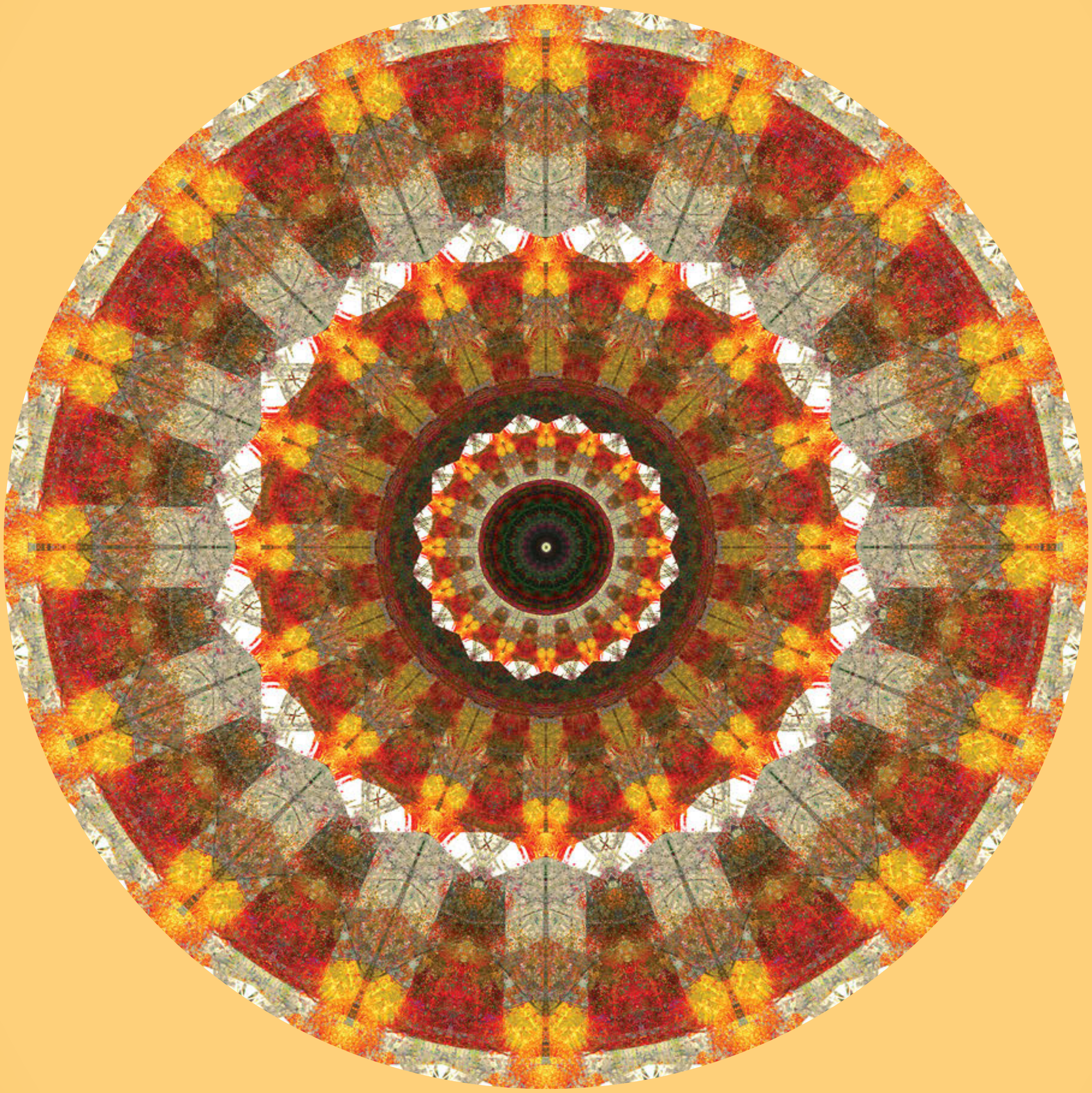
In a year of constant change:

Reflecting. Responding. Reassuring.



Canandaigua National Corporation

2020 ANNUAL REPORT AND FINANCIAL STATEMENTS

An unprecedented need. An extraordinary response.

As the result of a global health crisis that caused significant financial impacts to our customers and communities, 2020 was a year unlike any other in our 133-year history.

As the year progressed and the needs of consumers and businesses evolved, CNC also adjusted, changing the way we delivered our products, solutions, and safe service alternatives. Whether we were providing education and advice; consumer, mortgage, and commercial loan deferments; Paycheck Protection Program loans to businesses; or increasing contributions to local charitable organizations providing critical services, our focus was always on helping to stabilize our local economy.

While the year may have been unprecedented, CNC's reaction was not. After all, we've helped our customers and communities survive and thrive through a range of challenging times and economic cycles for more than a century.

> "Our year-end financial results are impressive on their own. However, I am prouder of how our people achieved those results. They adapted, focused on helping our customers and community, and overcame every challenge."

— Frank H. Hamlin, III, President and CEO

February 12, 2021

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

Dear Shareholders,

2020 was a year full of unanticipated challenges. Those challenges were met and overcome. On a reported basis, net income and diluted earnings per share increased by 8% to $42.3 million and $22.43, respectively, compared to 2019. Return on average assets for 2020 was 1.24%, while return on average equity was 15.21%.

In the first quarter of 2020, we recognized non-core income relating to the gain on sale of OBS, a Registered Investment Advisory business which had outlived its strategic utility. This accounted for approximately $5 million of our 2020 net income. Excluding this transaction, adjusted net income and diluted earnings per share were $37.3 million and $19.76, respectively.

Entering 2020 we did not anticipate a global pandemic leading to an economic crisis. As the virus took hold late 1st quarter we saw the stock market plummet; the Federal Reserve dropped the federal funds rate 150 basis points; businesses were mandated closed; unemployment skyrocketed; and people were faced with a significant reduction of personal income and a potentially debilitating if not fatal contagion. We acknowledged our institution was not immune to financial and other impacts associated with the crisis. However, one of the earliest decisions we made was to step up in a meaningful way and to make sure our behaviors through this uncertain time were consistent with our core values and storied history. We quickly identified local providers of critical services and those providing basic life-need support and doubled our standard contributions to those organizations in an effort to start funds flowing back into our communities. We maintained this focus throughout the year. In lieu of our annual employee holiday celebration, we donated those dollars to area hospitals to help provide comfort for those experiencing health emergencies.

We were, and still are, on solid footing, which enabled us to project strength and stability in a significant way to critical stakeholders, including our employees, our customers, our communities, and our shareholders. Naturally, dividends and stock price are items of interest to you as shareholders. In July, we declared our second semi-annual dividend of the year of $3.50 per share. The total dividend per share for 2020 was $7.00, an increase of $1.30 or nearly 23% from the amount paid during 2019. While most other financial institutions' stock prices remained depressed by the end of 2020, our stock price finished the year at $221.03, which was an increase of over 8% compared to the end of 2019.

On the legislative front, in a surprising blitz of bipartisan cooperation and recognition of the economic reality, Congress passed a massive economic stimulus law. The Coronavirus Aid, Relief and Economic Security (CARES) Act committed unprecedented funding to bridge the economic disruption emanating from the pandemic, including providing direct checks to individuals, enhanced unemployment benefits, low interest direct loans from the government, and much more. In an effort to curb the extent of mass layoffs and/or furloughs, the CARES Act also created the Paycheck Protection Program (PPP). This program provided loans to small businesses through the banking system to essentially pay 2.5 months' worth of payroll expenses. To the extent those expenses could be verified, the loan was to be forgiven and any remaining unforgiven funds would be amortized over 2-5 years at 1% interest. All loans are 100% guaranteed by the Small Business Administration (SBA). Liquidity for these loans came from the Bank.

We recognized the importance of this "free money" to our community and its ultimate recovery from this economic crisis. Immediate steps were taken to accommodate a huge influx of loan applications that needed to be submitted to the SBA and ultimately booked on our systems. We had very little time to prepare. Regulatory guidance on the program and the related forms changed very quickly right up to the day (and even after) funding became available. It was widely understood that the amount of funds originally allocated for the PPP would run out quickly. Waiting for an automated technology-based solution was not a viable option for us. Thus, approximately 20% of our workforce pivoted to manually handle the surge of 4,000 applications within a six-week time frame.

Many institutions chose to wait for an automated solution before accepting applications. Some of those who did take applications only allowed current customers to apply, and some even limited who within their customer base could apply. Our approach was to take applications from anyone within our geographic footprint, regardless of their customer status with us. This ensured we could infuse as many Federal dollars as possible into our local economy before funding dried up. As a result, approximately 1,500 non-customers, furious with their current financial institutions, established a relationship with us. Considerable focus is on further deepening those new relationships. Ultimately, we are responsible for infusing over $355 million of Federal money into our community!

Early in the pandemic we were deemed an "essential business," which allowed us to remain open. From a branch system perspective, we initially closed branch lobbies and, wherever possible, redirected transactional traffic to drive-up tellers and online. If necessary, customers could conduct business within the branch lobby by appointment. In some ways, this was a blessing, as it allowed us to pivot branch resources to handle the surge of PPP applications and loan deferral requests.

As time progressed and we gained greater understanding of effective strategies to limit virus transmissibility, we unlocked the lobby doors and resumed accepting walk-in traffic in accordance with generally understood social distancing standards, which included occupancy limits and mask requirements. This has been a challenging year for our branch staff. Although the majority of our customers have been accommodative to this new environment, our branch personnel have had to contend with some individuals who resist this "new normal." Additionally, we have coped with school closures and remote learning requirements, as well as personal health concerns stemming from the virus. It has been a challenge keeping the branch system fully operational throughout the year and especially over the last few months as Covid-19 surged in Upstate New York.

A massive effort to load and map our various forms, documents, disclosures, and contracts into DocuSign® was undertaken to rapidly expand our digital signature capabilities across the institution. This further decreased the necessity to conduct in-person business within our physical locations. These expanded capabilities will continue to benefit both customers and employees after the pandemic subsides.

In an effort to reduce staff density within our facilities, we pushed expansion of our remote workstation capabilities. In a matter of days, we increased work-at-home capabilities from 20% to over 80% of our work force. Not every function of the institution can be accomplished remotely. However, staff density within our facilities has been materially reduced, thereby allowing required on-premises activities to occur more safely.

Loan deferrals surged in the first half of the year. This was true for both commercial and consumer loan portfolios. Covid-19-related referrals were granted merely upon request and in some instances upon proactive recommendation by our lenders. Deferrals were initially granted for three months and extended another three months as appropriate. At the high point, loans in Covid-19 deferral swelled to around 18% of our total loan portfolio. This percentage was consistent with the experience of community banks statewide. Nonetheless, there was significant industry speculation surrounding what percentage of deferred loans would return to normal payments upon expiration of the deferral period. Institutions targeted an increase of provision for loan loss at double to quadruple pre-pandemic rates to accommodate potential future losses. Given this has a substantial and direct effect on earnings, we were keeping a close watch on how the year progressed to determine the impact to our institution.

As the year matured and through continual communication with our borrowers, we were pleased to see most of our customers actively managing their business and personal finances consistent with the economic environment. As the bulk of deferrals began to run off at the end of September and through early December, the majority of our customers were in the financial position to resume normal payments. Thus, only around 3% of those taking deferment have required additional assistance after the original deferral terms, which is substantially better than we had anticipated. Across our lending portfolios, credit quality has held up remarkably. Although we fell just short of double our originally budgeted provision expense, this was materially less than we had contemplated earlier in the year.

Lending through 2020 was surprisingly robust despite the uncertainty of the environment. The plummeting Federal funds rate triggered record-breaking mortgage activity. Those in the mortgage area have been working around the clock to keep up with the flurry of volume, resulting in significantly exceeding our mortgage production and associated income goals. Approximately $665 million of mortgages were closed, nearly doubling the prior high of $350 million set during 2012. Similarly, indirect lending markedly exceeded production goals. This is a bit surprising in an environment where unemployment substantially increased. Perhaps individual stimulus payments received by those who did not lose their jobs went to buying cars. Demand for indirect/auto lending exceeded expectations by 14%, which increased this portfolio approximately $143 million over 2019. Even excluding PPP production, the commercial area exceeded its pre-pandemic goals, which is exceptional when considering the large dollars within commercial lending juxtaposed to current economic uncertainty.

Overall, with the remaining balance of PPP loans not yet forgiven or otherwise paid down included, we ended the year with nearly 22% growth in gross loans over 2019. With PPP loans excluded, the increase was 11%. Similarly, we experienced outstanding deposit growth, with a 24% increase over 2019. This represents an enormous effort throughout the entire organization during exceptionally disrupted work and home environments.

As mentioned above, at the end of the 1st quarter, the stock market plummeted, losing years of market value. As with every material decrease in the market, considerable time was expended with customers to resist the desire to "panic sell." As we know, the market substantially recovered to pre-pandemic levels over the following months continuing through the end of the year. Unfortunately, our expected revenues were adversely impacted over the course of the year while market values recovered. Trust and investment services revenues finished the year with a 2% increase over 2019, while the market values of assets under management increased 7%. This demonstrates the efficacy of our people during unstable times.

