CANANDAIGUA NATIONAL CORP
Form 10-Q/A
June 06, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[Ö] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2012

OR

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from__________ to__________

Commission File Number: 2-94863

CANANDAIGUA NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

New York	**16-1234823**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification Number)*
72 South Main Street Canandaigua, New York	**14424**
(Address of principal executive offices)	*(Zip code)*

(585) 394-4260
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes [Ö] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months.

Yes [Ö] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company.

Large accelerated filer [ ] Accelerated filer [Ö] Non-accelerated filer [ ] Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [Ö]

The registrant had 1,887,154 shares of common stock, par value $5.00, outstanding at April 30,2012.

Forward-Looking Statements

This report, including information incorporated by reference, contains, and future filings by Canandaigua National Corporation on Forms 10-K, 10-Q and 8-K and future oral and written statements, press releases, and letters to shareholders by Canandaigua National Corporation and its management may contain, certain "forward-looking statements" intended to qualify for the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. When used or incorporated by reference in the Company's disclosures and documents, the words "anticipate," "believe," "contemplate," "estimate," "expect," "foresee," "project," "target," "goal," "budget" and similar expressions are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act. Such forward-looking statements are subject to certain risks discussed within this document and the Company s most recent Annual Report on Form 10-K. These forward-looking statements are based on currently available financial, economic, and competitive data and management's views and assumptions regarding future events. These forward-looking statements are inherently uncertain, so should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected, projected, targeted, or budgeted. Certain matters which management has identified, which may cause material variations are noted elsewhere herein and in the Company s other publicly filed reports. These forward-looking statements speak only as of the date of the document. We expressly disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein. We caution readers not to place undue reliance on any of these forward-looking statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
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March 31, 2012

PART I FINANCIAL INFORMATIONItem 1. Financial Statements

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
March 31, 2012 and December 31, 2011 (Unaudited)
(dollars in thousands, except per share data)

		March 31, 2012	December 31, 2011
Assets			
Cash and due from banks	$	35,266	52,715
Interest-bearing deposits with other financial institutions		5,882	6,490
Federal funds sold		64,425	67,535
Securities:			
- Available for sale, at fair value		107,330	114,258
- Held-to-maturity (fair value of $170,109 in 2012 and $172,517 in 2011)		165,464	167,225
Loans - net		1,344,268	1,276,426
Premises and equipment net		16,015	16,101
Accrued interest receivable		7,404	6,627
Federal Home Loan Bank stock and Federal Reserve Bank stock		2,656	2,656
Goodwill		15,810	15,810
Intangible assets		6,584	6,787
Prepaid FDIC assessment		3,647	3,905
Other assets		24,631	24,935
Total Assets	$	1,799,382	1,761,470
Liabilities and Stockholders' Equity			
Deposits:			
Demand			
Non-interest bearing	$	232,257	227,284
Interest bearing		183,592	175,409
Savings and money market		772,572	745,713
Time		395,104	398,204
Total deposits		1,583,525	1,546,610
Junior subordinated debentures		51,547	51,547
Accrued interest payable and other liabilities		27,375	27,533
Total Liabilities		1,662,447	1,625,690
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		9,732	9,732

authorized, 1,946,496 shares issued in 2012 and 2011			
Additional paid-in-capital		8,834	8,834
Retained earnings		121,373	120,675
Treasury stock, at cost (59,242 shares at March 31, 2012 and December 31, 2011)		(4,912)	(4,912)
Accumulated other comprehensive income, net		(1,040)	(1,455)
Total Canandaigua National Corporation Stockholders' Equity		133,987	132,874
Non-controlling interests		2,948	2,906
Total Equity		136,935	135,780
Total Liabilities and Equity	$	1,799,382	1,761,470

See accompanying notes to condensed consolidated financial statements.

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CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the three-month periods ended March 31, 2012 and 2011 (Unaudited)
(dollars in thousands, except per share data)

		Three Months Ended March 31,	
		2012	**2011**
Interest income:			
Loans, including fees	$	16,450	16,079
Securities		1,903	2,070
Federal funds sold		35	90
Other		4	5
Total interest income		18,392	18,244
Interest expense:			
Deposits		1,503	2,676
Junior subordinated debentures		696	745
Total interest expense		2,199	3,421
Net interest income		16,193	14,823
Provision for loan losses		1,150	750
Net interest income after provision for loan losses		15,043	14,073
Other income:			
Service charges on deposit accounts		2,823	2,585
Trust and investment services income		3,810	3,099
Net gain on sale of mortgage loans		599	370
Loan servicing income, net		204	219
Loan-related fees		72	109
(Loss) on securities transactions, net		(6)	(1)
Other operating income		680	811
Total other income		8,182	7,192
Operating expenses:			
Salaries and employee benefits		10,755	8,001
Occupancy, net		2,046	1,833
Technology and data processing		1,210	1,042
Professional and other services		926	907
Marketing and public relations		609	669
Office supplies, printing and postage		421	414
Intangible amortization		203	222
Other real estate operations		318	228
FDIC insurance		283	679

Other operating expenses		1,373	1,326
Total operating expenses		18,144	15,321
Income before income taxes		5,081	5,944
Income taxes		1,510	1,605
Net income attributable to noncontrolling interests and Canandaigua National Corporation		3,571	4,339
Less: Net income attributable to noncontrolling interests		42	-
Net income attributable to Canandaigua National Corporation	$	3,529	4,339
Basic earnings per share	$	1.87	2.30
Diluted earnings per share	$	1.83	2.26

See accompanying notes to condensed consolidated financial statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[WITH RESPECTIVE TAX INFORMATION PRESENTED PARENTHETICALLY]
For the three-month periods ended March 31, 2012 and 2011 (Unaudited)
(dollars in thousands)

		2012	2011
Net income	$	3,571	4,339
Other comprehensive income:			
Change in fair value of			
interest rate swaps,			
net of taxes of $ 430 and $417		672	703
Change in unrealized gain on			
on securities available for sale,			
net of taxes of ($138) and ($79)		(219)	(163)
Plus reclassification adjustment			
for realized gains and losses included in			
net income on called securities,			
net of taxes of ($12) and $6		(38)	13
Other comprehensive income	$	415	553
Total comprehensive income		3,986	4,892
Comprehensive income attributable			
to the noncontrolling interest	$	42	-
Comprehensive income attributable to the Company	$	3,944	4,892

See accompanying notes to condensed consolidated financial statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
For the three-month periods ended March 31, 2012 and 2011 (Unaudited)
(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, 2011	1,887,254	$ 9,732	8,834	120,675	(4,912)	(1,455)	2,906	135,780
Comprehensive income:								
Change in fair value of interest rate swaps, net of taxes of $430		-	-	-	-	672	-	672
Change in unrealized gain on on securities available for sale, net of taxes of ($138)		-	-	-	-	(219)	-	(219)
Plus reclassification adjustment for realized gains included in net income on called securities, net of taxes of ($12)		-	-	-	-	(38)	-	(38)
Net income attributable to non-controlling interest and		-	-	3,529	-	-	42	3,571

Canandaigua National Corporation								
Total comprehensive income		-	-	3,529	-	415	42	3,986
Cash dividend - $ 1.50 per share		-	-	(2,831)	-	-	-	(2,831)
Balance at March 31, 2012	1,887,254	$ 9,732	8,834	121,373	(4,912)	(1,040)	2,948	136,935
Balance at December 31, 2010	1,888,748	$ 9,732	8,823	109,768	(4,728)	199	-	123,794
Comprehensive income:								
Change in fair value of interest rate swaps, net of taxes of $417		-	-	-	-	703	-	703
Change in unrealized gain on on securities available for sale, net of taxes of $(79)		-	-	-	-	(163)	-	(163)
Plus reclassification adjustment for realized losses included in net income on called securities, net of taxes of $6		-	-	-	-	13	-	13
Net income attributable to non-controlling interest and Canandaigua National Corporation		-	-	4,339	-	-	-	4,339
Total comprehensive income		-	-	4,339	-	553	-	4,892
Purchase of treasury stock	(200)	-	-	-	(19)	-	-	(19)
Cash dividend - $ 1.43 per share		-	-	(2,691)	-	-	-	(2,691)

Balance at March 31, 2011	1,888,548	$ 9,732	8,823	111,416	(4,747)	752	-	125,976

See accompanying notes to condensed consolidated financial statements.

