

CANANDAIGUA NATIONAL CORP

Form 10-K

February 21, 2013

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

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the fiscal year ended December 31, 2012

☐ **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

(State of Incorporation)

16-1234823

*(I.R.S. Employer Identification
No.)*

72 South Main Street

Canandaigua, NY

*(Address of principal executive
offices)*

14424

(Zip Code)

(585) 394-4260

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

Common stock, \$5.00 par value

(Title of class)

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes ☐ No ☒

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒ 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 ☒

As of June 30, 2012, the aggregate estimated market value of the voting common stock held by non-affiliates, computed by reference to the then most recent public stock sale of \$149.24 per common share, was \$281,475,000.

Number of shares outstanding of the Registrant's shares of common stock as of January 29, 2013: 1,905,503.

Documents Incorporated by Reference

Portions of the Company's Annual Report for the fiscal year ended December 31, 2012, and Proxy Statement for its 2013 Annual Meeting of Shareholders are incorporated by reference into Parts I, II, and III.

CANANDAIGUA NATIONAL CORPORATION
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For the fiscal year ended December 31, 2012

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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, including under the heading "Risk Factors" in the Company's 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.

Some examples of forward-looking statements include statements related to our expectations on the direction of interest rates, demand for our loans, changes in customer transactions types, and the payment performance of our loan portfolio. Our experience and assumptions we believe are reasonable to form the basis of our stated expectations, but results can also be impacted by other factors.

As described in our public filings, factors which may cause our results to vary materially from our expectations include, among many others, adverse changes in the global economy which may affect interest rates and as well as the stability of our local service areas, which may affect loan demand and credit quality; changes in fees related to servicing electronic transactions which may affect consumer usage, and continued focus of regulatory authorities at the state, federal and international level on bank regulation.

PART I

Item 1. Business

Canandaigua National Corporation

Canandaigua National Corporation, (the "Company"), is a financial holding company that builds lasting customer relationships by providing comprehensive financial solutions to individuals and small businesses. The Company is headquartered in Canandaigua, New York, which is approximately 25 miles southeast of Rochester, New York. The Company was organized on October 31, 1984, and registered under the Bank Holding Company Act of 1956, for the purpose of becoming a one-bank holding company. In November 2011, in connection with its acquisition of a majority interest in WBI OBS Financial, LLC, the parent company of OBS Holdings, Inc. (OBS), an investment sub-advisory company, the Company became a financial holding company. Prior to then, in December 2007, in connection with its acquisition of Genesee Valley Trust Company, the Company became a multi-bank New York State bank holding company. The financial services company structure serves as a means of increasing the scope of banking and financial services in the market area served by The Canandaigua National Bank and Trust Company (the "Bank"). The Company's principal operating subsidiaries are the Bank, CNB Mortgage, Genesee Valley Trust Company, and OBS. Effective August 31, 2010, CNB Mortgage Company became a wholly-owned subsidiary of the Bank. It was formerly a wholly-owned subsidiary of the Company. The reason for the change was to bring CNB Mortgage Company under the federal banking regulatory structure from New York State's banking regulatory structure, which had become increasingly rigid and costly. There was no change in the consolidated financial results, in segment reporting, or in management of the companies. The Bank is the principal source of the Company's operating revenue and net income. (See also "Selected Financial Data" under Part II, Item 6, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Part II, Item 7 and Note 1 to the Consolidated Financial Statements contained in the Company's Annual Report for the fiscal year ended December 31, 2012 (the "2012 Annual Report"), which is incorporated herein by reference thereto, for additional information relating to the Company's business.) In January 2008, the Company acquired all of the outstanding stock of Genesee Valley Trust Company, as more fully described in Note 2 to the Consolidated Financial Statements, which is incorporated herein by reference thereto. In 2009, the Company formed a limited-purpose national trust company in the State of Florida named Canandaigua National Trust Company of Florida. In November 30, 2011, the Company acquired a majority interest in WBI OBS Financial, LLC.

A discussion of the principal segments of the Company follows. Financial information for these segments can be found in Note 18 to the Consolidated Financial Statements, which is incorporated herein by reference thereto.

