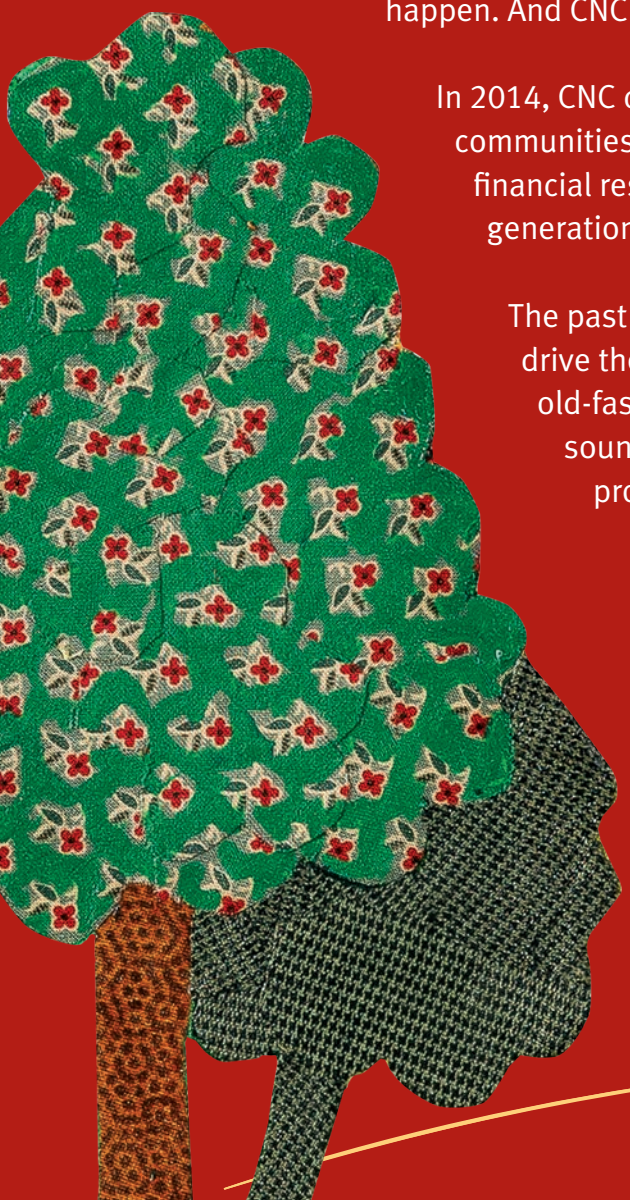

Helping to make our community
greater than the sum of its parts.

"We play a crucial role in the development of the communities we serve—and are dedicated to doing so purposefully and honorably."

— Frank H. Hamlin, III, President and CEO

Dedicated to carefully cultivating the communities we serve.

Our region is a colorful canvas of smart, skilled, and talented individuals—and productive, successful, and innovative businesses. On their own, they're capable of great things. But it's when they work together that truly amazing things happen. And CNC helps complete the picture.



In 2014, CNC continued to play a key role in developing its communities—bringing individuals and businesses together with the financial resources they need to reach their goals and fuel the next generation of growth and vitality.

The past year also proved that—while technology continues to drive the evolution of banking in the information age—good, old-fashioned intermediation of deposits into loans, through sound underwriting standards, still produces predictable profits and benefits everyone.

Looking forward, shareholders can expect a solid dividend, steady returns, and effective management. Through our distinctive bank offices and innovative technologies, we'll further enhance the customer experience. And our colleagues will give back to the communities they serve, as they always have. Overall, it paints a vibrant image of the future.

MF CNB-13161/02-15

February 12, 2015

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

Dear Shareholders:

On a number of different fronts, 2014 was another challenging and exciting year. First, however, I will report our financial results for the year. We saw diluted earnings per share totaling $10.84. This was over our budget of $10.27, and nearly 7.5% over last year's earnings of $10.09 per share. Total deposits increased to $1,728 million. Total loans increased to $1,720 million, representing an 11.3% growth rate over 2013. Our net interest income increased 6.3% over 2013 to $69.9 million. Despite a challenging interest rate environment for lenders, our net interest margin remained steady year-over-year at 3.79%. It is believed that we could have some interest rate movement as soon as mid-2015, which will have the effect of increasing our margin and thus our profitability. Our budgeting process has contemplated both rates moving and staying stagnant so as to remain flexible in our planning processes. We are not reaching out long term for yield on our investments and are focusing on maintaining loan assets on our books with as short a term or re-pricing duration as possible. We continue to see intense competition for lending opportunities. However, we also see that the quality of our lenders, as well as credit risk management, continues to distinguish us and allows us to attract high-quality customers who appreciate what we can provide for them. Unlike most of our competitors, we have seen unexpected growth in our loan portfolios (7.8% over budget), all the while managing margin and keeping overall portfolio duration short. Net income increased 6.6% to $20.7 million.

This unusual interest rate environment continues to demonstrate the importance of our strategies to increase non-interest-income-related business lines. Non-interest income increased 3.1% to $37.5 million and represents approximately one-third of our revenues. This component is primarily composed of deposit servicing fees, asset management fees, investment advisory service fees, and proceeds from the sale of mortgages to the secondary market, as well as loan servicing fees. This is in stark contrast to our peers who on average earn only around 15% of their income from non-interest income sources. Thus, we are well-poised to weather this interest rate environment juxtaposed to the plight of our industry peers. This is especially true in light of the enhanced costs associated with the excessive amount of new regulations that are being thrust upon our industry.

Qualified Mortgage and Ability to Repay

Last year, the Qualified Mortgage (QM) rules came into effect and markedly restricted credit within the residential mortgage market. This hardly came as a surprise seeing that as a country we relied on a political entity (Congress) to formulate an educated solution to a complex problem. Markedly fewer sound borrowers were able to qualify for secondary market programs. Ben Bernanke, Former Chair of the Federal Reserve, was denied financing pursuant to QM standards due to his inability to demonstrate three years of employment with his new employer immediately after he stepped away from the Fed.

Normally we strive to retain on our balance sheet approximately one-third of the residential mortgages that we originate. To manage interest rate risk and balance sheet liquidity, the remaining two-thirds are typically sold to secondary market, government-sponsored entities. In 2014, in an effort to provide credit to those borrowers who satisfied our underwriting standards (we have never changed our strict underwriting standards), we ended up retaining more loans on our books than originally contemplated and eventually had to slow such production in order to stay in check with our Capital Plan, pursuant to the new BASEL III restrictions.

It was contemplated by some that the QM standards would destroy community bank residential portfolio lending. As you can see, the opposite has come to pass. We were able to capture even more high-quality borrowers at improved

margins and shorter durations, thus allowing us to better manage our assets and liabilities for when interest rates finally do start moving again. On the flip side of the coin, our customers have been able to continue to purchase homes for their families in a financially responsible manner.

Fraud

In this digital age, we constantly seek new ways to protect our customers with respect to the explosion of fraud occurring in the retail realm. Throughout the last several years, we have seen a large increase in data breaches where personal financial information has been compromised. It should be duly noted that the bank's systems have not been breached. It has consistently been the retailers' systems that are compromised. Pursuant to the MasterCard payment system rules, however, the bank retains liability to make the consumer whole in such cases of debit card fraud, thus retailers such as Target, Michael's, Kmart, and the like face no liability for the grossly negligent security surrounding their customer information systems. In fact, these retailers have benefited from their negligence as they have been able to sell more products and made greater profits through the very fraudulent transactions made possible by the personal financial information pilfered from their systems.

Big-box retailer negligence combined with a sea change in how stolen personal financial information is traded culminated in CNC changing strategies regarding retail debit card breaches. Previously, when we were made aware of a third-party information breach, and there was no confirmed fraud on the card information that had potentially been stolen, we would wait for an instance of fraud occurring on our customer's account before turning off that card and re-issuing it under a different number. This was done with the understanding that it is inconvenient to the customer to re-establish automatic payments to a customer's vendors when a card is replaced.

Now, stolen personal information obtained through these breaches are sold via black-market Internet exchanges to multiple fraudsters at the same time. Thus, the same information finds itself in the possession of multiple criminals' hands—almost guaranteeing the information will be used fraudulently. When we get notice of an information breach, we now identify which of our customers' cards may have been compromised by looking at information such as dates, locations, and the extent of the breach, and we replace all those cards potentially affected, regardless of whether we have seen unusual transactions occurring on an individual customer's account. It is no longer a matter of if fraud will occur in those instances; it is a matter of when! We have found that our customers would much rather have their cards re-issued than deal with the hassle and anxiety of seeking reimbursement after fraud has occurred on their accounts.

Teamwork

The above-mentioned debit card breach policy was changed in the first quarter of 2014 when we sustained an enormous amount of fraud losses due to the breach of the retailer Target. Upon identification of the source of losses, we immediately changed our policies and adjusted our security protocols—and the losses precipitously dropped off. These losses seriously threatened our ability to finish the year on budget.

We issued an "All Hands" request to our employees, asking for any ideas to increase revenue or expense savings. Our people responded with many great ideas from all over the organization. Those ideas were then distilled and prioritized based upon greatest potential effect without affecting our customer experience (the "Green List") and then executed upon. Please keep in mind that many of these initiatives, especially the achieved efficiencies, will continue to benefit CNC into the future. In addition to executing upon our Green List, we contemporaneously completed our originally planned strategic projects (with the exception of opening the College Town location, which resulted from the developer's construction delays). ***Finishing the year better than budget, as we have, speaks to the effectiveness, creativity, and agility of the people who make this organization thrive!***

Strategic Thinking

In 2014, we modified our strategic planning process by bringing in a new planning session facilitator. Old ideas were challenged and new ideas were discussed, resulting in many good questions to be studied and answered. Our planning documents have also been modified in that they have been significantly reduced in volume. In addition, a two-sided, tri-fold strategic pamphlet has been created in order to reduce our strategic thinking to an easily understood master document. This can be referenced at any time to identify whether a given initiative is in line with the overall intended direction of our organization.

Many of the ideas discussed in the planning session have been reduced to a short "mid-term" planning document for further study and report in order to identify feasibility and value, which then will be passed on to our Steering Committee for appropriate project prioritization and execution. This, of course, ties directly into our near-term budgeting process. This modified process creates a cleaner understanding of where we are going as a team.

Government Relations

Our relationship and interactions with our primary regulators are healthy. I am, however, extremely suspicious of the arbitrary and capricious manner in which various agencies (prosecutors) are abusing the legal system in order to further their own political and economic interests. In the recent past, we have witnessed two local community banks charged with violations of consumer protection regulations. The regulations are vague in explaining what conduct is actually prohibited. The media, of course, does the people no service by merely assuming these prosecutions are based in sound legal theory and fact.

One of the above-mentioned community banks has chosen to merely fold while the other has chosen to fight. I can understand the decision to fold. The potential sanctions are severe on both corporate and personal fronts. One must decide to put the livelihood of their employees and potentially their own personal liberty on the line or merely cry "Uncle" and give the "People" its pound of flesh and go on with life. Those who choose to fight are forced to depend on a legal system that has mutated its focus from time-honored legal principle and justice to efficiency and political expediency. I can assure you, there is no such thing as "efficient justice."

I ask you, the reader, to be extremely suspicious of any settlement of a government prosecution. The reason that 98% of prosecutions are settled instead of taken to trial is not the result of defendants saying "aw shucks, you caught me." It has to do with a fundamental and reasonable lack of faith that our legal system is working properly.

Looking Forward

This year, we are looking to open our College Town location. This is very exciting as College Town has a different layout than our traditional branches and will be outfitted with enhanced technologies. The customer demographic will be diverse and thus it is a perfect testing ground to understand how these technologies will be engaged by a wide range of consumers. This will enhance our understanding of how to augment the experience delivered to our customers through these technologies as we potentially expand to other locations.