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CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three-month periods ended March 31, 2012 and 2011 (Unaudited)
(dollars in thousands)

		2012	2011
Cash flow from operating activities:			
Net income attributable to Canandaigua National Corporation	$	3,529	4,339
Adjustments to reconcile net income to			
Net cash provided by operating activities:			
Depreciation, amortization and accretion		1,597	1,359
Provision for loan losses		1,150	750
Gain on sale of premises and equipment and other real estate, net		(122)	(17)
Writedown of other real estate		85	-
Deferred income tax benefit		(859)	(384)
Loss (Income) from equity-method investments, net		16	(323)
Loss on calls of securities and write-down, net		6	1
Gain on sale of mortgage loans, net		(599)	(370)
Originations of loans held for sale		(51,160)	(35,031)
Proceeds from sale of loans held for sale		47,679	45,267
Increase in other assets		(723)	(864)
Increase (decrease) in all other liabilities		944	(482)
Net cash provided by operating activities		1,543	14,245
Cash flow from investing activities:			
Securities available-for-sale:			
Proceeds from maturities and calls		18,465	6,865
Purchases		(11,929)	(7,869)
Securities held to maturity:			
Proceeds from maturities and calls		6,208	4,523
Purchases		(4,828)	(9,154)
Loan originations in excess of principal collections, net		(65,470)	23,285
Purchase of premises and equipment, net		(578)	(636)
Calls of FHLB stock, net of purchases of FHLB and FRB stock		-	(102)
Investment in equity-method investments		(209)	(3)
Proceeds from sale of other real estate		1,505	455
Net cash (used) provided by investing activities		(56,836)	17,364
Cash flow from financing activities:			
Net increase in demand, savings and money market deposits		40,015	62,774
Net decrease in time deposits		(3,100)	(13,204)

Principal repayments of term borrowings		-	(330)
Payments to acquire treasury stock		-	(19)
Change in noncontrolling interest, net		42	-
Dividends paid		(2,831)	(2,691)
Net cash provided by financing activities		34,126	46,530
Net (decrease) increase in cash and cash equivalents		(21,167)	78,139
Cash and cash equivalents - beginning of period		126,740	138,229
Cash and cash equivalents - end of period	$	105,573	216,368
Supplemental disclosure of cash flow information:			
Interest paid	$	2,213	3,567
Income taxes paid		151	208
Supplemental schedule of noncash investing activities			
Real estate acquired in settlement of loans	$	558	-

See accompanying notes to condensed consolidated financial statements.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

(1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and applicable regulations of the Securities and Exchange Commission (SEC) and with generally accepted accounting principles for interim financial information. Such principles are applied on a basis consistent with those reflected in the 2011 Annual Report (defined below) of the Company filed with the SEC. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Management has prepared the financial information included herein without audit by an independent registered public accounting firm. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month periods ended March 31, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (the 2011 Annual Report).

Amounts in prior periods' condensed consolidated financial statements are reclassified whenever necessary to conform to the current year's presentation.

Management has evaluated the impact of subsequent events on these financial statements to the date of filing of this Form 10-Q with the Securities and Exchange Commission.

(2) Securities

Amortized cost and fair value of available-for-sale and held-to-maturity securities at March 31, 2012 are summarized as follows:

	March 31, 2012			
		Gross Unrealized		
	Amortized Cost	Gains	Losses	Fair Value

Securities Available for Sale:

U.S. Treasury	$	502	-	-	502
U.S. government sponsored enterprise obligations		51,149	267	(113)	51,303
State and municipal obligations		51,605	1,627	(16)	53,216
Corporate obligations [1]		1,094	2	(269)	827
Equity securities		1,292	190	-	1,482
Total Securities Available for Sale	$	105,642	2,086	(398)	107,330

[1]Amortized cost includes cumulative $360,000 write-down prior to 2010 for other-than-temporary impairment.

Securities Held to Maturity:

U.S. government sponsored enterprise obligations	$	7	2	-	9
State and municipal obligations		164,629	4,520	(182)	168,967
Corporate obligations		828	305	-	1,133
Total Securities Held to Maturity	$	165,464	4,827	(182)	170,109

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

(2) Securities (continued)

The amortized cost and fair value of debt securities by years to maturity as of March 31, 2012, follow (in thousands). Maturities of amortizing securities are classified in accordance with their contractual repayment schedules. Expected maturities will differ from contracted maturities since issuers may have the right to call or prepay obligations without penalties.

		Available for Sale		Held to Maturity	
		Amortized Cost [1]	Fair Value	Amortized Cost	Fair Value
Years					
Under 1	$	16,011	16,165	28,646	28,895
1 to 5		35,050	36,529	118,385	122,171
5 to 10		48,177	48,268	17,588	17,890
10 and over		5,112	4,886	845	1,153
Total	$	104,350	105,848	165,464	170,109

[1]Amortized cost includes a cumulative $360,000 write-down prior to 2010 for other-than-temporary impairment.

The following table presents the fair value of securities with gross unrealized losses at March 31, 2012, 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	$ 21,965	113	-	-	21,965	113
State and municipal obligations	309	2	1,268	14	1,577	16
Corporate obligations	-	-	1,056	269	1,056	269

Total temporarily impaired securities	$ 22,274	115	2,324	283	24,598	398

Securities Held to Maturity:

State and municipal obligations	$ 15,819	121	4,572	61	20,391	182
Total temporarily impaired securities	$ 15,819	121	4,572	61	20,391	182

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. Except for certain corporate obligations, all securities rated by an independent rating agency carry an investment grade rating. Because the Company does not intend to sell the 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 March 31, 2012, except as discussed below.

In the available-for-sale portfolio, the Company holds approximately $0.8 million of bank trust-preferred securities with an adjusted cost basis of $1.1 million. These securities are backed by debt obligations of banks, with approximately $0.7 million of the securities backed by two of the largest U.S. banks and $0.1 million backed by a pool of banks debt in the form of a collateralized debt obligation (CDO). As a result of market upheaval, a lack of regular trading market in these securities, and bank failures, the fair value of these securities had fallen sharply in 2008 and continued to fall in the first half of 2009. The Company recognized cumulative other-than-temporary-impairment (OTTI) amounting to $0.9 million on one CDO over several years. Management sold a portion of this security in 2011 and intends to sell the remainder in whole or in part over time. If the financial condition of the underlying banks deteriorates, further write-downs could occur before a sale, which would be reflected in the statement of operations. The maximum potential write-down would be its current carrying value of less than $0.1 million.

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CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

(2) Securities (continued)

Amortized cost and fair value of available-for-sale and held-to-maturity securities at December 31, 2011 are summarized as follows:

		December 31, 2011			
			Gross Unrealized		
		Amortized Cost	Gains	Losses	Fair Value
Securities Available for Sale:					
U.S. Treasury	$	502	-	-	502
U.S. government sponsored enterprise obligations		55,766	377	(18)	56,125
State and municipal obligations		53,531	1,917	(23)	55,425
Corporate obligations		1,093	2	(296)	799
Equity securities		1,295	112	-	1,407
Total securities Available for Sale	$	112,187	2,408	(337)	114,258

(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	$	1,007	1	-	1,008
State and municipal obligations		165,348	5,113	(135)	170,326
Corporate obligations		870	313	-	1,183
Total Securities Held to Maturity	$	167,225	5,427	(135)	172,517

The following table presents the fair value of securities with gross unrealized losses at December 31, 2011, 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	$	7,610	18	-	-	7,610	18
State and municipal obligations		355	3	996	20	1,351	23
Corporate obligations		-	-	759	296	759	296
Total temporarily impaired securities	$	7,965	21	1,755	316	9,720	337
Securities Held to Maturity:							
State and municipal obligations	$	7,886	80	4,647	55	12,533	135
Total temporarily impaired securities	$	7,886	80	4,647	55	12,533	135

(3) Loans and Allowance for Loan Losses

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.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

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 (six 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, unless such loans were restructured in a troubled debt restructuring. These loans are collectively evaluated for risk of loss on a pool basis.

Loans

The Company's market area is generally Ontario County and Monroe County of New York State. Substantially all loans are made in its 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 March 31, 2012 and December 31, 2011, follow (in thousands), along with a description of their underwriting and risk characteristics:

		2012	**2011**
Commercial and industrial	$	198,118	198,744
Mortgages:			
Commercial		493,457	467,413
Residential - first lien		262,770	256,173
Residential - second lien		100,368	101,877
Consumer:			
Automobile - indirect		261,619	227,541
Other		24,087	25,583
Loans held for sale		11,636	7,556
Total loans		1,352,055	1,284,887
Plus - Net deferred loan costs		9,054	7,634
Less - Allowance for loan losses		(16,841)	(16,095)
Loans - net	$	1,344,268	1,276,426

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-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 5% or more are retained in the Company s portfolio. For longer term, fixed-rate residential mortgages without escrow, the Company generally retains the servicing, but sells the right to receive principal and interest to 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 Second-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 Loans: The Company funds a variety of consumer loans, including direct and indirect 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.

Allowance for Loan Losses

The allowance for loan losses is a valuation reserve for probable and inherent 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 and pool-based reserves for impaired commercial loans and 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 subjective 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 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.