The Canandaigua National Bank and Trust Company

The Canandaigua National Bank and Trust Company was incorporated as a national bank in 1887 under the laws of the United States of America. Since that time, the Bank has operated as a national banking association doing business at its main office at 72 South Main Street, Canandaigua, New York, and several locations in Ontario County and Monroe County, New York. The Bank was granted trust powers in 1919 and was licensed to sell insurance in 1996. The Bank provides a full range of financial services to its retail, commercial and municipal customers through a variety of deposit, lending, trust, investment, and insurance products. These products are delivered through the Bank's network of community banking offices, which include drive-up facilities and automatic teller machines, other remote cash-dispensing machines, its customer call center, and the Internet. A full description of the Bank's and Company's activities is set forth in Items 7 and 7a below.

The Bank is a majority owner in a real estate investment trust (REIT), which invests in a portion of the Bank's amortizing residential real estate loans, and a portion of the Bank's amortizing commercial real estate loans. The Bank also owns CNB Mortgage Company.

CNB Mortgage Company

The Company acquired 100% of Home Town Funding, Inc. (doing business as CNB Mortgage Company), in October 1997. CNB Mortgage is a wholly-owned subsidiary of the Bank and operates as the Company's mortgage department, and offers a full line of mortgage products. It is engaged in underwriting and funding mortgages primarily in Western New York State, and it resells residential mortgage loans to the Bank and unaffiliated entities that service the loans.

Genesee Valley Trust Company

Genesee Valley Trust Company (GVT) is a New York state chartered trust company headquartered in Rochester, New York. It provides fiduciary, investment management, and retirement services. The Company acquired 100% of the voting shares of GVT in January 2008.

WBI OBS Financial, LLC

On November 30, 2011, the Company acquired a majority interest in WBI OBS Financial, LLC (WBI), a company formed to concurrently acquire OBS Holdings, Inc. (OBS). OBS, an Ohio-based company, provides investment sub-advisory services to the Bank and several other financial institutions, primarily community banks and credit unions.

Geographic Market Served

The Company's physical market area generally covers Ontario County and Monroe County in New York State, where the Company operates its banking offices and ATMs. Customers usually initiate their relationship with the Bank from this area. However, the Bank conducts business through the Internet, by telephone, and with payment services such as credit cards and debit cards; thus, the Bank's customers are served world-wide. Since the mid-1990s, the Bank has expanded into Monroe County and surrounding areas by opening community banking offices. The Bank continues to pursue branch opportunities in its market area and plans to open additional offices in Monroe County.

The Company's market area is a middle-class, economically diversified region that includes urban, suburban, and rural markets. Rochester is the second largest city by population in New York State outside of New York City. According to the U.S. Census Bureau's 2010 Census, the Rochester MSA had a household population of 1.1 million. Statistics provided by the Greater Rochester Enterprise for 2009 show 51% of the population were females and 49 percent were males. The median age was about 40 years. Eighteen percent of the population was under 15 years and 14 percent was 65 years and older. There were 441,169 households and 483,587 housing units. The average income of households in the Rochester MSA was \$64,571 and the median income was about \$50,000. The median home price in the second quarter of 2012 was \$122,900, and the home ownership rate was about 67%. Major industries include: Food and Beverage Manufacturing; Life Sciences; Optics, Imaging and Photonics; Business Services; Software and Informatics; and Education.

Competition

The Company considers its business to be highly competitive in its market area. The Company competes with respect to its lending services, as well as in attracting deposits, with commercial banks, savings banks, savings and loan associations, insurance companies, regulated small loan companies, non-bank banks, credit unions, and investment managers. The Company also competes with securities brokers, insurance companies, investment counseling firms, mutual funds and other business firms and individuals in corporate trust and investment management services. According to the FDIC, as of September 30, 2012, there were 7,437 insured depository institutions in the United States. They held assets of \$14.2 trillion and deposits of \$9.1 trillion. Of these banks 6,168 were commercial banks with \$13.1 trillion of assets and \$8.2 trillion of deposits. The remainder were principally savings institutions.

The Company is generally competitive with financial institutions in its service area with respect to interest rates paid on time and savings deposits, interest rates charged on loans, and fees for services.