We continue to build and enhance the capabilities of our data warehouse. This initiative is focused on aggregating the data from the various programs used in our day-to-day business in order to better understand our customers. Our information technology group has demonstrated amazing creativity and ingenuity throughout this project. We have a treasure trove of talent within this organization. It is very exciting to tap into this pool and watch what happens!

We expect to expand our insurance offerings through a portal on our website. We currently offer term life insurance through our online experience. Soon we will offer property and casualty for auto and home insurance through our Web channel. Our research has demonstrated that home and auto insurance, in particular, has experienced a sea change in commoditization. Organizations such as GEICO and Progressive have created online-based systems with which the typical

insurance agent just cannot compete. Through the contemplated online system, we will be able to provide our customers with competitive premiums in a channel where we are already having thousands of contacts with our customers throughout the year.

Our trust and investments groups saw healthy growth this year (8.2% over 2013). Through a collaboration between the Wealth Strategies Group, Genesee Valley Trust, and Canandaigua National Trust Company of Florida, we have completed intensive due diligence in selecting an upgraded computer system for the trust and investments functions for rollout later in 2016. We expect this conversion to greatly enhance our online customer experience. In addition, this conversion will enhance the quality of the paper statements generated for our customers. This overhaul has been long overdue, and we are very excited for the end result!

As fallout from the Dodd-Frank Act continues, the New Year brings new regulatory capital compliance rules for community banks. Over the next four years, the level of capital required to be held by banks will increase by 33% on a relative basis. The impact, of course, is the required de-leveraging of community banks' balance sheets, which necessarily means less lending for the same dollar of available deposits, and an outcome contrary to the needs of Main Street. I am comfortable to report to you that CNB is currently in compliance with these new standards, and expects to continue to meet them during the rollout phase. However, I am disappointed that the regulations will reduce access to credit from sound financial institutions.

Board Developments

For those of you who may not be aware, earlier this year we lost our Board member and friend, Richard Miller Jr. I often relied on his experience and straightforward manner and will sincerely miss the opportunity to discuss issues with him. His service to our country, community, and this company serves as an example for all of us to follow.

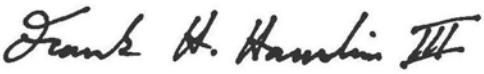
In Mr. Miller's place, Mr. Lawrence Heilbronner, Executive Vice President and CFO, has agreed to serve as a member of the Board of Directors. Mr. Heilbronner's values, intellect, and financial savvy will perfectly complement the diversity of experience already present on the Board. Welcome Mr. Heilbronner, and thank you for taking the post.

Conclusion

In all, 2014 was a year of unexpected growth. The overall global and national economies are in flux, and it is anyone's guess how the economy really works on a macroscopic level. Nonetheless, old-fashion intermediation of deposits into loans through sound underwriting standards is still predictable and profitable. We play a crucial role in the development of the communities we serve and are dedicated to do so purposefully and honorably.

I have the pleasure of working every day with extremely creative, intelligent, and hardworking people. I thank these people for that opportunity.

Yours,



Frank H. Hamlin, III

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2014 Annual Report

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Annual Meeting

The Annual Meeting of Shareholders of Canandaigua National Corporation (the Company) will be held at the Main Office of The Canandaigua National Bank and Trust Company, 72 South Main Street, Canandaigua, NY, 14424; Wednesday, April 15, 2015, at 1:00 p.m.

Presented below is a summary of selected financial highlights to help you see a snapshot of our performance for the past five years. Balance sheet information is as of the year end, while income statement and average balance information is for the full-year period. (All share and per-share information has been adjusted to reflect the 4-for-1 stock split in 2011). 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)

	2014	% Change	2013	2012	2011	2010
Income Statement Information:						
Net interest income	$ 69,861	6.3 %	65,699	65,603	61,473	61,141
Provision for loan losses	$ 4,590	47.8 %	3,105	4,300	3,775	6,150
Non-interest income	$ 37,522	3.1 %	36,403	34,708	28,808	26,721
Operating expenses	$ 71,703	2.2 %	70,178	68,960	64,403	57,851
Income taxes	$ 10,466	6.9 %	9,791	8,434	6,178	6,205
Net income attributable to CNC	$ 20,712	6.6 %	19,422	18,837	16,312	17,656
Balance Sheet Data - Period End:						
Investments[1]	$ 285,300	(4.1)%	297,438	281,357	284,139	272,336
Loans, net	$ 1,720,154	11.3 %	1,545,603	1,441,455	1,276,426	1,189,221
Assets	$ 2,117,469	7.9 %	1,963,014	1,887,028	1,760,764	1,661,504
Deposits	$ 1,728,522	0.3 %	1,722,857	1,662,863	1,546,610	1,473,330
Borrowings[2]	$ 196,072	225.1 %	60,307	55,843	58,383	51,877
Equity	$ 170,327	8.7 %	156,718	144,363	135,238	123,794
Balance Sheet Data - Average:						
Investments[1]	$ 288,727	1.3 %	285,050	276,661	273,526	272,645
Loans, net	$ 1,653,108	12.5 %	1,469,954	1,383,345	1,194,213	1,176,160
Assets	$ 2,052,207	7.5 %	1,909,768	1,822,867	1,695,327	1,627,113
Deposits	$ 1,736,310	3.2 %	1,682,229	1,605,336	1,503,083	1,440,191
Borrowings[2]	$ 130,386	133.8 %	55,769	52,878	51,575	57,256
Equity	$ 160,564	6.7 %	150,486	138,171	128,393	116,696
Asset Under Administration:[3]						
Book value (cost basis)	$ 2,144,170	6.7 %	2,009,225	1,879,397	1,726,172	1,658,111
Market value	$ 2,557,250	5.0 %	2,436,334	2,115,346	1,858,130	1,830,549
Per Share Data:						
Net income, basic	$ 11.01	7.3 %	10.26	9.98	8.64	9.35
Net income, diluted	$ 10.84	7.4 %	10.09	9.76	8.48	9.20
Cash dividends[4]	$ 3.51	108.9 %	1.68	4.74	2.87	2.72
Book Value	$ 89.91	9.1 %	82.43	74.64	70.41	65.54
Closing stock price[5]	$ 148.95	(1.0)%	150.41	141.03	129.22	95.85
Weighted average share - diluted	$ 1,910,895	(0.8)%	1,925,486	1,929,360	1,923,777	1,919,192
Other ratios:						
Return on average assets	1.01 %	(1.0)%	1.02 %	1.03 %	0.96 %	1.09 %
Return on average equity	12.90 %	(0.1)%	12.91 %	13.63 %	12.70 %	15.13 %
Return on beginning equity	13.22 %	(1.7)%	13.45 %	13.93 %	13.18 %	15.80 %
Dividend payout[4]	32.38 %	94.5 %	16.65 %	48.57 %	33.84 %	29.48 %
Average equity to average assets	7.82 %	(0.8)%	7.88 %	7.58 %	7.57 %	7.17 %
Net interest margin	3.79 %	- %	3.79 %	4.02 %	4.05 %	4.26 %
Efficiency[6]	65.75 %	(2.6)%	67.52 %	67.25 %	70.02 %	64.71 %
Employees (year end)						
Total	544	3.4 %	526	537	519	481
FTE's	491	2.7 %	478	480	459	407

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

Our Common Stock

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

While the Company's stock is not actively traded, from time to time, shareholders sell shares to interested persons in sealed-bid public auctions administered by the Bank's Trust Department at the request of selling shareholders. Our stock is not listed with a national securities exchange. Due to the limited number of transactions, the quarterly high, low and weighted average sale prices may not be indicative of the actual market value of the Company's stock. The following table sets forth a summary of transactions by selling shareholders and bidders in the Company's common stock during each period for transactions that were administered by the Bank's Trust Department. Also included are the book value at quarter end, and semi-annual dividends paid per share since the first quarter of 2010. (All share and per-share information has been adjusted to reflect the 4-for-1 stock split in 2011). The $1.63 per share dividend paid in December 2012 was accelerated from the semi-annual dividend payment that would have been paid in February 2013.

	# Shares Sold	Quarterly Average Sales Price	Quarterly High Sales Price	Quarterly Low Sales Price	Book Value	Dividend Paid
2014						
4th Quarter	4,449	$ 149.27	$ 156.30	$ 147.00	$ 89.91	$ -
3rd Quarter	4,141	$ 150.05	$ 156.78	$ 146.00	$ 87.38	$ 1.83
2nd Quarter	5,051	$ 149.22	$ 163.03	$ 144.00	$ 85.60	-
1st Quarter	2,696	$ 151.76	$ 163.00	$ 148.00	$ 83.11	$ 1.68
2013						
4th Quarter	5,495	$ 148.83	$ 162.60	$ 145.00	$ 82.43	-
3rd Quarter	None	$ N/A	$ N/A	$ N/A	$ 80.45	$ 1.68
2nd Quarter	5,941	$ 144.39	$ 155.00	$ 137.50	$ 80.28	-
1st Quarter	4,909	$ 141.96	$ 175.00	$ 135.00	$ 77.55	$ -
2012						
4th Quarter	5,034	$ 145.51	$ 170.00	$ 125.00	$ 74.64	1.63
3rd Quarter	2,748	$ 148.70	$ 190.00	$ 138.00	$ 73.42	$ 1.61
2nd Quarter	10,635	$ 152.17	$ 185.00	$ 137.51	$ 72.57	-
1st Quarter	1,926	$ 147.48	$ 165.78	$ 141.93	$ 71.00	$ 1.50
2011						
4th Quarter	1,492	$ 129.22	$ 150.00	$ 123.75	$ 71.95	-
3rd Quarter	3,216	111.34	118.13	107.50	$ 69.55	$ 1.44
2nd Quarter	3,036	$ 103.87	$ 110.00	$ 102.50	$ 69.34	-
1st Quarter	2,948	$ 99.89	$ 107.21	$ 98.69	$ 66.71	$ 1.43
2010						
4th Quarter	2,528	$ 95.85	$ 102.90	$ 93.91	$ 65.54	-
3rd Quarter	3,172	91.89	100.00	90.03	$ 63.55	$ 1.43
2nd Quarter	3,200	$ 88.44	$ 92.50	$ 87.53	$ 62.99	-
1st Quarter	3,040	$ 85.37	$ 91.75	$ 83.75	$ 59.93	$ 1.29

Management Report on the Effectiveness of Internal Controls over Financial Reporting

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

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

Management is responsible for establishing and maintaining effective internal control over financial reporting including controls. Management assessed the effectiveness of the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C), as of December 31, 2014, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control--Integrated Framework (1992). Based on that assessment, management concluded that, as of December 31, 2014, the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies , is effective based on the criteria established in Internal Control--Integrated Framework (1992). The following subsidiary institutions of the Company that are subject to Part 363 are included in this assessment of the effectiveness of internal control over financial reporting: Canandaigua National Bank and Trust Company.

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C), as of December 31, 2014, has been examined by KPMG LLP, an independent public accounting firm, as stated in their report dated February 20, 2015.

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

Management assessed compliance with the aforementioned designated safety and soundness laws and regulations. Based on this assessment, management believes that the Company complied, in all material respects, with such designated laws and regulations relating to safety and soundness during the year ended December 31, 2014.

February 20, 2015

Frank H. Hamlin, III
President and Chief Executive Officer

Lawrence A. Heilbronner
Executive Vice President and Chief Financial Officer

Independent Auditors' Report

The Board of Directors and Stockholders
Canandaigua National Corporation:

We have examined management's assertion, included in the accompanying *Management's Assessment of Internal Control Over Financial Reporting*, that Canandaigua National Corporation and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Assessment of Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on management's assertion based on our examination.

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

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

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

In our opinion, management's assertion that the Company maintained effective internal control over financial reporting as of December 31, 2014 is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of the Company and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and our report dated February 20, 2015 expressed an unmodified opinion on those consolidated financial statements.

KPMG LLP

Rochester, New York
February 20, 2015

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 (the Company), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, 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 U.S. generally accepted accounting principles; 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.

