recovery expectations.

(5) Premises and Equipment

A summary of premises and equipment at December 31, 2015 and 2014, follows (in thousands):

	2015	2014
Land and land improvements	$ 948	948
Buildings and leasehold improvements	26,903	26,301
Furniture, fixtures and equipment	22,517	21,967
	50,368	49,216
Less accumulated depreciation and amortization	35,199	35,216
Premises and equipment - net	$ 15,169	14,000

Depreciation and amortization expense amounted to $2.4 million and $2.3 million, for the years ended December 31, 2015 and 2014, respectively.

In June 2008, the Company completed the sale and subsequent lease-back of six banking offices. The gross gain of $1.6 million was deferred and included in Accrued Interest Payable and Other Liabilities in the Consolidated Balance Sheets and is amortized as a credit to Occupancy expenses on a straight-line basis for 15 years through 2023, the term of the underlying leases.

(6) Loan Servicing Assets

Changes in loan servicing assets, recorded in Other Assets in the Consolidated Balance Sheets, for each of the years presented, and the respective period-end estimated fair values were as follows (in thousands):

	2015		2014	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Balance at January 1,	$ 2,903	$ 4,272	$ 3,290	$ 4,545
Originations	705		416	
Amortization	(874)		(803)	
Balance at December 31,	$ 2,734	$ 4,624	$ 2,903	$ 4,272

Included in Loan servicing income, net, are gross servicing fees earned of $1.7 million and $1.8 million, for the years ended December 31, 2015 and 2014, respectively. Amortization expense of loan servicing assets for the next five years is estimated to be $0.8 million, $0.6 million, $0.5 million, $0.4 million, and $0.2 million.

The estimated fair value of loan servicing rights may vary significantly in subsequent periods due to changing interest rates and the effect thereof on prepayment speeds. Additionally, estimated fair value assumes there are a willing buyer and willing seller in the transaction. Management does not intend to sell these servicing rights.

The key economic assumptions used to determine the fair value of loan servicing rights at December 31, 2015 and 2014 were a discount rate of 10.00% and weighted average portfolio maturity of 19.6 years and 19.4 years at December 31, 2015 and December 31, 2014, respectively. The sensitivity of fair value to changes in certain portfolio characteristics at each year end are summarized in the table that follows (dollars in thousands). These calculated sensitivities are hypothetical, and actual changes in the fair value of loan servicing rights may differ significantly from the amounts presented herein. The effect of a variation in a particular assumption or characteristic on the fair value of the servicing rights is calculated without changing any other assumption. However, in practice, changes in one factor may result in changes in another which may magnify or counteract the sensitivities. The changes in assumptions are presumed to be instantaneous.

	2015	2014
Weighted-average prepayment speed	200 %	198 %
Impact on fair value of 20% adverse change	$ (289)	$ (281)
Impact on fair value of 20% positive change	347	337
Weighted-average current coupon for similar loans	3.9%	3.96%
Impact on fair value of 100 basis point adverse change	$ (925)	$ (787)
Impact on fair value of 100 basis point positive change	405	562

(7) Time Deposits

At December 31, 2015 the scheduled maturity of time deposits was as follows (in thousands):

2016	$ 187,585
2017	62,812
2018	27,586
	$ 277,983

Time deposits of $250,000 or more amounted to $49.3 million at December 31, 2015, and $51.8 million at December 31, 2014.

(8) Borrowings

Borrowings at December 31, 2015 included $37.1 million of overnight borrowings (interest rates of 0.52% per annum), one $100 million term borrowing, with an expiration date of January 27, 2017 (0.95% per annum), and one $60 million term borrowing, with an expiration date of September 14, 2017 (1.13% per annum), from the Federal Home Loan Bank of New York, and, net of discount, a $0.5 million non-interest bearing contingent payment with no stated maturity for the acquisition of OBS.

Borrowings at December 31, 2014 included $23.9 million of overnight borrowings, and two $60 million term borrowings, with expiration dates of February 23, 2015 (0.43% per annum) and September 23, 2015 (0.52% per annum), from the Federal Home Loan Bank of New York (interest rate of 0.4% per annum), and, net of discount, a $0.6 million non-interest bearing contingent payment with no stated maturity for the acquisition of OBS.

The following table presents information about the Company's available lines of credit and related loan collateral at December 31, 2015 (in thousands). Amounts utilized include borrowings, and undrawn letters of credit in the Company's favor of $1.9 million.

	Amount Utilized	Unused	Collateralized by	Carrying Value of Collateral
Federal Home Loan Bank of New York	$ 198,979	$ 208,554	Residential mortgages	$ 252,745
			Commercial mortgages	$ 154,788
			FHLB stock	$ 10,434
Federal Reserve Bank of New York	$ -	$ 476,154	Indirect automobile loans	$ 273,752
			Commercial loans and mortgages	$ 202,402

Advances under the overnight line of credit with the FHLB of New York are payable on demand and generally bear interest at the federal funds rate plus 0.10%. The Company also has access to the FHLB's Term Advance Program, which allows the Bank to borrow at various terms and rates, subject to the Bank's pledging of eligible collateral. Advances under the Federal Reserve Bank of New York are payable the following business day and bear interest at the Federal Reserve Bank of New York's discount rate for primary credit, which is generally 0.25% to 1.00% above the target federal funds rate.

(9) Junior Subordinated Debentures and Interest Rate Swap Agreements

In September 2007, the Company issued $20.6 million of unsecured, 30-year junior subordinated deferrable interest debentures (T3) through a wholly-owned business trust. The debentures carried a fixed interest rate of 6.32% per annum for the initial five years, then converted to an adjustable rate for the remaining twenty-five years at LIBOR plus 1.44%, adjustable quarterly (1.95% at December 31, 2015). The debentures' final maturity is December 2037, and became callable, in whole or in part, at par beginning December 2012 at the Company's option, and subject to Federal Reserve Bank of New York approval. Interest is payable quarterly. Interest payments can be deferred for up to five years, but would restrict the Company's ability to pay dividends. At December 31, 2015, these debentures were considered Tier I Capital for regulatory purposes.

In December 2012, the Company became exposed to interest rate risk as a result of the timing of changes in interest rates associated with T3. In consideration of the end of the fixed-rate period, the Company entered into a forward interest rate swap agreement, which became effective on December 15, 2012 and expires on December 15, 2022. This interest rate swap agreement modifies the repricing characteristics of the debenture from a floating-rate debt (LIBOR +1.44%) to a fixed-rate debt (3.859%).

In June, 2006, the Company issued $30.9 million of unsecured, 30-year floating rate junior subordinated deferrable interest debentures (T2) through a wholly-owned business trust. The debentures carry an interest rate of 3-month LIBOR plus 1.40% (1.91% at December 31, 2015). Other significant terms of the debenture are similar to T3, except the debentures' final maturity is June 2036, and became callable, in whole or in part, at par after June 2012.

As with T3, the Company is exposed to interest rate risk for T2. In order to reduce this risk, the Company has entered into a series of interest rate swap agreements since 2007 with the current agreement effective as of June 15, 2011 and expiring on June 15, 2021. The agreement modifies the repricing characteristics of T2 from a floating-rate debt (LIBOR +1.40%) to a fixed-rate debt (4.81%).

With both swap agreements the Company designated them as a cash flow hedges, and they are intended to protect against the variability of cash flows associated with the debentures. Therefore, the effective portion of the swap's unrealized gain or loss is recorded as a component of other comprehensive income. The ineffective portion of the unrealized gain or loss, if any, is reported in other operating income. The swap agreements are carried at fair value in other liabilities on the Consolidated Balance Sheets. Amounts receivable or payable are recognized as accrued under the terms of the agreements, and the net differential is recorded as an adjustment to interest expense.