One measure of competitive strength is the percentage of deposits held by an institution in a geographic location. Based upon the most recent data* available from the Federal Financial Institutions Examination Council (FFIEC) as of June 30, 2012, the Company's share of deposits for all banks in the Rochester MSA was 12.0% (\$1,737.0 million); 10.3% (\$1,510.2 million) in 2011; 10.3% (\$1,447.1 million) in 2010; 10.03% (\$1,360.3 million) in 2009; and 9.15% (\$1,125.9 million) in 2008. At June 30, 2012, all banks in the Rochester MSA had total deposits of approximately \$14.5 billion. [*This data excludes deposits held by non-bank financial institutions, which data is not publicly available.]

Employees

At December 31, 2012, the Company, including its majority-owned subsidiary, had 537 employees, 106 of whom worked on a part-time basis. None of the employees are covered by a collective bargaining agreement. The Company considers its employee relations to be excellent.

Supervision and Regulation of Banking Activities

The supervision and regulation of bank and financial holding companies and their subsidiaries is intended primarily for the protection of depositors, the deposit insurance funds regulated by the FDIC and the banking system as a whole, and not for the protection of shareholders or creditors of bank holding companies. Bank regulatory agencies have broad enforcement power over bank and financial holding companies and banks, including the power to impose substantial fines, operational restrictions and other penalties for violations of laws and regulations. The following description summarizes some of the laws to which the Company and its subsidiaries are subject. References to applicable statutes and regulations are brief summaries and do not claim to be complete. Management believes the Company is in compliance in all material respects with these laws and regulations. Changes in the laws, regulations or policies that impact the Company cannot necessarily be predicted, but they may have a material effect on the business and earnings of the Company.

Legislative Matters with Future Impact

On July 21, 2010, the President signed into law *The Dodd-Frank Wall Street Reform and Consumer Protection Act* (Financial Reform Act). The Financial Reform Act significantly alters financial regulation in the United States by creating new regulators, regulating new markets, bringing new firms into the regulatory arena, and providing new rulemaking and enforcement powers to regulators. The Financial Reform Act is intended to address specific issues that contributed to the financial crisis and is heavily remedial in nature. Many of the provisions in the Act are applicable to larger institutions (greater than \$10 billion in assets). A summary of the Financial Reform Act's principal provisions that have impacted or may potentially impact the Company follows.

The Financial Reform Act created the Financial Stability Oversight Council with the primary obligation to identify, monitor, and assist in the management of systemic risk that may pose a threat to the country's financial system. Included in its responsibilities is a requirement to review and, at its option, submit comments as appropriate to any standard-setting body (such as FASB) with respect to existing or proposed accounting principles, standards or procedures. Though this responsibility may not directly impact the Company, the Council's review and commentary on accounting matters may result in more consideration by standard-setters of the volatility created by some of its current and proposed standards. We hope the Council's activities will bring restraint to standard setters and temper ineffective proposals such as mark-to-market accounting for all financial instruments.

The Act permanently implemented FDIC insurance coverage for all deposit accounts up to \$250,000. Furthermore, the insurance premium assessment base is revised from all domestic deposits to the average of total assets less tangible equity. The minimum reserve ratio of the deposit insurance fund is increased from 1.15% to 1.35%, with the increase to be covered by assessments on insured institutions with assets over \$10 billion until the new reserve ratio is reached. The change in the assessment base calculation resulted in a reduced premium charge for the Company from its previous charge. In October 2010, the FDIC announced that it will extend the period to reach its maximum reserve levels, and combined with lower loss projections, has eliminated the three (3) basis point premium that was scheduled for 2011.

The Act created the Consumer Financial Protection Bureau (CFPB). It has an independent budget and is housed in the Federal Reserve Board, but not subject to its jurisdiction. The CFPB has rulemaking authority to promulgate regulations regarding consumer financial products and services offered by all banks and thrifts, their affiliates and many non-bank financial services firms. We cannot determine what the impact the CFPB's rules and regulations might have on the Company, its product offerings, its customers' ability to purchase products to meet their specific needs, or the Company's general business practices, but they are likely to be significant given the CFPB's broad powers.

The so-called Durbin Amendment requires 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 would include the Company. Final rules were implemented in 2011. While the rules are not designed to negatively impact smaller banks, and to date we have not experienced any detrimental effects. The Company contracts with large debit card processors with which we have relatively weak bargaining power. It is possible these processors, as a result of the Act, will earn lower revenues, leaving less revenue per transaction for the Company.