Auditors' 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 auditors' 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 its subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

We also have examined in accordance with attestation standards established by the American Institute of Certified Public Accountants, the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 20, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Rochester, New York
February 20, 2015

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013
(dollars in thousands, except per share data)

		2014	2013
Assets			
Cash and due from banks	$	43,732	36,547
Interest-bearing deposits with other financial institutions of which $3,460 and $1,490 respectively, is restricted		4,277	3,200
Federal funds sold		109	12,128
Securities:			
- Available for sale, at fair value		94,671	114,353
- Held-to-maturity (fair value of $182,464 and $181,829, respectively)		181,559	179,803
Loans - net		1,720,154	1,545,603
Premises and equipment – net		14,000	14,967
Accrued interest receivable		6,557	7,234
Federal Home Loan Bank stock and Federal Reserve Bank stock		9,070	3,282
Goodwill		15,570	15,570
Intangible assets – net		3,897	4,992
Other assets		23,873	25,335
Total Assets	$	2,117,469	1,963,014
Liabilities and Stockholders' Equity			
Deposits:			
Demand			
Non-interest bearing	$	376,357	334,769
Interest bearing		203,761	187,137
Savings and money market		848,162	859,987
Time		300,242	340,964
Total deposits		1,728,522	1,722,857
Borrowings		144,525	8,760
Junior subordinated debentures		51,547	51,547
Accrued interest payable and other liabilities		22,548	23,132
Total Liabilities		1,947,142	1,806,296
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		10,394	10,160
Retained earnings		159,572	145,593
Treasury stock, at cost (70,223 shares and 66,191 shares, respectively)		(9,053)	(8,121)
Accumulated other comprehensive income, net		(1,955)	(2,378)
Total Canandaigua National Corporation Stockholders' Equity		168,690	154,986
Non-controlling interests		1,637	1,732
Total Stockholders' Equity		170,327	156,718
Total Liabilities and Stockholders' Equity	$	2,117,469	1,963,014

See accompanying notes to consolidated financial statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2014 and 2013
(dollars in thousands, except per share data)

		2014	2013
Interest income:			
Loans, including fees	$	70,340	66,304
Securities		5,574	5,981
Federal funds sold		14	138
Other		2	4
Total interest income		75,930	72,427
Interest expense:			
Deposits		3,483	4,330
Borrowings		267	65
Junior subordinated debentures		2,319	2,333
Total interest expense		6,069	6,728
Net interest income		69,861	65,699
Provision for loan losses		4,590	3,105
Net interest income after provision for loan losses		65,271	62,594
Non-interest income:			
Service charges on deposit accounts		12,962	12,545
Trust and investment services		16,451	15,210
Brokerage and investment subadvisory services		2,758	1,926
Net gain on sale of mortgage loans		1,406	3,315
Loan servicing, net		953	925
Loan-related fees		375	439
Gain (Loss) on securities transactions, net		557	(97)
Other non-interest income		2,060	2,140
Total non-interest income		37,522	36,403
Operating expenses:			
Salaries and employee benefits		39,102	38,123
Occupancy, net		7,932	7,798
Technology and data processing		6,234	5,758
Professional and other services		3,880	4,117
Marketing and public relations		2,352	3,047
Office supplies, printing and postage		1,670	1,561
Intangible amortization		1,095	1,241
Other real estate operations		641	852
FDIC insurance		1,314	1,163
Other operating expenses		7,483	6,518
Total operating expenses		71,703	70,178
Income before income taxes		31,090	28,819
Income taxes		10,466	9,791
Net income attributable to noncontrolling interests and Canandaigua National Corporation		20,624	19,028
Net income (loss) attributable to noncontrolling interests		(88)	(394)
Net income attributable to Canandaigua National Corporation	$	20,712	19,422
Basic earnings per share	$	11.01	10.26
Diluted earnings per share	$	10.84	10.09

See accompanying notes to consolidated financial statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
[WITH RESPECTIVE TAX INFORMATION PRESENTED PARENTHETICALLY]
Years ended December 31, 2014 and 2013
(dollars in thousands)

		2014	2013
Net income attributable to noncontrolling interest and Canandaigua National Corporation	$	20,624	19,028
Other comprehensive income:			
Change in fair value of interest rate swaps, net of taxes of ($861) and $1,987 respectively		(1,290)	2,936
Change in unrealized gain on on securities available for sale, net of taxes of $1,112 and ($1,469) respectively		2,065	(2,467)
Plus reclassification adjustment for realized gains and losses included in "gain (loss) on securities transactions, net" net of taxes of ($190) and $52 respectively		(352)	90
Other comprehensive income	$	423	559
Total comprehensive income		21,047	19,587
Comprehensive income attributable to the noncontrolling interest	$	(88)	(394)
Comprehensive income attributable to the Company	$	21,135	19,981

See accompanying notes to consolidated financial statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2014 and 2013
(dollars in thousands, except share data)

	Number of Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total
Balance at December 31, 2012	1,905,503	$ 9,732	9,974	129,502	(4,046)	(2,937)	2,138	144,363
Comprehensive income:								
Change in fair value of interest rate swaps, net of taxes of $1,987		-	-	-	-	2,936	-	2,936
Change in unrealized gain on on securities available for sale, net of taxes of ($1,469)		-	-	-	-	(2,467)	-	(2,467)
Plus reclassification adjustment for realized gains included in net income on called securities, net of taxes of $52		-	-	-	-	90	-	90
Net income (loss) attributable to non-controlling interest and Canandaigua National Corporation		-	-	19,422	-	-	(394)	19,028
Total comprehensive income		-	-	19,422	-	559	(394)	19,587
Purchase of treasury stock	(28,931)	-	-	-	(4,368)	-	-	(4,368)
Shares issued as compensation	484	-	31	-	39	-	-	70
Exercise of stock options ($155 tax benefit)	3,249	-	155	(155)	254	-	-	254
Cash dividend - $1.68 per share	-	-	-	(3,176)	-	-	-	(3,176)
Dividend to non-controlling interests		-	-	-	-	-	(12)	(12)
Balance at December 31, 2013	1,880,305	$ 9,732	10,160	145,593	(8,121)	(2,378)	1,732	156,718
Comprehensive income:								
Change in fair value of interest rate swaps, net of taxes of ($861)		-	-	-	-	(1,290)	-	(1,290)
Change in unrealized gain on on securities available for sale, net of taxes of $1,112		-	-	-	-	2,065	-	2,065
Plus reclassification adjustment for realized gains included in net income on called securities, net of taxes of ($190)		-	-	-	-	(352)	-	(352)
Net income (loss) attributable to non-controlling interest and Canandaigua National Corporation		-	-	20,712	-	-	(88)	20,624
Total comprehensive income		-	-	20,712	-	423	(88)	21,047
Purchase of treasury stock	(8,598)	-	-	-	(1,286)	-	-	(1,286)
Shares issued as compensation	1,138	-	82	-	88	-	-	170
Exercise of stock options ($152 tax benefit)	3,428	-	152	(130)	266	-	-	288
Cash dividend - $3.51 per share		-	-	(6,603)	-	-	-	(6,603)
Dividend to non-controlling interests		-	-	-	-	-	(7)	(7)
Balance at December 31, 2014	1,876,273	$ 9,732	10,394	159,572	(9,053)	(1,955)	1,637	170,327

See accompanying notes to consolidated financial statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2014 and 2013
(dollars in thousands)

		2014	2013
Cash flow from operating activities:			
Net income attributable to Canandaigua National Corporation	$	20,712	19,422
Adjustments to reconcile net income to			
Net cash provided by operating activities:			
Depreciation, amortization and accretion		6,592	7,000
Provision for loan losses		4,590	3,105
Gain on sale of fixed and other assets and other real estate, net		(89)	(270)
Writedown of other real estate		396	420
Deferred income tax benefit		(236)	(1,116)
Income from equity-method investments, net		(194)	(129)
(Gain) loss on security transactions, net		(557)	97
Gain on sale of mortgage loans, net		(1,406)	(3,315)
Originations of loans held for sale		(118,000)	(195,640)
Proceeds from sale of loans held for sale		116,343	216,178
Change in other assets		506	783
Change in other liabilities		(2,735)	4,433
Net cash provided by operating activities		25,922	50,968
Cash flow from investing activities:			
Securities available-for-sale:			
Proceeds from sales, maturities and calls		109,527	54,184
Purchases		(86,644)	(69,680)
Securities held to maturity:			
Proceeds from maturities and calls		54,570	36,664
Purchases		(58,166)	(42,490)
Loan originations in excess of principal collections, net		(177,869)	(126,479)
Purchase of premises and equipment, net		(1,295)	(2,224)
Purchases of FHLB and FRB stock, net of calls		(5,788)	(549)
Other investments, net		290	730
Proceeds from sale of other real estate		1,797	3,161
Net cash used by investing activities		(163,578)	(146,683)
Cash flow from financing activities:			
Net increase in demand, savings and money market deposits		46,387	89,046
Net decrease in time deposits		(40,722)	(29,389)
Overnight and short-term borrowings, net		135,800	8,100
Principal repayments of term borrowings		(42)	(3,700)
Proceeds from sale of treasury stock		170	70
Payments to acquire treasury stock		(1,286)	(4,368)
Proceeds from issuance of treasury stock under stock option plan		138	99
Tax benefit from stock option exercise		152	155
Change in noncontrolling interest, net		(95)	(406)
Dividends paid		(6,603)	(3,176)
Net cash provided by financing activities		133,899	56,431
Net decrease in cash and cash equivalents		(3,757)	(39,284)
Cash and cash equivalents - beginning of period		51,875	91,159
Cash and cash equivalents - end of period	$	48,118	51,875
Supplemental disclosure of cash flow information:			
Interest paid	$	6,074	6,771
Income taxes paid		12,695	8,744
Supplemental schedule of noncash investing activities			
Real estate acquired in settlement of loans	$	1,791	2,003

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

Business

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

Basis of Presentation

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

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

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

The Company has evaluated subsequent events through February 20, 2015, the date the financial statements were made available to be issued.

Cash Equivalents

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

Securities

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

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

Management evaluates 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 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 costs. Interest and deferred fees and costs on loans are credited to income based on the effective interest method. Loans held for sale are carried at the lower of cost or fair value.

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

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

Allowance for Loan Losses

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

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

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

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

Troubled Debt Restructurings

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

Premises and Equipment

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

Other Real Estate

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

Loan Servicing Assets

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

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

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

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

Goodwill and Intangible Assets

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

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

Stock-Based Compensation

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

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

Income Taxes

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

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

Derivative Financial Instruments

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

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

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

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

Accumulated Other Comprehensive Income

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

Treasury Stock

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

Trust and Investment Services Income and Brokerage and Investment Subadvisory Income

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

Earnings Per Share

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

New Accounting Standards

There were no Accounting Standards Updates (ASU) implemented during 2014.

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

(2) Acquisitions

Over time, the Company has made several acquisitions. A summary follows:

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

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

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

On November 30, 2011, the Company acquired a majority interest in WBI OBS Financial, LLC (WBI), a company formed to concurrently acquire OBS Holdings, Inc. (OBS). OBS, an Ohio-based company, provides brokerage and investment sub-advisory services to the Bank and several other financial institutions, primarily community banks and credit unions. Under the terms of WBI's acquisition of OBS, it will pay the seller a total of $7 million, consisting of a $2.5 million payment in May 2012, a $3.5 million payment in November 2013, and $1 million cumulative quarterly non-maturity payments contingent upon net revenue improvements at OBS. Under the terms of the Company's purchase of WBI, in exchange for a 65% ownership interest, the Company paid WBI a total of $2.5 million in 2011 and 2012, and the company funded the $2.5 million payment due May 31, 2012 for a total of $5.0 million. Future obligations of WBI are shared pro-rata with other WBI investors. WBI investors have agreed to allocate up to 15% of the ownership structure of OBS to certain employees of OBS, subject to conditions. The acquisition resulted in the recording of certain intangible assets (customer list: $2.3 million and technology: $0.9 million), related deferred tax liabilities of $1.3 million, and goodwill of $6.8 million. In addition, a non-interest bearing note payable totaling $7.0 million was recorded along with a discount on the note of $0.2 million. The fair value of the non-controlling interest was estimated at $2.7 million. The customer list intangible is being amortized on an accelerated basis over twelve years and technology over five years. The note discount was amortized over three years to interest expense.