The Company also utilizes interest rate swap agreements for certain variable rate commercial loans whereby the Company and clients enter into interest rate swap agreements that result in clients paying a fixed rate to the Company and the Company paying a variable rate to borrowers. The transaction allows the client to effectively convert a variable rate loan to a fixed rate. The Company then enters into separate interest rate swap agreements having exact opposite matching terms with another financial institution. The Company does not designate either interest rate swap as hedging instruments. Because the terms of the swaps with the client and the other financial institution offset each other, with the only difference being counterparty credit risk, changes in the fair value of the underlying derivative contracts are not materially different and do not significantly impact the Company's results of operation. Notional values associated with the interest rate swaps, under agreements with both the clients and the other financial institution, amounted to $26.7 million as of December 31, 2015. Fair value is carried in other assets and other liabilities on the Consolidated Balance Sheets.

(10) Income Taxes

Total income taxes for the each of the years ended December 31, were allocated as follows (in thousands):

	2015	2014
Income from operations	$ 10,793	10,466
Stock option exercise included in stockholders' equity	(777)	(152)
Change in stockholders' equity for unrealized gain (loss) on securities available for sale	108	(922)
Change in stockholders' equity for unrealized gain (loss) on fair value of interest rate swap	45	861
	$ 10,169	10,253

The components of income tax expense (benefit) relating to income from operations follow (in thousands):

	Years ended December 31,	
	2015	2014
Current:		
Federal	$ 8,924	9,283
State	958	1,419
	9,882	10,702
Deferred:		
Federal	834	(449)
State	77	213
	911	(236)
	$ 10,793	10,466

Income tax expense differed from the amounts computed by applying the applicable U.S. Federal corporate tax rates to pretax income from operations as follows (dollars in thousands):

	Years ended December 31,	
	2015	2014
Tax expense at statutory rate of 35%	$ 11,124	10,881
Tax-exempt interest	(1,026)	(1,253)
Interest expense disallowance	19	22
State taxes, net of Federal benefit	673	1,062
Nondeductible operating expenses	47	50
Change in valuation allowance for deferred tax assets	(2)	(2)
Other	(42)	(294)
Total	$ 10,793	10,466
Effective tax rate	34.0%	33.7%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2015 and 2014, are presented below (in thousands):

		2015	2014
Deferred tax assets:			
Allowance for loan losses - books	$	7,988	7,571
Incentive stock and retirement plans		2,517	3,163
Stock options		74	74
Interest on nonaccrual loans		510	758
Depreciation		329	726
Gain on sale of premises and equipment – books		425	483
Minority-owned entities		71	114
Unrealized loss on securities and swaps, net		1,470	1,317
Deferred tax assets before allowance		13,384	14,206
Valuation allowance		(69)	(71)
Deferred tax assets		13,315	14,135
Deferred tax liabilities:			
Loan servicing rights		1,063	1,128
Intangible assets, net		1,318	1,249
Other		126	192
Deferred tax liabilities		2,507	2,569
Net deferred tax asset	$	10,808	11,566

Realization of deferred tax assets is dependent upon the generation of future taxable income or the existence of sufficient taxable income within the carryback period. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, management considers the scheduled reversal of deferred tax liabilities, the level of historical taxable income, and projected future taxable income over the periods in which the temporary differences comprising the deferred tax assets are deductible. Based on its assessment, management determined that no valuation allowance was needed except for that related to its nonbank subsidiaries' mortgage tax credits.

In March 2014, the New York State legislature passed changes in the state tax law. The legislation was signed into law on March 31, 2014. The legislation included changes to apportionment beginning in 2015 and a reduction in the tax rate from 7.1% to 6.5% beginning in 2016. As a result of these legislative changes, the Company was required to make adjustments to the deferred tax asset and liability balances which resulted in a $0.2 million charge to income tax expense in 2014.

The Company recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. No material amount of interest expense was recognized during 2015 and 2014, for any unrecognized tax benefits. The Company is not subject to U.S. Federal tax examinations or state tax examinations for years before 2011.

(11) Stockholder's Equity

Payment of dividends by the Bank to the Company is limited or restricted in certain circumstances. According to federal banking law, the approval of the Office of the Comptroller of the Currency (OCC) is required for the declaration of dividends in any year in which dividends exceed the total of net income for that year plus retained income for the preceding two years. At December 31, 2015, approximately $26.7 million was available for dividends to the Company without the approval of the OCC. Payment of dividends by the Company's non-bank subsidiaries is also restricted by their respective regulatory agencies. The amount of dividends available for payment by these companies without regulatory approval is not significant.

The Company paid a $1.83 per share dividend on common stock to shareholders on February 2, 2015 and a $1.86 per share dividend on common stock to shareholders on August 3, 2015. In 2014, the Company paid a $1.68 per share and $1.83 per share on common stock to shareholders in February and August, respectively.

(12) Earnings Per Share

Basic and diluted earnings per share for the years ended December 31, 2015 and 2014, were computed as follows (in thousands, except share and per-share data):

		2015	2014
Basic Earnings Per Share:			
Net income applicable to common shareholders	$	21,064	20,712
Weighted average common shares outstanding		1,883,473	1,880,668
Basic earnings per share	$	11.18	11.01
Diluted Earnings Per Share:			
Net income applicable to common shareholders	$	21,064	20,712
Weighted average common shares outstanding		1,883,473	1,880,668
Effect of assumed exercise of stock options		23,598	30,156
Total		1,907,071	1,910,824
Diluted earnings per share	$	11.05	10.84

(13) Retirement Plans

Retirement Plans

The Company has a combined profit sharing and 401(k) plan covering substantially all employees upon completion of 1,000 hours of service. Contributions to the plan are determined annually by the Company's Board of Directors. The plan is subject to a minimum contribution of 3% of eligible compensation. It is the Company's policy to annually fund current costs as they accrue. Expenses of the Plan amounted to $3.4 million, and $3.3 million, for the years ended December 31, 2015 and 2014, respectively.

Employee Stock Ownership Plan

The Company has an employee stock ownership plan (ESOP) for employees of the Company. Annual contributions are made at the discretion of the Board of Directors. ESOP expense amounted to $0.3 million, for each of the years ended December 31, 2015 and 2014, respectively. Shares distributed to a participant upon termination of service are subject to a put option whereby the participant may cause the Plan's Trust to purchase the shares at fair value. At December 31, 2015 and 2014, the plan held 31,102 and 32,637 shares with an estimated fair value, at the respective dates, of $4.6 million and $4.9 million.

Supplemental Executive Retirement Plans

The Company has two unfunded, non-qualified, supplemental executive retirement plans (SERP) covering certain executives designed to compensate for the portion of cash compensation unable to be included in the profit sharing and 401(k) plan, because of limitations of the plan's design and of the Internal Revenue Code. The Company had accrued a liability of $1.2 million and $1.1 million at December 31, 2015 and 2014, respectively, for these SERPs. Expenses of these plans amounted to $147,000 in 2015 and $242,000 in 2014.

(14) Stock-Based Compensation Plans

The Company has two stock-based compensation plans (Stock Option Plan and Stock Appreciation Rights Plan) for executives, which are described below. Amounts recognized in the Consolidated Financial Statements with respect to these plans are as follows (in thousands):

		2015	2014
Stock option plan	$	-	-
Stock appreciation rights plan		689	421
Pre-tax cost of plans included in salaries and employee benefits expenses	$	689	421
Amount of related income tax recognized in income	$	(276)	(168)

Stock Option Plan

The Company's stock option plan authorized grants of options to purchase up to 192,000 shares of common stock. All 192,000 options available were granted by year-end 2004. There are no future expenses associated with the unvested options. The options were granted with an exercise price equal to the fair value of the common stock on the grant date based on the most recent public stock sale known to the Company immediately preceding the grant. The options are exercisable either five years from the date of grant, or at the later of age 55 or 15 years of continuous employment with the Company, or at normal retirement age (65).

The following summarizes outstanding and exercisable options at December 31, 2015:

	# Shares Subject to Options	Weighted Average Exercise Price
Options outstanding at beginning of the year	70,649	$ 44.11
Granted	-	$ -
Exercised	18,734	$ 41.91
Expired	-	$ -
Options outstanding at year end	51,915	$ 44.91
Options exercisable at year end	48,483	$ 44.57
Options available for future grants	none	

At December 31, 2015, the intrinsic value of all outstanding options was approximately $5.4 million, while the intrinsic value of vested options included in this total was approximately $5.0 million. The intrinsic value of options exercised during the years ended December 31, 2015 and 2014, were $1.5 million and $0.4 million, respectively. No options vested in 2015 or 2014.