The Act has changed oversight authority for the prudential regulation of the Company so both the Bank and the Company will be regulated by the Office of the Comptroller of the Currency (OCC), because the Company has less than \$50 billion in assets. Formerly, the Bank was regulated by the OCC and the Company was regulated by the Federal Reserve Board.

The Act significantly changes the regulatory structure of the mortgage lending business, but, in effect, has codified the prudent and customer-focused activities the Company has always pursued. For example, the Act provides that a creditor must make a reasonable and good faith determination of a consumer's ability to repay before making a

residential mortgage loan. The determination must be based on verified and documented information and must take into account all applicable taxes, insurance and assessments. While not previously enforced by regulation, this has been the Company's consistent practice.

On the other hand, the Act does add substantial burdens to the Company by, subject to certain exemptions, requiring the establishment of an escrow account in connection with a closed-end consumer credit transaction secured by a first lien on a consumer's principal dwelling for the payment of taxes and hazard insurance and, if applicable, flood insurance, mortgage insurance, ground rents and any other required periodic payments or premiums with respect to the property or the loan terms. The Company has not historically escrowed such payments. We provided financial advice and a savings product for customers to self-escrow, believing that customers were the best stewards and managers of their cash flow sources and uses, and government was ill-suited to dictate how much and when consumers should save to meet their financial obligations. That notwithstanding, we are able to satisfy the escrow requirement as proposed.

The Act also modifies the calculation for a loan to be subject to "high-cost-loan" status under the Home Ownership and Equity Protection Act (HOEPA) by requiring the Annual Percentage Rate (APR) to be compared to the average prime offer rate for a comparable transaction and not the rate on U.S. Treasury securities having a comparable maturity. The points and fees trigger is lowered, and a prepayment fee trigger is added. We believe this calculation methodology is flawed, because low balance loans, those most beneficial to first-time homeowners, would carry an interest rate unprofitable to the Company. Principally the methodology ignores that originating a loan, no matter what its balance, has certain fixed costs, and these costs when spread over a smaller balance result in a higher effective interest rate.

THE COMPANY

Canandaigua National Corporation is incorporated under the laws of the State of New York. As a financial holding company, the Company is subject to the Bank Holding Company Act of 1956, as amended (the "BHC Act"), and is required to file annual reports and such additional information as may be required by the Federal Reserve Board (the "FRB") pursuant to the BHC Act. The FRB has the authority to examine the Company and its subsidiaries.

The BHC Act and other federal laws, of which some are discussed below, subject bank holding companies to restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Regulatory Restrictions on Dividends -- It is the policy of the Federal Reserve Board that bank holding companies should pay cash dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the holding company's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiary. Under Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength to its banking subsidiary and commit resources to its support.

Safe and Sound Banking Practices -- Bank holding companies are not permitted to engage in unsafe and unsound banking practices. The Federal Reserve Board's regulations, for example, generally require a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid,

together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board has broad authority to prohibit activities of bank holding companies and their non-banking subsidiaries which represent unsafe and unsound banking

practices or which constitute violations of laws or regulations, and can assess civil money penalties for certain activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution.

Anti-Tying Restrictions -- Bank holding companies and their affiliates are prohibited from tying the provision of certain services, such as extensions of credit, to other services offered by a holding company or its affiliates.

Capital Adequacy Requirements -- The Federal Reserve Board has adopted a system using risk-based capital guidelines to evaluate the capital adequacy of bank holding companies. Under the guidelines, specific categories of assets are assigned different risk weights, based generally on the perceived credit risk of the asset. These risk weights are multiplied by corresponding asset balances to determine a "risk-weighted" asset base. In addition to the risk-based capital guidelines, the Federal Reserve Board uses a leverage ratio as an additional tool to evaluate the capital adequacy of bank holding companies. Federal Reserve Board guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. The leverage ratio is a company's Tier 1 capital divided by its three-month average consolidated assets. See Note 17 to the Consolidated Financial Statements contained in the 2012 Annual Report, which is incorporated herein by reference for the Company's and Bank's capital ratios.