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

		2014	2013
Gross carrying amounts			
Customer list intangible from 2006	$	1,420	1,420
Customer list intangible from GVT		6,870	6,870
Trade name from GVT		100	100
Customer list intangible from investment company		665	665
Customer list intangible from OBS		2,300	2,300
Technology intangible from OBS		900	900
Total		12,255	12,255
Less accumulated amortization		(8,358)	(7,263)
Intangible asset – net	$	3,897	4,992

Amortization expense amounted to $1.1 million and $1.2 million for the years ended December 31, 2014 and 2013, respectively. Amortization expense is projected over the next five years as follows: 2015: $1.0 million; 2016: $0.9 million; 2017: $0.6 million; 2018: $0.5 million and 2019: $0.4 million.

(3) Securities

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

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

The amortized cost and fair value of debt securities by years to maturity as of December 31, 2014, 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	$	8,375	8,478	26,703	26,967
1 to 5		13,643	13,816	132,268	132,710
5 to 10		67,827	67,553	21,983	21,887
10 and over		2,547	2,636	605	900
Total	$	92,392	92,483	181,559	182,464

Amortized cost and fair value of available-for-sale and held-to-maturity securities at December 31, 2013 are summarized as follows:

		December 31, 2013			
			Gross Unrealized		
		Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale:					
U.S. Treasury		$ 500	-	-	500
U.S. government sponsored enterprise obligations		87,889	117	(3,263)	84,743
State and municipal obligations		25,153	648	(21)	25,780
Corporate obligations	(1)	1,075	18	(147)	946
Equity securities		2,292	157	(65)	2,384
Total securities Available for Sale		$ 116,909	940	(3,496)	114,353

(1)Amortized cost includes cumulative write-downs of $360,000 prior to 2010 for other-than-temporary impairment.

Securities Held to Maturity:					
U.S. government sponsored enterprise obligations		$ 7,974	1	(111)	7,864
State and municipal obligations		171,143	2,344	(375)	173,112
Corporate obligations		686	167	-	853
Total Securities Held to Maturity		$ 179,803	2,512	(486)	181,829

At December 31, 2014, and 2013, securities at amortized cost of $197.1 million and $203.2 million, respectively, were pledged to secure municipal deposits and for other purposes required or permitted by law.

No held-to-maturity securities were sold in 2014 or 2013. In 2014 proceeds from the sale of available-for-sale securities totaled $1.7 million, which generated a net gain on sale of $0.6 million. No available-for-sale securities were sold in 2013.

Interest on securities segregated between taxable interest and tax-exempt interest for the years ended December 31, 2014 and 2013, follows (in thousands):

	2014	2013
Taxable	$ 1,993	1,353
Tax-exempt	3,581	4,628
Total	$ 5,574	5,981

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

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

Substantially all of the unrealized losses on the Company's securities were caused by market interest rate changes from those in effect when the specific securities were purchased by the Company. The contractual terms of these securities do not permit the issuer to settle the securities at a price less than par value. All securities rated by an independent rating agency carry an investment grade rating. Because the Company generally does not intend to sell securities and it believes it is not likely to be required to sell the securities before recovery of their amortized cost basis, which may be, and is likely to be, maturity, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2014.

The following table presents the fair value of securities with gross unrealized losses at December 31, 2013, aggregated by category and length of time that individual securities have been in a continuous loss position (in thousands).

		Less than 12 months		Over 12 months		Total	
Securities Available for Sale:		**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. government sponsored enterprise obligations	$	69,557	2,335	15,657	928	85,214	3,263
State and municipal obligations		1,115	10	852	11	1,967	21
Corporate obligations		-	-	1,062	147	1,062	147
Equity securities		1,600	65	-	-	1,600	65
Total temporarily impaired securities	$	72,272	2,410	17,571	1,086	89,843	3,496
Securities Held to Maturity:							
U.S. government sponsored enterprise obligations	$	5,970	111	-	-	5,970	111
State and municipal obligations		28,365	263	9,052	112	37,417	375
Total temporarily impaired securities	$	34,335	374	9,052	112	43,387	486

The aggregate cost of the Company's cost-method investments totaled $13.5 million and $7.8 million at December 31, 2014 and 2013 respectively, of which $9.1 million and $3.3 million at each year end were in Federal Home Loan Bank stock and Federal Reserve Bank stock, as required by law.

(4) Loans and Allowance for Loan Losses

Loans

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

The major classifications of loans at December 31, 2014 and 2013, follow (in thousands), along with a description of their underwriting and risk characteristics:

		December 31, 2014	December 31, 2013
Commercial and industrial	$	236,541	217,810
Mortgages:			
Commercial		620,332	563,518
Residential - first lien		378,003	323,429
Residential - junior lien		109,781	102,364
Consumer:			
Automobile - indirect		352,899	322,992
Other		23,515	19,105
Other, including loans held for sale		6,953	3,890
Total loans		1,728,024	1,553,108
Plus - Net deferred loan costs		11,622	10,821
Less - Allowance for loan losses		(19,492)	(18,326)
Loans - net	$	1,720,154	1,545,603

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

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

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

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

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

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

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

Commercial loan participations serviced for others amounted to $125.7 million and $110.3 million at December 31, 2014 and 2013, respectively. Residential mortgage loans serviced for Freddie Mac, amounted to $561.6 million and $576.4 million at December 31, 2014 and 2013, respectively. None of these loans are included in the Consolidated Financial Statements or the tables within this Note.

Certain executive officers, directors and their business interests are customers of the Company. Transactions with these parties are based on substantially the same terms as similar transactions with unrelated third parties and do not carry more than normal credit risk. Borrowings by these related parties amounted to $8.4 million and $7.8 million at December 31, 2014 and 2013, respectively. During 2014, new borrowings amounted to $1.1 million (including borrowings of executive officers and directors that were outstanding at the time of their election), and repayments and other reductions were $0.5 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, 2014 and, 2013, respectively (in thousands). Notwithstanding the estimated allocations set forth in any table, the entirety of the allowance is available to absorb losses in any portfolio. Loan balances included in the "Unallocated" column represent the balance of net deferred loan costs.

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

December 31, 2013		**Commercial and industrial**	**Commercial mortgage**	**Residential mortgage - first lien**	**Residential mortgage - junior lien**	**Consumer - indirect**	**Consumer - other**	**Loans held for sale**	**Unallocated**	**Total**
Beginning Balance	$	3,261	1,837	2,642	466	6,730	940	-	1,441	17,317
Charge-offs		(317)	(505)	(506)	(219)	(1,856)	(448)	-	-	(3,851)
Recoveries		220	103	68	21	1,148	195	-	-	1,755
Provision		1	461	891	259	1,627	286	-	(420)	3,105
Ending Balance	$	3,165	1,896	3,095	527	7,649	973	-	1,021	18,326
of which:										
Amount for loans individually evaluated for impairment	$	117	753	-	-	-	-	-	-	870
Amount for loans collectively evaluated for impairment	$	3,048	1,143	3,095	527	7,649	973	-	1,021	17,456
Balance of loans individually evaluated for impairment	$	1,663	9,585	214	-	-	-	-	-	11,462
Balance of loans collectively evaluated for impairment	$	216,147	553,933	323,215	102,364	322,992	19,105	3,890	10,821	1,552,467

The ratio of the allowance to total loans approximated 1.12% at December 31, 2014 as compared to 1.18% at December 31, 2013. The year-over year decrease was principally due to improvements in several key credit quality measurements: (a) a decrease in the percentage of Internally criticized loans (loans rated 5 and 6); (b) a decrease in the percentage of non-performing loans to total loans; and (c) a decline in the total past due rate. These factors offset higher allowance requirements due to year-over-year portfolio growth and a year over year increase in the ratio of net charge-offs to average loans. Specific reserves for impaired loans of $1.0 million at December 31, 2014 were higher than the December 31, 2013 level of $0.9 million due primarily to a new impairment in 2014 totaling $0.8 million for a $2.5 million commercial real estate loan relationship.

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

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

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

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

Loans rated 4 would include credits which demonstrate any or all of the following criteria: borrower's or guarantor's financial performance shows negative trends and yet cash flow remains still adequate to repay debt; loans which continue to pay as agreed but the Bank has not received current financial statements to confirm repayment ability and to enable management to complete a timely annual review; most commercial construction loans; loan has been processed through automated underwriting and does not meet management's scoring threshold; loans to start-up companies until the borrower's have achieved stabilized operations (i.e., 1-3 years); and loans recommended for upgrade from problem loan status (5 through 8) would generally pass through this category for 6 months to a year unless there are sufficient reasons to bypass this rating and be upgraded to a 3 or higher.

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

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

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

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

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

The following tables present the loan portfolio as of December 31, 2014 and 2013 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, 2014

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

Credit Quality Indicator Analysis as of December 31, 2013

		Commercial and industrial	Commercial mortgage	Residential mortgage - first lien	Residential mortgage - junior lien	Consumer - indirect	Consumer - other	Loans held for sale	Deferred Fees and Costs	Total
1-Superior	$	16,941	-	-	-	-	352	-	-	17,293
2-Good		24,179	34,429	1,215	-	-	-	-	-	59,823
3-Satisfactory		57,098	243,098	1,541	75	-	-	-	-	301,812
4-Watch		41,792	203,491	9,050	282	-	-	-	-	254,615
5-Special Mention		5,557	13,439	-	-	-	-	-	-	18,996
6-Substandard		16,724	18,846	5,712	669	-	-	-	-	41,951
7-Doubtful		-	-	-	-	-	-	-	-	-
8-Loss		-	-	-	-	-	-	-	-	-
Subtotal	$	162,291	513,303	17,518	1,026	-	352	-	-	694,490
9 and not rated		55,519	50,215	305,911	101,338	322,992	18,753	3,890	10,821	869,439
Total	$	217,810	563,518	323,429	102,364	322,992	19,105	3,890	10,821	1,563,929

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

		December 31, 2014	December 31, 2013
Accruing loans 90 days or more delinquent	$	607	750
Nonaccruing loans		14,622	17,583
Total nonperforming loans		15,229	18,333
Other real estate owned		2,229	2,601
(less write-down of other real estate owned)		(225)	(238)
Total nonperforming assets	$	17,233	20,696

The following tables present, as of December 31, 2014 and December 31, 2013, additional details about the loan portfolio in the form of an aging analysis. Amounts exclude deferred fees and costs (in thousands).