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A summary of the changes in the allowance for loan losses follows (in thousands). Notwithstanding the estimated allocations set forth in any table, the entirety of the allowance is available to absorb losses in any portfolio:

		For the Three-Month Periods Ended March 31,	
		2012	2011
Balance at the beginning of period	$	16,095	15,635
Loans charged off		(710)	(705)
Recoveries of loans charged off		306	230
Provision charged to operations		1,150	750
Balance at end of period	$	16,841	15,910

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 March 31, 2012 and 2011 (in thousands):

		Commercial and industrial	Commercial mortgage	Residential mortgage - first position	Residential mortgage - second position	Consumer - indirect	Consumer - other	Loans held for sale	Unallocated	Total
Beginning Balance	$	6,393	994	1,786	521	4,839	916	-	646	16,095
Charge-offs		(191)	-	(75)	(3)	(283)	(158)	-	-	(710)
Recoveries		38	2	6	2	175	83	-	-	306
Provision		(1,362)	286	190	14	1,130	381	-	511	1,150
Ending Balance	$	4,878	1,282	1,907	534	5,861	1,222	-	1,157	16,841
<u>of which:</u>										
Amount for loans individually										

evaluated for impairment	$	1,079	443	-	-	-	-	-	-	1,522
Amount for loans collectively evaluated for impairment	$	3,799	839	1,907	534	5,861	1,222	-	1,157	15,319
Balance of loans individually evaluated for impairment	$	3,668	11,545	-	29	-	-	-	-	15,242
Balance of loans collectively evaluated for impairment	$	194,450	481,912	262,770	100,339	261,619	24,087	11,636	9,054	1,345,867

		Commercial and industrial	**Commercial mortgage**	**Residential mortgage - first position**	**Residential mortgage - second position**	**Consumer - indirect**	**Consumer - other**	**Loans held for sale**	**Unallocated**	**Total**
Beginning Balance	$	6,364	1,371	1,304	563	4,196	1,155	-	682	15,635
Charge-offs		(155)	-	-	-	(402)	(148)	-	-	(705)
Recoveries		15	-	-	1	141	73	-	-	230
Provision		(348)	300	362	23	206	(269)	-	476	750
Ending Balance	$	5,876	1,671	1,666	587	4,141	811	-	1,158	15,910
of which:										
Amount for loans individually evaluated for impairment	$	705	80	101	47	-	-	-	-	933
Amount for loans collectively evaluated for impairment	$	5,171	1,591	1,565	540	4,141	811	-	1,158	14,977

Balance of loans individually evaluated for impairment	$	1,508	1,449	669	54	-	-	-	-	3,680
Balance of loans collectively evaluated for impairment	$	197,067	431,604	234,606	93,904	173,412	27,170	4,247	5,540	1,167,550

The balance in the allowance for loan losses increased to $16.8 million at March 31, 2012 compared to $16.1 million December 31, 2011, and from $15.9 million at March 31, 2011. In determining the level of allowance necessary, we considered a number of factors. The most significant factor in the first quarter of 2012 was growth in the portfolio, which amounted to an annualized rate of 21% for the three-month period from December 31, 2011, and 16% for the twelve-month period from March 31, 2011. However, the balance in the allowance did not increase by these percentages due to specific portfolio factors, which include, (a) a reduction in the loss factor applied to Substandard-rated Commercial and Industrial Loans, (b) an increase in reserves for impaired loans, (c) a decline in

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annualized net charge-offs, and (d) a decline in the ratio of non-performing loans to total loans. Economic conditions were also considered in our determination of the allowance. Given improvements we have seen in the economy, we have reduced our economic qualitative factors.

More specifically, since December 31, 2011, we have reduced the allocated allowance to Commercial and Industrial loans as discussed above. Increases in allocations for the other major loan categories occurred principally due to loan portfolio growth, while the unallocated portion has increased principally due to a combination of factors related to changes in the portfolio and related quantitative and qualitative factors.

In monitoring the credit quality of the portfolio, management applies a credit quality indicator to substantially all commercial loans. These quality indicators, as more fully described in the 2011 Annual Report, 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 are allocated a percentage of the allowance for loan losses on a pooled-basis.

The following tables present the loan portfolio as of March 31, 2012 and December 31, 2011 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.

Loans in category 9 and unrated are evaluated for credit quality after origination based upon delinquency status. (See Aging Analysis table).

Credit Quality Indicator Analysis as of March 31, 2012

	Residential mortgage -	Residential mortgage -	Loans	Deferred

		Commercial and industrial	Commercial mortgage	first position	second position	Consumer - indirect	Consumer - other	held for sale	Fees and Costs	Total
1-Superior	$	10,377	-	-	-	-	816	-	-	11,193
2-Good		8,268	26,459	1,656	3,172	-	1,084	-	-	40,639
3-Satisfactory		69,249	195,085	1,280	564	-	-	-	-	266,178
4-Watch		43,078	209,335	4,834	106	-	-	-	-	257,353
5-Special Mention		12,041	6,289	1,009	-	-	-	-	-	19,339
6-Substandard		22,395	31,573	4,263	225	-	-	-	-	58,456
7-Doubtful		-	-	7	-	-	-	-	-	7
Subtotal	$	165,408	468,741	13,049	4,067	-	1,900	-	-	653,165
9 and not rated		32,710	24,716	249,721	96,301	261,619	22,187	11,636	9,054	707,944
Total	$	198,118	493,457	262,770	100,368	261,619	24,087	11,636	9,054	1,361,109

Credit Quality Indicator Analysis as of December 31, 2011

		Commercial and industrial	Commercial mortgage	Residential mortgage - first position	Residential mortgage - second position	Consumer - indirect	Consumer - other	Loans held for sale	Deferred Fees and Costs	Total
1-Superior	$	9,814	105	-	-	-	913	-	-	10,832
2-Good		8,826	26,195	1,718	2,560	-	-	-	-	39,299
3 Satisfactory		68,246	177,882	1,409	576	-	-	-	-	248,113
4 Watch		43,928	210,901	6,045	269	-	-	-	-	261,143
5 Special Mention		7,864	4,645	1,127	-	-	-	-	-	13,636
6 Substandard		29,440	30,018	4,496	453	-	100	-	-	64,507
7 Doubtful		-	-	-	7	-	-	-	-	7
8 Loss		-	-	-	-	-	-	-	-	-
Subtotal	$	168,118	449,746	14,795	3,865	-	1,013	-	-	637,537
9 and not rated		30,626	17,667	241,378	98,012	227,541	24,570	7,556	7,634	654,984
Total	$	198,744	467,413	256,173	101,877	227,541	25,583	7,556	7,634	1,292,521

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A summary of information regarding nonaccruing loans and other nonperforming assets as of March 31, 2012, December 31, 2011, and March 31, 2011 follows (in thousands):

		March 31, 2012	December 31, 2011	March 31, 2011
Accruing loans 90 days or more delinquent	$	554	969	208
Nonaccruing loans		19,358	17,307	22,760
Total nonperforming loans		19,912	18,276	22,968
Other real estate owned		3,562	4,632	3,836
(less write-down of other real estate owned)		(435)	(397)	(551)
Total nonperforming assets	$	23,039	22,511	26,253

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The following tables present, as of March 31, 2012 and December 31, 2011, additional details about the loan portfolio in the form of an aging analysis of the loan portfolio. Amounts exclude deferred fees and costs (in thousands).

During the first quarter of 2012, we experienced an increase in past-due commercial mortgages, particularly in non-accrual loan, which was caused by one relationship. Based upon available appraisals, we believe loans underlying the relationship are secured by collateral with values exceeding our carrying value. We are in the process of re-appraising the collateral. Also during the quarter we experienced an increase in past-due residential mortgages. This is a seasonal trend which we historically experience in the first quarter of each year. However, included in the 60-89 category is one loan approximating $1.0 million, which, given the borrower s payment patterns, is likely to become non-accrual in the second quarter. We believe the underlying collateral, based upon appraisals on hand, is adequately secured.

Aging Analysis as of March 31, 2012

		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	$	335	250	3,841	4,426	193,692	198,118	88	3,753
Commercial mortgages		1,497	1,326	11,572	14,395	479,062	493,457	-	11,572
Residential - first lien		3,084	1,415	4,249	8,748	254,022	262,770	390	3,859
Residential - junior lien		341	90	174	605	99,763	100,368	-	174
Consumer:									
Automobile - Indirect		1,310	726	61	2,097	259,522	261,619	61	-
Other		204	21	15	240	23,847	24,087	15	-
Loans held-for-sale		-	-	-	-	11,636	11,636	-	-
	$	6,771	3,828	19,912	30,511	1,321,544	1,352,055	554	19,358

Aging Analysis as of December 31, 2011

		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	$	395	432	3,992	4,819	193,925	198,744	75	3,917
Commercial mortgages		2,184	-	9,078	11,262	456,151	467,413	-	9,078
Residential - first lien		633	55	4,453	5,141	251,032	256,173	652	3,801
Residential - junior lien		444	91	419	954	100,923	101,877	8	411
Consumer:									
Automobile - indirect		1,766	653	165	2,584	224,957	227,541	165	-
Other		257	88	169	514	25,069	25,583	69	100
Loans held-for-sale		-	-	-	-	7,556	7,556	-	-
Total	$	5,679	1,319	18,276	25,274	1,259,613	1,284,887	969	17,307

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

		As of and for the three-month period ended March 31, 2012	As of and for the year ended December 31, 2011	As of and for the three-month period ended March 31, 2011
Recorded investment at period end	$	19,358	17,307	22,760
Impaired loans with specific related allowance at period end	$	3,929	2,453	3,680
Amount of specific related allowance at period end	$	1,522	1,138	933
Average investment during the period	$	19,545	20,394	22,069
Interest income recognized on a cash basis during the period	$	103	127	-

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The details of impaired loans as of March 31, 2012 and December 31, 2011 follow (in thousands)