Imposition of Liability for Undercapitalized Subsidiaries -- Bank regulators are required to take "prompt corrective action" to resolve problems associated with insured depository institutions whose capital declines below certain levels. In the event an institution becomes "undercapitalized," it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary's compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution's holding company is entitled to a priority of payment in bankruptcy.

Acquisitions by Bank Holding Companies -- The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve Board before it may acquire all or substantially all of the assets of any bank, or ownership or control of any voting shares of any bank, if after such acquisition it would own or control, directly or indirectly, more than 5% of the voting shares of such bank. In approving bank acquisitions by bank holding companies, the Federal Reserve Board is required to consider the financial and managerial resources and future prospects of the bank holding company and the banks concerned, the convenience and needs of the communities to be served, and various competitive factors.

Control Acquisitions -- The Change in Bank Control Act prohibits a person or group of persons from acquiring "control" of a bank holding company unless the Federal Reserve Board has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve Board, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, would, under the circumstances set forth in the presumption, constitute acquisition of control of the Company. In addition, under the Bank Holding Company Act, any entity is required to obtain the approval of the Federal Reserve Board before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of the Company's outstanding common stock, or otherwise obtaining control or a "controlling influence" over the Company.

THE BANK

The Canandaigua National Bank and Trust Company is a national bank chartered and regulated by the Office of the Comptroller of the Currency (the "OCC"). Its deposits are insured by the Federal Deposit Insurance Corporation (FDIC) through the Bank Insurance Fund. The Bank is also a member of the Federal Reserve System. The Bank is

subject to supervision and regulation that subject it to special restrictions, requirements, potential enforcement actions and periodic examination by the FDIC, the Federal Reserve Board and the OCC. Because the Federal Reserve Board regulates the Company (the Bank's parent), the Federal Reserve Board also has supervisory authority which impacts the Bank.

Restrictions on Transactions with Affiliates and Insiders -- Transactions between the Company and its subsidiaries, including the Bank, are subject to Section 23A of the Federal Reserve Act. In general, Section 23A imposes limits on the amount of such transactions, and also requires certain levels of collateral for loans to affiliated parties. It also limits the amount of advances to third parties which are collateralized by the securities or obligations of the Company or its subsidiaries. Affiliate transactions are also subject to Section 23B of the Federal Reserve Act which generally requires that certain transactions between the Company and its affiliates be on terms substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with or involving other nonaffiliated persons.

Insider loans -- Restrictions on loans to directors, executive officers, principal shareholders and their related interests ("insiders") contained in the Federal Reserve Act and Regulation O apply to the Bank, its subsidiaries and the Company. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans to insiders and their related interests. These loans cannot exceed the institution's total unimpaired capital and surplus, and the FDIC may determine that a lesser amount is appropriate. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions.

Restrictions on Distribution of Subsidiary Bank Dividends and Assets -- Dividends paid by the Bank have been the Company's primary source of operating funds and are expected to be for the foreseeable future. Capital adequacy requirements serve to limit the amount of dividends that may be paid by the Bank. Under federal law, the Bank cannot pay a dividend if, after paying the dividend, it will be "undercapitalized." The FDIC may declare a dividend payment to be unsafe and unsound even though the Bank would continue to meet its capital requirements after the dividend. Because the Company is a legal entity separate and distinct from the Bank, the Company's right to participate in the distribution of assets of the Bank in the event of the Bank's liquidation or reorganization would be subject to the prior claims of the Bank's creditors. In the event of a liquidation or other resolution of an insured depository institution, the claims of depositors and other general or subordinated creditors are entitled to a priority of payment over the claims of holders of any obligation of the institution to its shareholders, including any depository bank holding company (such as the Company) or any shareholder or creditor thereof.

Examinations and Audits -- The Federal Reserve Board and the OCC periodically examine and evaluate the Bank. Based upon such examinations, among other powers, the appropriate regulator may revalue the assets of the institution and require that it establish specific reserves to compensate for the difference between what the regulator determines the value to be and the carrying value of such assets.