Aging Analysis as of December 31, 2014

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

Aging Analysis as of December 31, 2013

		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	$	8,143	824	1,712	10,679	207,131	217,810	49	1,663
Commercial mortgages		605	-	9,629	10,234	553,284	563,518	44	9,585
Residential - first lien		3,355	1,155	5,756	10,266	313,163	323,429	90	5,666
Residential - junior lien		1,019	185	854	2,058	100,306	102,364	185	669
Consumer:									
Automobile - Indirect		3,788	901	364	5,053	317,939	322,992	364	-
Other		367	157	18	542	18,563	19,105	18	-
Loans held-for-sale		-	-	-	-	3,890	3,890	-	-
Total	$	17,277	3,222	18,333	38,832	1,514,276	1,553,108	750	17,583

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

		As of and for the year ended December 31, 2014	As of and for the year ended December 31, 2013
Recorded investment at period end	$	14,622	17,583
Impaired loans with specific related allowance at period end	$	1,418	2,281
Amount of specific related allowance at period end	$	1,032	870
Average investment during the period	$	16,855	15,721
Interest income recognized on a cash basis during the period	$	482	341
Interest income forgone on impaired loans	$	698	1,028

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, 2014 and 2013 , respectively. “Average Recorded Investment” is a four-quarter rolling average for the respective periods. “Interest Income Recognized” is for the respective year-to-date periods:

December 31, 2014

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

December 31, 2013

		Recorded Investment	Unpaid Principal Balance	Specific Related Allowance	Average Recorded Investment	Interest Income Recognized
With no specific allowance						
Commercial and industrial	$	1,113	1,514	-	1,349	24
Commercial mortgage		7,854	9,227	-	6,871	176
Residential mortgage - first lien		5,666	5,951	-	5,129	131
Residential mortgage - junior lien		669	784	-	478	10
Subtotal		15,302	17,476	-	13,827	341
With specific allowance						
Commercial and industrial		550	691	117	556	-
Commercial mortgage		1,731	1,834	753	1,170	-
Residential mortgage - first lien		-	-	-	168	-
Subtotal		2,281	2,525	870	1,894	-
Total	$	17,583	20,001	870	15,721	341
Summary by portfolio:						
Commercial	$	11,248	13,266	870	9,946	200
Residential		6,335	6,735	-	5,775	141
Total	$	17,583	20,001	870	15,721	341

Troubled Debt Restructurings (TDR)

As of December 31, 2014, there were two commercial relationships totaling $6.2 million that were considered TDRs due to the nature of the concessions granted to the borrowers. The balances of the underlying loans are included in non-performing loans.

One relationship totaling $2.5 million was restructured in 2014. As of December 31, 2014, $0.8 million of impairment reserves were included in the allowance for loan losses based on the current collateral and management recovery expectations for this relationship. The significant term modified was the monthly principal and interest payment amount. We agreed to forbear our rights under default provisions in the loan agreements on the condition that the borrower was not in compliance with the terms of the Forbearance Agreement.

The other commercial relationship totaling $3.8 million had no impairment reserve for the relationship in light of the value of underlying collateral and management's recovery expectations. For this relationship, we renegotiated certain terms of their loans in 2010. The significant term modified was the monthly principal and interest payment amount. We agreed to forbear our rights under default provisions in the loan agreements on the condition that the borrower made monthly payments which were significantly less than those required under the terms of the original loan agreements. The customer complied with the terms of the initial Forbearance Agreement, and has been in compliance with all subsequent Agreements, which have called for increasingly higher monthly payments.

As of December 31, 2014, there were six residential loans totaling $1.8 million that were classified as TDRs. Four of these loans totaling $1.1 million became TDRs in 2013, while the other two totaling $0.7 million became TDRs in 2014. There were no impairment reserves for the residential loans based on the underlying collateral and management recovery expectations.

(5) Premises and Equipment

A summary of premises and equipment at December 31, 2014 and 2013, follows (in thousands):

		2014	2013
Land and land improvements	$	948	948
Buildings and leasehold improvements		26,301	25,882
Furniture, fixtures and equipment		21,967	21,287
		49,216	48,117
Less accumulated depreciation and amortization		35,216	33,150
Premises and equipment - net	$	14,000	14,967

Depreciation and amortization expense amounted to $2.3 million and $2.4 million, for the years ended December 31, 2014 and 2013, respectively.

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

(6) Loan Servicing Assets

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

	2014		2013	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Balance at January 1,	$ 3,290	$ 4,545	$ 3,221	$ 3,382
Originations	416		808	
Amortization	(803)		(739)	
Balance at December 31,	$ 2,903	$ 4,272	$ 3,290	$ 4,545

Included in Loan servicing income, net, are gross servicing fees earned of $1.8 million and $1.7 million, for the years ended December 31, 2014 and 2013, respectively. Amortization expense of loan servicing assets for the next five years is estimated to be $0.8 million, $0.7 million, $0.5 million, $0.4 million, and $0.3 million.

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

The key economic assumptions used to determine the fair value of loan servicing rights at December 31, 2014 and 2013 were a discount rate of 10.00% and weighted average portfolio maturity of 19.4 years and 19.6 years at December 31, 2014 and December 31, 2013, respectively. The sensitivity of fair value to changes in certain portfolio characteristics at each year end are summarized in the table that follows (dollars in thousands). These calculated sensitivities are hypothetical, and actual changes in the fair value of loan servicing rights may differ significantly from the amounts presented herein. The effect of a variation in a particular assumption or characteristic on the fair value of the servicing rights is calculated without changing any other assumption. However, in practice, changes in one factor may result in changes in another which may magnify or counteract the sensitivities. The changes in assumptions are presumed to be instantaneous.

		2014		**2013**
Weighted-average prepayment speed		198 %		194 %
Impact on fair value of 20% adverse change	$	(281)	$	(288)
Impact on fair value of 20% positive change		337		288
Weighted-average current coupon for similar loans		3.96%		3.98%
Impact on fair value of 100 basis point adverse change	$	(787)	$	(805)
Impact on fair value of 100 basis point positive change		562		173

(7) Time Deposits

At December 31, 2014 the scheduled maturity of time deposits was as follows (in thousands):

2015	$	198,851
2016		75,514
2017		25,206
2018		671
	$	300,242

Time deposits of $100,000 or more amounted to $128.4 million at December 31, 2014, and $151.5 million at December 31, 2013. Interest expense on all time deposits of $100,000 or more was as follows: $1.0 million in 2014 and $1.3 million in 2013.

(8) Borrowings

Borrowings at December 31, 2014 included $23.9 million of overnight borrowings (interest rates of 0.32% per annum), and two $60 million term borrowings, with expiration dates of February 23, 2015 (0.43% per annum) and September 23, 2015 (0.52% per annum), from the Federal Home Loan Bank of New York, and, net of discount, a $0.6 million non-interest bearing contingent payment with no stated maturity for the acquisition of OBS.

The highest amount of total borrowings at any month end in 2014 was $143.9 million, the daily average amount outstanding for the year was $78.2 million, and the weighted average interest rate was 0.3%.

Borrowings at December 31, 2013 included $8.1 million of overnight borrowings from the Federal Home Loan Bank of New York (interest rate of 0.4% per annum), and, net of discount, a $0.7 million non-interest bearing contingent payment with no stated maturity for the acquisition of OBS.

The highest amount of overnight borrowings at any month end in 2013 was $8.1 million, the daily average amount outstanding for the year was $0.2 million, and the weighted average interest rate was 0.4%.

The following table presents information about the Company's available lines of credit and related loan collateral at December 31, 2014 (in thousands). Amounts utilized include borrowings, and undrawn letters of credit in the Company's favor of $2.1 million.

	Amount Utilized	Unused	Collateralized by	Carrying Value of Collateral
Federal Home Loan Bank of New York	$ 146,048	$ 206,175	Residential mortgages	$ 217,416
			Commercial mortgages	$ 134,808
			FHLB stock	$ 7,897
Federal Reserve Bank of New York	$ -	$ 477,692	Indirect automobile loans	$ 253,810
			Commercial loans and mortgages	$ 223,882

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

(9) Junior Subordinated Debentures and Interest Rate Swap Agreements

In September 2007, the Company issued $20.6 million of unsecured, 30-year junior subordinated deferrable interest debentures (T3) through a wholly-owned business trust. The debentures carried a fixed interest rate of 6.32% per annum for the initial five years, then converted to an adjustable rate for the remaining twenty-five years at LIBOR plus 1.44%, adjustable quarterly (1.68% at December 31, 2014). 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, 2014, these debentures were considered Tier I Capital for regulatory purposes.

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

In June, 2006, the Company issued $30.9 million of unsecured, 30-year floating rate junior subordinated deferrable interest debentures (T2) through a wholly-owned business trust. The debentures carry an interest rate of 3-month LIBOR plus 1.40% (1.64% at December 31, 2014). Other significant terms of the debenture are similar to T3, except the debentures' final maturity is June 2036, and became callable, in whole or in part, at par after June 2012.

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

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

(10) Income Taxes

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

	2014	2013
Income from operations	$ 10,466	9,791
Stock option exercise included in stockholders' equity	(152)	(155)
Change in stockholders' equity for unrealized gain (loss) on securities available for sale	(922)	(1,469)
Change in stockholders' equity for unrealized gain (loss) on fair value of interest rate swap	861	1,987
	$ 10,253	10,154

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

	Years ended December 31,	
	2014	2013
Current:		
Federal	$ 9,283	9,125
State	1,419	1,782
	10,702	10,907
Deferred:		
Federal	(449)	(955)
State	213	(161)
	(236)	(1,116)
	$ 10,466	9,791

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

	Years ended December 31,	
	2014	2013
Tax expense at statutory rate of 35%	$ 10,881	10,087
Tax-exempt interest	(1,253)	(1,620)
Interest expense disallowance	22	33
State taxes, net of Federal benefit	1,062	1,054
Nondeductible operating expenses	50	63
Change in valuation allowance for deferred tax assets	(2)	(2)
Other	(294)	176
Total	$ 10,466	9,791
Effective tax rate	33.7%	34.0%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2014 and 2013, are presented below (in thousands):

		2014	2013
Deferred tax assets:			
Allowance for loan losses - books	$	7,571	7,258
Incentive stock and retirement plans		3,163	3,025
Stock options		74	75
Interest on nonaccrual loans		758	793
Depreciation		726	171
Gain on sale of premises and equipment – books		483	553
Write-down of available-for-sale securities		-	184
Minority-owned entities		114	141
Unrealized loss on securities and swaps, net		1,357	1,418
Other		-	392
Deferred tax assets before allowance		14,246	14,010
Valuation allowance		(3)	(73)
Deferred tax assets		14,243	13,937
Deferred tax liabilities:			
Loan servicing rights		1,128	1,304
Intangible assets, net		1,249	1,241
Other		300	-
Deferred tax liabilities		2,677	2,545
Net deferred tax asset	$	11,566	11,392

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

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

The Company recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. No material amount of interest expense was recognized during 2014 and 2013, for any unrecognized tax benefits. The Company is not subject to U.S. Federal tax examinations or state tax examinations for years before 2011.

(11) Stockholder's Equity

Payment of dividends by the Bank to the Company is limited or restricted in certain circumstances. According to federal banking law, the approval of the Office of the Comptroller of the Currency (OCC) is required for the declaration of dividends in any year in which dividends exceed the total of net income for that year plus retained income for the preceding two years. At December 31, 2014, approximately $33.9 million was available for dividends to the Company without the approval of the OCC. Payment of dividends by the Company's non-bank subsidiaries is also restricted by their respective regulatory agencies. The amount of dividends available for payment by these companies without regulatory approval is not significant.

The Company paid a $1.68 per share dividend on common stock to shareholders on February 2, 2014 and a $1.83 per share dividend on common stock to shareholders on August 1, 2014. In 2013, the Company paid a $1.68 per share dividend on common stock to shareholders on August 1, 2013. No dividend on common stock was paid in February 2013. A $1.63 per share dividend was paid in December 2012, which was accelerated from the semi-annual dividend payment that would have been paid in February 2013.

(12) Earnings Per Share

Basic and diluted earnings per share for the years ended December 31, 2014 and 2013, were computed as follows (dollars in thousands, except share and per-share data):

		2014	2013
Basic Earnings Per Share:			
Net income applicable to common shareholders	$	20,712	19,422
Weighted average common shares outstanding		1,880,668	1,893,394
Basic earnings per share	$	11.01	10.26
Diluted Earnings Per Share:			
Net income applicable to common shareholders	$	20,712	19,422
Weighted average common shares outstanding		1,880,668	1,893,394
Effect of assumed exercise of stock options		30,156	32,092
Total		1,910,824	1,925,486
Diluted earnings per share	$	10.84	10.09

(13) Retirement Plans

Retirement Plans

The Company has a combined profit sharing and 401(k) plan covering substantially all Bank employees and a 401(k) plan for non-Bank employees upon completion of 1,000 hours of service. Contributions to the Bank plan are determined annually by the Company's Board of Directors. Both plans are 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 these plans amounted to $3.3 million, and $3.2 million, for the years ended December 31, 2014 and 2013, respectively.