Options outstanding (both exercisable and unexercisable) at December 31, 2015, had exercise prices ranging from $30.04 to $73.46. The weighted average expected life of the options is three years. Since the options have no stated expiration date, the expected life is calculated as the number of years from grant date to the grantee's 65th birthday.

The source of shares issued upon exercise has historically been, and is expected to be, treasury shares. From time to time, the Company expects to purchase shares for treasury to be used for these exercises. The amount of shares, timing and cost of these purchases cannot be determined, as the Company does not know when and in what quantity participants will exercise their options.

Stock Appreciation Rights Plan

The Company has an incentive stock plan for executives which allows for the award of Stock Appreciation Rights (SAR). The number of rights issued is based upon the return on beginning equity in each year. SARs represent the right to receive payment in cash or stock, at the Compensation Committee of the Board of Director's option, equal to the amount, if any, by which the market value per share of common stock on the date of exercise exceeds the SARs grant price. Long-term SARs are exercisable at the later of age 55 or 15 years of continuous employment with the Company or at normal retirement age (65). Medium-term SARs are exercisable five years from the date of grant or upon retirement. The following summarizes the activity of these rights as of and for the year ended December 31, 2015.

	Long-term SARs		Medium-term SARs	
	#	Weighted Average Grant Price	#	Weighted Average Grant Price
Rights outstanding, January 1, 2015	117,510	$ 99.07	61,265	$ 130.06
Granted	5,507	$ 148.95	3,668	$ 148.95
Exercised	31,608	$ 91.90	11,650	$ 93.45
Forfeited	1,455	$ 158.81	970	$ 148.58
Expired	-	$ -	-	$ -
Rights outstanding at December 31, 2015	89,954	$ 104.19	52,313	$ 107.58
Rights exercisable at December 31, 2015	65,048	$ 103.15	13,613	$ 82.09

In February 2015, certain executives were awarded a total of 5,507 long-term SARs and 3,668 medium-term SARs, all at a grant price of $148.72 per share, the then-current market value (based on the most recent public stock sale known to the Company immediately preceding the effective grant date) of the Company's common stock.

During 2015, 31,608 long-term SARs were exercised with a fair value of $1,775,000, and 11,650 medium-term SARs were exercised with a fair value of $637,000. During 2014, 2,821 medium-term SARs were exercised with a fair value of $197,000. The fair value of awards vested during years ended December 31, 2015 and 2014, amounted to $1,384,000 and $288,000, respectively.

The weighted average estimated per-right fair values, as of December 31, 2015 and 2014, are presented below. Fair value was estimated using the Black-Scholes-Merton option-pricing model with the following assumptions. No forfeitures are assumed, as generally none are anticipated.

	2015		2014	
Right Type	**LTS**	**MTS**	**LTS**	**MTS**
Per-right fair value	$37.00	$33.76	$42.28	$38.64
Expected dividend yield	2.53%	2.53%	2.34%	2.34%
Risk-free interest rate	1.32%	1.32%	1.38%	1.38%
Expected Life	3.4 years	3.4 years	3.9 years	3.9 years
Volatility	4.38%	4.38%	9.43%	9.43%

Long-term SAR's outstanding and medium-term SARs outstanding (both exercisable and unexercisable) at December 31, 2015, had exercise prices ranging from $78.98 to $150.41. The weighted average expected life of these rights is three years. Since these rights have no stated expiration date, the expected life is calculated as the number of years from grant date to the grantee's 60th birthday, which is the historical life for similar past rights. Based upon current assumptions, the estimated compensation cost related to non-vested rights not yet recognized is $0.9 million, which is expected to be recognized over a weighted average period of five years. The Company had accrued a liability of $5.3 million and $7.0 million at December 31, 2015 and 2014, respectively, representing the accumulated fair-value vested obligation of these rights under the plan.

(15) Leases

The Company leases certain buildings and office space under operating lease arrangements. Rent expense, net of rent received and deferred-gain on sale-leaseback, under these arrangements amounted to $2.6 million in 2015, and $2.6 million in 2014. Real estate taxes, insurance, maintenance, and other operating expenses associated with leased buildings and office space are generally paid by the Company.

A summary of non-cancellable, long-term operating lease commitments as of December 31, 2015, follows (in thousands):

Years ending December 31,	**Amount**
2016	$ 2,888
2017	2,861
2018	2,527
2019	2,237
2020	2,139
2021 and after	7,454
Total	$ 20,106

(16) Commitments and Contingencies

In the normal course of business, various commitments and contingent liabilities are outstanding. The following table presents the notional amount of the Company's significant commitments and their respective carrying amount, where applicable. Most of these commitments are not included in the Company's Consolidated Balance Sheets (in thousands).

		Year ended December 31,			
		2015		2014	
		Notional Amount	Carrying Amount	Notional Amount	Carrying Amount
Commitments to extend credit:					
Commercial lines of credit	$	157,595	-	152,024	-
Commercial real estate and construction	$	74,838	-	65,475	-
Residential real estate at fixed rates	$	5,952	-	3,509	-
Home equity lines of credit	$	313,056	-	270,981	-
Unsecured personal lines of credit	$	27,966	-	28,252	-
Standby and commercial letters of credit	$	9,101	(150)	7,998	(120)
Commitments to sell real estate loans	$	7,305	-	6,953	-

Commitments to extend credit are agreements to lend to customers and generally have fixed expiration dates or other termination clauses that may require payment of a fee, the amount of which is immaterial. Standby and commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party and also require payment of a fee. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of an underlying contract with a third party, whereas commercial letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. Because many commitments and almost all letters of credit expire without being funded in whole or in part, the notional amounts are not estimates of future cash flows. The credit risk associated with commitments to extend credit and standby and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. The Company's credit policy generally requires customers to provide collateral, usually in the form of customers' operating assets or property, prior to disbursement of approved loans.

Commitments to originate fixed-rate loans are made when a borrower executes a rate-lock agreement. At the time of execution, the Company generally charges a rate-lock fee, which approximates the fair value of the Company's commitment. These commitments usually have terms ranging from 30 to 45 days. Concurrently, the Company enters into commitments to sell certain fixed-rate residential real estate loans (usually those subject to the foregoing rate-locks). These commitments to sell are recorded in the consolidated balance sheet at estimated fair value.

The Company has committed $3.0 million as a limited partnership investment to Cephas Capital Partners, II. This Small Business Investment Company (SBIC) is a community-bank backed mezzanine finance company. It is a follow-on investment to our current investment in Cephas Capital Partners. At December 31, 2015, the Company had a remaining unfunded commitment of $1.5 million. This investment is carried in Other Assets on the Consolidated Balance Sheets.

The Company has committed $0.5 million for an investment in Trillium Lakefront Partners, LLC. This venture capital fund is a community-backed initiative in support of new business and job growth in the Company's market area. At December 31, 2015, the Company had a remaining unfunded commitment of less than $0.1 million. This investment is carried in Other Assets on the Consolidated Balance Sheets.

As discussed in Note 2 under the terms of the OBS purchase agreement, of the $1.0 million contingency payment, OBS is obligated to make future payments totaling $0.5 million.

In the normal course of business, the Company has various contingent liabilities outstanding that are not included in the Consolidated Financial Statements. Management does not anticipate any material losses as a result of these contingent liabilities.

(17) Regulatory Matters

The Company and its subsidiaries are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and its subsidiaries must meet specific capital guidelines that involve quantitative measures of the Company's and Bank's assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (as set forth in the table following) of total, Common Equity Tier I, and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Management believes, as of December 31, 2015, that the Company and Bank met all capital adequacy requirements to which they are subject. The Company's trust subsidiaries, Genesee Valley Trust Company and Canandaigua National Trust Company of Florida, must also meet minimum capital requirements as set forth by their regulators. As of December 31, 2015, these companies complied with their minimum capital requirements.