March 31, 2012

		Recorded Investment	Unpaid principal balance	Specific Related Allowance	Average Recorded Investment	Interest income Recognized
With no specific allowance						
Commercial and industrial	$	1,640	2,151	-	1,811	-
Commercial mortgage		9,756	11,158	-	9,010	81
Residential mortgage - first position		3,859	4,042	-	4,331	20
Residential mortgage - second position		174	213	-	420	-
Consumer - other		-	-	-	76	2
Subtotal		15,429	17,564	-	15,648	103
With specific allowance						
Commercial and industrial		2,113	2,249	1,079	2,503	-
Commercial mortgage		1,816	1,936	443	1,394	-
Subtotal		3,929	4,185	1,522	3,897	-
Total	$	19,358	21,749	1,522	19,545	103
Summary by portfolio:						
Commercial	$	15,325	17,494	1,522	14,718	81
Residential		4,033	4,255	-	4,751	20
Consumer and other		-	-	-	76	2
Total	$	19,358	21,749	1,522	19,545	103

December 31, 2011

With no specific allowance		Recorded Investment	Unpaid principal balance	Specific Related Allowance	Average Recorded Investment	Interest income Recognized
Commercial and industrial	$	2,541	3,048	-	1,401	-
Commercial mortgage		8,001	9,440	-	6,578	114
Residential mortgage - first position		3,801	3,968	-	3,366	13
		411	439	-	390	-

Residential mortgage - second position						
Consumer - other		100	102	-	76	-
Subtotal		14,854	16,997	-	11,811	127
With specific allowance						
Commercial and industrial		1,376	1,454	895	3,079	-
Commercial mortgage		1,077	1,153	243	3,988	-
Residential mortgage - first position		-	-	-	1,265	-
Residential mortgage - second position		-	-	-	201	-
Subtotal		2,453	2,607	1,138	8,583	-
Total	$	17,307	19,604	1,138	20,394	127
Summary by portfolio:						
Commercial	$	12,995	15,095	1,138	15,046	114
Residential		4,212	4,407	-	5,222	13
Consumer and other		100	102	-	126	-
Total	$	17,307	19,604	1,138	20,394	127

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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 where 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.

As of March 31, 2012 there were two relationships, one totaling $4.5 million and one totaling $0.3 million that were considered TDRs due to the nature of the concessions granted to the borrower. We have established no impairment reserve for either relationship in light of the value of underlying collateral and management s recovery expectations. The balances of the underlying loans are included in non-performing loans. For the largest one, 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 was in compliance with the terms of the forbearance agreement which expired in March 2011. We have renewed the forbearance agreement for an additional 24 months with higher monthly payments than under the previous agreement. The borrower has paid as agreed.

(4) 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.

Gross servicing fees earned by the Company for the three-month periods ended March 31, 2012 and 2011, respectively, amounted to $346,000 and $343,000. These fees are included in net mortgage servicing income on the statements of income.

The following table presents the changes in loan servicing assets for the three-month periods ended March 31, 2012 and 2011, respectively, as well as the estimated fair value of the assets at the beginning and end of the period (in thousands).

	2012		2011	
	Book Value	**Estimated Fair Value**	**Book Value**	**Estimated Fair Value**
Balance at January 1,	$ 2,489	$ 3,244	$ 2,222	$ 3,418
Originations	254		155	
Amortization	(143)		(124)	
Balance at March 31,	$ 2,600	$ 3,280	$ 2,253	$ 3,465

(5) Capital Changes

At a special meeting of the Company s shareholders held on September 14, 2011, the Company s shareholders approved (a) a 4-for-1 forward stock split of the Company s common stock (the Stock Split) and (b) a corresponding amendment to the Company s Certificate of Incorporation that would affect the stock split by increasing the Company s total number of authorized shares from 8,000,000 to 20,000,000 shares, increasing the authorized number of shares of common stock from 4,000,000 to 16,000,000 shares, including changing the par value per share from $20.00 to $5.00, and implementing the Stock Split. The amendment to the Company s Certificate of Incorporation effecting the Stock Split was filed with New York State on September 20, 2011. All share data presented in the Company s financial statements and this Form 10-Q has been adjusted retroactively to reflect the Stock Split.

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At the Company s April 2011 Annual Meeting, shareholders authorized a class of 4,000,000 shares of preferred stock, $.01 par value. No shares of preferred stock have been issued.

(6) Dividend

On January 11, 2012, the Board of Directors declared a semi-annual $1.50 per share dividend on common stock to shareholders of record on January 21, 2012. The dividend was paid on February 1, 2012.

(7) Earnings Per Share

Basic earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of shares outstanding during the period. Diluted earnings per share includes the maximum dilutive effect of stock issuable upon conversion of stock options. Calculations for the three-month periods ended March 31, 2012 and 2011 follow (dollars in thousands, except per share data):

		Three-months Ended March 31,	
		2012	**2011**
Basic Earnings Per Share:			
Net income applicable to common shareholders	$	3,529	4,339
Weighted average common shares outstanding		1,887,254	1,888,570
Basic earnings per share	$	1.87	2.30
Diluted Earnings Per Share:			
Net income applicable to common shareholders	$	3,529	4,339
Weighted average common shares outstanding		1,887,254	1,888,570
Effect of assumed exercise of stock options		38,688	34,079
Total		1,925,942	1,922,649
Diluted earnings per share	$	1.83	2.26

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(8) Segment Information

The Company is organized into four reportable segments: the Company and its banking and Florida trust subsidiaries (Bank), CNB Mortgage Company (CNBM), Genesee Valley Trust Company (GVT), and WBI OBS Financial, LLC and its subsidiaries (OBS). These have been segmented due to differences in their distribution channels, the volatility of their earnings, and internal and external financial reporting requirements. The interim period reportable segment information for the three-month periods ended March 31, 2012 and 2011 follows (dollars in thousands). The Company acquired a majority interest in OBS in November 2011; therefore, OBS segment information is only presented for the three-month period ended March 31, 2012.

Three months ended March 31,				**2012**			
		Bank	**CNBM**	**GVT**	**OBS**	**Intersegment**	**Total**
Net interest income	$	16,193	2	3	-	(5)	16,193
Non-interest income		5,760	1,284	885	591	(338)	8,182
Total revenues		21,953	1,286	888	591	(343)	24,375
Provision for loan losses		1,150	-	-	-	-	1,150
Intangible amortization		46	-	157	-	-	203
Other operating expenses		16,148	741	761	470	(179)	17,941
Total expenses		17,344	741	918	470	(179)	19,294
Income (loss) before tax		4,609	545	(30)	121	(164)	5,081
Income tax		1,510	215	(7)	-	(208)	1,510
Net income attributable to noncontrolling interests and Canandaigua National Corporation		3,099	330	(23)	121	44	3,571
Less: Net income attributable to noncontrolling interests		-	-	-	42	-	42
Net income attributable to Canandaigua National Corporation	$	3,099	330	(23)	79	44	3,529
Total identifiable assets	$	1,773,882	10,198	16,432	15,874	(17,004)	1,799,382

Three months ended March 31,				**2011**		
		Bank	**CNBM**	**GVT**	**Intersegment**	**Total**
Net interest income	$	14,823	3	3	(6)	14,823
Non-interest income		6,022	736	1,037	(603)	7,192
Total revenues		20,845	739	1,040	(609)	22,015
Provision for loan losses		750	-	-	-	750
Intangible amortization		50	-	172	-	222
Other operating expenses		13,956	571	744	(172)	15,099
Total expenses		14,756	571	916	(172)	16,071
Income (loss) before tax		6,089	168	124	(437)	5,944
Income tax		1,605	64	45	(109)	1,605
Net income (loss)	$	4,484	104	79	(328)	4,339
Total identifiable assets	$	1,696,785	6,603	16,582	(8,646)	1,711,324

(9) Interest Rate Swap Agreements

The Company is exposed to interest rate risk as a result of both the timing of changes in interest rates of assets and liabilities, and the magnitude of those changes. In order to reduce this risk for the Company s $30.9 million floating-rate junior subordinated debenture, the Company entered into an interest rate swap agreement in 2007, which expired on June 15, 2011. This interest rate swap agreement modified the repricing characteristics of the debentures from a floating-rate debt (LIBOR +1.40%) to a fixed-rate debt (5.54%). For this swap agreement, amounts receivable or payable were recognized as accrued under the terms of the agreement, and the net differential was recorded as an adjustment to interest expense of the related debentures. The interest rate swap agreement was designated as a cash flow hedge. Therefore, the effective portion of the swap s unrealized gain or loss was recorded as a component of other comprehensive income. The ineffective portion of the unrealized gain or loss, if any, was immediately reported in other operating income. The swap agreement was carried at fair value in Other Liabilities on the Condensed Consolidated Statement of Condition.

In consideration of the expiration of the aforementioned agreement, the Company entered into a forward interest rate swap agreement on July 1, 2010. This swap became effective on June 15, 2011 and expires on June 15, 2021. This interest rate swap agreement modifies the repricing characteristics of the Company s $30.9 million floating-rate junior subordinated debenture from a floating-rate debt (LIBOR +1.40%) to a fixed-rate debt (4.81%). The accounting for this is the same as the expired swap agreement.