Employee Stock Ownership Plan

The Company has an employee stock ownership plan (ESOP) for employees of the Company. Annual contributions are made at the discretion of the Board of Directors. ESOP expense amounted to $0.3 million, for each of the years ended December 31, 2014 and 2013, respectively. Shares distributed to a participant upon termination of service are subject to a put option whereby the participant may cause the Plan's Trust to purchase the shares at fair value. At December 31, 2014 and 2013, the plan held 32,637 and 31,809 shares with an estimated fair value, at the respective dates, of $4.9 million and $4.8 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 $1.1 million and $0.9 million at December 31, 2014 and 2013, respectively, for these SERPs. Expenses of these plans amounted to $242,000 in 2014 and $81,000 in 2013.

(14) Stock-Based Compensation Plans

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

		2014	2013
Stock appreciation rights plan		421	1,749
Pre-tax cost of plans included in salaries and employee benefits expenses	$	421	1,749
Amount of related income tax recognized in income	$	(168)	(700)

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, 2014:

	# Shares Subject to Options	Weighted Average Exercise Price
Options outstanding at beginning of the year	74,077	$ 43.94
Granted	-	-
Exercised	3,428	40.25
Expired	-	-
Options outstanding at year end	70,649	$ 44.11
Options exercisable at year end	56,933	$ 42.76
Options available for future grants	none	

At December 31, 2014, the intrinsic value of all outstanding options was approximately $7.4 million, while the intrinsic value of vested options included in this total was approximately $6.0 million. The intrinsic value of options exercised during the years ended December 31, 2014 and 2013, were $0.4 million and $0.4 million, respectively. No options vested in 2014 or 2013.

Options outstanding (both exercisable and unexercisable) at December 31, 2014, had exercise prices ranging from $30.04 to $73.46. The weighted average expected life of the options is three years. Since the options have no stated expiration date, the expected life is calculated as the number of years from grant date to the grantee's 65th birthday.

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

Stock Appreciation Rights Plan

The Company has an incentive stock appreciation rights plan for executives which allows for the award of Stock Appreciation Rights (SAR) awards. The number of awards issued is based upon return on beginning equity in each year. SARs represent the right to receive payment in cash or stock, at the Compensation Committee of the Board of Director's option, equal to the amount, if any, by which the market value per share of common stock on the date of exercise exceeds the SARs grant price. Long-term SARs are exercisable at the later of age 55 or 15 years of continuous employment with the Company or at normal retirement age (65). Medium-term SARs are exercisable five years from the date of grant or upon retirement. The following summarizes the activity of these awards as of and for the year ended December 31, 2014.

	Long-term SARs		Medium-term SARs	
	#	Weighted Average Grant Price	#	Weighted Average Grant Price
Awards outstanding, January 1, 2014	111,251	$ 96.27	59,913	$ 96.05
Granted	6,259	$ 150.41	4,173	$ 150.41
Exercised	-	$ -	2,821	$ 93.77
Forfeited	-	$ -	-	$ -
Expired	-	$ -	-	$ -
Awards outstanding at December 31, 2014	117,510	$ 99.07	61,265	$ 103.06
Awards exercisable at December 31, 2014	60,499	$ 97.10	8,606	$ 83.56

In February 2014, certain executives were awarded a total of 6,259 long-term SARs and 4,173 medium-term SARs, all at a grant price of $150.41 per share, the then-current market value (based on the most recent public stock sale known to the Company immediately preceding the effective grant date) of the Company's common stock.

During 2014, 2,821 medium-term SARs were exercised with a fair value of $197,000. During 2013, 253 long-term SARs were exercised with a fair value of $1,000, and 4,500 medium-term SARs were exercised with a fair value of $399,000. The fair value of awards vested during years ended December 31, 2014 and 2013, amounted to $288,000 and $183,000, respectively.

The weighted average estimated per-award fair values, as of December 31, 2014 and 2013, 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.

	2014		2013	
Award Type	**LTS**	**MTS**	**LTS**	**MTS**
Per-award fair value	$42.28	$38.64	$45.25	$43.01
Expected dividend yield	2.34%	2.34%	2.29%	2.29%
Risk-free interest rate	1.38%	1.38%	1.24%	1.24%
Expected Life	3.9 years	3.9 years	4.3 years	4.3 years
Volatility	9.43%	9.43%	10.00%	10.00%

Long-term SAR's outstanding and medium-term SARs outstanding (both exercisable and unexercisable) at December 31, 2014, had exercise prices ranging from $78.98 to $151.41. The weighted average expected life of these awards is three years. Since these awards 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 awards. Based upon current assumptions, the estimated compensation cost related to non-vested awards not yet recognized is $1.5 million, which is expected to be recognized over a weighted average period of five years. The Company had accrued a liability of $7.0 million and $6.8 million at December 31, 2014 and 2013, respectively, representing the accumulated fair-value vested obligation of these awards under the plan.

(15) Leases

The Company leases certain buildings and office space under operating lease arrangements. Rent expense, net of rent received and deferred-gain on sale-leaseback, under these arrangements amounted to $2.6 million in 2014, and $2.5 million in 2013. Real estate taxes, insurance, maintenance, and other operating expenses associated with leased buildings and office space are generally paid by the Company.

A summary of non-cancellable, long-term operating lease commitments as of December 31, 2014, follows (in thousands):

Years ending December 31,	**Amount**
2015	$ 2,712
2016	2,749
2017	2,707
2018	2,523
2019	2,202
2020 and after	7,117
Total	$ 20,010

(16) Commitments and Contingencies

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

		Year ended December 31,			
		2014		2013	
		Notional Amount	Carrying Amount	Notional Amount	Carrying Amount
Commitments to extend credit:					
Commercial lines of credit	$	152,024	-	152,594	-
Commercial real estate and construction	$	65,475	-	47,075	-
Residential real estate at fixed rates	$	3,509	-	2,975	-
Home equity lines of credit	$	270,981	-	242,147	-
Unsecured personal lines of credit	$	28,252	-	17,309	-
Standby and commercial letters of credit	$	7,998	(120)	9,427	(141)
Commitments to sell real estate loans	$	6,953	-	3,890	-

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

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

The Company has committed $3.0 million as a limited partnership investment to Cephas Capital Partners, II. This Small Business Investment Company (SBIC) is a community-bank backed mezzanine finance company. It is a follow-on investment to our current investment in Cephas Capital Partners. At December 31, 2014, the Company had a remaining unfunded commitment of $1.5 million. This investment is carried in Other Assets on the Consolidated Balance Sheets.

The Company has committed $0.5 million for an investment in Trillium Lakefront Partners, LLC. This venture capital fund is a community-backed initiative in support of new business and job growth in the Company's market area. At December 31, 2014, the Company had a remaining unfunded commitment of less than $0.1 million. This investment is carried in Other Assets on the Consolidated Balance Sheets.

As discussed in Note 2 under the terms of the OBS purchase agreement, of the $1.0 million contingency payment, OBS is obligated to make future payments totaling $0.6 million.

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

(17) Regulatory Matters

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

to qualitative judgments by regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (as set forth in the table following) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Management believes, as of December 31, 2014, that the Company and Bank met all capital adequacy requirements to which they are subject. The Company's trust subsidiaries, Genesee Valley Trust Company and Canandaigua National Trust Company of Florida, must also meet minimum capital requirements as set forth by their regulators. As of December 31, 2014, these companies complied with their minimum capital requirements.

As of December 31, 2014, and as of the most recent notification from regulators, the Company and the Bank are well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Company and Bank must maintain a minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. Subsequently, there have been no conditions or events which management believes has changed the Company's or Bank's category.

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

	Regulatory Capital as of December 31, 2013					
	Actual Regulatory Capital		Minimum Requirement		Well-Capitalized	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Leverage capital (Tier 1) as percent of three-month average assets:						
Company	$ 191,903	10.02 %	$ 76,604	4.00 %	$ 95,756	5.00 %
Bank	$ 166,406	8.70 %	$ 76,509	4.00 %	$ 95,636	5.00 %
As percent of risk-weighted, period-end assets						
Core capital (Tier 1)						
Company	$ 191,903	12.00 %	$ 63,957	4.00 %	$ 95,936	6.00 %
Bank	$ 166,406	10.51 %	$ 63,337	4.00 %	$ 95,006	6.00 %
Total capital (Tiers 1 and 2)						
Company	$ 210,229	13.15 %	$ 127,914	8.00 %	$ 159,893	10.00 %
Bank	$ 184,732	11.67 %	$ 126,675	8.00 %	$ 158,344	10.00 %

(18) Fair Values of Financial Instruments

Current accounting pronouncements require disclosure of the estimated fair value of financial instruments. Fair value is generally defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly, non-distressed sale between market participants at the measurement date. With the exception of certain marketable securities and one-to-four-family residential mortgage loans originated for sale, the Company's financial instruments are not readily marketable and market prices do not exist. The Company, in attempting to comply with accounting disclosure pronouncements, has not attempted to market its financial instruments to potential buyers, if any exist. Since negotiated prices in illiquid markets depend upon the then present motivations of the buyer and seller, it is reasonable to assume that actual sales prices could vary widely from any estimate of fair value made without the benefit of negotiations. Additionally, changes in market interest rates can dramatically impact the value of financial instruments in a short period of time. Finally, the Company expects to retain substantially all assets and

liabilities measured at fair value to their maturity or call date. Accordingly, the fair values disclosed herein are unlikely to represent the instruments' liquidation values, and do not, with the exception of securities, consider exit costs, since they cannot be reasonably estimated by management.

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

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

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

		December 31, 2014		December 31, 2013	
Financial Assets:	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and equivalents	1	$ 48,118	48,118	51,875	51,875
Securities, available-for-sale	1, 2, 3	$ 94,671	94,671	114,353	114,353
Securities, held-to-maturity	2	$ 181,559	182,464	179,803	181,829
FHLB stock and Federal Reserve Bank stock	3	$ 9,070	9,070	3,282	3,282
Loans-net	3	$ 1,720,154	1,716,706	1,545,603	1,549,932
Loan servicing assets	3	$ 2,903	4,272	3,290	4,545
Financial Liabilities:					
Deposits:					
Demand, savings and money market accounts	3	$ 1,428,280	1,428,280	1,381,333	1,381,333
Time deposits	3	$ 300,242	299,596	340,964	339,606
Borrowings	2	$ 144,525	144,438	8,760	8,645
Junior subordinated debentures	2	$ 51,547	51,547	51,547	51,547
Other financial instruments:					
Interest rate swap agreements	2	$ (3,391)	(3,391)	(1,239)	(1,239)
Letters of credit	2	$ (120)	(120)	(141)	(141)

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.

In 2013, certain securities' fair values were determined using unobservable inputs and included bank-debt-based collateralized debt obligations (CDOs). There was a very limited market and limited demand for these CDOs due to imbalances in marketplace liquidity and the uncertainty in evaluating the credit risk in these securities. In determining fair value for these securities, management considered various inputs. Management considered fair values from brokerage firms which were determined using assumptions as to expected cash flows and approximate risk-adjusted discount rates. These securities were sold in 2014.