In the beginning of 2020, and after several years of planning, we commenced implementation of a multi-year strategic technology initiative across the institution. We understood the implementation process would be a challenge for our people and processes, yet we were confident in our ability to execute while also attaining our core production objectives. We did not, however, plan on having to massively increase our remote access capabilities, develop workflows for a completely new lending product (PPP), and rapidly expand our digital signature capabilities. These and other unanticipated pandemic-related activities would have stressed our technology, project management, and business line resources in a normal year. Nonetheless, we had moved far enough down the road on this strategic initiative that delaying the project would have been exceptionally cost prohibitive. Upon careful consideration, we decided to push forward with the initiative despite the additional challenges presented by the pandemic. Although we were forced to modify our project plans by postponing less critical components, we were able to accomplish implementation of core elements substantially on time.

Our staff resources were pushed into the red for the majority of the year. Our Human Resources area worked continuously to meet changing personnel needs of various business lines. Staff needed different resources and training to work remotely, meet PPP application demand, and manage deferral requests, as well as accommodate personal difficulties related to school closures, remote learning of children, and day care challenges.

Of course, the virus itself presented staffing challenges resulting from constantly changing and inconsistent recommendations from the Centers for Disease Control and Prevention (CDC), the New York State Department of Health, and local county health departments. Standards for "social distancing," mask wearing, the definition of "exposure" to the virus, quarantine duration, testing, disclosure, contact tracing, effective facilities cleaning, and more changed throughout the year as we gained an increased understanding of the virus. Significantly increased and transparent communication with staff was implemented to address the changing environment. Continuous and regular emails were sent by the Chief Human Resources Officer detailing initiatives and Covid-19 information. Every two weeks we surveyed staff and held a voluntary virtual town hall with them ("Fridays with Frank") to address survey concerns and comments and to answer any questions raised during the meeting. We purposely rotated the days and times of these meetings to ensure staff with different work-hour requirements had the opportunity to attend. Survey responses suggested this format was appreciated by staff and should continue.

Despite distractions presented in 2020, we saw the opportunity to identify a full-service branch location in the City of Geneva, New York. We negotiated a lease and commenced renovations of a building adjacent to our current ATM kiosk, which is directly across the street from Wegmans on Hamilton Street (State Routes 5&20). In light of the geographic proximity to our Main office in Canandaigua, as well as changes within the competitive landscape, this appears to be a very natural expansion of our branch network. Assuming all goes as planned, we expect to open this location in the Summer of 2021.

Our democracy was seriously tested in 2020. As a society, we have an obligation to perform a postmortem. Serious social justice problems have boiled over. Political philosophy has become a hodgepodge of disjointed, intellectually inconsistent ideas divorced from logical substantiation. Hundreds of thousands of United States citizens died from a virus that some still claim is a hoax. Outrageous internet conspiracy theories have been given legitimacy at all levels of government. There is a consequence to all of this. A mob pushing its way into the Capitol serves as a very serious reminder of how fragile this democratic experiment really is.

We all witnessed and lived with the latent stress emanating from the 2020 political, economic, and medical environments. Despite all the external stressors working to distract us, we pulled together. Communication, ingenuity, and teamwork increased to levels never reached before at CNC. With that effort, we demonstrated our commitment and value to the community. Our year-end financial results are impressive on their own. However, I am prouder of how our people achieved those results. They adapted, focused on helping our customers and our community, and overcame every challenge! It has never felt better to be a community banker. Thank you for the opportunity.

Yours,

Frank H. Hamlin, III

President and CEO

CNC Shareholder Relations

Canandaigua National Corporation (CNC) is the holding company for The Canandaigua National Bank & Trust Company (CNB) and Canandaigua National Trust Company of Florida (CNTF). In combination, these companies and their subsidiaries provide a full range of financial services, including banking, trust, investment management, and insurance services to individuals, corporations, and municipalities.

CNB is an independent community bank and a member of the FDIC. CNC stock is not traded on an exchange like other Wall Street stocks, but in auctions based on purchase and sale bids submitted in a sealed-bid process.

Consistent with our strategy as a community bank, we make decisions locally – based solely on what's best for our valued customers, the communities we serve, our employees, and our shareholders.

As one of CNC's constituents, shareholders are an important part of our past success and bright future. Many of our shareholders are also colleagues, community members, and customers who have been a part of the CNC family for generations.

Scott B. Trumbower
Senior Vice President
Director of Shareholder Relations
(585) 419-0670 x 50611
STrumbower@CNBank.com

Kirsten Johnson
Shareholder Relations Specialist
(585) 419-0670 x 36067
KJohnson@CNBank.com

Shareholder Relations Team

The Shareholder Relations Team is dedicated to assisting current and prospective shareholders with inquiries and a variety of shareholder-related activities. These may include buying, selling, and gifting shares; tax cost basis research; dividend payment details; updating contact information; exchanging physical certificates for safer book entry statements; and all general CNC questions.

Shareholder Relations is located on the first floor of the Canandaigua National Bank & Trust Main Office in the Wealth Management Suite at 72 South Main Street, Canandaigua, NY 14424.

Shareholder Information

For additional shareholder information, please visit: www.CNBank.com/ShareholderRelations.

Sincerely,

Scott B. Trumbower

Kirsten Johnson

CANANDAIGUA NATIONAL CORPORATION

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2020 Annual Report

Table of Contents

Annual Meeting

The Annual Meeting of Shareholders of Canandaigua National Corporation (the Company) will be held via live webcast, at www.cesonlineservices.com/cnnd21_vm, on Wednesday, April 21, 2021, at 1:00 p.m. **Note:** to participate in the Annual Meeting, a shareholder must pre-register at www.cesonlineservices.com/cnnd21_vm no later than 1:00 p.m. Eastern Time, Tuesday, April 20, 2021, 24 hours prior to the start of the meeting.

Presented below is a summary of selected financial highlights to display 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)

	2020	% Change	2019	2018	2017	2016
Income Statement Information:						
Net interest income	$ 108,044	7.6 %	100,426	93,307	82,821	76,692
Provision for loan losses	13,592	98.4 %	6,850	7,775	6,400	4,349
Non-interest income [(1)]	59,738	16.0 %	51,481	52,360	44,618	42,615
Operating expenses	99,091	4.9 %	94,472	91,844	82,219	80,467
Income taxes [(2)]	12,829	12.5 %	11,402	10,131	16,790	11,998
Net income attributable to CNC	42,265	7.9 %	39,178	35,912	22,025	22,488
Balance Sheet Data - Period End:						
Investments [(3)]	$ 415,321	5.3 %	394,456	424,282	404,125	336,737
Loans, net	2,951,484	21.1 %	2,437,588	2,303,449	2,134,000	1,936,026
Assets	3,635,357	20.5 %	3,015,665	2,862,493	2,661,716	2,476,109
Deposits	2,965,948	24.2 %	2,387,940	2,240,985	2,138,894	2,043,625
Borrowings	250,000	- %	250,000	305,100	238,400	160,000
Equity	295,747	11.2 %	265,971	233,659	207,903	194,477
Balance Sheet Data - Average:						
Investments [(3)]	$ 391,105	(2.5)%	401,288	397,446	356,969	316,785
Loans, net	2,805,615	18.1 %	2,374,738	2,231,890	2,033,273	1,881,095
Assets	3,419,157	15.7 %	2,954,166	2,768,540	2,588,607	2,371,117
Deposits	2,741,807	16.8 %	2,346,916	2,182,049	2,088,167	1,920,052
Borrowings	269,668	5.0 %	256,823	274,118	204,963	165,863
Equity	277,867	11.6 %	249,040	219,017	202,166	188,156
Asset Under Administration: [(4)]						
Market value	$ 3,953,176	7.1 %	3,690,204	3,056,039	3,128,992	2,787,506
Per Share Data:						
Net income, basic	$ 22.57	7.9 %	20.91	19.16	11.75	11.97
Net income, diluted	22.43	8.0 %	20.77	18.97	11.58	11.84
Cash dividends	7.00	22.8 %	5.70	4.80	4.30	3.87
Book Value	158.09	11.2 %	142.18	124.85	111.11	103.87
Closing stock price [(5)]	221.03	8.1 %	204.44	187.54	163.73	153.79
Weighted average shares - diluted	1,883,922	(0.1)%	1,886,218	1,893,140	1,902,018	1,899,206
Other ratios:						
Return on average assets	1.24 %	(6.8)%	1.33 %	1.30 %	0.85 %	0.95 %
Return on average equity	15.21 %	(3.3)%	15.73 %	16.40 %	10.89 %	11.95 %
Return on beginning equity	15.89 %	(5.2)%	16.77 %	17.27 %	11.33 %	12.25 %
Dividend payout	31.20 %	13.7 %	27.44 %	25.31 %	37.14 %	32.68 %
Average equity to average assets	8.13 %	(3.6)%	8.43 %	7.91 %	7.81 %	7.94 %
Net interest margin	3.37 %	(6.9)%	3.62 %	3.58 %	3.44 %	3.50 %
Efficiency [(6)]	59.03 %	(4.9)%	62.04 %	62.43 %	64.01 %	66.71 %
Employees (year end)						
Total	580	1.4 %	572	556	541	533
FTE's	549	2.3 %	536	516	500	491

(1) 2020 includes an $8.1 million gain on sale attributed to the sale of WBI OBS Financial, LLC (WBI) and 2018 includes a similar gain of $4.6 million from the sale of our minority interest in USA Payrolls, Inc.

(2) 2017 was negatively impacted by a $3.7 million one-time non-cash write-down of net deferred tax assets upon the December 2017 enactment of the "Tax Cuts and Jobs Act of 2017", which reduced the statutory federal income tax rate to 21% from 35%. The lower tax rate positively impacted 2018, 2019, and 2020

(3) Includes the Company's investment in Federal Reserve Bank stock and Federal Home Loan Bank stock.

(4) These assets are held in a fiduciary or agency capacity for clients and are not included in our balance sheet.

(5) Price is based upon last sealed-bid auction of the respective year, administered by the Bank's Trust Department.

(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. 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 Company'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 Company's Trust Department. Also included are the book value at quarter end, and semi-annual dividends paid per share since the first quarter of 2016.

	# Shares Sold		Quarterly Average Sales Price	Quarterly High Sales Price	Quarterly Low Sales Price	Quarter-End Book Value	Quarterly Earnings (Diluted)	Dividend Paid
2020								
4th Quarter	7,234	$	218.52	230.24	214.00	158.09	6.19	-
3rd Quarter	4,025		212.83	230.00	211.00	152.02	5.49	3.50
2nd Quarter	10,230		209.24	265.00	206.60	150.01	3.91	-
1st Quarter	3,866		206.51	220.00	205.00	145.14	6.85	3.50
2019								
4th Quarter	3,667	$	204.44	211.02	203.00	142.18	4.22	-
3rd Quarter	8,851		199.20	209.00	196.00	137.51	5.48	3.00
2nd Quarter	4,555		193.57	202.51	191.00	134.93	5.77	-
1st Quarter	4,800		190.06	200.00	188.00	128.33	5.30	2.70
2018								
4th Quarter	3,275	$	187.54	197.75	185.00	124.85	3.69	-
3rd Quarter	3,850		181.50	200.00	180.00	119.97	6.25	2.50
2nd Quarter	3,811		179.01	185.00	175.00	116.75	4.45	-
1st Quarter	6,603		165.83	176.00	164.50	112.36	4.58	2.30
2017								
4th Quarter	5,120	$	163.73	179.00	162.20	111.11	1.80	-
3rd Quarter	3,044		161.88	166.00	160.00	110.00	3.48	2.30
2nd Quarter	4,409		159.25	165.00	153.00	108.76	3.08	-
1st Quarter	2,188		153.81	160.30	152.50	105.48	3.23	2.00
2016								
4th Quarter	6,955	$	152.86	169.02	150.95	103.87	2.95	-
3rd Quarter	2,231		152.22	155.00	149.00	101.90	3.12	1.95
2nd Quarter	5,996		150.88	155.00	146.00	100.75	3.07	-
1st Quarter	1,439		148.57	150.10	146.00	97.77	2.70	1.92

Independent Auditors’ Report

The Board of Directors and Stockholders
Canandaigua National Corporation:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Canandaigua National Corporation and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, 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.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

We also have audited in accordance with auditing standards generally accepted in the United States of America, Canandaigua National Corporation's internal control over financial reporting as of December 31, 2020, based on criteria established in the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) and our report dated March 2, 2021 expressed an unmodified opinion.