In December 2012, the Company will be exposed to interest rate risk as a result of the timing of changes in interest rates associated with the $20.6 million fixed-to-floating junior subordinated debentures issued in June 2006. In consideration of the end of the fixed-rate period, the Company entered into a forward interest rate swap agreement on December 22, 2011. The Company designated the swap as a cash flow hedge, and it is intended to protect against the variability of cash flows associated with this debenture. This swap becomes effective on December 15, 2012 and expires on December 15, 2022. This interest rate swap agreement will modify the repricing characteristics of the debenture from a floating-rate debt (LIBOR +1.44%) to a fixed-rate debt (3.859%).

(10) 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.

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Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

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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.

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Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

			March 31, 2012		December 31, 2011	
Financial Assets:	**Fair Value Hierarchy**		**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Cash and equivalents	1	$	105,573	105,573	126,740	126,740
Securities, available-for-sale	1, 2, 3	$	107,330	107,330	114,258	114,258
Securities, held-to-maturity	2	$	165,464	170,109	167,225	172,517
FHLB stock and Federal Reserve Bank stock	3	$	2,656	2,656	2,656	2,656
Loans-net	3	$	1,344,268	1,408,255	1,276,426	1,308,531
Loan servicing assets	3	$	2,600	3,280	2,489	3,244
Financial Liabilities:						
Deposits:						
Demand, savings and money market accounts	3	$	1,188,421	1,188,421	1,148,406	1,148,406
Time deposits	3	$	395,104	385,858	398,204	393,583
Borrowings	2	$	-	-	-	-
Junior subordinated debentures	2	$	51,547	52,299	51,547	52,185
Other financial instruments:						
Interest rate swap agreements	2	$	(3,313)	(3,313)	(4,415)	(4,415)
Letters of credit	2	$	(217)	(217)	(233)	(233)

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.

Certain securities fair values are determined using unobservable inputs and include bank-debt-based CDOs. There is 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.

There is no market for stock issued by the Federal Home Loan Bank and 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 at March 31, 2012 and 2011, and the sensitivity of such values to changes in those assumptions are summarized in the 2011 Annual Report and are substantially unchanged.

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.

Junior Subordinated Debentures

There is no 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 the 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.

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES

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(11) Fair Values Measurements

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 March 31, 2012, by caption on the Condensed 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	$	502	-	-	502
U.S. government sponsored enterprise obligations		-	51,303	-	51,303
State and municipal obligation		-	53,216	-	53,216
All other		-	2,212	97	2,309
Total assets	$	502	106,731	97	107,330
Liabilities					
Interest rate swap agreement	$	-	3,313	-	3,313
Letters of credit		-	217	-	217
Total liabilities	$	-	3,530	-	3,530
Measured on a non-recurring basis:					
Assets					
Loans					
Loans-held-for-sale	$	-	11,636	-	11,636
Collateral dependent impaired loans		-	-	3,929	3,929
Other real estate owned		-	-	3,127	3,127

Loan servicing assets		-	-	2,600	2,600
Total assets	$	-	11,636	9,656	21,292

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. 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.

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CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES

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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) for the three-month period ended March 31, 2012 (in thousands). During the three-month period certain securities were transferred to Level 2 classification. These securities are now showing an active trading market, which has resulted in fair values with significant observable elements.

		Three months ended March 31, 2012
Securities available for sale, beginning of period	$	799
Securities transferred to Level 2 during period		(730)
Unrealized gain included in other comprehensive income		28
Securities available for sale, end of period	$	97

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The following table presents for each of the fair-value hierarchy levels the Company s assets and liabilities that were measured at fair value on a recurring and non-recurring basis at December 31, 2011, 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	$	502	-	-	502
U.S. government sponsored enterprise obligations		-	56,125	-	56,125
State and municipal obligation		-	55,425	-	55,425
All other		-	1,407	799	2,206
Total assets	$	502	112,957	799	114,258
Liabilities					
Interest rate swap agreement	$	-	4,415	-	4,415
Letters of credit		-	233	-	233
Total liabilities	$	-	4,648	-	4,648
Measured on a non-recurring basis:					
Assets					
Loans					
Loans-held-for-sale	$	-	7,556	-	7,556
Collateral dependent impaired loans		-	-	2,453	2,453
Other assets					
Other real estate owned		-	-	4,235	4,235
Loan servicing assets		-	-	2,489	2,489
Total assets	$	-	7,556	9,177	16,733

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) for the three-month period ended March 31, 2011 (in thousands).

		Three months ended March 31, 2011
Securities available for sale, beginning of period	$	958
Unrealized gain included in other comprehensive income		37
Securities available for sale, end of period	$	995

(12) Accounting Pronouncements Implemented in the Current Year

We implemented the following Accounting Standards Updates (ASU) as of January 1, 2012 with no impact to our financial condition or results of operations. However, some footnote disclosures were revised:

ASU 2011-03. *Reconsideration of Effective Control for Repurchase Agreements*, issued April 2011. The main objective in developing this Update was to improve the accounting for repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this Update removed from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control were not changed by the amendments in this Update. Since the Company does not currently engage in these types of transactions, the Update had no impact on the Company s financial condition or results of operations upon implementation.

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ASU 2011-04 Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, issued May 2011. The amendments were intended to converge fair value measurement and disclosure guidance in U.S. GAAP with the guidance in the International Accounting Standards Board s concurrently issued IFRS 13, *Fair Value Measurement*. The amendments in ASU 2011-04 did not modify the requirements for when fair value measurements apply; rather, they generally represented clarifications on how to measure and disclose fair value under ASC 820, *Fair Value Measurement*. In implementing this ASU, we expanded relevant disclosures for fair values of financial instruments and fair value measurements.

ASU 2011-05 Presentation of Comprehensive Income, issued June 2011. The objective of this Update was to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The amendments required that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. We used the two statement report by including a consolidated statement of comprehensive income.

In *ASU 2011-12 Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, the FASB deferred the certain reporting requirements for reclassifications out of accumulated other comprehensive income on a components basis.

ASU 2011-08 Testing Goodwill for Impairment, issued September 2011. The objective of this Update was to simplify how entities, both public and non-public, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Previous guidance required an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under the amendments in this Update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. Although this ASU became effective on January 1, 2012, we will not implement its provisions until the fourth quarter of 2012 when we perform our annual goodwill assessment.

(13) Acquisition

As more fully discussed in the 2011 Annual Report, in November 2011, the Company acquired a majority interest in WBI OBS Financial, LLC (WBI), a company formed to concurrently acquire OBS Holdings, Inc. (OBS). As of March 31, 2012, the Company had not completed its comprehensive analysis of the fair value of assets acquired and liabilities assumed. The Company expects to complete this analysis in 2012. There has been no change to the financial information presented in the 2011 Annual Report.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is our discussion and analysis of certain significant factors which have affected the Company's financial position and operating results during the periods included in the accompanying condensed consolidated financial statements. This discussion and analysis supplements our *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our 2011 Annual Report.

Critical Accounting Estimates

We are instructed, pursuant to SEC guidance, to evaluate and disclose those accounting estimates that we judge to be critical - those most important to the portrayal of the Company's financial condition and results, and that require our most difficult, subjective and complex judgments. We consider the Allowance for Loan Losses (allowance) as critical given the inherent uncertainty in evaluating the levels of the allowance required to reflect credit losses in the portfolio. We also consider the valuation of investment securities for Other-Than-Temporary-Impairment (OTTI) as critical in the current market environment given the lack of an active and liquid market for a small number of our holdings. There has been no change in our methodology for estimating the allowance or securities valuation, which is fully described within the 2011 Annual Report.

Significant Corporate Events

Quite similar to the last quarter, on March 8, 2012, a sealed-bid public auction of our common stock yielded a new average price of $147.48, up 14.1% in one quarter over the previous price of $129.22 set in November, 2011. This increase resulted in a pre-tax $1.7 million upward adjustment to our Stock Appreciation Rights liability, which is reflected in operating expenses.

Financial Overview

Diluted earnings per common share for the first quarter of 2012 declined 19.0% to $1.83 from $2.26 in the same quarter of 2011. Net income in these periods was $3.5 million and $4.3 million, respectively. Total assets at March 31, 2012 were $1,799.4 million compared to $1,761.5 million at December 31, 2011 and $1,771.3 million at March 31, 2011.

Earnings for the first quarter of 2012, as compared with the first quarter of 2011, reflected a strong 10.7% increase in total revenues (net interest income and other income) driven by business growth, a higher provision for loan losses, and, exclusive of the $1.7 million additional Stock Appreciation Rights liability accrual, operating expenses growth rate lower than the revenue growth rate. Despite a general decline in asset yields, net interest income grew due to higher volumes of earning assets and a decline in interest costs. The higher provision for loan losses was driven by increased net new loans. Reflecting continued franchise growth, total operating expenses increased in many major categories. As anticipated, FDIC premiums were down due to changes in assessment rates.

We were encouraged by the substantial increase in average interest earnings assets, particularly since it occurred in the higher-yielding loan portfolio. We experienced a planned decrease in federal funds sold, which were used to fund the loan growth. Average interest bearing liabilities changed little, but their cost fell significantly. Off-balance sheet, both the book value and fair value of Assets under Administration grew, reflecting new customer accounts and a significant improvement in stock market performance.