As of December 31, 2015, and as of the most recent notification from regulators, the Company and the Bank are well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Company and Bank must maintain a minimum total risk-based, Common Equity Tier I risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. Subsequently, there have been no conditions or events which management believes has changed the Company's or Bank's category.

	Regulatory Capital as of December 31, 2015					
	Actual Regulatory Capital		Minimum Requirement		Well-Capitalized	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Leverage capital (Tier 1) as percent of three-month average assets:						
Company	$ 227,899	10.21 %	$ 89,317	4.00 %	$ 111,647	5.00 %
Bank	$ 199,925	9.08 %	$ 88,093	4.00 %	$ 110,117	5.00 %
As percent of risk-weighted, period-end assets						
Core capital (Common Equity Tier 1)						
Company	$ 176,352	9.51 %	$ 83,438	4.50 %	$ 120,522	6.50 %
Bank	$ 199,925	10.85 %	$ 82,944	4.50 %	$ 119,808	6.50 %
Core capital (Tier 1)						
Company	$ 227,899	12.29 %	$ 111,251	6.00 %	$ 148,334	8.00 %
Bank	$ 199,925	10.85 %	$ 110,592	6.00 %	$ 147,456	8.00 %
Total capital (Tiers 1 and 2)						
Company	$ 248,464	13.40 %	$ 148,334	8.00 %	$ 185,418	10.00 %
Bank	$ 220,490	11.96 %	$ 147,456	8.00 %	$ 184,320	10.00 %

	Regulatory Capital as of December 31, 2014					
	Actual Regulatory Capital		Minimum Requirement		Well-Capitalized	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Leverage capital (Tier 1) as percent of three-month average assets:						
Company	$ 205,842	9.81 %	$ 83,907	4.00 %	$ 104,884	5.00 %
Bank	$ 183,589	8.81 %	$ 83,379	4.00 %	$ 104,224	5.00 %
As percent of risk-weighted, period-end assets						
Core capital (Tier 1)						
Company	$ 205,842	11.89 %	$ 69,270	4.00 %	$ 103,905	6.00 %
Bank	$ 183,589	10.67 %	$ 68,855	4.00 %	$ 103,283	6.00 %
Total capital (Tiers 1 and 2)						
Company	$ 225,334	13.01 %	$ 138,540	8.00 %	$ 173,175	10.00 %
Bank	$ 203,081	11.80 %	$ 137,711	8.00 %	$ 172,138	10.00 %

(18) Fair Values of Financial Instruments

Current accounting pronouncements require disclosure of the estimated fair value of financial instruments. Fair value is generally defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly, non-distressed sale between market participants at the measurement date. With the exception of certain marketable securities and one-to-four-family residential mortgage loans originated for sale, the Company's financial instruments are not readily marketable and market prices do not exist. The Company, in attempting to comply with accounting disclosure pronouncements, has not attempted to market

its financial instruments to potential buyers, if any exist. Since negotiated prices in illiquid markets depend upon the then present motivations of the buyer and seller, it is reasonable to assume that actual sales prices could vary widely from any estimate of fair value made without the benefit of negotiations. Additionally, changes in market interest rates can dramatically impact the value of financial instruments in a short period of time. Finally, the Company expects to retain substantially all assets and liabilities measured at fair value to their maturity or call date. Accordingly, the fair values disclosed herein are unlikely to represent the instruments' liquidation values, and do not, with the exception of securities, consider exit costs, since they cannot be reasonably estimated by management.

Accounting principles establish a three-level valuation hierarchy for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows.

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The estimated fair values and the valuation hierarchy of the Company's financial instruments are as follows (in thousands):

		December 31, 2015		December 31, 2014	
Financial Assets:	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and equivalents	1	$ 49,572	49,572	48,118	48,118
Securities, available-for-sale	1, 2	$ 146,828	146,828	94,671	94,671
Securities, held-to-maturity	2	$ 165,591	166,632	181,559	182,464
FHLB stock and Federal Reserve Bank stock	3	$ 11,624	11,624	9,070	9,070
Loans-net	3	$ 1,832,066	1,815,515	1,720,154	1,716,706
Loan servicing assets	3	$ 2,734	4,624	2,903	4,272
Financial Liabilities:					
Deposits:					
Demand, savings and money market accounts	3	$ 1,537,400	1,537,400	1,428,280	1,428,280
Time deposits	3	$ 277,983	276,791	300,242	299,596
Borrowings	2	$ 197,648	198,268	144,525	144,438
Junior subordinated debentures	2	$ 51,547	51,547	51,547	51,547
Other financial instruments:					
Interest rate swap agreements, net	2	$ 3,506	3,506	(3,391)	(3,391)
Letters of credit	2	$ (150)	(150)	(120)	(120)

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and Equivalents

For these short-term instruments that generally mature in 90 days or less, or carry a market rate of interest, the carrying value approximates fair value.

Securities

Fair values for securities are determined using independent pricing services and market-participating brokers, or matrix models using observable inputs. The pricing service and brokers use a variety of techniques to arrive at fair value including market maker bids, quotes and pricing models. Inputs to their pricing models include recent trades, benchmark interest rates, spreads, and actual and projected cash flows. Management obtains a single market quote or price estimate for each security. None of the quotes or estimates is considered a binding quote, as management would only request a binding quote if management had the positive intent to sell the securities in the foreseeable future and management believed the price quoted represented one from a market participant with the intent and the ability to purchase. Management evaluates the supplied price quotes against expectations of general price trends associated with changes in the yield curve and by comparing prices to the last period's price

quote. Management employs an internal matrix model for non-traded municipal securities. The matrix model considers observable inputs, such as benchmark interest rates and spreads.

There is no market for stock issued by the Federal Home Loan Bank or the Federal Reserve Bank. Member banks are required to hold this stock. Shares can only be sold to the issuer at par. Fair value is estimated to equal book value.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by interest type such as floating, adjustable, and fixed-rate, and by portfolios such as commercial, mortgage, and consumer.

The fair value of performing loans is calculated by discounting scheduled cash flows through the loans' estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan category. The estimate of maturity is based on the average maturity for each loan classification.

Delinquent loans (not in foreclosure) are valued using the method noted above, and also consider the fair value of collateral for collateral-dependent loans. While credit risk is a component of the discount rate used to value loans, delinquent loans are presumed to possess additional risk. Therefore, the calculated fair value of loans is reduced by the allowance for loan losses.

The fair value of loans held for sale is estimated based on outstanding investor commitments or in the absence of such commitments, is based on current yield requirements or quoted market prices.

Loan Servicing Assets

Fair value is determined through estimates provided by a third party. To estimate the fair value, the third party considers market prices for similar assets, and the present value of expected future cash flows associated with the servicing assets calculated using assumptions that market participants would use in estimating future servicing income and expense. Such assumptions include estimates of the cost of servicing loans, loan default rates, an appropriate discount rate, and prepayment speeds. The key economic assumptions used to determine the fair value of mortgage servicing rights and the sensitivity of such values to changes in those assumptions are summarized in Note 6 of the Annual Report.

Deposits

The fair value of demand deposits, savings accounts, and money market accounts is the amount payable on demand at the reporting date. The fair value of fixed maturity time deposits is estimated using a discounted cash flow approach that applies current market rates to a schedule of aggregated expected maturities of time deposits.

Borrowings

The fair value of borrowings is based on quoted market prices for the identical debt when traded as an asset in an active market. If a quoted market price is not available, fair value is calculated by discounting scheduled cash flows through the borrowings' estimated maturity using current market rates.

Junior Subordinated Debentures

There is no active trading market for the Company’s debentures. Therefore the fair value of junior subordinated debentures is determined using an expected present value technique. The fair value of adjustable-rate debentures approximates their face amount, while the fair value of fixed-rate debentures is calculated by discounting scheduled cash flows through the debenture’s estimated maturity using current market rates.

Interest Rate Swap Agreements (Swaps)

The fair value of swaps is the amount the Company would expect to pay to terminate the agreements and is based upon the present value of expected future cash flows using the LIBOR and Wall Street Journal Prime swap curves, the bases for the underlying interest rates.