Crowe LLP

Crowe LLP

Livingston, New Jersey
March 2, 2021

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2020 and 2019
(dollars in thousands, except share data)

		2020	2019
Assets			
Cash and due from banks	$	40,136	44,892
Interest-bearing deposits with other financial institutions of which $25,500 and $12,572 respectively, is restricted		99,666	41,062
Federal funds sold		1,296	205
Securities:			
- Debt, Available for sale, at fair value		388,326	346,657
- Debt, Held-to-maturity (fair value of $3,289 and $24,475, respectively)		3,190	24,333
- Equity, at fair value		8,932	8,743
Loans held for sale, at lower of cost or fair value		17,549	5,524
Loans, gross		2,982,225	2,459,176
Allowance for loan losses		(30,741)	(21,588)
Loans - net		2,951,484	2,437,588
Premises and equipment – net		14,722	14,432
Accrued interest receivable		12,039	10,360
Federal Home Loan Bank stock and Federal Reserve Bank stock		14,873	14,723
Goodwill		8,818	15,570
Intangible assets – net		-	435
Other assets		74,326	51,141
Total Assets	$	3,635,357	3,015,665
Liabilities and Stockholders' Equity			
Deposits:			
Demand			
Non-interest bearing	$	848,765	550,434
Interest bearing		408,362	285,952
Savings and money market		1,227,073	1,014,033
Time		481,748	537,521
Total deposits		2,965,948	2,387,940
Borrowings		250,000	250,000
Junior subordinated debentures		51,547	51,547
Accrued interest payable and other liabilities		72,115	60,207
Total Liabilities		3,339,610	2,749,694
Equity:			
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		12,982	12,883
Retained earnings		284,284	255,327
Treasury stock, at cost (76,123 shares and 76,246 shares, respectively)		(12,505)	(12,210)
Accumulated other comprehensive income, net		1,202	187
Total Canandaigua National Corporation Stockholders' Equity		295,695	265,919
Noncontrolling interests		52	52
Total Stockholders' Equity		295,747	265,971
Total Liabilities and Stockholders' Equity	$	3,635,357	3,015,665

See accompanying notes to consolidated financial statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2020 and 2019
(dollars in thousands, except per share data)

		2020	2019
Interest income:			
Loans, including fees	$	118,384	113,758
Securities		6,698	7,832
Federal funds sold		3	23
Interest-bearing deposits with other financial institutions		146	631
Total interest income		125,231	122,244
Interest expense:			
Deposits		8,848	13,409
Borrowings		6,018	6,094
Junior subordinated debentures		2,321	2,315
Total interest expense		17,187	21,818
Net interest income		108,044	100,426
Provision for loan losses		13,592	6,850
Net interest income after provision for loan losses		94,452	93,576
Non-interest income:			
Service charges on deposit accounts		15,733	18,295
Trust and investment services		21,959	21,497
Brokerage and investment subadvisory services		1,159	3,574
Net gain on sale of mortgage loans		8,309	2,515
Loan servicing, net		965	937
Loan-related fees		271	355
Loss on securities transactions, net		(25)	(120)
Gain on sale of subsidiary, net		8,073	-
Other non-interest income		3,294	4,428
Total non-interest income		59,738	51,481
Operating expenses:			
Salaries and employee benefits		57,034	55,543
Technology and data processing		13,925	10,289
Occupancy, net		9,724	9,086
Professional and other services		5,676	5,190
Marketing and public relations		2,422	3,588
Office supplies, printing and postage		1,723	1,758
FDIC insurance		1,686	615
Intangible amortization		169	414
Other real estate operations		66	172
Other operating expenses		6,666	7,817
Total operating expenses		99,091	94,472
Income before income taxes		55,099	50,585
Income taxes		12,829	11,402
Net income		42,270	39,183
Net income attributable to noncontrolling interests		5	5
Net income attributable to Canandaigua National Corporation	$	42,265	39,178
Basic earnings per share	$	22.57	20.91
Diluted earnings per share	$	22.43	20.77

See accompanying notes to consolidated financial statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2020 and 2019
(dollars in thousands)

		2020	2019
Net income	$	42,270	39,183
Other comprehensive income:			
Unrealized net interest rate swaps (losses) gains arising during the year, net of taxes of ($43) and ($191) respectively		(118)	(551)
Unrealized net securities gains (losses) arising during the year, net of taxes of $392 and $1,692 respectively		1,133	4,931
Other comprehensive income		1,015	4,380
Total comprehensive income	$	43,285	43,563
Comprehensive income attributable to the noncontrolling interests	$	5	5
Comprehensive income attributable to the Company	$	43,280	43,558

See accompanying notes to consolidated financial statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2020 and 2019
(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 Interests	Total
Balance at December 31, 2018	1,871,109	$ 9,732	12,823	227,001	(11,756)	(4,193)	52	233,659
Cumulative effect adjustment from the adoption of ASU 2016-02				393				393
Balance at January 1, 2019	1,871,109	9,732	12,823	227,394	(11,756)	(4,193)	52	234,052
Comprehensive income:								
Net income				39,178			5	39,183
Other comprehensive income, net of taxes						4,380		4,380
Total comprehensive income		-	-	39,178	-	4,380	5	43,563
Purchase of treasury stock	(7,301)				(1,423)			(1,423)
Shares issued as compensation	1,424		60		214			274
Exercise of stock options	5,018			(564)	755			191
Cash dividend - $5.70 per share				(10,681)				(10,681)
Dividend to noncontrolling interests							(5)	(5)
Balance at December 31, 2019	1,870,250	$ 9,732	12,883	255,327	(12,210)	187	52	265,971
Comprehensive income:								
Net income				42,265			5	42,270
Other comprehensive income, net of taxes						1,015		1,015
Total comprehensive income		-	-	42,265	-	1,015	5	43,285
Purchase of treasury stock	(5,152)				(1,084)			(1,084)
Sale of treasury stock	688		38		101			139
Shares issued as compensation	1,072		61		163			224
Exercise of stock options	3,515			(194)	525			331
Cash dividend - $7.00 per share				(13,114)				(13,114)
Dividend to noncontrolling interests							(5)	(5)
Balance at December 31, 2020	1,870,373	$ 9,732	12,982	284,284	(12,505)	1,202	52	295,747

See accompanying notes to consolidated financial statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2020 and 2019
(dollars in thousands)

	2020	2019
Cash flow from operating activities:		
Net income	$ 42,270	$ 39,183
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	4,854	4,996
Provision for loan losses	13,592	6,850
Loss on sale of fixed and other assets and other real estate, net	(13)	(98)
Writedown of other real estate	5	109
Deferred income tax (benefit) expense	(379)	314
Loss on security transactions, net	25	120
Gain on sale of mortgage loans, net	(8,309)	(2,515)
Originations of loans held for sale	(502,995)	(152,954)
Proceeds from sale of loans held for sale	497,417	152,777
Gain on sale of subsidiary, net	(8,073)	-
Change in other assets	(22,212)	(12,107)
Change in other liabilities	13,436	8,532
Gain on equity securities	(189)	(304)
Termination of ROU Asset and Lease Liability	(2)	-
Net change in operating lease right-of-use assets and liabilities	97	128
Net cash provided by operating activities	29,524	45,031
Cash flow from investing activities:		
Debt Securities, available-for-sale:		
Proceeds from maturities and calls	395,978	185,750
Purchases	(437,262)	(183,556)
Debt Securities, held to maturity:		
Proceeds from maturities and calls	22,374	32,108
Purchases	(1,310)	(1,420)
Equity Securities:		
Purchases	-	278
Loan originations in excess of principal collections, net	(527,488)	(141,131)
Purchase of premises and equipment, net	(3,155)	(4,141)
(Purchase) Redemption of Federal Home Loan Bank and Federal Reserve Bank stock	(150)	2,367
Proceeds from sale of subsidiary	11,811	-
Proceeds from sale of other real estate	118	1,338
Net cash used in investing activities	(539,084)	(108,407)
Cash flow from financing activities:		
Net increase in demand, savings and money market deposits	633,781	5,338
Net (decrease) increase in time deposits	(55,773)	141,617
Overnight and short-term borrowings, net	-	(55,100)
Exercise of stock options	331	191
Payments to acquire treasury stock	(1,084)	(1,423)
Proceeds from issuance of treasury stock under stock option plan	224	274
Proceeds from issuance of treasury stock	139	-
Dividends paid	(13,119)	(10,686)
Net cash provided by financing activities	564,499	80,211
Net increase in cash and cash equivalents	54,939	16,835
Cash & cash equivalents - beginning of period	86,159	69,324
Cash and cash equivalents - end of period	$ 141,098	$ 86,159
Supplemental disclosure of cash flow information:		
Interest paid	$ 17,797	$ 21,331
Income taxes paid	16,323	10,211
Supplemental schedule of noncash investing activities		
Real estate acquired in settlement of loans	$ -	$ 141

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), Canandaigua National Trust Company of Florida (CNTF), and WBI OBS Financial, LLC (WBI). 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 February of 2020 the Company sold WBI OBS Financial, LLC (WBI) to a third party. The Company recorded a gain on sale of subsidiary in the amount of $8.1 million. Total consideration of $23.1 million, minus net assets sold, including goodwill, of $8.8 million, and direct cost to sell of $6.2 million. The sale did not have a material impact on operating results after closing.

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.

Amounts in prior years' Consolidated Financial Statements are reclassified whenever necessary to conform to the current year's presentation with no changes to net income or equity.

The Company has evaluated subsequent events through March 2, 2021, the date the financial statements were made available to be issued.

Operating Segments

The Company's business is conducted through a single business segment. While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a company-wide basis. Discrete financial information is not available other than on a company-wide basis. Accordingly, all of the final financial service operations are considered by management to be aggregated in one reportable operating segment.

Cash Equivalents

For the purpose of reporting cash flows, cash and cash equivalents include cash, interest-bearing deposits with other financial institutions with maturities fewer than 90 days, and federal funds sold.

Securities

The Company classifies its securities as debt securities available for sale, debt securities held to maturity, or equity securities. The Company does not hold any securities considered to be trading. Debt securities held to maturity are those that the Company has the ability and intent to hold until maturity. Debt securities held to maturity are recorded at amortized cost.

Debt securities available for sale 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 excluded from earnings and are included in accumulated other comprehensive income in stockholders' equity until realized.

Equity securities with readily determinable fair values are measured at fair value with changes in fair value recognized in other non-interest income within the consolidated statements of income.

Management evaluates debt securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to: (1) the length of time and the extent to which the fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. A decline in fair value of any debt security below cost that is deemed other than temporary ("OTTI") and related to the credit-worthiness of the issuer is charged to earnings, resulting in the establishment of a new cost basis for the security.

Management generally evaluates the credit-worthiness of the issuer based on their ability to produce sufficient cash flows to service the contractual debt obligation.

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 (loans or relationship size $0.1 million or less) within the small business, residential mortgage, home equity, and all consumer portfolio. These loans are collectively evaluated for risk of loss on a pool basis. This limitation does not preclude the Company from assessing impairment on a loan-by-loan basis if necessary.

On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, which provides entities with optional temporary relief from certain accounting and financial reporting requirements under U.S. GAAP.

A key program under the CARES Act is the Paycheck Protection Program ("PPP") administered by the Small Business Administration ("SBA") which has provided much needed funding to qualifying businesses and organizations. These loans are forgivable by the SBA and fully guaranteed by the SBA. As such, the company has not prescribed a reserve against the PPP loan balances. For the Company's part, SBA will pay a servicing fee to the Company based on the size of the individual loans. Under this program, the Company has provided fundings of approximately $358 million to the local community. The Company has approximately $271 million of PPP loans remaining on the balance sheet as of December 31, 2020.

Allowance for Loan Losses

The allowance for loan losses is a valuation reserve for probable 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 general component of the allowance covers non-impaired loans and is based primarily on the Company's historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experience by the Company on a weighted average basis over the previous two years. This actual loss experience is adjusted by other qualitative factors based on the risks present for each portfolio segment. These qualitative factors include consideration of the following: levels of and trends in delinquencies and impaired loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures and practices; experience, ability and depth of lending management and other relevant staffing and experience; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. As a result of the effects of the COVID-19 pandemic, the Company increased certain qualitative factors related to elevated levels of unemployment, economic forecasts and approved loan deferral payment requests as businesses were shut down and have only partially reopened

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.

The CARES Act allows financial institutions to suspend application of certain current TDR accounting guidance under ASC 310-40 for loan modifications related to the COVID-19 pandemic made through December 31, 2020 or 60 days after the end of the COVID-19 national emergency, provided certain criteria are met. This relief can be applied to loan modifications for borrowers that were not more than 30 days past due as of December 31, 2019. In April 2020, federal and state banking regulators issued the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus to provide further interpretation of when a borrower is experiencing financial difficulty, specifically indicating that if the modification is either short-term (e.g., six months) or mandated by a federal or state government in response to the COVID-19 pandemic, the borrower is not considered to be experiencing financial difficulty under ASC 310-40.

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.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Other Real Estate

Other 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 or 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 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 the reporting unit is estimated using a weighted average of market-based analysis and discounted cash-flow income analysis.

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 consolidated statements 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 remeasured 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, Florida and Ohio. 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 consolidated balance sheets 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 fair value and the net impact of change in fair value from the instruments' was inconsequential and not recorded at December 31, 2020 and 2019.

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 borrowers enter into interest rate swap agreements that result in borrowers paying a fixed rate to the Company and the Company paying a variable rate to borrowers. The transaction allows the borrower 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 borrower 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 borrowers and other financial institutions, amounted to $302.2 million and $227.1 million as of December 31, 2020 and 2019, respectively. The fair value is recorded in other assets and other liabilities on the Consolidated Balance Sheets.