<u>Financial Condition</u> ***<u>(three months ended March 31, 2012)</u>***

At March 31, 2012, total assets were $1,799.4 million, up $37.9 million or 2.2% from $1,761.5 million at December 31, 2011.

Cash and cash equivalents (cash, balances with other financial institutions, and federal funds sold) were $105.6 million at March 31, 2012, falling $21.2 million, impacted by an increase in loans and decrease in investment balances.

The securities portfolio fell to $272.8 million, a $8.7 million from December 31, 2011. Similar to 2011 we experienced a relatively high level of security calls (i.e., issuers repaid debt obligations before their stated maturities). Market interest rates declined earlier in the first quarter this year. This decline made it beneficial for issuers to call outstanding higher cost obligations and replace them with lower cost obligations. With this lower rate environment we found fewer investments with attractive terms (rate, maturity, credit quality) in which to invest. With low rates and little inventory in the market, we purchased fewer investments in the early part of this quarter. We will continue to pursue the purchase of securities to replace the volume called. However, our ability to do so will be restricted by the low supply of high-quality US government sponsored enterprise obligations and municipal obligations, our preferred investment choices.

The securities portfolio consists principally of New York State municipal obligations (80.0% of total at March 31, 2012) with the remainder mostly in US government sponsored enterprise obligations. The total fair value of both the available-for-sale and the held-to-maturity securities portfolios exceeded amortized cost as a result of a decrease in mid- and long-term market rates since the securities purchase. In both portfolios we hold some securities with fair values below their amortized cost and we concluded at March 31, 2012, that there are none considered to be other than temporarily impaired.

During the last twelve months a handful of non-New York State municipalities have declared bankruptcy. Much continues to be written about high debt loads of many municipalities and other government entities and concern remains about the possibility of additional defaults given the budget pressures, including structural deficits that many municipalities face. Our Company is an investor in state and municipal obligations. We invest only in New York State based obligors. These investments are used to re-cycle the deposits of our local municipalities, and since we invest in New York State obligations, the money stays local and earns a tax-advantaged return. Prior to purchasing an investment, our Treasury team performs a financial analysis of the obligor or the obligation using such tools as internal models, particularly for non-rated issuances, third-party analyses, and rating agency guidance. At March 31, 2012, 94% of the portfolio was rated A or better, 3% BBB, and 3% was unrated. In addition, 96% of the obligations were backed by third-party credit support, and 97% were general obligations of the municipalities with unlimited taxing authority. We found no evidence of credit deterioration in the portfolio at March 31, 2012.

Loans, exclusive of loans held for sale, grew $63.1 million during the first quarter of 2012 with the gross portfolio totaling $1,352.1 million compared to $1,284.9 million at December 31, 2011. This continues three quarters trend of net portfolio growth. During this quarter we expected an increase in commercial loans given the strength in our pipeline. We also continued to target growth in the indirect automobile portfolio by offering discounted interest rates. We expect to see continued intense competition from banks, finance companies, and credit unions in the coming quarter. With respect to our balance sheet, in the coming quarter we expect both the commercial and residential portfolios to show increase, and a tempering in growth of the indirect portfolio due to offering rate increases initiated late in this quarter.

Please see the section entitled Impaired Loans and Non-Performing Assets for a discussion of loan credit quality.

Total deposits at March 31, 2012, were $1,583.5 million and were up $36.9 million from December 31, 2011. Growth occurred in all lower interest cost categories. Net growth was seen in consumer and municipal deposits while business deposits were down. Although the pace has slowed from recent past quarters, we continued to experience declines in time deposits, both consumer and business, and expect that to repeat throughout 2012 as a result of the generally low interest rate environment in which depositors prefer to keep excess funds liquid, awaiting higher rates and investment returns. Since most of these matured time deposits were redeposited in other deposit types, there was no impact on overall liquidity. However, the total cost of deposits (interest expense) did fall due to lower reinvestment rates available to depositors. Looking to the coming quarter, we expect consumer and commercial deposits to grow modestly and we expect little change in total municipal deposits.

As expected, there was no change in total borrowings. We do not expect to incur new long-term borrowings or need to access overnight borrowings for the foreseeable future, because the balance of federal funds sold and the strength of consumer and business deposit inflows should be sufficient to fund the increases we expect in earning assets.

Results of Operations (*three months ended March 31, 2012*)

Net interest income grew $1.4 million or 9.2% for the quarter compared to the same quarter in 2011, reflecting a widening of interest rate margin and spread. Average earning asset balances grew and were invested in higher-yielding loans, replacing lower yielding Federal Funds Sold. With general interest rates remaining low we have seen both asset yields and liability costs fall year over year as maturing products are replaced at lower interest rates. Given the length of this very low interest rate environment, we are likely to find fewer opportunities to significantly lower rates on deposit products, yet rates continue to fall on earning assets, which will eventually lead to lower interest rate spread and margin.

On a tax-equivalent basis, compared to the same quarter in 2011, the overall net growth in interest-earning assets and interest-bearing liabilities had a $2.0 million positive impact on net interest income, and the change in rates had a $0.6 million negative impact. Net interest margin was 4.16% for the first quarter of 2012, up from 3.96% during the same quarter in 2011. As we discussed in our 2011 Annual Report, we expect full-year net interest income (revenue) to increase year-on-year due to expected balance sheet growth, but we expect little positive impact from rate changes given the current interest rate environment and our anticipation of continued low interest rates for the remainder of the year.

Summary tax-equivalent net interest income information for the three-month periods ended March 31, 2012 and 2011 follows (dollars in thousands).

	2012			2011		
	Average Balance	**Interest**	**Annualized Average Rate**	**Average Balance**	**Interest**	**Annualized Average Rate**
Interest-bearing deposits and fed funds sold	$ 64,828	$ 39	0.24 %	$ 149,061	$ 94	0.25 %
Securities	279,526	2,710	3.88	273,795	2,938	4.29
Loans, net	1,291,374	16,450	5.10	1,163,759	16,079	5.53
Total interest-earning assets	1,635,728	$ 19,199	4.69 %	1,586,615	$ 19,111	4.82 %
Non interest-earning assets	118,625			104,626		
Total assets	$ 1,754,353			$ 1,691,241		
Total deposits	$ 1,318,318	$ 1,503	0.46 %	$ 1,312,983	$ 2,676	0.82 %
Total debt	51,547	696	5.40	51,661	745	5.77
Total interest-bearing liabilities	1,369,865	$ 2,199	0.64 %	1,364,644	$ 3,421	1.00 %
Non-interest bearing liabilities	251,023			203,231		
Equity	133,465			123,366		
Total liabilities and equity	$ 1,754,353			$ 1,691,241		
Interest rate spread			4.05 %			3.82 %
Net interest margin		$ 17,000	4.16 %		$ 15,690	3.96 %

The provision for loan losses was $1.2 million for the quarter, higher than the $0.8 million for the same quarter last year. The higher provision in the first quarter of 2012 was mostly driven by a higher overall loan portfolio balance coupled with stable asset quality and lower net charge-offs. Details of the allowance for loan losses and net charge-offs for the year to date is presented in Footnote 3 to the Condensed Consolidated Financial Statements.

Total other income for the quarter ended March 31, 2012 increased 13.8% to $8.2 million from $7.2 million in 2011. Service charges on deposit accounts increased approximately $0.2 million due to higher revenues from our Courtesy

Limit product and higher revenues for electronic banking services. Account maintenance service charges (included in service charges) were flat year-on-year due to higher customer balances offsetting their periodic fees. Electronic banking services (debit and ATM card revenues) continued to increase with consumers shifting from cash and checks to electronic transactions. We expect these trends to continue through the remainder of the year.

A consequence of the passage of Financial Reform Act is the potential negative industry-wide impact on debit card interchange income. The so-called   Durbin Amendment   required the Federal Reserve Board to adopt regulations limiting interchange fees that can be charged in an electronic debit card transaction to the   reasonable and proportionate   costs related to the incremental cost of the transaction. Banks under $10 billion in assets are exempt, which includes the Company; therefore, we do not anticipate negative consequences. However, merchants could choose to accept debit cards issued only by the largest banks, which are subject to the interchange limits. If that were to occur, our customers would be inconvenienced and our electronic banking income reduced.

Trust and investment services income grew 22.9% to $3.8 million for the first quarter of 2012 compared to $3.1 million for the same quarter in 2011. Total assets under administration (see table below) have grown year to year due to both organic growth in underlying accounts and higher fair value of assets within the accounts resulting from improved equity and bond markets. We anticipate book value growth to continue into the coming quarters with year-over-year growth rates expected to be in the 5% range. For the remainder of the year we anticipate fair value growth to moderate from this quarter s growth rate given the sharp run-up of the markets in this first quarter.

The following table presents information about period-end book value and fair value of assets under administration (dollars in thousands).