Other Financial Instruments

The fair values of letters of credit and unused lines of credit approximate the fee charged to make the commitments.

(19) Fair Values Measurements

The following table presents for each of the fair-value hierarchy levels discussed in the previous Note the Company's assets and liabilities that are measured at fair value on a recurring and non-recurring basis at December 31, 2015, by caption on the Consolidated Balance Sheet (dollars in thousands).

		Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable parameters (Level 3)	Total carrying value in the Consolidated Balance Sheet
Measured on a recurring basis:					
Assets					
Securities available-for-sale:					
U.S. Treasury	$	504	-	-	504
enterprise obligations		-	125,433	-	125,433
State and municipal obligation		-	18,216	-	18,216
Equity securities		2,675	-	-	2,675
Interest rate swap agreements - non-designated		-	633	-	633
Total assets	$	3,179	144,282	-	147,461
Liabilities					
Interest rate swap agreements - designated	$	-	3,506	-	3,506
Interest rate swap agreements - non-designated		-	633	-	633
Letters of credit		-	150	-	150
Total liabilities	$	-	4,289	-	4,289
Measured on a non-recurring basis:					
Assets					
Loans					
Loans-held-for-sale	$	-	7,305	-	7,305
Collateral dependent impaired loans		-	-	3,150	3,150
Other real estate owned		-	-	1,415	1,415
Loan servicing assets		-	-	2,734	2,734
Total assets	$	-	7,305	7,299	14,604

The Company values impaired loans and other real estate owned at the time the loan is identified as impaired or when title to the property passes to the Company. The fair values of such loans and real estate owned are estimated using Level 3 inputs in the fair value hierarchy. Each loan's collateral and real estate property has a unique appraisal and management's consideration of any discount of the value is based on factors unique to each impaired loan and real estate property. In estimating fair value, management may use the most recent available appraisal or may obtain an updated appraisal when, in management's judgment, conditions have changed such that the most recent appraisal may not be reflective of current fair value. The significant unobservable input in determining the fair value is management's subjective discount on appraisals of the collateral securing the loan or real estate property, which ranges from 10%-50%. Collateral for impaired loans may consist of real estate and/or business assets including equipment, inventory and/or accounts receivable and the value of these assets is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, estimated costs to sell, and/or management's expertise and knowledge of the client and the client's business.

As more fully described in the prior Note, the Company evaluates and values loan servicing assets on a quarterly basis at their lower of amortized cost or fair value. The fair values of these assets are estimated using Level 3 inputs in the fair value hierarchy. Fair value is determined through estimates provided by a third party or by management by reference to rights sold on similar loans during the quarter. When values are estimated by management using market prices for similar servicing assets, certain discounts may be applied to reflect the differing rights underlying the loan servicing contract. These discounts may range from 25 to 75 basis points of the principal balance of the underlying loan. Such discounts represent the significant unobservable input.

The following table presents for each of the fair-value hierarchy levels the Company's assets and liabilities that are measured at fair value on a recurring and non-recurring basis at December 31, 2014, by caption on the Consolidated Balance Sheet (dollars in thousands).

		Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)	Total carrying value in the Consolidated Balance Sheet
Measured on a recurring basis:					
Assets					
Securities available-for-sale:					
U.S. Treasury	$	500	-	-	500
U.S. government sponsored enterprise obligations		-	74,288	-	74,288
State and municipal obligation		-	17,695	-	17,695
Equity securities		2,188	-	-	2,188
Total assets	$	2,688	91,983	-	94,671
Liabilities					
Interest rate swap agreement	$	-	3,391	-	3,391
Letters of credit		-	120	-	120
Total liabilities	$	-	3,511	-	3,511
Measured on a non-recurring basis:					
Assets					
Loans					
Loans-held-for-sale	$	-	6,953	-	6,953
Collateral dependent impaired loans		-	-	1,272	1,272
Other assets					
Other real estate owned		-	-	2,004	2,004
Loan servicing assets		-	-	2,903	2,903
Total assets	$	-	6,953	6,179	13,132

The following table shows a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands).

		Year Ended December 31, 2014
Securities available for sale, beginning of period	$	143
Sales during the period		(143)
Unrealized gain included in other comprehensive income		-
Securities available for sale, end of period	$	-

Board of Directors

Canandaigua National Corporation is honored to have so many distinguished community leaders on its Board of Directors.

(front row) Frank H. Hamlin, III, Esq.; Sue S. Stewart, Esq.; George W. Hamlin, IV, Esq.; Caroline C. Shipley; Lawrence A. Heilbronner (back row) Thomas S. Richards, Esq.; Robert G. Sheridan; Michael C. Goonan; Alan J. Stone; Daniel P. Fuller (not pictured) Richard C. Fox

Richard C. Fox
President, Wendy's Restaurants of Rochester, Inc., 1976-present
Genesee Valley Trust Company*
Chairman of the Board, 2011-present
Director, 1998-present

Daniel P. Fuller
Canandaigua National Corporation
Vice-Chair of the Board, January 1, 2011-present
Chairman of the Board, 2008-2010
President and General Manager, Bristol Mountain Ski Resort, December 1984-present
General Manager, Roseland Waterpark, 2003-present
Director and Treasurer, Ski Areas of New York (SANY), 1990-present
Director, Thompson Health Systems
Director, Finger Lakes Visitors Connection

Michael C. Goonan
University of Rochester Medical Center (URMC)
Senior Financial Advisor, 2015-present
Vice President and CFO, 1995-2015
Financial Operations, Strong Memorial Hospital, 1984-1995
Consultant, Peat, Marwick, Mitchell & Co., 1975-1984
Board of Directors, Golisano Children's Hospital
Member, Hospital Financial Management Association
Advisory Committee Member, Rochester Red Cross
Trustee, St. John Fisher College
Honorary Member, Board of Directors of the Catholic Family Center
Board of Directors, EagleDream Health

Frank H. Hamlin, III, Esq.
Canandaigua National Corporation
Director, President, and CEO, March 29, 2013-present
Director and President, January 1, 2011-present
Director, 2004-present
The Canandaigua National Bank & Trust Company
Director, President, and CEO, March 29, 2013-present
Director and President, January 1, 2011-present
Director, 2004-present
CNB Mortgage Company**
Chairman of the Board and CEO, April 24, 2013-present
Director, January 1, 2011-present
CNB Insurance Agency*
Director, President, and CEO, April 24, 2013-present
Director and President, 2011-present
Director, Canandaigua National Trust Company of Florida,* 2011-present
Director, Genesee Valley Trust Company,* 2011-present
Manager and CEO, WBI OBS Financial, LLC,*** 2011-present
Director, Thompson Health System, 2013-present
Croucher, Jones & Johns
Of Counsel, 2007-2010
Attorney, June 2001-2007

George W. Hamlin, IV, Esq.
Canandaigua National Corporation
Chairman of the Board, January 1, 2011-present
Chairman and CEO, January 1, 2011-March 28, 2013
Director, President, and CEO, 1984-December 31, 2010
The Canandaigua National Bank & Trust Company
Chairman, Officer, Senior Policy Advisor, and Consultant at Large, March 29, 2013-present
Chairman, CEO, and Trust Officer, 1979-March 28, 2013
Director, President, CEO, and Trust Officer, 1979-December 31, 2010
CNB Mortgage Company**
Director, 1998-present
Chairman and CEO, 1998-April 23, 2013
Chairman, CEO, and Trust Officer, Canandaigua National Trust Company of Florida,* 2009-present
Director, Genesee Valley Trust Company,* 2008-present
Director and CEO, CNB Insurance Agency,* 1995-April 23, 2013
Director, Federal Reserve Bank of New York, 1997-2002
Chair Emeritus, Thompson Health System
Chair, Eastman School of Music
Director, University of Rochester Medical Center, 1985-present
Chairman 2013-2014
Vice Chair 2011-2012
Audit Chair 2009-2011
Center for Governmental Research
Fellow, 2011-present
Director, 2002-2010
Chair, Investment Committee–Monroe Fund
Director, New York Wine and Culinary Center
Director, Constellation Brands–Marvin Sands Performing Arts Center (CMAC)
Trustee Emeritus, Rochester Museum and Science Center

Board of Directors, cont.