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 sheets 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

On January 1, 2020, the Company early adopted *ASU 2018-15 (Subtopic 350-40) Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract.* The amendments in this Update require the customer in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. Costs for implementation activities in the application development stage are capitalized depending on the nature of the costs, while costs incurred during the preliminary project and post-implementation stages are expensed as the activities are performed. The capitalized implementation costs should be presented in the balance sheet in the same line item that a prepayment of the fees for the associated hosting arrangement would be presented. The Update requires the entity to expense implementation costs over the term of the hosting arrangement. The term includes the noncancelable period plus any periods covered by an option to extend (or cancel) the arrangement, if reasonably certain the option will (or will not) be excised. Amortization of the costs should begin when the module or component is ready for intended use, regardless of whether the overall hosting arrangement will be placed in service in planned stages that extend beyond a reporting period. The adoption of this standard did not have a material effect on the Company's operating results or financial condition.

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.

Risk and Uncertainties

The COVID-19 pandemic has caused an unprecedented disruption to the economy and the communities we serve. The U.S. government and regulatory agencies have taken several actions to provide support to the U.S. economy, most notably, the CARES Act. The goal of the CARES Act was to prevent a severe economic downturn through various measures, including direct financial aid to American families and economic stimulus to significantly impacted industry sectors. The CARES Act also included extensive emergency funding for hospitals and providers. In addition to the general impact of the COVID-19 pandemic, certain provisions of the CARES Act, as well as other recent legislative and regulatory relief efforts, could have a material impact on the Corporation's operations. Also, the actions of the Board of Governors of the Federal Reserve System (the "FRB") to combat the economic contraction caused by the COVID-19 pandemic, including the reduction of the target federal funds rate and quantitative easing programs, could, if prolonged, adversely affect the Company's net interest income and margins, and profitability.

Continued uncertainty regarding the severity and duration of the COVID-19 pandemic and related economic effects will continue to affect the accounting for credit losses. It also is possible that asset quality could worsen, expenses associated with collection efforts could increase and loan charge-offs could increase.

The extent to which the COVID-19 pandemic will continue to impact the Company's business, results of operations, and financial condition, as well as regulatory capital and liquidity ratios, will depend on future developments, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic, as well as further actions the Company may take as may be required by government authorities or that the Company determines is in the best interests of its employees and customers. There is no certainty that such measures will be sufficient to mitigate the risks posed by the pandemic.

(2) Goodwill and Intangibles Assets

At December 31, 2020, the Company's reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting units exceeds its carrying value, including goodwill. As a result of the qualitative assessment it was more likely than not that fair value of the reporting unit exceeds the carrying value, resulting in no impairment.

As mentioned in Note 1, the Company sold WBI and as a result of the sale, $6.8 million of goodwill was derecognized from the consolidated balance sheet during the year ended December 31, 2020.

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

	2020	2019
Gross carrying amounts	8,956	12,156
Less accumulated amortization	(8,956)	(11,721)
Intangible asset – net	$ -	435

The Company derecognized $3.2 million of intangible assets and $2.9 million in accumulated amortization related to OBS.

Amortization expense amounted to $0.2 million and $0.4 million for the years ended December 31, 2020 and 2019, respectively.

(3) Securities

Amortized cost, gross unrealized and unrecognized gains (gross unrealized and unrecognized losses), and fair value of debt securities available-for-sale and debt securities held-to-maturity at December 31, 2020 are summarized as follows:

		2020			
		Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Debt Securities Available for Sale:					
U.S. Treasury	$	1,509	4	-	1,513
U.S. government sponsored enterprise obligations		208,696	153	(420)	208,429
State and municipal obligations		169,068	3,321	(5)	172,384
Corporate obligations		6,000	-	-	6,000
Total Debt Securities Available for Sale	$	385,273	3,478	(425)	388,326
		Amortized Cost	Unrecognized Gains	Unrecognized Losses	Fair Value
Debt Securities Held to Maturity:					
State and municipal obligations	$	2,943	21	-	2,964
Corporate obligations		247	78	-	325
Total Debt Securities Held to Maturity	$	3,190	99	-	3,289

The amortized cost and fair value of debt securities by years to maturity as of December 31, 2020, 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	$	48,108	48,329	2,925	2,945
1 to 5		159,887	162,704	18	19
5 to 10		176,844	176,843	3	3
10 and over		434	450	244	322
Total	$	385,273	388,326	3,190	3,289

Amortized cost, gross unrealized gains and unrecognized gains (gross unrealized losses and unrecognized losses), and fair value of debt securities available-for-sale and debt securities held-to-maturity at December 31, 2019 are summarized as follows:

		2019			
		Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Debt Securities Available for Sale:					
U.S. Treasury	$	3,506	32	-	3,538
U.S. government sponsored enterprise obligations		188,754	22	(438)	188,338
State and municipal obligations		152,869	1,915	(3)	154,781
Total Debt Securities Available for Sale	$	345,129	1,969	(441)	346,657
		Amortized Cost	Unrecognized Gains	Unrecognized Losses	Fair Value
Debt Securities Held to Maturity:					
State and municipal obligations	$	24,055	85	-	24,140
Corporate obligations		278	57	-	335
Total Debt Securities Held to Maturity	$	24,333	142	-	24,475

At December 31, 2020, and 2019, securities at amortized cost of $307.6 million and $333.3 million, respectively, were pledged to secure municipal deposits and for other purposes required or permitted by law.

No debt securities available-for-sale or debt securities held-to-maturity were sold in 2020 or 2019.

Interest on securities segregated between taxable interest and tax-exempt interest for the years ended December 31, 2020 and 2019, follows (in thousands):

	2020	2019
Taxable	$ 4,167	5,138
Tax-exempt	2,531	2,694
Total	$ 6,698	7,832

The following table presents the fair value of securities with gross unrealized or unrecognized losses at December 31, 2020, 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	
Debt Securities Available for Sale	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury	$ 409	-	-	-	409	-
U.S. government sponsored enterprise obligations	103,645	(420)	-	-	103,645	(420)
State and municipal obligations	1,241	(5)	-	-	1,241	(5)
Total temporarily impaired debt securities	$ 105,295	(425)	-	-	105,295	(425)

Debt Securities Held to Maturity	**Fair Value**	**Unrecognized Losses**	**Fair Value**	**Unrecognized Losses**	**Fair Value**	**Unrecognized Losses**
State and municipal obligations	$ -	-	-	-	-	-
Total temporarily impaired debt securities	$ -	-	-	-	-	-

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 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, 2020.

The following table presents the fair value of securities with gross unrealized or unrecognized losses at December 31, 2019, 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	
Debt Securities Available for Sale	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury	$ 101	-	-	-	101	-
U.S. government sponsored enterprise obligations	61,765	(230)	75,228	(208)	136,993	(438)
State and municipal obligations	393	(1)	3,601	(2)	3,994	(3)
Total temporarily impaired debt securities	$ 62,259	(231)	78,829	(210)	141,088	(441)

Debt Securities Held to Maturity	**Fair Value**	**Unrecognized Losses**	**Fair Value**	**Unrecognized Losses**	**Fair Value**	**Unrecognized Losses**
State and municipal obligations	$ 2	-	-	-	2	-
Total temporarily impaired debt securities	$ 2	-	-	-	2	-

The total number of security positions in the investment portfolio in an unrealized loss position at December 31, 2020 was 46 compared to 72 at December 31, 2019. At December 31, 2020, the Company did not have positions in investment securities that had been in a continuous unrealized loss position for more than 12 months. At December 31, 2020, there were a total of 46 security positions in the Company's investment portfolio with a fair value $105.3 million and a total unrealized loss of $0.4 million that had been in a continuous unrealized loss position for less than 12 months. At December 31, 2019, the Company had positions in 45 investment securities with a fair value of $78.8 million and a total unrealized loss of $0.2 million that have been in a continuous unrealized loss position for more than 12 months. At December 31, 2019, there were a total of 27 security positions in the Company's investment portfolio with a fair value of $62.3 million and a total unrealized loss of $0.2 million that had been in a continuous unrealized loss position for less than 12 months.

(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 significant 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, 2020 and 2019, are as follows (in thousands), along with a description of their underwriting and risk characteristics:

		2020	2019
Commercial and industrial [(1)]	$	673,499	410,649
Mortgages:			
Commercial mortgage		726,658	689,515
Residential mortgage - first lien		610,641	570,619
Residential mortgage - junior lien		144,845	142,241
Indirect		751,282	588,194
Consumer - Other		54,970	38,264
Total loans		2,961,895	2,439,482
Plus: Net deferred loan costs		20,330	19,694
Less: Allowance for loan losses		(30,741)	(21,588)
Loans, net	$	2,951,484	2,437,588

(1) The 2020 balance includes PPP Loans of $271.0 million

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, however, policy allows for 85% of loan-to-value.

Residential First-Lien Mortgages: The Company originates 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 3.5% 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 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.

Indirect Lending: The Company funds indirect loans - loans processed by 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 vehicle, 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 vehicles 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.

Commercial loan participations serviced for others amounted to $75.4 million and $92.5 million at December 31, 2020 and 2019, respectively. Residential mortgage loans serviced for Freddie Mac, amounted to $688.2 million and $511.2 million at December 31, 2020 and 2019, 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. Borrowings by these related parties amounted to $9.6 million and $4.7 million at December 31, 2020 and 2019, respectively. During 2020, new borrowings amounted to $5.7 million (including borrowings of executive officers and directors that were outstanding at the time of their election), and repayments and other reductions were $0.8 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, 2020 and, 2019, 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 exclude $20.3 million and $19.7 million of net deferred loan costs as of December 31, 2020 and December 31, 2019, respectively.

		2020						
		Commercial and industrial	Commercial mortgage (1)	Residential mortgage - first lien	Residential mortgage - junior lien	Indirect	Consumer - other	Total
Beginning Balance	$	5,127	3,307	1,278	259	9,499	2,118	21,588
Charge-offs		(1,331)	(1,497)	-	-	(2,870)	(770)	(6,468)
Recoveries		183	8	1	6	1,474	357	2,029
Provision		1,926	3,493	1,205	234	6,339	395	13,592
Ending Balance	$	5,905	5,311	2,484	499	14,442	2,100	30,741
of which:								
Amount of allowance for loans individually evaluated for impairment	$	932	200	-	60	690	10	1,892
Amount of allowance for loans collectively evaluated for impairment	$	4,973	5,111	2,484	439	13,752	2,090	28,849
Balance of loans individually evaluated for impairment	$	2,555	15,659	2,927	947	690	10	22,788
Balance of loans collectively evaluated for impairment	$	670,944	710,999	607,714	143,898	750,592	54,960	2,939,107

(1) The balance of loans collectively evaluated for impairment include PPP loans of $271.0 million which have no reserve as these loans are guaranteed by the SBA

		2019						
		Commercial and industrial	Commercial mortgage	Residential mortgage - first lien	Residential mortgage - junior lien	Indirect	Consumer - other	Total
Beginning Balance	$	6,319	2,642	1,215	312	9,087	2,068	21,643
Charge-offs		(3,182)	(1,491)	(260)	(1)	(2,711)	(1,553)	(9,198)
Recoveries		211	149	178	7	1,139	609	2,293
Provision		1,779	2,007	145	(59)	1,984	994	6,850
Ending Balance	$	5,127	3,307	1,278	259	9,499	2,118	21,588
of which:								
Amount of allowance for loans individually evaluated for impairment	$	942	562	-	-	-	-	1,504
Amount of allowance for loans collectively evaluated for impairment	$	4,185	2,745	1,278	259	9,499	2,118	20,084
Balance of loans individually evaluated for impairment	$	2,336	4,918	596	804	-	-	8,654
Balance of loans collectively evaluated for impairment	$	408,313	684,597	570,023	141,437	588,194	38,264	2,430,828

In monitoring the credit quality of the portfolio, management applies a credit quality indicator to substantially all commercial loan relationships over $0.5 million. 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 and Consumer Loans are generally not rated, 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 $0.5 million, are allocated a percentage of the allowance for loan losses on a pooled basis.

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.

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, 2020 and 2019 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, 2020

		Commercial and industrial	Commercial mortgage	Residential mortgage - first lien	Residential mortgage - junior lien	Indirect	Consumer - other	Total
Pass-Rated		607,876	636,037	20,461	3,152	-	11,159	1,278,685
5-Special Mention		12,464	41,598	-	-	-	-	54,062
6-Substandard		6,980	24,350	4,036	947	-	-	36,313
7-Doubtful		382	-	-	-	673	27	1,082
Subtotal	$	627,702	701,985	24,497	4,099	673	11,186	1,370,142
9 and not rated		45,797	24,673	586,144	140,746	750,609	43,784	1,591,753
Total	$	673,499	726,658	610,641	144,845	751,282	54,970	2,961,895

Credit Quality Indicator Analysis as of December 31, 2019

		Commercial and industrial	Commercial mortgage	Residential mortgage - first lien	Residential mortgage - junior lien	Indirect	Consumer - other	Total
Pass-Rated	$	240,147	635,874	36,425	2,980	-	13,461	928,887
5-Special Mention		4,269	8,229	-	-	-	-	12,498
6-Substandard		8,453	32,642	810	975	-	-	42,880
7-Doubtful		-	-	-	-	-	-	-
Subtotal	$	252,869	676,745	37,235	3,955	-	13,461	984,265
9 and not rated		157,780	12,770	533,384	138,286	588,194	24,803	1,455,217
Total	$	410,649	689,515	570,619	142,241	588,194	38,264	2,439,482

The following table presents, as of December 31, 2020 and December 31, 2019, a summary of information regarding nonaccruing loans and other nonperforming assets (in thousands):

		2020	2019
Accruing loans 90 days or more delinquent	$	2,036	1,470
Nonaccruing loans		24,775	9,338
Total nonperforming loans		26,811	10,808
Other real estate owned		-	141
(less write-down of other real estate owned)		-	(32)
Total nonperforming assets	$	26,811	10,917

The following tables present, as of December 31, 2020 and December 31, 2019, additional details about the loan portfolio in the form of an aging analysis. Amounts exclude deferred fees and costs (in thousands).