Assets Under Administration
as of
(in thousands)

		March 31, 2012	December 31, 2011	March 31, 2011
Book value	$	1,748,111	1,726,172	1,717,495
Fair value	$	1,991,810	1,858,130	1,928,261

The net gain on sale of mortgages was 61.9% higher in the first quarter of 2012 compared to the same quarter in 2011. The total volume of closed loans was up 57.1% year over year (See table below). Management s efforts to improve pricing and reduce loan delivery penalties is paying off with improved profitability. In the coming quarter, usually a heavier period for home sales and mortgage closings in our region, we expect volumes to be similar to this past quarter s. Normally they would be higher, but due to good weather, more home buying occurred in the first quarter than anticipated. If volumes for the year are similar to 2011 s, we expect the net gain on sale of mortgages might be lower than last year, because we anticipate holding more loans in portfolio.

CNB Mortgage Closed Loans by Type
For the three-month periods ended March 31,
(dollars in thousands)

		2012	2011
Purchase money mortgages	$	28,495	17,862
Refinance mortgages		41,514	26,700
Total mortgage originations	$	70,009	44,562
Percentage of loans retained in portfolio		26.9 %	21.4 %

Loan servicing fee income was essentially flat year over year with higher gross revenue offset by higher amortization of servicing rights caused by a higher year-over-year amortizable balance. We expect this historical level of income for the Company to remain as long as rates stay low and we sell loans with servicing retained. The heavy mortgage refinance activity during the past few years had led us to sell more originations to third parties rather than add these low-rate, long-term assets to our portfolio. We service many of these originated loans on behalf of Freddie Mac. The balance of loans serviced for Freddie Mac stood at $468.9 million at March 31, 2012 compared to $462.0 million at

December 31, 2011, and $446.0 million at March 31, 2011. We also earn servicing fees from sold commercial loan participations. The total balance of participations sold was $115.4 million at March 31, 2012 compared to $ 115.0 million at December 30, 2011, and $115.2 million at March 31, 2011.

Other operating income fell for the quarter compared to the same quarter in 2011, and can fluctuate from time to time depending upon earnings from our nonmarketable investments. In the first quarter of 2011, we recognized approximately $0.3 million from our investment in Cephas, while in the first quarter of 2012, the amount recognized was much lower. We expect to record earnings from this and other investments in the coming quarters, however the extent and timing cannot be determined.

Total operating expenses grew $2.8 million for the quarter ended March 31, 2012 compared to the same three-month period in 2011. Of this, $1.7 million was due to an additional accrual for stock appreciation rights liability (as noted previously), and $0.5 million was associated with OBS. With the exception of the expected large drop in FDIC insurance expense that occurred in the first quarter of 2012, all major categories of expenses generally increased, and were consistent with the growth in our franchise: loans, deposits, assets under administration, etc. The largest component increase, exclusive of the stock appreciation rights accrual, was in salaries and employee benefits reflecting the addition of new staff and raises for incumbents. Except for FDIC insurance, we expect all categories to continue to increase during the year consistent with our business growth goals.

The quarterly effective tax rate was 29.7% in 2012 and 27.0% in 2011. The change in the effective rate is attributable to the ratio of tax-exempt income to total income. It is likely this rate will settle in the 29% - 31% range through 2012 due to lower tax-exempt income from declining interest rates on tax-exempt bonds.

Liquidity

There has been no material change from December 31, 2011 in our available sources of wholesale liquidity from either the Federal Home Loan Bank of New York (FHLB) or the Federal Reserve Bank of New York. At March 31, 2012 we had no overnight or short-term borrowings outstanding, and during the quarter we did not utilize any overnight or short-term borrowings. Given our high level of federal funds sold and continued deposit inflows, we foresee no borrowings in the coming quarter; though we might consider raising medium- or long-term borrowings for interest rate risk management purposes.

For the three months ended March 31, 2012, cash flows from all activities used $21.2 million in net cash and cash equivalents versus providing $78.1 million for the same period in 2011. In both years the principal source of cash inflows was deposits.

Net cash provided by operating activities was $1.5 million in 2012 versus $14.2 million in 2011. Both the largest source and use of operating cash in the first quarters of 2012 and 2011 were loans held for sale with origination and sales activity, which were approximately 45% higher in 2012 than in 2011. Excluding the effect of loans held for sale, operating activities provided $5.7 million and $4.4 million cash for each of the three-month periods in 2012 and 2011, respectively.

During the first quarter of 2012, investing activities used $56.8 million in cash and equivalents compared to providing $17.4 million in the same period of 2011. Each periods significant investing activities were opposite, with securities activities providing cash in 2012 and loan activities using cash, while in 2011, securities activities used cash and loan activities provided cash. For the remainder of the year we expect both securities and loan activities to utilize cash.

Cash provided by financing activities was $34.1 million in the first quarter of 2012 versus $46.5 million in the same period of 2011. The main contributor in both periods was deposit activity.

For the remainder of 2012, cash for growth is expected to come primarily from operating activities and customer deposits. Customer deposit growth is expected to come mainly from Monroe and Ontario Counties consumers and businesses.

Contractual obligations and commitments

Less material, but a part of our ongoing operations, and expected to be funded through normal operations, are liquidity uses such as lease obligations, long-term debt repayments, and other funding commitments. There has been no material change from the information disclosed in our 2011 Annual Report.

Also, as discussed more fully in our 2011 Annual Report, in the normal course of business, various commitments and contingent liabilities are outstanding. 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 following table presents the notional amount of the Company's significant commitments. Most of these commitments are not included in the Company's consolidated balance sheet (in thousands).

		March 31, 2012 Notional Amount	December 31, 2011 Notional Amount
Commitments to extend credit:			
Commercial lines of credit	$	139,122	138,072
Commercial real estate and construction	$	53,038	37,174
Residential real estate at fixed rates	$	5,442	5,269
Home equity lines of credit	$	193,393	186,902
Unsecured personal lines of credit	$	16,794	16,326
Standby and commercial letters of credit	$	14,460	15,563
Commitments to sell real estate loans	$	11,636	7,556

Capital Resources

Under the regulatory framework for prompt corrective action, as of March 31, 2012, the Company and Bank are categorized as "well-capitalized." This is unchanged from December 31, 2011, and management anticipates no change in this classification for the foreseeable future.

On September 12, 2010, the Basel Committee on Banking Supervision released its proposal for revising capital requirements for internationally active financial institutions. These new standards are called Basel III. As a signatory to this proposal, the United States banking regulators will be revising capital standards for financial institutions in the U.S. Accordingly, we expect our capital standards will change. However, regulators have not released any new standards and are not expected to do so for some time. Furthermore, the international standards do not become fully effective until 2018, which is likely when the U.S. standards would become fully effective. It is too early to determine whether there will be any material impact to the Company.

Credit-Related Information

Allowance for Loan Losses , Net Charge-offs, and Non-performing Loans

Credit-related statistics follow (dollars in thousands):

	March 31, 2012	December 31, 2011	March 31, 2011
Allowance as a percentage of total period end loans	1.25 %	1.25 %	1.36 %
Allowance as a percentage of non-performing loans	84.58 %	88.07 %	69.27 %
Net charge-offs to average loans (annualized)	0.12 %	0.28 %	0.16 %
Non-performing loans to total period-end loans	1.47 %	1.42 %	1.97 %
Non-performing assets to total period-end loans and other real estate	1.70 %	1.75 %	2.25 %

The provision for loan losses for the three-month period ended March 31, 2012 was higher than the same period in 2011, due to substantially higher net loan growth offset by improved credit quality compared to 2011. The balance in the allowance for loan losses also increased during the quarter and was impacted by growth and higher quantitative factors from the eight-quarter loss migration applied to the residential mortgage and the consumer indirect portfolio. Conversely the allowances associated with commercial loans were reduced due to lower quantitative factors. As discussed more fully in the 2011 Annual Report, we determine the amount necessary in the allowance for loan losses based upon a number of factors. Based on our current assessment of the loan portfolio, we believe the amount of the allowance for loan losses at March 31, 2012 is appropriate at $16.8 million. However, should non-performing and non-accrual loans increase, or should we experience declines in customers credit quality measured through loan impairment or internal loan classifications, we may need to establish a higher allowance for loan losses as a percentage of total loans, which would necessitate an increase to the provision for loan losses.

Net charge-offs in the first quarter of 2012 were $0.4 million, compared to $0.5 million in the first quarter of 2011. Net charge-offs to average loans for the first three months fell in 2012 to 12 basis points compared to 16 basis points in 2011. In the coming quarters, we anticipate annualized net charge-offs in the 25-30 basis points range if we experience no significant portfolio deterioration.

Total non-performing loans were $19.9 million at March 31, 2012, up from $18.3 million at December 31, 2011, but down from $23.0 million at March 31, 2011. The general decline in non-performing loans since March 31, 2011, came mainly in commercial-related loans and residential mortgages.

Other real-estate owned has fallen $1.1 million since December 31, 2011 to $3.1 million at March 31, 2012, due to property liquidations, and is also down slightly from the first quarter of 2011. Given the current economic climate and overall growth in non-performing loans, we can expect additional foreclosures in the coming periods.

Impaired Loans

Total impaired loans have exhibited a positive trend during the past twelve months, having declined to $19.4 million at March 31, 2012 from $22.8 million at March 31, 2011 due to improvements in commercial and industrial loans and first-lien residential mortgages. However, since year end 2011, total impaired loans increased $2.1 million mostly due to a commercial relationship. At March 31, 2012 we identified 91 loans totaling $19.4 million that were considered impaired. Of these, 49, with an aggregate balance outstanding of $15.2 million were analyzed on a loan-by-loan basis, 10 of which, with an aggregate balance of $3.9 million, had specific reserves calculated amounting to $1.5 million. The remaining 42 loans totaling $4.2 million were evaluated for impairment on a collective basis.