Lawrence A. Heilbronner

Canandaigua National Corporation
- Director, Treasurer, and CFO, December 10, 2014-present
- Treasurer and CFO, January 2014-present
- Executive Vice President, CFO, and Principal Accounting Officer, 2007-2013
- Senior Vice President, CFO, and Principal Accounting Officer, 2004-2006

The Canandaigua National Bank & Trust Company
- Director, EVP, CFO, Principal Accounting Officer, and Cashier, December 10, 2014-present
- Executive Vice President, CFO, Principal Accounting Officer, and Cashier, January 2014-present
- Executive Vice President, CFO, and Principal Accounting Officer, 2007-present
- Senior Vice President, CFO, and Principal Accounting Officer, 2004-2006
- Vice President, Finance, 1998-2004

Director and Treasurer, CNB Mortgage Company,** 2002-present

CNB Insurance Agency*
- Director, Executive Vice President, and Treasurer, April 9, 2014-present
- Director and Secretary, April 11, 2012-April 8, 2014
- Executive Vice President, February 12, 2007-April 10, 2012
- Vice President, August 16,1999 - February 11, 2007

Chief Financial Officer, Canandaigua National Trust Company of Florida,* 2009-present

Director and Treasurer, Genesee Valley Trust Company,* 2008-present

OBS Holdings, Inc.
- Chairman, 2015-present
- Director, 2011-present

Manager and Treasurer, WBI OBS Financial, LLC,*** 2011-present

Director and Treasurer, Jewish Family Service of Rochester, Inc.

Director, Jewish Community Federation of Rochester

Finance Committee Member, Temple B'rith Kodesh

Thomas S. Richards, Esq.

Attorney

Mayor, City of Rochester, 2011- 2013

Corporation Counsel, City of Rochester, January 1, 2006-November, 2010

Chairman, President, and CEO, RGS Energy Group, Inc., and Rochester Gas & Electric Corp, 1998-2002

Trustee, Rochester Institute of Technology

Trustee, University of Rochester

Robert G. Sheridan

Retired
- The Canandaigua National Bank & Trust Company, 1971-2011
- Secretary, Canandaigua National Corporation, 1992-August 31, 2011
- President, CNB Mortgage Company,** 2002-August 31, 2011
- Director, Genesee Valley Trust Company,* 2008-December 31, 2011

Director, CNB Mortgage Company,** 1998-present

Director and President, Canandaigua Country Club

Caroline C. Shipley

Retired

Treasurer, First Congregational Church

Treasurer, Ontario Children's Foundation

Audit and Finance Committee Member, Canandaigua Board of Education

Canandaigua City School District Board of Education
- Member, 1979-2009
- President, 1983-1991, 2007-2009

Financial Manager, Dell Broadcasting, WCGR/WLKA, 1985-1991

Treasurer and Financial Manager, Sonnenberg Gardens, 1973-1984

Sue S. Stewart, Esq.

Retired

Co-chair of Board of Trustees and Audit Committee member, National Center for Education and the Economy

Senior Vice President and General Counsel, University of Rochester, 2003-2012

Nixon Peabody LLP
- Partner, 1978-2001
- Managing Partner, Rochester Office, 1998-2000

Former Director, United Way of Greater Rochester

Alan J. Stone

Managing Member, Stone Family Properties LLC, 1986-present

Member, City Mini Storage LLC, 1999-present

Director, Stone Construction Equipment, Inc., 1969-2009

Chairman of the Board, Canandaigua National Corporation, 1994-2004

Co-founder and CEO, Stone Construction Equipment, Inc., 1969-1986

Emeritus Board Members

Patricia A. Boland

James S. Fralick

Officers

George W. Hamlin, IV, Esq.	*Chairman*
Daniel P. Fuller	*Vice Chairman*
Frank H. Hamlin, III, Esq.	*President and Chief Executive Officer*
Lawrence A. Heilbronner	*Executive Vice President, Chief Financial Officer, and Treasurer*
Steven H. Swartout, Esq.	*Executive Vice President and Secretary*

* Wholly owned subsidiary of Canandaigua National Corporation

** Wholly owned subsidiary of Canandaigua National Bank & Trust Company

***Majority-owned subsidiary of Canandaigua National Corporation

Community Advisory Committees

Bloomfield Office
George D. Braddon, III
Sandra S. Jackson
Frank J. Marianacci
Kyle T. Marianacci
Judy A. Reader*

Brighton Office
Rome Celli
Susan C. DiProjetto*
Peggy Growney
James D. Ryan Jr.

Canandaigua/Lakeshore Offices
David S. Brassie, CPA
Edward (Russ) C. Kenyon, Esq.
Frank S. Macri
Kenneth (JR) B. Miller
Deborah E. Rought*
Kimberly A. Sorel*

Chili Office
Salvatore (Sam) A. Campanella
Dr. Steven M. Ess
Dr. Piush Sharma
Suzanne M. Wedgwood*

Farmington Office
Mark D. Allman*
Ronald L. Brand
Dr. Anne P. Fessler
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William E. Selke
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Jamie E. Vasile*

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Sandra D'Angelo*
Michael P. Dougherty
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Steven R. Benz*
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Joseph Notar
Barry I. Shapiro
Mark A. Stephens

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Gail Bellucco*
Arnold J. Eckert
Jack R. Herrema

Manchester-Shortsville Office
Rosanna Foster
Thomas L. Lynch
Cynthia J. Walton*

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Iva D. Doser*
Patricia L. Fiduccia
Glenn J. Marcus
Gary H. Mervis

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Francis A. Ponticello
Richard J. Pratt*
Michael Pudetti
John F. Schoenhardt

Perinton Office
Thomas C. Beck
T. C. Lewis
Christopher A. Pedrone*
Kal Wysokowski

Pittsford Office
John E. Bernacki
Pamela J. Gratzer
Barbara J. Karley*
Robert E. Wells

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Peter S. Mohr
William G. Shaheen

Rochester College Town
Patricia J. Bean
A. Q. Hamilton
Javier Quintana*
Annette Ramos
Stephanie E. Von Bacho

Rochester East Main Office
Andrew A. Costanza
Donald E. Jeffries
Jennifer R. Jones, CPA
Louis P. Nau*

Victor Office
Donald J. Culeton
Samantha A. Johnson*

Webster Offices
Elena M. Bernardi
Paul E. Derleth
James D. Schrader*
William K. White

*Community Office Manager

Officers

Office of the President

George W. Hamlin, IV, Esq., Chairman, Officer, Senior Policy Advisor, and Consultant at Large
Frank H. Hamlin, III, Esq., President and CEO
Jean M. Blance, Assistant Vice President – Executive Assistant to the President, CEO, and Chairman
Stephen R. Martin, Senior Vice President – Director, Corporate Communications
Lindsay A. Morrow-Lilly, Vice President – Corporate Communications and Shareholder Relations Manager

Corporate Risk Operations

Steven H. Swartout, Esq., Executive Vice President, General Counsel – Chief Administrative Officer
Charleen H. Cordaro, Senior Vice President – Chief Commercial Credit Administrator
Vicki B. Mandrino, CRCM, Senior Vice President – Assistant Corporate Risk & Compliance Officer
Linda M. Schnitzler, CFSA, CBA, CRP, Senior Vice President – Chief Risk Officer
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Thomas M. Rogers, Assistant Vice President – Manager of Commercial PD/Expected Loss Model/Senior Commercial Loan Reviewer
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Brian E. Pasley, Executive Vice President – Consumer Lending & CRA Officer
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Charles G. Cox, Banking Officer – Personal Banker/Pittsford
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Jerry W. Lack, Banking Officer – Personal Banker/Webster
Nathan E. VanBortel, Banking Officer – Personal Banker/ Canandaigua