		2020							
		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	$	623	790	3,382	4,795	668,704	673,499	15	3,367
Commercial mortgages		857	330	15,778	16,965	709,693	726,658	54	15,724
Residential - first lien		4,941	576	5,066	10,583	600,058	610,641	1,481	3,585
Residential - junior lien		178	-	1,399	1,577	143,268	144,845	-	1,399
Consumer:									
Indirect		6,147	1,722	1,145	9,014	742,268	751,282	455	690
Other		137	57	41	235	54,735	54,970	31	10
Total	$	12,883	3,475	26,811	43,169	2,918,726	2,961,895	2,036	24,775

	2019							
	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	$ 830	676	2,403	3,909	406,740	410,649	246	2,157
Commercial mortgages	1,439	1,415	5,396	8,250	681,265	689,515	-	5,396
Residential - first lien	5,851	1,050	1,206	8,107	562,512	570,619	396	810
Residential - junior lien	418	237	1,049	1,704	140,537	142,241	74	975
Consumer:								
Indirect	7,339	1,122	693	9,154	579,040	588,194	693	-
Other	325	102	61	488	37,776	38,264	61	-
Total	$ 16,202	4,602	10,808	31,612	2,407,870	2,439,482	1,470	9,338

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, 2020 and 2019, respectively. “Average Recorded Investment” is a four-quarter rolling average for the respective periods. “Recorded investment” includes smaller balance homogeneous loans (loans or relationship size $0.1 million or less) within the small business, residential mortgage, home equity, and all consumer portfolio of $2.0 million and $0.7 million at December 31, 2020 and December 31, 2019, respectively. “Interest Income Recognized” is for the respective year-to-date periods:

	2020				
With no specific allowance	Recorded Investment	Unpaid Principal Balance	Specific Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial and industrial	$ 1,692	1,784	-	965	-
Commercial mortgage	15,220	16,208	-	23,713	346
Residential mortgage - first lien	3,585	3,721	-	2,395	-
Residential mortgage - junior lien	1,329	1,417	-	1,214	-
Subtotal	21,826	23,130	-	28,287	346
With specific allowance					
Commercial and industrial	1,675	1,763	932	1,157	-
Commercial mortgage	504	504	200	666	-
Residential mortgage - first lien	-	-	-	109	-
Residential mortgage - junior lien	70	72	60	35	-
Consumer - indirect	690	690	690	172	-
Consumer - other	10	10	10	3	-
Subtotal	2,949	3,039	1,892	2,142	-
Total	$ 24,775	26,169	1,892	30,429	346
Summary by portfolio:					
Commercial	$ 19,091	20,259	1,132	26,501	346
Residential	4,984	5,210	60	3,753	-
Consumer and other	700	700	700	175	-
Total	$ 24,775	26,169	1,892	30,429	346

	2019				
With no specific allowance	Recorded Investment	Unpaid Principal Balance	Specific Related Allowance	Average Recorded Investment	Interest Income Recognized
Commercial and industrial	$ 480	497	-	263	59
Commercial mortgage	4,647	5,081	-	2,666	44
Residential mortgage - first lien	810	899	-	549	33
Residential mortgage - junior lien	975	1,012	-	792	-
Subtotal	6,912	7,489	-	4,270	136
With specific allowance					
Commercial and industrial	1,677	1,719	942	2,779	-
Commercial mortgage	749	798	562	187	-
Residential mortgage - first lien	-	-	-	76	-
Subtotal	2,426	2,517	1,504	3,042	-
Total	$ 9,338	10,006	1,504	7,312	136
Summary by portfolio:					
Commercial	$ 7,553	8,095	1,504	5,895	103
Residential	1,785	1,911	-	1,417	33
Total	$ 9,338	10,006	1,504	7,312	136

Troubled Debt Restructurings (TDR)

The Company has allocated $0.3 million and $0.8 million of specific reserves on TDRs to customers whose loan terms have been modified in TDRs as of December 31, 2020 and December 31, 2019, respectively.

There were no unfunded commitments to lend additional amounts to customers with outstanding loans that are classified as TDRs.

The terms of certain loans were modified as TDRs when one or a combination of the following occurred: A reduction of the stated interest rate of the loan; the maturity date was extended; or some other modification or extension occurred which would not be readily available in the market.

There were no loans that were modified as TDRs for which there was a payment default within twelve months of modification, during the twelve months ended December 31, 2020 and December 31, 2019.

The following table presents loans by class modified as TDRs during the twelve-month period ended December 31, 2020, (in thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential mortgage	9	$ 1,952	$ 1,952
Commercial mortgage	3	2,909	2,909
Total	12	$ 4,861	$ 4,861

The follow table presents loans by class modified as TDRs during the twelve-month period ended December 31, 2019 (in thousands):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential mortgage	1	$ 161	$ 161
Commercial mortgage	2	119	119
Total	3	$ 280	$ 280

The Company approved total loan modifications under the CARES Act of $514.8 million, of which $23.9 million remain on deferment as of December 31, 2020. Loan modifications consisted of principle and interest (P&I) deferments and principle only deferments. All of these loans were performing in accordance with their terms prior to modification, and are in conformance with the CARES Act. The table below summarizes the deferrals as of December 31, 2020.

	Number of contracts	Post-Modification Outstanding Recorded Investment
Commercial and industrial	11	$ 5,147
Commercial mortgage	32	2,070
Residential mortgage	58	7,652
Consumer, other	519	9,074
Total	620	$ 23,943

(5) Premises and Equipment

A summary of premises and equipment at December 31, 2020 and 2019, follows (in thousands):

	2020	2019
Land and land improvements	$ 1,210	962
Buildings and leasehold improvements	32,336	29,383
Furniture, fixtures and equipment	24,844	23,773
Projects in process	677	2,268
	59,067	56,386
Less accumulated depreciation	44,345	41,954
Premises and equipment - net	$ 14,722	14,432

Depreciation expense amounted to $2.6 million, for each of the years ended December 31, 2020 and 2019.

(6) Time Deposits

At December 31, 2020 the scheduled maturity of time deposits was as follows (in thousands):

2021	$ 405,938
2022	62,765
2023	13,045
	$ 481,748

Time deposits of $250,000 or more amounted to $200.7 million at December 31, 2020, and $249.3 million at December 31, 2019.

(7) Borrowings

Borrowings amounted to $250.0 million from the Federal Home Loan Bank of New York for each of the years ended December 31, 2020 and 2019. At December 31, 2020 and 2019, there were no overnight borrowings.

The following tables summarize the Federal Home Loan Bank of New York term borrowings as of December 31, 2020 and 2019:

December 31, 2020
(in thousands)

Type	Maturity Date	Interest Rate	Amount
Term	February 16, 2021	1.94%	$ 50,000
Term	February 7, 2022	2.28%	50,000
Term	February 10, 2023	3.20%	50,000
Term	February 6, 2024	2.67%	50,000
Term	February 6, 2025	1.82%	50,000
			$ 250,000

December 31, 2019
(in thousands)

Type	Maturity Date	Interest Rate	Amount
Term	February 6, 2020	1.81%	$ 50,000
Term	February 16, 2021	1.94%	50,000
Term	February 7, 2022	2.28%	50,000
Term	February 10, 2023	3.20%	50,000
Term	February 6, 2024	2.67%	50,000
			$ 250,000

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.

The following table presents information about the Company's available lines of credit and related loan collateral at December 31, 2020 (in thousands). Amounts utilized include borrowings, and undrawn letters of credit in the Company's favor of $1.1 million.

	Amount Utilized	Unused	Collateralized by	Carrying Value of Collateral
Federal Home Loan Bank of New York	$ 251,065	$ 270,416	Residential mortgages	$ 386,334
			Commercial mortgages	$ 319,852
			FHLB stock	$ 13,137
Federal Reserve Bank of New York	$ -	$ 844,375	Indirect automobile loans	$ 482,439
			Commercial loans	$ 361,936

(8) 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 (1.66% at December 31, 2020). 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, 2020, 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 (notional value of $20.6 million) 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% (1.62% at December 31, 2020). 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 (notional value of $30.9 million) 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.

(9) Income Taxes

The components of income tax expense relating to income from operations for each of the years ended December 31, follows (in thousands):

		2020	2019
Current:			
Federal	$	10,074	9,270
State		3,134	1,816
		13,208	11,086
Deferred:			
Federal		(306)	272
State		(73)	44
		(379)	316
	$	12,829	11,402

Income tax expense differed from the amounts computed by applying the applicable U.S. Federal corporate tax rates to pretax income from operations for each of the years ended December 31, follows (dollars in thousands):

		2020	2019
Tax expense at statutory rate of 21%	$	11,570	10,625
Tax-exempt interest		(531)	(566)
Interest expense disallowance		18	34
State taxes, net of Federal benefit		2,418	1,470
Stock options		(81)	(118)
Nondeductible operating expenses		-	38
Change in valuation allowance for deferred tax assets		(1,047)	(26)
Other		482	(55)
Total	$	12,829	11,402
Effective tax rate		23.3%	22.5%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, follows (dollars in thousands):

	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 7,942	5,552
Incentive stock and retirement plans	1,967	2,125
Depreciation	320	705
Minority-owned entities	33	85
Interest rate swap agreements, net	371	328
Net operating loss carryforwards	725	1,105
Right of Use Liability	5,399	5,195
PPP Origination Fees	1,387	-
Deferred tax assets before allowance	18,144	15,095
Valuation allowance	(47)	(1,094)
Deferred tax assets	18,097	14,001
Deferred tax liabilities:		
Loan servicing rights	745	421
Intangible assets, net	1,659	1,460
Prepaid expenses	1,230	713
Unrealized Gain on available-for-sale securities	796	404
Deferred Gain on Sale of Investments	2,834	1,005
Right of Use Asset	5,345	5,175
Other	741	104
Deferred tax liabilities	13,350	9,282
Net deferred tax asset	$ 4,747	4,719

Net deferred tax assets are included in other assets. 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 a valuation allowance was needed for the federal net operating loss and mortgage recording tax credit carryforwards. The federal net operating loss (NOL) carryforwards of approximately $3.5 million, which begin to expire in 2028, were generated by a nonbank subsidiary before the subsidiary was included in the Company's consolidated federal tax return. Therefore, their utilization is limited under the Internal Revenue Code and related Treasury Regulations. The reversal of valuation allowance during year ended December 31, 2020 was due to the gain generated from the sale of WBI, subject to the limitations under Internal Revenue Code

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 2020 and 2019, for any unrecognized tax benefits. The Company is not subject to U.S. Federal tax examinations or state tax examinations for years before 2015.

(10) 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, 2020, approximately $83.6 million was available for dividends to the Company without the approval of the OCC. Payment of dividends by the Company's non-bank trust subsidiary is also restricted by the OCC, its regulator. No dividends are available for payment by these companies without regulatory approval.

The Company paid a $3.50 per share dividend on common stock to shareholders on February 3, 2020 and a $3.50 per share dividend on common stock to shareholders on August 3, 2020. In 2019, the Company paid a $2.70 per share dividend on common stock to shareholders on February 1, 2019 and a $3.00 per share dividend on common stock to shareholders on August 1, 2019.

(11) Earnings Per Share

Basic and diluted earnings per share for the years ended December 31, 2020 and 2019, were computed as follows (in thousands, except share and per-share data):

		2020	2019
Basic Earnings Per Share:			
Net income applicable to Canandiagua National Corporation	$	42,265	39,178
Weighted average common shares outstanding		1,872,455	1,873,206
Basic earnings per share	$	22.57	20.91
Diluted Earnings Per Share:			
Net income applicable to Canandiagua National Corporation	$	42,265	39,178
Weighted average common shares outstanding		1,872,455	1,873,206
Effect of assumed exercise of stock options		11,467	13,012
Total		1,883,922	1,886,218
Diluted earnings per share	$	22.43	20.77

(12) 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 $4.3 million, and $3.9 million, for the years ended December 31, 2020 and 2019, 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 $0.4 million and $0.4 million, for each of the years ended December 31, 2020 and 2019, respectively. Shares distributed to a participant upon termination of service are subject to a put option whereby the participant may cause the ESOP's Trust to purchase the shares at fair value. At both December 31, 2020 and 2019, the ESOP held 29,974 and 29,574 shares with an estimated fair value, at the respective dates, of $6.6 million and $6.0 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 $1.8 million at December 31, 2020 and 2019, for these SERPs. Expenses of these SERP's amounted to $200,000 in 2020 and $301,000 in 2019.