Regional economic conditions continue to improve slowly. Despite this, as in all economic cycles, we can anticipate more loans, though we know of no material ones, which will become impaired in the coming quarters. Concurrently, we expect some loans, which are currently impaired, to improve over this same period, and we will likely see some impaired loans decline to loss status. Accordingly we do not expect the level of impaired loans to substantially change throughout the rest of 2012.

Impact of Financial Regulation Legislation

Management continues to navigate the myriad regulations and pronouncements resulting from the July 21, 2010 passing of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (Financial Reform Act). Most of the major regulations have yet to be enacted, but planning and managing their implementation requires considerable forethought. Our employees are working tirelessly to develop

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cost-effective solutions. The provisions expected to most significantly impact us are more fully described in the 2011 Annual Report. During the first quarter of 2012 there were no regulations promulgated as a result of the Financial Reform Act that did or are expected to have a significant impact on the Company.

Recent Accounting Standards to be implemented in Future Periods

The following presents a summary of Accounting Standards Updates (ASU s), exclusive of technical correction ASU s that will be subject to implementation in future periods.

ASU 2011-11 Disclosures about Offsetting Assets and Liabilities, issued December 2011. The amendments in this Update require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The amendments are intended to bring closer convergence of US GAAP with International Financial Reporting Standards (IFRS). The amendments are effective for us beginning in 2013. We do not anticipate any material impact to our financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Sensitivity and Asset / Liability Management Review

As set forth in our 2011 Annual Report, we expected market interest rates for 2012 would remain fairly steady for most of the year at current historic lows with no measurable increase expected until 2014. We have no reason at this time to change that expectation.

We measure net interest income at-risk by estimating the changes in net interest income resulting from instantaneous and sustained parallel shifts in interest rates of plus- or minus- 200 basis points over a twelve-month period. This provides a basis or benchmark for our Asset/Liability Committee to manage our interest rate risk profile. Presented below is a table showing our interest rate risk profile at March 31, 2012 and December 31, 2011.

Estimated

Changes in Interest Rates (basis points)	Percentage Change in Future Net Interest Income 2012	2011
200	(2)%	(4)%
100	(4)	(6)
No change	-	-
-100	(1)	(0)
-200	(1)	(0)

Our model suggests our interest rate risk has decreased slightly from year end for upward changes in rates, and has increased slightly for downward changes in rates. Our exposure to smaller increases in rates has declined, because, we have more earning assets in higher yielding loans relative to the year-end 2011 balance sheet. Our exposure to downward rate movements has increased due to the very low cost of deposits, which have little room to move lower regardless of the magnitude of market rate changes, while asset yields will continue to fall. Notwithstanding, we believe rates are more likely than not to remain at these historically low levels through most of 2013.

Item 4. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of March 31, 2012, that the Company's disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-14(c) and 15d-14(c)) are effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Also, there have been no changes in the Company's internal control over financial reporting identified in connection with that evaluation, or that occurred during the first quarter of 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II -- OTHER INFORMATION

CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES

Item 1. Legal proceedings

The Company and its subsidiaries are, from time to time, parties to or otherwise involved in legal proceedings arising in the normal course of business as either plaintiffs or defendants. Management does not believe that there is any pending or threatened proceeding against the Company or its subsidiaries which, if determined adversely, would have a material effect on the Company's business, results of operations, or financial condition.

Item 1A. Risk Factors

There has been no material change to the risk factors disclosed in the 2011 Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

From time to time, shares of our common stock are purchased by The Canandaigua National Bank and Trust Company (Bank) for the Arthur S. Hamlin Award, the Canandaigua National Corporation Employee Stock Ownership Plan (ESOP) and the Canandaigua National Corporation for treasury. Each of these entities is considered an affiliated purchaser of the Company under Item 703 of Regulation S-K. Shares repurchased by Company are not part of a publicly announced plan or program. The Bank, ESOP, and Company purchase prices per share are determined based on the most recent price established at the sealed-bid auction immediately preceding the purchase. Purchases occur on an ad-hoc basis when shares become available in the marketplace and the Company is interested in purchasing these shares for the corporate purposes discussed above. Sales occur when corporate needs require the use of shares and there are none available in the market at the time.

There were no shares purchased or sold by the Company during the quarter ended March 31, 2012.

Item 3. Defaults Upon Senior Securities

None

Item 4. (Removed and Reserved)

Item 5. Other information

<u>Unresolved Staff Comments</u>

None

Common Stock Trades

All share and per share information in all tables has been adjusted to reflect the four-for-one forward stock split approved by the Company s shareholders at a special meeting on September 14, 2011, and effected pursuant to an amendment to the Company s Certificate of Incorporation, which was filed with New York State on September 20, 2011.

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:

Date of Transaction	Number of Shares Sold	Average Price Per Share	Highest Accepted Bid	Lowest Accepted Bid
March 8, 2012	1,926	$ 147.48	$ 165.78	$ 141.93
April 5, 2012	4,233	$ 152.56	$ 179.96	$ 145.00

Although the Company s common stock is not listed with a national securities exchange, it trades sporadically on the Over-the-Counter Bulletin Board System under the symbol CNND or CNND.OB. The following table sets forth a summary of information about these trades. Due to the limited number of transactions, the quarterly high, low and weighted average bid/ask prices may not be indicative of the actual market value of the Company's stock.

The OTC Bulletin Board® (OTCBB) is a regulated quotation service that displays real-time quotes, last-sale prices, and volume information in over-the-counter (OTC) equity securities. An OTC equity security generally is any equity that is not listed or traded on NASDAQ® or a national securities exchange. The OTCBB is a quotation medium for subscribing members, not an issuer listing service, and should not be confused with The NASDAQ Stock Market℠. Investors must contact a broker/dealer to trade OTCBB securities. Investors do not have direct access to the OTCBB service. The Securities and Exchange Commission's (SEC's) Order-Handling Rules which apply to NASDAQ-listed securities do not apply to OTCBB securities. The OTCBB market quotations set forth below reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Period	Number of Shares Transacted	Quarterly Average Sales Price	Quarterly High Sales Price	Quarterly Low Sales Price
1st Quarter, 2012	5,603	$ 93.56	$ 105.00	$ 87.50

Item 6. Exhibits

	Exhibit	Where exhibit may be found (incorporated by reference to the extent not filed herewith):
(2.1)	Stock purchase Agreement, dated September 6, 2007, by and among Canandaigua National Corporation, Genesee Valley Trust Company	Filed as Exhibit 2.1 to Form 10-Q for the period ended June 30, 2010*
(2.2)	Asset Purchase Agreement, dated December 22, 2008, by and among The Canandaigua National Bank and Trust Company, Greentree Capital Management, LLC, Peter J Gaess, and T.C. Lewis	Filed as Exhibit 2.2 to Form 10-Q for the period ended June 30, 2010*
(2.3)	Amendment to Asset Purchase Agreement, dated December 31, 2008, by and among The Canandaigua National Bank and Trust Company, Greentree Capital Management, LLC, Peter J. Gaess, and T.C. Lewis	Filed as Exhibit 2.3 to Form 10-Q for the period ended June 30, 2010*
(3.i)	Certificate of Incorporation of the Registrant, as amended	Filed as Exhibit 3.i to Form 10-Q for the period ended March 31, 2011
(3.ii.)	By-laws of the Registrant, as amended	Filed as Exhibit 3.ii to Form 10-Q for the period ended March 31, 2011
(10.10)	Canandaigua National Corporation Omnibus Incentive Plan, as amended	Filed Herewith
(11)	Calculations of Basic Earnings Per Share and Diluted Earnings Per Share	Note 8 to the Condensed Consolidated Financial Statements
(31.1)	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
(31.2)	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith

(32)	Certification of Chief Executive Officer and Chief Financial Officer under 18 U.S.C. Section 1350 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed Herewith

(101)** The following materials from the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed consolidated Statements of Condition as of March 31, 2012 and December 31, 2011; (ii) condensed Consolidated Statements of Income for the three months ended March 31, 2012 and 2011; (iii) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011; (iv) condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2012 and 2011; (v) condensed Consolidated Statements of Changes in shareholders Equity for the three months ended March 31, 2012 and 2011; and, (vi) Notes to unaudited Condensed Consolidated Financial Statements.

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Notes

*Certain portions of these agreements have been granted confidential treatment by the Securities and Exchange Commission. Confidential information is omitted from these agreements and filed separately with the Commission

**** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections

SIGNATURES
CANANDAIGUA NATIONAL CORPORATION AND SUBSIDIARIES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CANANDAIGUA NATIONAL CORPORATION
(Registrant)

May 7, 2012	/s/ George W. Hamlin, IV
Date	George W. Hamlin, IV
	Chairman and Chief Executive Officer
May 7, 2012	/s/ Lawrence A. Heilbronner
Date	Lawrence A. Heilbronner
	Executive Vice President and
	Chief Financial Officer