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

Loans

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

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

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

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

Loan Servicing Assets

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

Deposits

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

Borrowings

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

Junior Subordinated Debentures

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

Interest Rate Swap Agreements (Swaps)

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

Other Financial Instruments

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

(19) Fair Values Measurements

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

		Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)	Total carrying value in the Consolidated Balance Sheet
Measured on a recurring basis:					
Assets					
Securities available-for-sale:					
U.S. Treasury	$	500	-	-	500
U.S. government sponsored enterprise obligations		-	74,288	-	74,288
State and municipal obligation		-	17,695	-	17,695
All other		-	2,188	-	2,188
Total assets	$	500	94,171	-	94,671
Liabilities					
Interest rate swap agreement	$	-	3,391	-	3,391
Letters of credit		-	120	-	120
Total liabilities	$	-	3,511	-	3,511
Measured on a non-recurring basis:					
Assets					
Loans					
Loans-held-for-sale	$	-	6,953	-	6,953
Collateral dependent impaired loans		-	-	1,272	1,272
Other assets					
Other real estate owned		-	-	2,004	2,004
Loan servicing assets		-	-	2,903	2,903
Total assets	$	-	6,953	6,179	13,132

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

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

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

		Year Ended December 31, 2014
Securities available for sale, beginning of period	$	143
Sales during the period		(143)
Securities available for sale, end of period	$	-

The following table presents for each of the fair-value hierarchy levels the Company's assets and liabilities that are measured at fair value on a recurring and non-recurring basis at December 31, 2013, by caption on the Consolidated Balance Sheet (dollars in thousands).

		Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)	Total carrying value in the Consolidated Balance Sheet
Measured on a recurring basis:					
Assets					
Securities available-for-sale:					
U.S. Treasury	$	500	-	-	500
U.S. government sponsored enterprise obligations		-	84,743	-	84,743
State and municipal obligation		-	25,780	-	25,780
All other		-	3,187	143	3,330
Total assets	$	500	113,710	143	114,353
Liabilities					
Interest rate swap agreement	$	-	1,239	-	1,239
Letters of credit		-	141	-	141
Total liabilities	$	-	1,380	-	1,380
Measured on a non-recurring basis:					
Assets					
Loans					
Loans-held-for-sale	$	-	3,890	-	3,890
Collateral dependent impaired loans		-	-	2,281	2,281
Other assets					
Other real estate owned		-	-	2,363	2,363
Loan servicing assets		-	-	3,290	3,290
Total assets	$	-	3,890	7,934	11,824

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

		Year Ended December 31, 2013
Securities available for sale, beginning of period	$	120
Unrealized gain included in other comprehensive income		23
Securities available for sale, end of period	$	143

Board of Directors

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

Board of Directors: *(front row) Frank H. Hamlin, III, Sue S. Stewart, George W. Hamlin, IV, Caroline C. Shipley, Stephen D. Hamlin. (back row) Lawrence A. Heilbronner, Thomas S. Richards, Alan J. Stone, Richard C. Fox, Robert G. Sheridan, Daniel P. Fuller.*

Richard C. Fox
President, Wendy's Restaurants of Rochester, Inc., 1976-present
Chairman of the Board, Genesee Valley Trust Company,* 2011-present
Director, Genesee Valley Trust Company,* 1998-2011
Trustee, Genesee Country Village and Museum
Trustee, Seneca Waterways Boy Scouts of America (BSA) Endowment Fund

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

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

The Canandaigua National Bank & Trust Company
- Director, President and CEO, March 29, 2013-present
- Director and President, January 1, 2011-present
- Director, 2004-present

Home Town Funding, Inc. d/b/a CNB Mortgage Company**
- Chairman of the Board and CEO, April 24, 2013-present
- Director, January 1, 2011-present

CNB Operating Subsidiary No. 1 Inc., d/b/a CNB Insurance Agency*
- Director, President, and CEO, April 24, 2013-present
- Director and President, 2011-present

Director, Canandaigua National Trust Company of Florida,* 2011-present
Director, Genesee Valley Trust Company,* 2011-present
Manager and CEO, WBI OBS Financial, LLC,*** 2011-present
Director, Thompson Health Systems, 2013-present
Of Counsel, Croucher, Jones & Johns, 2007-2010
Attorney, June 2001-2007

George W. Hamlin, IV
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 & Consultant at Large, March 29, 2013-present
- Chairman, CEO, and Trust Officer, 1979-March 28, 2013
- Director, President, CEO, and Trust Officer, 1979-December 31, 2010

Home Town Funding, Inc., d/b/a CNB Mortgage Company,**
- Director, 1998-present
- Chairman and CEO, 1998-April 23, 2013

Chairman, CEO, and Trust Officer, The Canandaigua National Trust Company of Florida,* 2009-present
Director, Genesee Valley Trust Company,* 2008-present
Director and CEO, CNB Operating Subsidiary No. 1 Inc. d/b/a CNB Insurance Agency,* 1995-April 23, 2013
Director, Federal Reserve Bank of New York, 1997-2002
Chair Emeritus, Thompson Health System
Chair, Eastman School of Music
Director, University of Rochester Medical Center, 1985-present
- Chairman 2013-2014
- Vice Chair 2011-2012
- Audit Chair 2009-2011

Fellow, Center for Governmental Research, 2002-2010
Chair, Investment Committee-Monroe Fund
Director, New York Wine and Culinary Center
Director, CMAC (Constellation Brands–Marvin Sands Performing Arts Center)
Trustee Emeritus, Rochester Museum and Science Center

Stephen D. Hamlin
Retired Cultural Leader
Chief Executive Officer, Sonnenberg Gardens, February 1996-2000
Vice President, Schlegel Corp., 1963-1984

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

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

Director and Treasurer, Home Town Funding, Inc. d/b/a CNB Mortgage Company**, 2002-present
CNB Operating Subsidiary No. 1 Inc., d/b/a CNB Insurance Agency*
- Director, Executive Vice President, and Treasurer, April 9, 2014-present
- Director and Secretary, April 11, 2012-April 8, 2014
- Executive Vice President, February 12, 2007-April 10, 2012
- Vice President, August 16,1999 - February 11, 2007

Chief Financial Officer, Canandaigua National Trust Company of Florida,* 2009-present
Director and Treasurer, Genesee Valley Trust Company,* 2008-present
Manager and Treasurer, WBI OBS Financial, LLC,*** 2011-present
Director and Treasurer, Jewish Family Service of Rochester, Inc.
Director, Jewish Community Federation of Rochester
Finance Committee Member, Temple B'rith Kodesh

Thomas S. Richards
Attorney
Mayor, City of Rochester, 2011- 2013
Corporation Counsel, City of Rochester, January 1, 2006-November, 2010
Chairman, President, and CEO, RGS Energy Group, Inc., and Rochester Gas & Electric Corp, 1998-2002
Trustee, Rochester Institute of Technology
Trustee, University of Rochester

Robert G. Sheridan
Retired
The Canandaigua National Bank & Trust Company, 1971-2011
Secretary, Canandaigua National Corporation, 1992-August 31, 2011
Retired, President, CNB Mortgage Company,** 2002-August 31, 2011
Director, Home Town Funding, Inc., d/b/a CNB Mortgage Company,** 1998-present
Director, Genesee Valley Trust Company,* 2008-December 31, 2011
Former Chair, United Way of Ontario County
Director and President, Canandaigua Country Club

Caroline C. Shipley
Retired
Treasurer, First Congregational Church
Treasurer, Ontario Children's Foundation
Audit and Finance Committee Member, Canandaigua Board of Education
Canandaigua City School District Board of Education: Member, 1979-2009
President, 1983-1991, 2007-2009
Financial Manager, Dell Broadcasting, WCGR/WLKA, 1985-1991
Treasurer and Financial Manager, Sonnenberg Gardens, 1973-1984

Sue S. Stewart
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, Board of Trustees, National Center for Education and the Economy

Alan J. Stone
Managing Member, Stone Family Properties LLC, 1986-present
Member, City Mini Storage LLC, 1999-present
Director, Stone Construction Equipment, Inc., 1969-2009
Chairman of the Board, Canandaigua National Corporation, 1994-2004
Co-founder and CEO, Stone Construction Equipment, Inc., 1969-1986

Emeritus Board Members

Patricia A. Boland
James S. Fralick

Officers

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

* Wholly owned subsidiary of Canandaigua National Corporation
** Wholly owned subsidiary of Canandaigua National Bank & Trust Company
***Majority-owned subsidiary of Canandaigua National Corporation

Community Advisory Committees

Alexander Park Office
Margaret Eidman
Frank Logan
Javier Quintana*
William G. Shaheen

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

Brighton Office
Susan DiProjetto*
Jennifer Lewis
James Silverman
Leonard Zwas

Canandaigua/Lakeshore Offices
David S. Brassie, CPA
Edward (Russ) Kenyon, Esq.
Frank Marcri
Kenneth (Jr.) Miller
Deborah E. Rought*
Kimberly Sorel*

Chili Office
Salvatore (Sam) Campanella
Dr. Piush Sarma
Suzanne M. Wedgwood*

Farmington Office
Mark D. Allman*
Ronald Brand
Anne P. Fessler, DVM
Leonard P. Muscarella, DDS

Greece Offices
Pamela S. Schaber*
William E. Selke
ZoAnn Soong*
Carolyn Stiffler

Henrietta Office
Sharon Garofanello*
Jack W. Moore
William J. Mulligan Jr.
Michael Phillips

Honeoye Office
Sandra D'Angelo*
Michael P. Dougherty
Robert Helling
Kristine Singer

Honeoye Falls Office
Steven R. Benz*
John Harris
Joseph Notar
Barry Shapiro
Mark Stephens

Irondequoit Office
Gail Bellucco*
Arnold J. Eckert
Jack Herrema

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

Mendon Office
Patricia Fiduccia
Glen Marcus
Gary H. Mervis
Dianne M. Tucker*

Penfield Office
Francis A. Ponticello
Richard J. Pratt*
Michael Prudetti
John F. Schoenhardt

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

Pittsford Office
John Bernacki
Pamela J. Gratzer
Howie Jacobson
Barbara J. Karley*

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

Victor Office
Donald J. Culeton
Samantha A. Johnson*

Webster Offices
Elena Bernardi
Paul Derleth
Alison Liwush
James D. Schrader*
William K. White

*Community Office Manager

Officers

Office of the President

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

Corporate Risk Operations

Steven H. Swartout, Esq., Executive Vice President, General Counsel – Chief Administrative Officer
Vicki B. Mandrino, CRCM, Senior Vice President – Assistant Corporate Risk and Compliance Officer
Linda M. Schnitzler, CFSA, CBA, CRP, Senior Vice President – Chief Risk Officer
A. Rosamond Zatyko, Senior Vice President – Chief Credit Risk Officer
Charleen H. Cordaro, Vice President – Credit Administrator/ Project Manager
Denise J. Goebel, CAMS®, Vice President
Jason A. Ingalls, Vice President – Security Officer
JoAnn K. Roberts, CTFA, Vice President – Trust/Investment Compliance Officer
Linda J. Thompson, CAMS®, Vice President – BSA/AML Compliance Officer
Julie A. Caves, Assistant Vice President – Portfolio Credit Risk Manager
Susan E. Davis, Assistant Vice President – Collateral Control Manager
Sandra J. Holley, Assistant Vice President
Jodi L. Houlihan, Assistant Vice President – Credit Review Manager
Kathleen A. Housel, CFE, Assistant Vice President – Fraud Risk Officer
Shirley A. Banks, AAP, Electronic Banking Risk Officer
Matthew M. Fowler, Banking Officer – Appraisal Review Manager
Sarah E. Housel, Banking Officer – Senior Credit Analyst
Kevin H. Roat, Banking Officer – Business Banking Scoring Model Manager
Thomas M. Rogers, Banking Officer – Senior Credit Analyst

Consumer Lending

Karen C. Serinis, Executive Vice President – Retail Banking and Consumer Lending
Brian E. Pasley, Senior Vice President – Consumer Loan Product and Operations Manager and CRA Officer
Brenda W. Stoker, Vice President – Consumer Lending Operations Manager
Lori R. Ellis, Vice President – Senior Consumer Underwriter
Cheryl A. Hurd, Vice President – Senior Consumer Underwriter
William J. Van Damme, Vice President – Portfolio Mortgage/ Construction Lending Officer
Richard T. Wade, Vice President – Consumer Collection Officer
Elaine N. Zukaitis, Banking Officer – Home Equity Specialist