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James F. Lieb, CTFA, Senior Vice President – Group Manager, Trust Administration Services
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James M. Exton, Vice President – Investment Officer

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Rita Nischal, Banking Officer – Trust Administration Officer

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JoAnn N. Mills, Vice President – Resource Recovery Manager
Michael J. O'Donnell, Vice President – Business Banking Officer
Leslie P. Bamann, Assistant Vice President – Business Banking Officer
Darrin Brentnall, Banking Officer – Business Banking Officer
Michael J. Clark, Banking Officer – Commercial Services Officer
Kevin M. Galka, Banking Officer – Commercial Services Officer/ Business Banking Portfolio Officer
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Marie A. Lopez, Banking Officer – Business Banking Officer
Ann M. Lyon, Banking Officer – Resource Recovery Officer

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Glenn R. Colliss, Vice President – Electronic Banking Product Manager
Manuela H. Eckert, Assistant Vice President – Deposit Product Manager
Kelly M. Sheridan, Assistant Vice President – Electronic/Web Marketing Manager

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Sandra U. Roberts, Senior Vice President – Chief Information Officer
Barbara A. Finch, Vice President
Daniel P. Linehan, Vice President – Banking Operations Manager
Michael A. Mandrino, Vice President – Chief Technology Officer
Dawn C. Priolo, Vice President – Senior Asset/Liability Analyst
M. Beth Uhlen, Vice President – Trust Operations Manager
Vincent K. Yacuzzo, Vice President – Controller
Robert L. Simpson, Assistant Vice President – Financial Reporting Officer
Catherine M. Burnett, Banking Officer – Trust Operations Supervisor

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Nancy J. Stockdale, CPA, CRMA, Vice President – Audit Manager
Jamie Lynn Vitticore Jensen, Banking Officer – Senior Auditor

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Marie E. Dastin, Vice President – Human Resources and Training Manager
Shelley V. Tierson, Assistant Vice President – Benefits Manager

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Kim A. Brewer, Community Office Assistant Manager

Brighton
Susan C. DiProjetto, Vice President – Community Office Manager
Lindsay M. Rambert, Community Office Assistant Manager

Canandaigua – Lakeshore
Kimberly A. Sorel, Assistant Vice President – Community Office Manager
Karen M. Maxfield, Community Office Assistant Manager

Canandaigua – Main Office
Deborah E. Rought, Vice President – Community Office Manager
Joshua R. Maxwell, Community Office Assistant Manager

Chili
Suzanne M. Wedgwood, Assistant Vice President – Community Office Manager
Thomas R. Telfer, Community Office Assistant Manager

Customer Service Center
Jan C. Schrader, Assistant Vice President – Customer Service Center Manager

Farmington
Mark D. Allman, Assistant Vice President – Community Office Manager
Kelly A. Cochrane, Community Office Assistant Manager

Greece Latta & Long Pond
Jamie E. Vasile, Bank Officer – Community Office Manager
Mara A. DeLaus, Community Office Assistant Manager

Greece Ridge
Zo Ann Soong, Assistant Vice President – Community Office Manager
Donna M. Kretchmer, Community Office Assistant Manager

Henrietta
Sharon L. Garofanello, Assistant Vice President – Community Office Manager
Alicia Otero, Community Office Assistant Manager

Honeoye
Sandra L. D'Angelo, Assistant Vice President – Community Office Manager
Amy L. Force, Community Office Assistant Manager

Honeoye Falls
Steven R. Benz, Assistant Vice President – Community Office Manager
Nicole M. Briggs, Community Office Assistant Manager

Irondequoit
Gail Bellucco, Assistant Vice President – Community Office Manager
Adelina Santiago, Community Office Assistant Manager

Manchester-Shortsville
Cynthia J. Walton, Assistant Vice President – Community Office Manager
Amy E. Eagley, Community Office Assistant Manager

Mendon
Iva D. Doser, Bank Officer – Community Office Manager
Elnora N. Williams, Community Office Assistant Manager

Penfield
Richard J. Pratt, Assistant Vice President – Community Office Manager
Kristen L. Littlefield, Community Office Assistant Manager

Perinton
Christopher A. Pedrone, Assistant Vice President – Community Office Manager
Cynthia S. Doyle, Community Office Assistant Manager

Pittsford
Barbara J. Karley, Assistant Vice President – Community Office Manager
Barbara E. Knickerbocker, Community Office Assistant Manager

Rochester Alexander Park
Carol M. Love, Assistant Vice President – Community Office Manager
Selvia Hanna, Community Office Assistant Manager

Rochester College Town
Javier Quintana, Assistant Vice President – Community Office Manager
Rayon A. Boxx, Community Office Assistant Manager

Rochester East Main
Louis P. Nau, Assistant Vice President – Community Office Manager
Jessica Young Carbonel, Community Office Assistant Manager

Victor
Samantha A. Johnson, Assistant Vice President – Community Office Manager
Amy C. Flaitz, Community Office Assistant Manager

Webster BayTowne
James D. Schrader, Vice President – Community Office Manager
Shelley C. Hodge, Community Office Assistant Manager

Webster Jackson-Ridge
James D. Schrader, Vice President – Community Office Manager
Shawn P. Hall, Community Office Assistant Manager

Canandaigua National Corporation

Canandaigua National Trust Company of Florida
George W. Hamlin, IV, Esq., Director and Chairman
Frank H. Hamlin, III, Esq., Director, CEO, and President
Lawrence A. Heilbronner, Executive Vice President and CFO
Steven H. Swartout, Esq., Executive Vice President and Trust Officer
Scott B. Trumbower, Senior Vice President – Managing Director
Geoffrey E. Blyth, Senior Vice President – Investment Officer
James F. Lieb, CFTA, Senior Vice President – Group Manager, Trust Administration Services
Joy Ryen Plotnik, Esq., Senior Vice President – Trust Officer
James P. Terwilliger, CFP®, Senior Vice President – Manager, Financial Planning
Noleen R. Burch, Vice President
Lynn M. Carleton, CTFA, CSNP, Vice President – Trust Administration Officer
Donna L. Cator, CFP®, Vice President – Financial Planning Officer
Suzanne Ellin, JD, CPA, CGMA, CTFA, CFP®, Vice President – Trust Administration Officer
Stephen A. Rossi, CFA, Vice President – Investment Officer
Jennifer N. Weidner, Esq., Vice President – Trust Administration Officer
Paul S. Tarantino, Vice President – Business Development Officer

Daniel R. Goodwin, Director
Garth C. Harding, Director
Sue A. Jacobson, Director
Christine L. Jennings, Director
Richard C. McCarthy, Director, Vice Chairman, and Secretary
Stephen Natapow, Director
Bernice W. Skirboll, Director

Alan M. Lupton, Director Emeritus
Albert W. White, Director Emeritus

CNB Insurance Agency
Frank H. Hamlin, III, Esq., President and Chief Executive Officer
Steven H. Swartout, Esq., Executive Vice President and Secretary
Lawrence A. Heilbronner, Executive Vice President and Treasurer
Margaret W. Whelehan, Insurance Officer
Jerry W. Lack, Insurance Officer

Genesee Valley Trust Company
Richard C. Fox, Chairman of the Board, Director
Joy Ryen Plotnik, Esq., Director, President and CEO
Geoffrey E. Blyth, Senior Vice President – Chief Investment Officer
Lauren Kolb, Senior Vice President – Business Development Officer
Kurt E. Rosen, Senior Vice President – Chief Operating Officer
Michael J. Cicero, Vice President, Investment Officer
R. Scott Mahood, Vice President – Retirement Services Relationship Manager

Frank H. Hamlin, III, Esq., Director
George W. Hamlin, IV, Esq., Director
Lawrence A. Heilbronner, Director and Treasurer
A. Thomas Hildebrandt, Director
James D. Ryan Jr., Director
Steven H. Swartout, Esq., Director
Keith M. Wilson, Director

CNB Mortgage Company
Frank H. Hamlin, III, Esq., Chairman of the Board, Director, and CEO
George W. Hamlin, IV, Esq., Director
Lawrence A. Heilbronner, Director and Treasurer
Karen C. Serinis, Managing Director
Robert G. Sheridan, Director and Secretary
Christopher R. Spaker, President
Helen M. Saxby, Vice President, Mortgage Operations and Compliance Manager
Dana Storinge, Assistant Vice President – Lock Desk Specialist/ Pricing Analyst

OBS Financial Services
John Henry, President and CEO
Catherine Farley, Chief Operating Officer
Barbara Mulhern, Chief Marketing and Product Officer

Lawrence A. Heilbronner, Director
Gerald Laurain, Director
Steven H. Swartout, Esq., Director

THE ARTHUR S. HAMLIN AWARD FOR EXCELLENCE

CONGRATULATIONS TO THIS YEAR'S RECIPIENT, REBECCA (BECKY) LONG.