The FDIC Improvement Act of 1991 (FDICIA) -- The Bank must submit annual audit reports to federal regulators prepared by independent auditors. As allowed by regulations, the audit report of the Company is used to satisfy this requirement. Auditors must receive examination reports, supervisory agreements and reports of enforcement actions. In addition, financial statements prepared in accordance with generally accepted accounting principles, management's certifications concerning responsibility for the financial statements, internal controls and compliance with legal requirements designated by the FDIC, and an attestation by the auditor regarding the statements of management relating to the internal controls must be submitted. FDICIA also requires that independent audit committees be formed, consisting of outside directors only. The committees of institutions with assets of more than \$3 billion must include members with experience in banking or financial management, must have access to outside counsel, and must not include representatives of large customers.

The FDIC Reform Act of 2006 -- The FDIC Reform Act (Act) was signed into law in 2006. The Act modernizes and strengthens the federal deposit insurance system to make it more responsive to consumer needs and fairer to banks. It preserves the value of FDIC insurance by setting up a permanent system of inflation adjustments, authorizing the FDIC to increase coverage levels for inflation every five years and providing higher coverage for retirement accounts. It also smoothes out premium volatility in the old law by creating a range in which the fund reserve ratio can float; provides premium credits to banks (including the Bank) that built up the fund prior to 1997; and institutes a risk-based premium system. The Financial Reform Act, which is discussed above, further amended the Act. Refer to Legislative Matters with Future Impact.

Capital Adequacy Requirements -- Refer to Capital Adequacy Requirements under The Company, above.

Community Reinvestment Act -- The Community Reinvestment Act of 1977 (CRA) and attendant regulations are intended to encourage banks to help meet the credit needs of their service area, including low- and moderate-income neighborhoods, consistent with the safe and sound operations of the bank. These regulations also provide for regulatory assessment of a bank's record in meeting the needs of its service area when considering applications regarding establishing branches, mergers or other bank or branch acquisitions. Federal banking agencies make public a bank's performance rating under the CRA. In the case of a bank holding company, the CRA performance record of the bank(s) involved in the transaction is reviewed in connection with the filing of an application to acquire ownership or control of shares or assets of a bank or to merge with any other bank holding company. An unsatisfactory record can substantially delay or block the transaction.

CNB MORTGAGE COMPANY

CNB Mortgage Company (CNB Mortgage) is a mortgage banker operating in New York State through individual originator licenses with its corporate license application currently pending. It is subject to New York State banking laws and regulations as well as the following significant federal laws and regulations: the Truth in Lending Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act, and the Real Estate Settlement Procedures Act.

GENESEE VALLEY TRUST COMPANY

Genesee Valley Trust Company (GVT) is a New York State licensed trust company. It is subject to New York State banking laws and regulations.

CANANDAIGUA NATIONAL TRUST COMPANY OF FLORIDA

Canandaigua National Trust Company of Florida (CNTF) is a nationally-chartered trust company domiciled in the State of Florida. It is subject to Florida banking laws and OCC regulations.

WBI OBS FINANCIAL, LLC

WBI OBS Financial LLC's subsidiary, Online Brokerage Services, Inc. is a registered broker-dealer and is subject to the regulations of Financial Industry Regulatory Authority (FINRA) and the Securities and Exchange Commission (SEC).

OTHER LAWS AND REGULATIONS

Newly-implemented Federal and state laws and regulations may significantly impact our operations. We operate in a highly regulated environment. Changes in federal, state and local laws and regulations affecting banking, consumer credit, bankruptcy, privacy, consumer protection or other matters could materially impact our performance. For example, anti-money laundering requirements under the Patriot Act are frequently revisited by the U.S. Congress and Executive Agencies and continue to be a key regulator focus. There has also been an increased focus on compliance with economic sanctions following the publication in September 2008 of Economic Enforcement Guidelines by the Office of Foreign Assets Control which were promulgated as a final rule in November 2009. Ensuring compliance with increasing regulatory requirements and initiatives could affect operational costs and negatively impact our overall results. The most significant of these regulations are discussed below and in the section entitled Legislative Matters with Future Impact discussed above.

The Currency and Foreign Transactions Reporting Act, also known as the Bank Secrecy Act (BSA), and its implementing regulation, 31 CFR 103, is a tool the U.S. government uses to fight drug trafficking, money laundering, and other crimes. Congress enacted the BSA to prevent banks and other financial service providers from being used as intermediaries for, or to hide the transfer or deposit of money derived from, criminal activity. The Office of the Comptroller of the Currency (OCC) monitors national bank compliance with the BSA and 31 CFR 103.