(13) 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):

		2020	2019
Stock option plan	$	-	-
Stock appreciation rights plan		832	1,197
Pre-tax cost of plans included in salaries and employee benefits expenses	$	832	1,197
Amount of related income tax benefit recognized in net income	$	(216)	(311)

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, 2020:

	# Shares Subject to Options		Weighted Average Exercise Price
Options outstanding at beginning of the year	17,612	$	50.59
Granted	-	$	-
Exercised	2,340	$	39.41
Expired	-	$	-
Forfeited	-	$	-
Options outstanding at year end	15,272	$	52.31
Options exercisable at year end	15,272	$	52.31
Options available for future grants	none		

At December 31, 2020, the intrinsic value of outstanding options, all of which were vested, was approximately $2.6 million. The intrinsic value of options exercised during the years ended December 31, 2020 and 2019, were $0.4 million and $0.8 million, respectively. No options were forfeited in 2020 or 2019.

Options outstanding at December 31, 2020, had exercise prices ranging from $39.41 to $73.46. The weighted average expected life of the options is one year. 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 (SARs). The number of rights issued is based upon a formula utilizing the compensation of the grantees and actual return on beginning equity relative to the budgeted return for 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 vesting schedule is consistent with the time periods in which the SARs become exercisable. The following summarizes the activity of these rights as of and for the year ended December 31, 2020.

	Long-term SARs			Medium-term SARs		
	# Rights		Weighted Average Grant Price	# Rights		Weighted Average Grant Price
Rights outstanding at January 1, 2020	70,691	$	145.17	59,396	$	147.33
Granted	11,266	$	204.44	7,510	$	204.44
Exercised	14,750	$	145.93	10,213	$	144.56
Forfeited	-	$	-	-	$	-
Expired	-	$	-	-	$	-
Rights outstanding at December 31, 2020	67,207	$	154.94	56,693	$	155.39
Rights exercisable at December 31, 2020	31,160	$	128.33	14,860	$	111.23

In February 2020, certain executives were awarded a total of 11,266 long-term SARs and 7,510 medium-term SARs, all at a grant price of $204.44 per share, the then-current market value (based on the most recent public stock sale administered by the Trust Department known to the Company immediately preceding the effective grant date) of the Company's common stock.

During 2020, 14,750 long-term SARs were exercised with a fair value of $883,000, and 10,213 medium-term SARs were exercised with a fair value of $626,000. During 2019, 6,520 long-term SARs were exercised with a fair value of $654,000, and 643 medium-term SARs were exercised with a fair value of $41,000.The fair value of awards vested during years ended December 31, 2020 and 2019, amounted to $177,000 and $307,000, respectively. No SARs were forfeited in 2020 or 2019.

The weighted average estimated per-right fair values, as of December 31, 2020 and 2019, 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 for the current outstanding awards.

	2020		2019	
Right Type	LTS	MTS	LTS	MTS
Per-right fair value	$39.36	$38.92	$47.23	$45.20
Expected dividend yield	3.30%	3.30%	2.90%	2.90%
Risk-free interest rate	0.36%	0.36%	1.62%	1.62%
Expected Life	4.3 years	4.3 years	3.6 years	3.6 years
Volatility	3.06%	3.06%	3.30%	3.30%

Long-term SAR's outstanding and medium-term SARs outstanding (both exercisable and unexercisable) at December 31, 2020, had exercise prices ranging from $78.98 to $204.44. The weighted average expected life of these rights is four 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 $1.6 million, which is expected to be recognized over a weighted average period of five years. The Company had accrued a liability of $5.8 million and $6.5 million at December 31, 2020 and 2019, respectively, representing the accumulated fair-value vested obligation of these rights under the plan.

(14) Leases

The Company's lease portfolio consists primarily of operating leases for real estate property for branches, ATM locations, and office space, with contractual terms expiring from 2021 to 2036. Lease contracts may include one or more renewal options that allow the Company to extend the lease term, typically from one year to five years per each renewal option. The exercise of lease options are generally at the discretion of the Company. None of the Company's leases contain residual value guarantees, substantial restrictions, or covenants.

Supplemental balance sheet information related to the Company's leases as of December 31, 2020 and 2019 are as follows (in thousands):

		2020	2019
Operating lease ROU assets, net of accumulated amortization	$	20,687	20,124
Operating lease liabilities		20,897	20,253
Weighted average remaining lease term (in years)		7	7
Weighted average discount rate		3.08%	3.06%

The components of lease expense are as follows (in thousands):

December 31,		2020	2019
Fixed payment operating lease expense	$	3,455	3,348
Variable payment operating lease expense		28	23
Short-term lease expense		7	7

Supplemental cash flow information related to the Company's leases as of December 31, 2020 and 2019 are as follows (in thousands):

		2020	2019
Cash paid for amounts included in the measurement of lease liabilities	$	3,360	3,232
Amortization of ROU assets		2,735	2,735
ROU assets obtained in exchange for new operating lease liabilities		4,489	2,116

The following table presents a maturity analysis of the Company's operating lease liability (in thousands):

Years ending December 31,	Amount
2021	$ 3,311
2022	3,351
2023	2,877
2024	2,505
2025	2,250
2026 and after	8,966
Total future lease payments	23,260
Less: imputed interest	2,363
Total operating lease liabilities	$ 20,897

(15) 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, for the years ended December 31, 2020 and December 31, 2019. Most of these commitments are not included in the Company's Consolidated Balance Sheets (in thousands).

	2020		2019	
	Notional Amount	Carrying Amount	Notional Amount	Carrying Amount
Commitments to extend credit:				
Commercial lines of credit	$ 274,662	-	264,425	-
Commercial real estate and construction	96,192	-	88,926	-
Residential real estate	22,024	-	4,578	-
Home equity lines of credit	357,887	-	454,673	-
Unsecured personal lines of credit	27,312	-	26,936	-
Standby and commercial letters of credit	7,650	(115)	4,990	(75)
Commitments to sell real estate loans	17,549	-	5,524	-

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 45 to 90 days. Concurrently, the Company enters into commitments to sell certain fixed-rate residential real estate loans (usually those subject to the foregoing rate-locks). The fair value of these commitments are inconsequential as of December 31, 2020 and 2019.

The Company has committed $3.0 million as a limited partnership investment to Cephas Capital Partners, II and $3.0 million to Cephas Capital Partners, III. This Small Business Investment Company (SBIC) is a community-bank backed mezzanine finance company. They are follow-on investments to our current investment in Cephas Capital Partners. At December 31, 2020, the Company has remaining unfunded commitments of $1.5 million with Cephas Capital Partners, II and $2.4 million with Cephas Partners III. These investments are 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, 2020, 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.

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.

(16) 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. Management believes, as of December 31, 2020, that the Company and Bank met all capital adequacy requirements to which they are subject. The Company's trust subsidiary, Canandaigua National Trust Company of Florida, must also meet minimum capital requirements as set forth by their regulators. As of December 31, 2020, it complied with its minimum capital requirements.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2020 and 2019, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

	Regulatory Capital as of December 31, 2020					
	Actual		Required for Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Leverage capital (Tier 1) as percent of three-month average assets:						
Company	$ 336,275	9.32%	$ 144,258	4.00%	N/A	N/A
Bank	$ 318,295	8.84%	$ 144,087	4.00%	$ 180,109	5.00%
As percent of risk-weighted, period-end assets						
Core capital (Common Equity Tier 1)						
Company	$ 284,728	10.71%	$ 186,055	7.00%	N/A	N/A
Bank	$ 318,295	11.88%	$ 187,575	7.00%	$ 174,177	6.50%
Core capital (Tier 1)						
Company	$ 336,275	12.65%	$ 225,924	8.50%	N/A	N/A
Bank	$ 318,295	11.88%	$ 227,770	8.50%	$ 214,372	8.00%
Total capital (Tiers 1 and 2)						
Company	$ 367,016	13.81%	$ 279,083	10.50%	N/A	N/A
Bank	$ 349,036	13.03%	$ 281,363	10.50%	$ 267,965	10.00%

	Regulatory Capital as of December 31, 2019					
	Actual		Required for Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Leverage capital (Tier 1) as percent of three-month average assets:						
Company	$ 307,402	10.24%	$ 120,071	4.00%	N/A	N/A
Bank	$ 288,601	9.67%	$ 119,393	4.00%	$ 149,241	5.00%
As percent of risk-weighted, period-end assets						
Core capital (Common Equity Tier 1)						
Company	$ 255,855	10.89%	$ 164,489	7.00%	N/A	N/A
Bank	$ 288,601	12.32%	$ 163,931	7.00%	$ 152,221	6.50%
Core capital (Tier 1)						
Company	$ 307,402	13.08%	$ 199,736	8.50%	N/A	N/A
Bank	$ 288,601	12.32%	$ 199,059	8.50%	$ 187,349	8.00%
Total capital (Tiers 1 and 2)						
Company	$ 328,990	14.00%	$ 246,733	10.50%	N/A	N/A
Bank	$ 310,189	13.25%	$ 245,896	10.50%	$ 234,187	10.00%

(17) 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 as of December 31, 2020 and December 31, 2019 are as follows (in thousands):

		2020		2019	
Financial Assets:	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and equivalents	1	$ 141,098	141,098	86,159	86,159
Equity securities	1	8,932	8,932	8,743	8,743
Debt securities, available-for-sale	1, 2, 3	388,326	388,326	346,657	346,657
Debt securities, held-to-maturity	2	3,190	3,289	24,333	24,475
FHLB stock and Federal Reserve Bank stock	3	14,873	N/A	14,723	N/A
Loans held for sale	2	17,549	18,621	5,524	5,592
Loans-net	3	2,951,484	2,936,373	2,437,588	2,439,130
Financial Liabilities:					
Deposits:					
Demand, savings and money market accounts	1	$ 2,484,200	2,484,200	1,850,419	1,850,419
Time deposits	2	481,748	484,219	537,521	533,413
Borrowings	2	250,000	258,099	250,000	243,249
Junior subordinated debentures	2	51,547	49,507	51,547	48,151
Other financial instruments:					
Interest rate swap agreements, net	2	$ 1,436	1,436	1,275	1,275
Letters of credit	2	115	115	75	75

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.

Fair values for equity securities that are recorded at fair market value to comply with ASU 2016-01, are determined by quoted market prices in active markets, if available (Level 1). The equity securities change in fair market value is recorded in the income statement.

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.

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 using an exit price notion. The Company's valuation methodology is determined 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. Factors included in the calculation include estimated prepayment speeds, discount rates, and repricing dates. Fair value is calculated at the instrument level and aggregated accordingly.

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. Non-performing loans, at the instrument level, are removed from the calculation and assessed a fair value of $0.

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.

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 based on market fixed spreads on similar debt compared to the Company's fixed spreads.

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.

(18) 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, 2020 and December 31, 2019 by caption on the Consolidated Balance Sheet (dollars in thousands).

		2020			
		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					
Debt securities available-for-sale:					
U.S. Treasury	$	1,513	-	-	1,513
U.S. government sponsored enterprise obligations		-	208,429	-	208,429
State and municipal obligation		-	172,384	-	172,384
Equity securities		8,932	-	-	8,932
Corporate obligations		-	6,000	-	6,000
Interest rate swap agreements - non-designated		-	23,850	-	23,850
Total assets	$	10,445	410,663	-	421,108
Liabilities					
Interest rate swap agreements - designated	$	-	1,436	-	1,436
Interest rate swap agreements - non-designated		-	23,850	-	23,850
Letters of credit		-	115	-	115
Total liabilities	$	-	25,401	-	25,401
Measured on a non-recurring basis:					
Assets					
Loans					
Collateral dependent impaired loans	$	-	-	2,949	2,949
Other assets					
Total assets	$	-	-	2,949	2,949

		2019			
		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					
Debt securities available-for-sale:					
U.S. Treasury	$	3,538	-	-	3,538
U.S. government sponsored enterprise obligations		-	188,338	-	188,338
State and municipal obligation		-	154,781	-	154,781
Equity securities		8,743	-	-	8,743
Interest rate swap agreements - non-designated		-	10,743	-	10,743
Total assets	$	12,281	353,862	-	366,143
Liabilities					
Interest rate swap agreements - designated	$	-	1,275	-	1,275
Interest rate swap agreements - non-designated		-	10,743	-	10,743
Letters of credit		-	75	-	75
Total liabilities	$	-	12,093	-	12,093
Measured on a non-recurring basis:					
Assets					
Loans					
Collateral dependent impaired loans	$	-	-	2,426	2,426
Other assets					
Other real estate owned		-	-	109	109
Total assets	$	-	-	2,535	2,535

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.

The Company evaluates and values loan servicing assets on at least an annual 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.

(19) Revenue from Contracts with Customers

All of the Company's revenue from contracts with customers within the scope of ASC 606 is recognized as non-interest income in the Consolidated Statement of Income.