Every year, the Bank recognizes the outstanding contribution of one of its own with the Arthur S. Hamlin Award. Employees are encouraged to nominate one of their peers who has demonstrated exceptional performance and dedication to the Bank.

"I am honored and humbled to be the recipient of the Arthur S. Hamlin Award for Excellence. This award is just one example of how Canandaigua National Bank & Trust truly cares about its employees. I am proud to have worked for this organization for 26 *years and am very thankful that I am part of this great CNB family."*

–Becky Long, 2014 *Arthur S. Hamlin Award Recipient*

2015 NOMINEES

Naomi Best
Marie Dastin
Sue DiProjetto
Denise Hildreth
Jason Ingalls
Derek Lane
Gehrig Lohrmann
Kelly Sheridan

PAST RECIPIENTS

Lauren Kolb 2013
Kathy Amberge 2012
Brendon Crossing 2011
Darlene Rogers 2011
Lori R. Ellis 2010
Kathleen A. Housel 2009
Chris Keys 2008
Barbara Finch 2007
Jim Terwilliger 2006
Brenda Whitney 2006
Vicki Mandrino 2005
Michael Mandrino 2004
Tamra O'Donnell 2004
Lisa Blakesley 2003
Jason Ingalls 2002
Brenda Stoker 2001
Lena Hayes 2000
Dawn Phelps 1999
Beth Uhlen 1998
Kathy Lafler 1997
Jeannie Blance 1996
Amy Eagley 1995
Regina Kesel 1995
Susan Foose 1994
Kathleen Corry 1993
James Roth 1992
Michael O'Donnell 1991
Jerry Drake 1990
Linda Keyes 1989

A TRIBUTE TO 46 YEARS OF EXCEPTIONAL SERVICE. A LEGACY FOR YEARS TO COME.

JEANNIE BLANCE

The Canandaigua National Bank & Trust (CNB) family declared December 16, 2015, "Jeannie Blance Day." On that day, we saluted Jeannie for her remarkable service to her customers and colleagues, CNB's shareholders, and the community. A reception was held at our Main Office in Canandaigua, where a steady stream of people dropped by to congratulate Jeannie on her well-deserved retirement and to wish her well as she begins this new chapter of life.

Alongside three CNB presidents and thousands of employees, Jeannie has been a discreet and stable presence for 46 years. She has been witness to, and a key ingredient of, our community bank's evolution, growth, and success. Experience, knowledge, commitment, service, mentor, multi-tasker, grace, role model, friend, and family are all words that portray the "magic" Jeannie brought to CNB.

The positive impact Jeannie had on our organization will be felt for years to come.

It is with heartfelt appreciation and gratitude that we wish Jeannie and her family a happy, healthy, fun-filled retirement. Congratulations and thank you!

CNB CELEBRATES COLLEGE TOWN BRANCH OPENING.

What better place to provide education and advice—along with the complete range of Canandaigua National Bank & Trust services—than College Town?

Located at 1341 Mount Hope Avenue, in the heart of the recently built College Town community, this forward-focused CNB office offers new ways of banking for today's customers and future generations. It makes CNB more accessible to current and potential customers at Strong Memorial Hospital, the University of Rochester, and the surrounding area.

As is our custom, we specifically tailored the design and technology to meet the needs of customers in the neighborhood who want high-tech, high-touch features—as well as high levels of convenience.

Of course, any bank office that bears the CNB brand will always offer the opportunity for real, human connections along with the electronic kind. The College Town bank office represents the best of today's technology, while still firmly rooted in the heritage and values of CNB.

Officially opened on April 6, 2015, designed by Mossien Associates Architects, P.C., and constructed by Frank J. Marianacci, Inc., its customer-friendly features include:

- Saturday and Sunday hours from 9AM to 1PM
- Online appointment scheduling
- Free Wi-Fi connectivity
- A computer bar with a multi-screen display
- A drive-up ATM with enhanced deposit located at 1575 Mount Hope Ave.
- A coin-counting machine
- An information kiosk

Manager Javier Quintana and his team are uniquely qualified to meet the needs of CNB customers in the College Town neighborhood. College Town staff members are trained across multiple disciplines to more efficiently meet people's needs, resulting in an enhanced banking experience for our customers.

THANK YOU FOR YOUR YEARS OF SERVICE.

STEPHEN HAMLIN

In October 2015, after 42 years of service, Stephen Hamlin resigned from the Canandaigua National Bank & Trust (CNB) and the Canandaigua National Corporation.

Stephen served as a Director of CNB since 1973, and of CNC since 1984. During this lengthy tenure, we have experienced impressive growth, rapidly changing technology, and incredible success. We sincerely appreciate the leadership and support of our Directors during this time of enormous change.

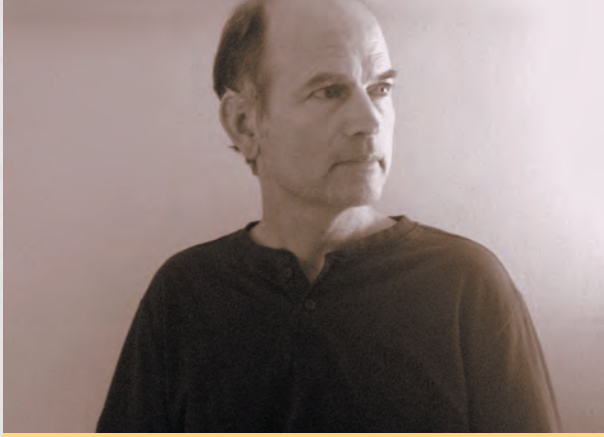
Stephen is a retired business and cultural leader, serving as Vice President of Schlegel Corp. from 1963-1984 and as Chief Executive Officer of Sonnenberg Gardens from 1996-2000. He remains active in the Canandaigua community, serving many nonprofit groups.

We wish Stephen and his family well and thank him for his years of dedication.

Notes

"We are blessed by the creativity and ingenuity of our colleagues, who provide us with a myriad of opportunities from which to choose."

— Frank H. Hamlin, III, President and CEO



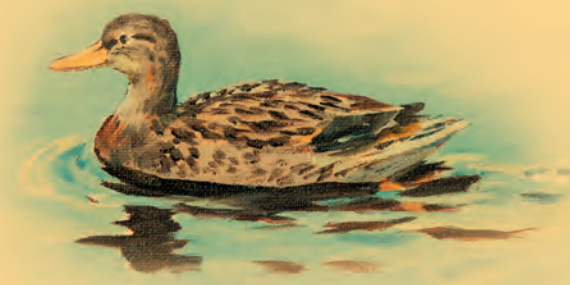
About the Artist

Jim Mott lives in the Greater Rochester area, and is an active member of our local art community. He specializes in fine art landscapes that he creates in response to the visual environment—urban, suburban, rural, and natural landscapes—favoring modes of representation that emphasize both sensitive observation and subjective experience of everyday surroundings.

Jim's Itinerant Artist Project involves periodic road trips across the US to stay with volunteer hosts and paint in response to the local environment wherever his travels take him.

His art can be found in private and institutional collections in the US, Canada, and Europe, including the collections of the Memorial Art Gallery, film director John Irvin, and singer/songwriter Ani DiFranco.

For more information, visit JimMott.com.



Canandaigua
National
Corporation