Retail Banking

Karen C. Serinis, Executive Vice President – Retail Banking and Consumer Lending
Lisa J. Blakesley, Senior Vice President – Managing Director
Kathy C. Amberge, Senior Vice President – Group Manager
Gwendolen A. Crawford, Senior Vice President – Group Manager
Christopher M. Keys, Senior Vice President – Group Manager
Margaret W. Meyer, Vice President – Personal Banking/Insurance Manager
Jan C. Schrader, Assistant Vice President – Customer Service Center Manager
William J. Boyle, Banking Officer – Personal Banker/Pittsford
Kari A. Carlotta, Banking Officer – Personal Banker/Webster
Christine E. Hayes, Bank Officer – Help Desk/Operations Support Manager
Jerry W. Lack, Banking Officer – Personal Banker/Webster
Nathan E. VanBortel, Banking Officer – Personal Banker/ Canandaigua

Wealth Strategies Group

Steven H. Swartout, Esq., Executive Vice President
Scott B. Trumbower, Senior Vice President – Managing Director
Jason W. Fitzgerald, CFP®, Senior Vice President – Group Manager, Investment Services
Richard H. Hawks Jr., Senior Vice President – Trust Administration Officer
James F. Lieb, CTFA, Senior Vice President – Group Manager, Trust Administration Services
James P. Terwilliger, PhD, CFP®, Senior Vice President – Group Manager, Financial Planning Services
Thomas W. Benner, CFP®, Vice President – Financial Planning Officer
Donna L. Cator, CFP®, Vice President – Financial Planning Officer
Denise A. Kelly-Dohse, Vice President – Financial Planning Officer
Michael D. Schiller, CFP®, Vice President – Financial Planning Officer
Nancy E. Bowes, CFP®, Vice President – Investment Officer
Mark Buonaugurio, Vice President – Investment Officer
Maria E. Caton, AAMS, Vice President – Investment Officer
James M. Exton, Vice President – Investment Officer
David P. Guzzetta, AFIM, CMFC®, Vice President – Investment Officer
Adam R. Leszyk, CFP®, Vice President – Investment Officer
Christopher M. Radigan, Vice President – Investment Officer
John E. Richardson, Vice President – Investment Officer
Stephen A. Rossi, CFA, Vice President – Investment Officer

Officers, cont.

Lynn M. Carleton, CTFA, Vice President – Trust Administration Officer
Sharon E. Greisberger, Vice President – Trust Administration Officer
Kevin D. Kinney, Vice President – Trust Administration Officer
Catherine D. Noble, CTFA, Vice President – Trust Administration Officer
Jennifer N. Weidner, Esq., Vice President – Trust Administration Officer
Amy K. Boyd, Esq., Assistant Vice President – Trust Administration Officer
Ramona Green, Assistant Vice President – Trust Administration Officer
Laura A. King, Assistant Vice President – Trust Administration Officer
G. James Blatt, Vice President – Business Development Officer
Mark S. Mazzochetti, CISP, Vice President – Retirement Services Officer
Charlene S. Johnson, Retirement Services Officer

Commercial Services

Gary L. Babbitt, Executive Vice President – Chief Lending Officer
Jeffrey W. Barker, Senior Vice President – Group Manager
Christine A. Eichelberger, Senior Vice President – Group Manager
Robert L. Lowenthal, Senior Vice President – Group Manager
Michael S. Mallaber, Senior Vice President – Group Manager
Charles J. Vita, Senior Vice President – Group Manager
Bernard E. Belcher, Vice President – Business Banking Portfolio Officer
Mary Anne Burkhart, Vice President – Business Banking Officer
Brendon S. Crossing, Vice President
Jason A. DeWitt, Vice President
Michael J. Drexler, Vice President
John C. Eilertsen Jr., Vice President
Keith J. Goebel, Vice President
Philip M. Hendrix, Vice President
Virgil N. Joseph, Vice President
JoAnn N. Mills, Vice President – Resource Recovery Manager
Michael J. O'Donnell, Vice President – Business Banking Officer
Jonathan K. Spaulding, Vice President
Leslie P. Bamann, Assistant Vice President – Business Banking Officer
David M. Serinis, Business Banking Officer

Customer Value Management

Karen C. Serinis, Executive Vice President
Tamra A. B. O'Donnell, Senior Vice President – Director, Corporate Marketing
Glenn R. Colliss, Vice President – Electronic Banking Product Manager
Manuela Eckert, Assistant Vice President – Deposit Product Manager
Kelly M. Sheridan, Assistant Vice President – Electronic/Web Marketing Manager

Finance and Operations

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

Audit

Michelle A. LaMachia, CFSA, CFIRS, Vice President – Chief Auditor
Nancy J. Stockdale, CPA, CRMA, Assistant Vice President – Audit Manager

Human Resources

Michelle L. Pedzich, Senior Vice President – Director of Human Resources
Marie E. Dastin, Vice President – Human Resources and Training Manager
Allyson E. Roote, Vice President – Human Resources Employee Development Officer
Shelley V. Tierson, Assistant Vice President – Benefits Manager

Community Banking Offices

Alexander Park
Javier Quintana, Assistant Vice President – Community Office Manager
Carol Love, Community Office Assistant Manager

Bloomfield
Judy A. Reader, Assistant Vice President – Community Office Manager
Kim Brewer, Community Office Assistant Manager

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

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

Canandaigua – Lakeshore
Kimberly A. Sorel, Community Office Manager
Laura Hall, Community Office Assistant Manager

Chili
Suzanne M. Wedgwood, Assistant Vice President – Community Office Manager
Donna M. Kretchmer, Community Office Assistant Manager

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

Eastview Mall*
Samantha A. Johnson, Assistant Vice President – Community Office Manager
Jennifer S. Everhart, Community Office Assistant Manager

Farmington
Mark D. Allman, Assistant Vice President – Community Office Manager
Ann Marie Lopez, Community Office Assistant Manager

Greece Latta & Long Pond
Zo Ann Soong, Community Office Manager
Charles Cox, Community Office Assistant Manager

Greece Ridge
Pamela S. Schaber, Assistant Vice President – Community Office Manager
Veronica M. Owens, Community Office Assistant Manager

Henrietta
Sharon L. Garofanello, Assistant Vice President – Community Office Manager
Iva Doser, Community Office Assistant Manager

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

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

Irondequoit
Gail Bellucco, Community Office Manager
Alicia Mendola, Community Office Assistant Manager

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

Mendon
Dianne M. Tucker, Assistant Vice President – Community Office Manager
Elnora N. Williams, Community Office Assistant Manager

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

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

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

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

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

Webster BayTowne
James D. Schrader, Vice President – Community Office Manager
Rayon Boxx, Community Office Assistant Manager

Webster Jackson Ridge
James D. Schrader, Vice President – Community Office Manager
Jamie Vasile, Community Office Assistant Manager

*Closed 1/30/15.

Canandaigua National Corporation

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

Daniel R. Goodwin, Director
Garth C. Harding, Director
Richard C. McCarthy, Vice Chairman and Secretary, Director
Stephen Natapow, Director
Bernice W. Skirboll, Director
Alan M. Lupton, Director Emeritus
Albert W. White, Director Emeritus

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

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

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

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

WBI OBS Financial, LLC
Frank H. Hamlin, III, Esq., Manager and CEO
Jason C. Farmer, Manager
Lawrence A. Heilbronner, Manager
Aaron M. Reitz, Manager
Steven H. Swartout, Esq., Manager and Secretary

OBS Holdings, Inc.
John Henry, President and CEO
Barbara Mulhern, Chief Marketing and Product Officer
Catherine Farley, Chief Operating Officer

THE ARTHUR S. HAMLIN AWARD FOR EXCELLENCE

CONGRATULATIONS TO THIS YEAR'S RECIPIENT, LAUREN KOLB.

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.

Remember the classic story of King Arthur and Camelot? Well, our "Camelot" now spans three great lands rich in community giving. Lands where arts and education are valued more than crowns and scepters. King ("uncle") Arthur and the Knights (executives) of the Round Table (CNC) are people I wish to thank for believing in "Camelot" and in me, and for this honor. I especially thank George W. Hamlin, IV, and Frank H. Hamlin, III, for letting butterflies be free and leaving the light on for us.

***–Lauren Kolb**, 2013 Arthur S. Hamlin Award Recipient*

2014 NOMINEES

Charleen Cordaro
John Eilertsen
Christine Hayes
Jeff Holman
Derek Lane
Becky Long
Dana Mayeu
Lindsay Morrow-Lilly
Deb Rought
Joan Whipple

PAST RECIPIENTS

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

THANK YOU AND CONGRATULATIONS

SHARON GREISBERGER

Sharon began her banking career in the retail banking field in 1977. She had also worked in commercial lending and the finance area before beginning her career in the trust and investment area of Central Trust in 1986. Sharon moved to CNB with the opening of the Pittsford Office in 1995 and helped in the growth and development of the Wealth Strategies Group in Monroe County. Her broad-based banking and financial experience, along with her dedication, has proven beneficial to both her clients and colleagues.

Sharon was active in the Estate Planning Council of Rochester and the United Way's Professional Advisory Committee. She is an active gardener and loves her pets, which we are sure will keep her busy as she settles into retirement.

The CNB family would like to thank Sharon for her many years of service and wish her and her husband, Bob, the best.

RICHARD WADE

In December 2014, Dick retired from the Bank after a distinguished career spanning 28 years. Over the course of his tenure, beginning in August 1986, Dick was responsible for multiple functions within the Consumer Lending Department. Dick and his colleagues were responsible for growing that department into a business that provides a significant contribution to the profit of Canandaigua National Corporation.

Dick is an avid golfer and local youth basketball coach. He is currently a member of the Canandaigua Country Club and is also active with the Canandaigua Chamber of Commerce Ralph Sheridan Golf Classic. For more than 30 years, Dick has been coaching basketball, beginning at St. Mary's School in Canandaigua, and the last several decades for the Canandaigua Schools travel program.

The CNB family will miss Dick and would like to wish him and his family a well-deserved, happy, and healthy retirement.

IN MEMORIAM

RICHARD P. MILLER JR.

In October 2014, we experienced the passing of our Board member Richard P. Miller Jr. He died unexpectedly at his home in Oneonta, N.Y., where he had served as Mayor since 2010, after a six-year tenure as President of Hartwick College.

Dick joined the Board of Directors of Canandaigua National Bank & Trust and Canandaigua National Corporation in 1998. His unending and steadfast commitment to our community bank model was instrumental in guiding our recent growth and expansion. We honor him as a great leader and extraordinary Director who shared his informed opinions in a straightforward manner.

"We have lost a great friend and an amazing Director who loved the bank, and the constructive work that we were all about. Dick leaves a legacy of positive attitude and business effectiveness, coupled with good humor, which will sustain our enterprise for years to come," states George W. Hamlin, IV, Chairman of the Board.

Over the years, Dick also served as Vice Chancellor and Chief Operating Officer (COO) of State University of New York, Senior Vice President, Senior Counsel, and COO at the University of Rochester, Trustee at Hobart and William Smith Colleges, and President and CEO of Case-Hoyt. Having graduated from Middlebury College with a B.A. in Sociology, Dick served in the U.S. Army, returning to civilian life in 1967 as a decorated Vietnam veteran.

He will be deeply missed by his CNC family.

"Finishing the year better than budget, as we have, speaks to the effectiveness, creativity, and agility of the people that make this organization thrive."

— Frank H. Hamlin, III, President and CEO

About the Artist

Lynne Feldman has lived in the Greater Rochester region since 1978, and is an active member of our local art community. She worked exclusively in oils for more than 30 years, until she was introduced to—and fell in love with—the technique of fabric collage and acrylics on canvas about 10 years ago. These collage works are a combination of cut and pieced fabrics glued onto canvas, and then painted with acrylic paints.

Ms. Feldman's local commissions include Strong Memorial Hospital, The Jewish Home of Rochester, Anthony Square Community Center, and The Jewish Community Center of Greater Rochester. Her studio has been in the Anderson Arts Building (in what is now Neighborhood of the Arts) for the past 28 years.

Canandaigua
National
Corporation