The following table presents the sources of non-interest income for the periods ending December 31, 2020 and 2019, respectively (in thousands):

	2020	2019
Non-interest income:		
Service charges on deposit accounts	$ 15,733	$ 18,295
Trust and Investment Services	21,959	21,497
Brokerage and investment subadvisory services	1,159	3,574
Net gain on sales of mortgage loans(a)	8,309	2,515
Loan servicing, net(a)	965	937
Loan-related fees(a)	271	355
Loss of securities transactions, net(a)	(25)	(120)
Gain on sale of subsidiary, net(a)	8,073	-
Other non-interest income(b)	3,294	4,428
Total non-interest income	$ 59,738	$ 51,481

(a) Outside of the scope of ASC 606

(b) Other non-interest income is made up of many small insignificant items, the largest of which is swap fees, which is outside the scope of ASC 606.

Non-interest income streams in-scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of non-transactional fees, such as account maintenance and dormancy fees, and transaction-based fees, such as ATM, wire transfer, and foreign exchange fees. The Company's performance obligation for non-transactional fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. The Company's performance obligation for transaction-based fees is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts. The non-transactional fees for 2020 and 2019 were $1.2 million and $1.3 million, respectively, of the total service charges on deposits. The Company may, from time to time, waive certain fees (e.g., NSF fee) for the customers but generally do not reduce the transaction price to reflect variability for future reversals due to the insignificance of the amounts. Waiver of fees reduces the revenue in the period the waiver is granted to the customer.

Trust and Investment Services (Wealth Management)

Trust and investment services (Wealth Management) charges customers a fee based upon an agreed percentage of assets under management, based on market value. The Company’s performance obligation is generally satisfied over time and the resulting fees are recognized on a monthly or quarterly basis. Wealth Management has a “Pledge of Accountability” under which fees earned could be reimbursed to the customer in the event of poor customer service. The reimbursement is not based on account performance and is only tied to quality of customer service. Due to the immaterial nature and infrequent nature, these reimbursed amounts do not reduce the transaction price. The reimbursement reduces the revenue in the period of the reimbursement to the customer.

Board of Directors

The Canandaigua National Corporation and Canandaigua National Bank & Trust Board of Directors is comprised of local, distinguished community leaders. We are honored to have their insights, participation, and support.

From Left to Right: (Top row) Alan J. Stone; Robert G. Sheridan; Frank H. Hamlin, III, JD; James H. Watters, PhD; Daniel P. Fuller
(Middle row) Gary L. Babbitt; Sue S. Stewart, JD; George W. Hamlin, IV, JD; Caroline C. Shipley; Lawrence A. Heilbronner-Kolthoff, CPA
(Bottom row) Thomas S. Richards, JD; Richard J. Plympton; Michael C . Goonan

Gary L. Babbitt
Director, Canandaigua National Corporation, January 1, 2019-present
The Canandaigua National Bank & Trust Company*
Director, January 1, 2019-present
Executive Vice President and Chief Lending Officer, 2008-December 31, 2019
Senior Vice President, Commercial Services, 2006-2007
Vice President, Commercial Services Officer, 1996-2005
Director, Secretary, and Executive Vice President, CNB Mortgage Company**, March 21, 2018-December 31, 2019
Director, Empire State Certified Development Company, 2011-2019
Finance Committee Member, ARC of Monroe County, 1992-2018

Daniel P. Fuller
Canandaigua National Corporation
Vice Chairman of the Board, January 1, 2011-present
Chairman of the Board, 2008-2010
Director, 1996-present
President and General Manager, Bristol Mountain Ski Resort, December 1984-present
General Manager, Roseland Water Park, 2003-present
Director and Treasurer, Ski Areas of New York (SANY), 1990-present
Director, UR Thompson Health System
Director, SnoCountry Ski Areas Association
Director, Canandaigua Country Club

Michael C. Goonan
Director, Canandaigua National Corporation, 2015-present
University of Rochester Medical Center
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
Director, Golisano Children's Hospital at Strong
Trustee, St. John Fisher College
Honorary Member, Board of Directors of the Catholic Family Center
Director, Pluta Cancer Center Foundation
Parish Council Member, Church of the Transfiguration

Frank H. Hamlin, III, JD
Canandaigua National Corporation
Director, President, and CEO, March 29, 2013-present
Director and President, January 1, 2011-present
Director, 2004-present

Board of Directors, cont.

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**
- Director and CEO, March 21, 2018-present
- Chairman of the Board and CEO, June 27, 2013-March 20, 2018
- Director, January 1, 2011-present

CNB Insurance Agency**
- Director, President, and CEO, April 24, 2013-present
- Director and President, 2011-present

Canandaigua National Trust Company of Florida*
- Director and CEO, June 11, 2015-present
- Director, President, and CEO, June 11, 2015-May 8, 2019
- Director, 2011-June 10, 2015

Director, UR Thompson Health System, 2013-present
Manager and CEO, WBI OBS Financial, LLC, 2011-February 29, 2020
Director, OBS Holdings, Inc., 2016-February 29, 2020
Director, Genesee Valley Trust Company, 2011-March 1, 2018
Croucher, Jones & Johns
- Of Counsel, 2007-2010
- Attorney, June 2001-2007

George W. Hamlin, IV, JD

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, January 1, 2011-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, Canandaigua National Trust Company of Florida,* 2009-present
Director, Genesee Valley Trust Company, 2008-March 1, 2018
Director and CEO, CNB Insurance Agency,** 1995-April 23, 2013
Director, Federal Reserve Bank of New York, 1997-2002
Chairman Emeritus, UR Thompson Health System
Chairman, Board of Managers of the Eastman School of Music
Member, Eastman School of Music National Council
University of Rochester Medical Center
- Senior Member, 2018-present
- Immediate Past Chair, 2015-2017
- Chairman, 2013-2014
- Vice Chair, 2011-2012
- Audit Chair, 2009-2011
- Director, 1985-2017

Center for Governmental Research
- Fellow, 2011-present
- Director, 2002-2010

Chairman and Investment Advisory Committee Member, Monroe Fund
Director, New York Kitchen (formerly New York Wine and Culinary Center)
Director and Vice President, Constellation Brands–Marvin Sands Performing Arts Center (CMAC), 2015-present
Trustee Emeritus, Rochester Museum and Science Center
Member, Dean's Advisory Council, SUNY Brockport School of Business and Management, 2016-present
Trustee, Colgate Rochester Divinity School, 2014-present
President, Canandaigua Area Development Corporation
Principal Member, Canandaigua Aircraft, LLC, 1999-present
Principal Member, Hamlin Consulting, LLC, 2016-present

Lawrence A. Heilbronner-Kolthoff, CPA

Canandaigua National Corporation
- Director, December 10, 2014-present
- Treasurer, Executive Vice President, and CFO, January 2014-December 31, 2018
- 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, December 10, 2014-present
- Executive Vice President, CFO, and Cashier, January 2012-December 31, 2018
- Executive Vice President and CFO, 2007-December 31, 2018
- Senior Vice President and CFO, 2004-2006
- Vice President, Finance, 1998-2004

Canandaigua National Trust Company of Florida*
- Director, April 25, 2019-present
- Executive Vice President and CFO, 2009-December 31, 2018

Owner and Principal, Heilbronner Consulting, November 28, 2018-present
Director, Treasurer, Executive Vice President, and CFO, CNB Mortgage Company,** 2002-December 31, 2018
CNB Insurance Agency**
- Director, April 11, 2012-April 24, 2019
- Director, Treasurer, and Executive Vice President, April 9, 2014-December 31, 2018
- Director and Secretary, April 11, 2012-April 8, 2014
- Executive Vice President, February 12, 2007-April 10, 2012

Director and Treasurer, Genesee Valley Trust Company, 2008-March 1, 2018
Manager, WBI OBS Financial, LLC, 2011-December 31, 2018
OBS Holdings, Inc.
- Chairman, 2015-December 31, 2018
- Director, 2011-2015

Richard J. Plympton

Director, Canandaigua National Corporation, April 29, 2020-present
Optimax Systems, Inc.
- CEO, January 2013-present
- CEO and Vice President of Sales, 1999-2013

Board of Directors, cont.

Quality Control Manager, 1995-1999
Chairman, Finger Lakes Workforce Investment Board
Director and Treasurer, ANSI Optics and Electro-Optics Standards Council
Director, The Optical Society Foundation
Advisory Committee Member, Wyant College of Optical Sciences, University of Arizona
Visiting Committee Member, Hajim School of Engineering and Applied Sciences, University of Rochester
Rochester Philanthropy Council Member, University of Rochester

Thomas S. Richards, JD
Director, Canandaigua National Corporation, 2004-2010 and January 15, 2014-present
Attorney, retired
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
Director, University of Rochester Medical Center
Trustee and Audit Committee Member, University of Rochester
Trustee and Audit Committee Member, Rochester Institute of Technology
Director and Audit Committee Member, Rochester Area Community Foundation
Director, Sands Family Supporting Foundation
Director, Seneca Waterways Council, Boy Scouts of America

Robert G. Sheridan
Canandaigua National Corporation
Director, 1992-present
Director and Secretary, 1992-2011
The Canandaigua National Bank & Trust Company*
Director, 1992-present
Executive Vice President, Cashier, and CRA Officer, 2007-2011
Senior Vice President and Cashier, 1989-2006
CNB Mortgage Company**
Director and Secretary, 1998-March 21, 2018
President, 2002-August 31, 2011
Director, Genesee Valley Trust Company, 2008-December 31, 2011
Director and Past President, Canandaigua Country Club, 1985-1990 and 2016-2020

Caroline C. Shipley
Director, Canandaigua National Corporation, 1984-present
Treasurer and Council Member, First Congregational Church
Board of Managers, Ontario Children's Foundation
Canandaigua City School District Audit Committee–retired June 2017
Canandaigua City School District Board of Education
Member, 1979-2009
President, 1983-1991 and 2007-2009
Financial Manager, Dell Broadcasting, WCGR/WLKA, 1985-1991
Treasurer and Financial Manager, Sonnenberg Gardens, 1973-1984

Sue S. Stewart, JD
Director, Canandaigua National Corporation, 2000-present
Attorney, retired
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
Co-chair of Board of Trustees and Audit Committee Member, National Center for Education and the Economy
Trustee and Audit Committee Member, John L. Wehle Sr. Foundation

Alan J. Stone
Canandaigua National Corporation
Director, 1986-present
Chairman of the Board, 1994-2004
Managing Member, Stone Family Properties LLC, 1986-present
Member, City Mini Storage, LLC, 1999-present
Member, CMS Commercial Properties, LLC, 2010-Present
Stone Construction Equipment, Inc.
Director, 1969-2009
Co-founder and CEO, 1969-1986
Volunteer, Rochester Museum and Science Center and Cumming Nature Center

James H. Watters, PhD
Director, Canandaigua National Corporation, November 13, 2019-present
Senior Vice President and Treasurer, Finance and Administration, Rochester Institute of Technology, 1994-present
Vice Chairman, Rochester Institute of Technology Global
Board Member, Rochester Philharmonic Orchestra
Director, Broadstone Net Lease, 2007-present
Director, New York Kitchen, 2008-present
Director, Broadtree Residential, 2012-present
Director, Vnomics Corp, 2014-present
Director, Greater Rochester Health Foundation, 2009-2019

Emeritus Board Members

James S. Fralick

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

Canandaigua National Corporation and Canandaigua National Bank & Trust – Subsidiaries Officers & Directors

Canandaigua National Trust Company of Florida (CNTF) Officers

Frank H. Hamlin, III, JD, Chief Executive Officer
Salvatore (Sam) Guerrieri, Jr., President
Vincent K. Yacuzzo, Executive Vice President and Chief Financial Officer
Jennifer N. Weidner, Esq., Senior Vice President, General Counsel, and Secretary
Mary Kay Bashaw, Senior Vice President and Treasurer
Mark Buonaugurio, Senior Vice President, Senior Wealth Advisor, and Team Leader
Maria E. Caton, CFP®, ChSNC®, AAMS®, Senior Vice President and Manager of Financial Planning Services
Jillian E. Dart, Esq., CTFA, Senior Vice President, Senior Trust Officer, and Team Leader
Suzanne Ellin, JD, CPA, CGMA, CTFA, CFP®, Senior Vice President and Senior Trust Officer
Jason W. Fitzgerald, CFP®, Senior Vice President, Senior Wealth Advisor, and Team Leader
Laurie A. Haelen, AIF®, Senior Vice President and Manager of Wealth Solutions
James F. Lieb, CTFA, Senior Vice President and Senior Trust Officer
Stephen R. Martin, Senior Vice President and Community Affairs Director
Rita Nischal, Esq., Senior Vice President and Corporate Counsel
Tamra A.B. O'Donnell, Senior Vice President and Director of Corporate Marketing
Joy Ryen Plotnik, Esq., Senior Vice President and Senior Trust Officer
Dawn C. Priolo, Senior Vice President and Director of Finance
Kurt E. Rosen, Senior Vice President and Wealth Business Manager
Stephen A. Rossi, CFA®, CFP®, Senior Vice President and Senior Equity Strategist
Paul S. Tarantino, Senior Vice President and Senior Wealth Consultant
James P. Terwilliger, PhD, CFP®, Senior Vice President and Senior Planning Advisor
Scott B. Trumbower, Senior Vice President, Director of Shareholder Relations
Nancy E. Bowes, CFP®, Vice President and Wealth Advisor
Donna Cator, CFP®, CDFA, Vice President and Wealth Advisor
Amy K. Boyd Ertel, Esq., CTFA, Vice President and Trust Officer
Ramona Green, CTFA, Vice President and Trust Officer
David P. Guzzetta, AFIM™, CFMC®, Vice President and Wealth Advisor
Charlene S. Johnson, CPC, QPA, QKA, QPFC, TGPC, ERPA, Vice President and Retirement Services Officer
Stephen C. Krauss, CFA®, Vice President and Wealth Advisor
Adam R. Leszyk, CFP®, Vice President and Wealth Advisor
Stephen R. Livingston, CFIRS™, Vice President, Fiduciary Compliance Officer
Mark S. Mazzochetti, CISP, Vice President and Retirement Services Officer
Lindsay A. Morrow, Vice President and Corporate Events Manager
Andrew W. Murray, Vice President and Wealth Advisor
JoAnn K. Roberts, CTFA, CFIRS™, Vice President and Fiduciary Compliance Officer
Louis B. Rossetti, Vice President and Trust Officer
Michael D. Schiller, CFP®, Vice President and Wealth Advisor
Linda J. Shannon, CAMS, CFE, Vice President and BSA/AML Compliance Officer
M. Beth Uhlen, CPA, Vice President and Wealth Operations Manager
Stacey L. Bowers, Assistant Vice President and Trust Officer
Catherine M. Burnett, Banking Officer and Wealth Operations Assistant Manager