Since its passage, Congress has amended the BSA a number of times to enhance law enforcement effectiveness. The Anti-Drug Abuse Act of 1986, which included the Money Laundering Control Act of 1986 (MLCA), strengthened the government's ability to fight money laundering by making it a criminal activity. The Money Laundering Suppression Act of 1994 (Title IV of the Riegle-Neal Community Development and Regulatory Improvement Act of 1994) required regulators to develop enhanced examination procedures and increase examiner training to improve the identification of money laundering schemes in financial institutions.

Today more than 170 crimes are listed in the federal money laundering statutes. They range from drug trafficking, gunrunning, murder for hire, fraud, acts of terrorism, and the illegal use of a wetland. The list also includes certain foreign crimes. A financial institution must educate its employees, understand its customers and their businesses, and have systems and procedures in place to distinguish routine transactions from ones that rise to the level of suspicious activity. The reporting and record keeping requirements of the BSA regulations create a paper trail for law enforcement to investigate money laundering schemes and other illegal activities. This paper trail operates to deter illegal activity and provides a means to trace movements of money through the financial system.

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT Act) of 2001 was enacted in response to the terrorist attacks which occurred on September 11, 2001. The USA PATRIOT Act is intended to strengthen U.S. law enforcement's and the intelligence communities' abilities to work cohesively to combat terrorism on a variety of fronts. The impact of the PATRIOT Act on financial institutions of all kinds is significant and wide-ranging. The PATRIOT Act contains sweeping anti-money laundering and financial transparency laws and requires various regulations, including standards for verifying customer identification at account opening, and rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

Financial Services Modernization Legislation. In November 1999, the Gramm-Leach-Bliley (GLB) Act of 1999 was enacted. The GLB Act repealed provisions of the Glass-Steagall Act which restricted the affiliation of Federal Reserve member banks with firms "engaged principally" in specified securities activities, and which restricted officer, director, or employee interlocks between a member bank and any company or person "primarily engaged" in

specified securities activities. In addition, the GLB Act contained provisions that expressly preempt any state law restricting the establishment of financial affiliations, primarily related to insurance. The general effect of the law was to establish a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers by revising and expanding the BHC Act framework to permit a holding company to engage in a full range of financial activities through a new entity known as a "financial holding company." "Financial activities" was broadly defined to include not only banking, insurance and securities activities, but also merchant banking and additional activities that the Federal Reserve Board, in consultation with the Secretary of the Treasury, determined to be financial in nature, incidental to such financial activities, or complementary activities that did not pose a substantial risk to the safety and soundness of depository institutions or the financial system. The GLB Act also permitted national banks to engage in expanded activities through the formation of financial subsidiaries. A national bank may have a subsidiary engaged in any activity authorized for national banks directly or any financial activity, except for insurance underwriting, insurance investments, real estate investment or development, or merchant banking, which may only be conducted through a subsidiary of a financial holding company. Financial activities include all activities permitted under new sections of the BHC Act or permitted by regulation.

Fair and Accurate Credit Transactions Act ("FACT Act"): The FACT Act includes many provisions concerning national credit reporting standards, and permits consumers, including the customers of the Company, to opt out of information sharing among affiliated companies for marketing purposes. The FACT Act also requires financial institutions, including banks, to notify their customers if they report negative information about them to credit bureaus or if the credit that is granted to them is on less favorable terms than generally available. Banks also must comply with guidelines established by their federal banking regulators to help detect identity theft.

Sarbanes-Oxley Act (SOA): The stated goals of the SOA are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly-traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The SOA includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules, and mandates further studies of certain issues by the SEC and the Comptroller General. The SOA represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees. The SOA addresses, among other matters: audit committees; certification of financial statements by the chief executive officer and chief financial officer; the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve-month period following initial publication of any financial statements that later require restatement; a prohibition on insider trading during pension plan black-out periods; disclosure of off-balance sheet transactions; a prohibition on certain loans to directors and officers; expedited filing requirements for Forms 4; disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code; "real time" filing of periodic reports; the formation of a public accounting oversight board; auditor independence; and various increased criminal penalties for violations of securities laws. The SEC has enacted rules to implement various provisions of SOA. The federal banking regulators have adopted generally similar requirements concerning the certification of financial statements.