CNTF Board of Directors

Daniel R. Goodwin, Director
Salvatore (Sam) Guerrieri, Jr., Director
Frank H. Hamlin, III, JD, Director
George W. Hamlin, IV, JD, Director and Chairman of the Board
Garth C. Harding, Director and Vice Chairman
Lawrence A. Heilbronner-Kolthoff, CPA, Director
Sue A. Jacobson, Director
Christine L. Jennings, Director
Nelle Miller, Director
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Janice A. Zarro, Director

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Kurt E. Rosen, Insurance Officer, Senior Vice President–Program Manager
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Kelly R. Crane, Assistant Vice President – Mortgage Processing Supervisor
Kelly Masline, Assistant Vice President – Team Leader, Underwriting

Canandaigua National Corporation and Canandaigua National Bank & Trust Officers

Canandaigua National Corporation Officers

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Jennifer N. Weidner, Esq., Secretary, Senior Vice President, and General Counsel

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Liliana Patino, Community Office Assistant Manager

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Webster–Jackson-Ridge
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Ken McCurdy
Rick Plympton
James D. Ryan Jr.
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*Community Office Manager

CNB Celebrates Success

In 2020, CNB was honored with multiple awards–acknowledging our workplace wellness, outstanding customer service, and national recognition of our annual report.

Rochester Business Journal Reader Rankings recognized CNB as best in the Rochester area in Best Wealth Management. CNB was recognized as one of the top three in the category of Best Business Banking, Best Mortgage Lender, and Best Overall Company to Work For (501-1,000 Employees). This online survey seeks the best of the best in more than 55 categories, giving the *Rochester Business Journal* and *The Daily Record* audiences the chance to spotlight their favorite businesses.

Messenger Post Media awarded CNB with 2020 Best of the Finger Lakes Awards in two categories: Services–Bank/Credit Union and Wealth Management. The awards celebrate the best of businesses, organizations, people, and more.

Additionally, CNB was a finalist in two categories of the *Democrat & Chronicle* Rochester's Choice Awards: Best Bank and Best Mortgage Lender.

We would like to thank everyone who voted for and supported us for each of the awards for which we were honored in 2020!

We are proud to be a part of the communities we serve and look forward to continuing our relationships in each–because seeing our customers succeed is the greatest reward.

Bringing Strength, Stability, and Service to Brockport

Canandaigua National Bank & Trust was excited to open its new Brockport Community Office in April of 2020, conveniently located in the Wegmans Plaza near the highly trafficked intersection of Routes 19 & 31.

CNB continues to expand its branch footprint and to build our facilities to match the personality and banking needs of the communities we serve. The Brockport Community Office is our 24th branch and marks the western-most point of CNB's market area. This location offers a warm and inviting open floor plan featuring a brick fireplace, reflecting the architectural character of this historic canal community. Its customer-friendly features include:

- Saturday hours from 9AM to 1PM
- Free Wi-Fi connectivity
- Coin-counting machine
- Online appointment scheduling
- Enhanced ATM

Manager Michelle Hill and her team appreciate the warm reception they have received from the area community and are excited to continue offering Brockport, Sweden, and Spencerport not only personal and business banking, but also personal service and an unparalleled commitment to the community—as well as education and advice.

Thank You for Your Service

We would like to acknowledge the following colleagues who retired from CNB in 2020. We are grateful for the contributions they made throughout the years. The longevity of our employees is a shining example of CNB's outstanding culture and we are pleased to highlight these individuals' exceptionally long careers. After all, it is our people who make the difference. Congratulations on your retirement!

NAME	YEARS OF SERVICE
Mark Allman	17 years
Steve Carey	21 years
Jim Exton	41 years
Marianne Kimmerly	13 years
Judy Reader	31 years

In Memoriam

Melissa Moir

On August 5, 2020, Melissa Moir, a Cross-Trained Teller at the CNB Chili Office, passed away suddenly. She worked for CNB for 10 years, always providing the highest quality customer service. The winner of numerous "You Make a Difference" awards at work, she always put forth her very best in every customer interaction. Melissa embodied the CNB Core Values. She was a dedicated team member, the first to arrive at the office each day and the one who would always ask if she could do something to help.

Melissa loved to camp in the Adirondacks with her family and had just recently returned from a trip there. Her greatest joy was becoming a grandmother last year. She was an avid gardener and routinely brought in vegetables or grapes from her vines to share with her coworkers. To say that she will be missed is an understatement. To the Chili team and so many customers who loved her, she was family, and the loss will remain with us for a long time.

The Arthur S. Hamlin Award for Excellence

Congratulations to this year's recipient, Samantha Johnson.

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.

"As a child, I remember being asked what I wanted to be when I grew up. While the answer changed over time—a detective like Nancy Drew, a teacher, a psychologist—'banker' never made the list. However, in 2000, a CNB employee suggested I come work for the bank while I figured out what I was going to do for my career. 21 years later, I'm still here—and both humbled and proud to accept the Arthur S. Hamlin Award. This award honors a real person and the traits he embodied, once again showing that people are what matter most at CNB. Our people attract both the staff and the clients that continue to make this a company that I love working for."

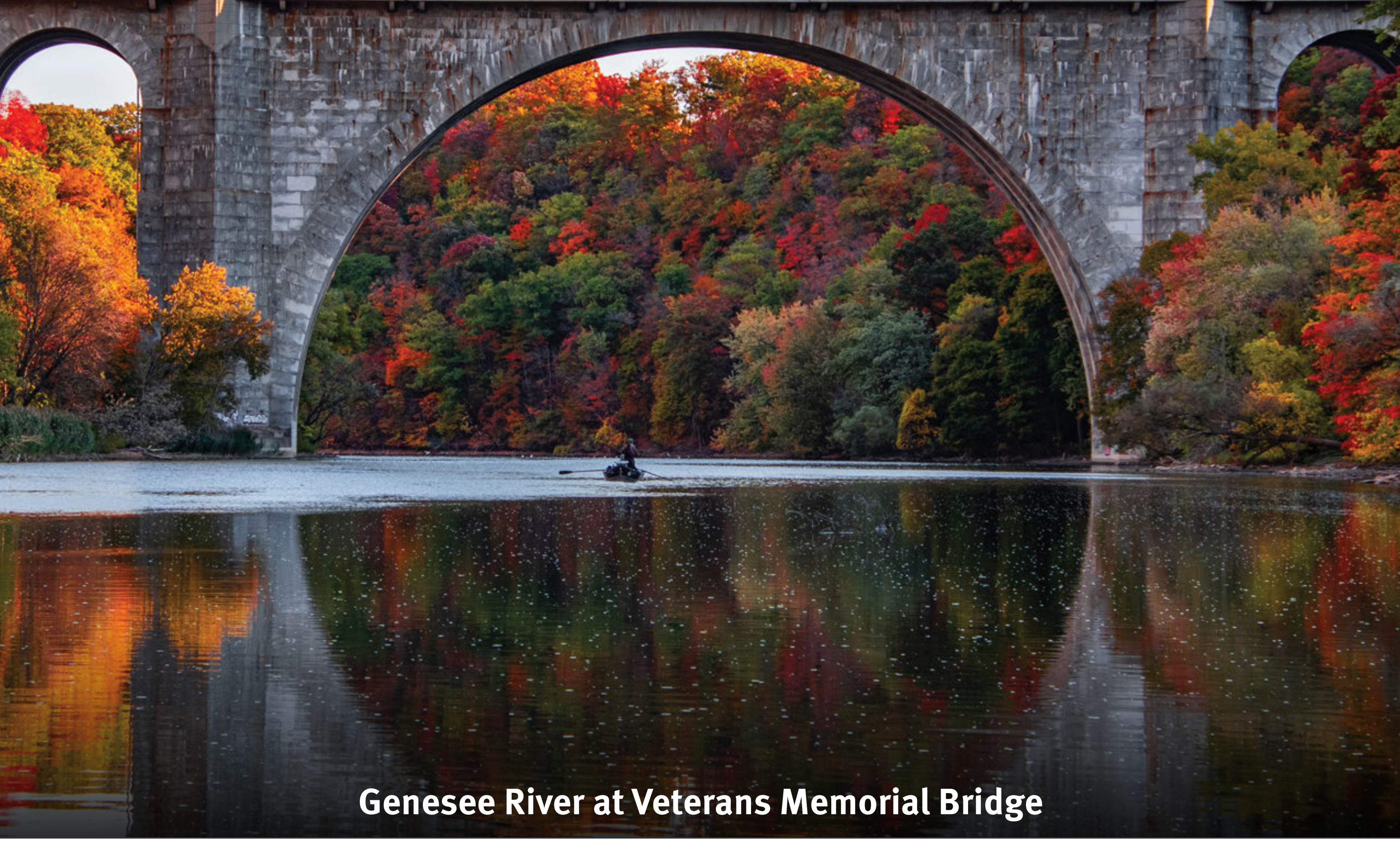
—*Samantha A. Johnson, 2019 Arthur S. Hamlin Award Recipient*

2020 NOMINEES

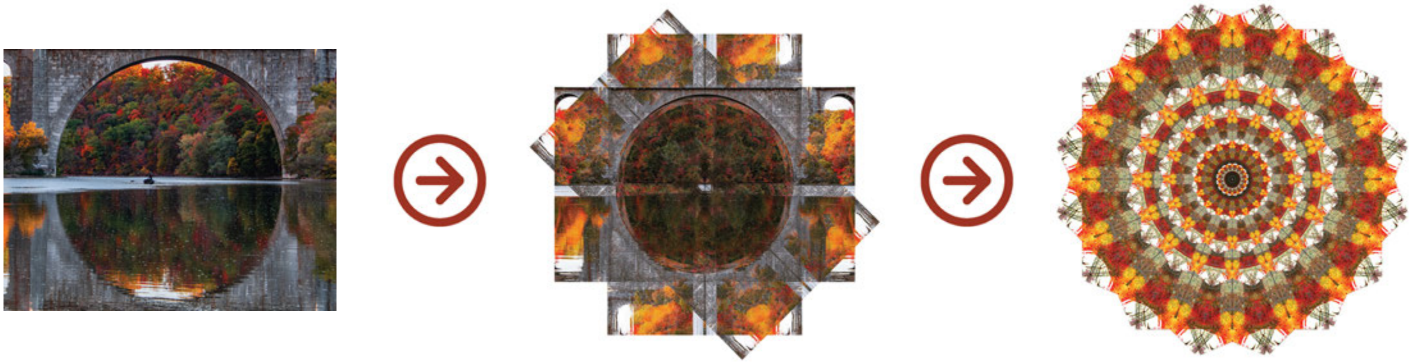
Heather Ambrose
Samantha DeWeese
Amy Ertel
Amy Flaitz
Jeffrey Holman
Josh Maxwell
Todd Mihaly
Brian Nolan
Sue Wedgwood
Jason Wemes
Jessica Young-Carbonel

PAST RECIPIENTS

Diana Wright 2018
Dana Mayeu 2017
Shannon Nemitz 2016
Gehrig Lohrmann 2015
Rebecca Long 2014
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
M. 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



Genesee River at Veterans Memorial Bridge



The kaleidoscope image on the cover was created to represent 2020's ever-changing environment and reflects CNC's ability to adapt, adjust, and respond. Even in the midst of constant change, we remain focused on the needs of our customers and community.

About the Photographer

Bergen resident Karen Millspaugh is relatively new to photography, which she took up in anticipation of a trip to the Galápagos Islands. Today she continues to photograph wildlife and other elements of nature, often accompanied by her rescue dog, Sasha.

FLN CNB-19594/02-21

Canandaigua
National
Corporation