The Check Clearing for the 21st Century Act ("Check 21 Act") became effective in October 2004. The Check 21 Act creates a new negotiable instrument, called a "substitute check," which banks are required to accept as the legal equivalent of a paper check if it meets the requirements of the Check 21 Act. The Check 21 Act is designed to facilitate check truncation, to foster innovation in the check payment systems and to improve the payment system by shortening processing times and reducing the volume of paper.

Consumer Laws and Regulations. In addition to the laws and regulations discussed herein, the Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. These laws

and regulations include, but are not limited to, the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, Federal Financial Privacy Laws, Interagency Guidelines Establishing Information Security Standards, and the Right to Financial Privacy Act. These laws and regulations regulate the manner in which financial institutions must engage with customers when taking deposits or making loans to such customers.

TAXATION

Federal Taxation

The Company and its subsidiaries are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to the Company.

Method of Accounting. For federal income tax purposes, the Company currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31 for filing its consolidated federal income tax returns.

Minimum Tax. The Internal Revenue Code of 1986 imposes an alternative minimum tax (AMT) at a rate of 20% on a base of regular taxable income plus certain tax preferences ("alternative minimum taxable income" or AMTI). The AMT is payable to the extent such AMTI is in excess of an exemption amount. Net operating losses can offset no more than 90% of AMTI. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. The Company is subject to the AMT but has no such amounts available as credits for carryover.

Net Operating Loss Carryovers. A financial institution may carry back net operating losses to the preceding two taxable years (five in certain instances) and forward to the succeeding 20 taxable years, subject to certain limitations. The Company has no net operating loss carryforwards.

Corporate Dividends. The Company may exclude from its income 100% of dividends received from the Bank, and Genesee Valley Trust Company, and Canandaigua National Trust Company of Florida as members of the same affiliated group of corporations.

Internal Revenue Service Audits. The Company is subject to periodic audits of its federal tax returns. The Company's returns are periodically audited by the Internal Revenue Service. No material audit adjustments have been incurred.

State Taxation

State of New York. The Company reports combined income on a calendar year basis to New York State. New York State franchise tax Article 32 on corporations is imposed in an amount equal to the greater of (a) 7.1% of "entire net income" allocable to New York State; (b) 3% of "alternative entire net income" allocable to New York State; (c) 0.01% of the average value of assets allocable to New York State; or (d) nominal minimum tax. Entire net income is based on Federal taxable income, subject to certain modifications. Alternative entire net income is based on entire net income with certain modifications. Sixty percent of dividends from qualifying REITs are excluded from New York State taxation.

State of Florida. Canandaigua National Trust Company of Florida reports income on a calendar year basis to the State of Florida. Florida imposes a 5.5% franchise tax on corporation net income.

State Tax Audits. The Company is subject to periodic audits of its state tax returns. No material audit adjustments have been incurred as a result of these audits.

CRITICAL ACCOUNTING POLICIES

The SEC defines "critical accounting policy" as one that is "most important to the portrayal of the company's financial condition and results, and it requires management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain." Management considers the "Allowance for Loan Losses" and Valuation of Investment Securities as the Company's critical accounting policies. See Part II, Item 7 for a discussion.

AVAILABLE INFORMATION

The Company electronically files quarterly (Form 10-Q) and annual (Form 10-K) reports and proxy statements with the Securities and Exchange Commission (SEC) on a regular basis. Other reports are filed when necessary in accordance with the Securities Exchange Act of 1934.

The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains electronic versions of reports, proxy and information statements, and other information regarding the Company, which are filed electronically with the SEC at <http://www.sec.gov>. In addition, we will provide, at no cost to shareholders, paper (or electronic, if available) copies of the foregoing documents upon written request to our Corporate Secretary, Steven H. Swartout, 72 South Main Street, Canandaigua, New York 14424.

A link to the Company's filings on the SEC web site is available at the Bank's web site:

[http:// www.cnbank.com/your_bank/cnc_financials](http://www.cnbank.com/your_bank/cnc_financials). Reference to our internet site is not intended to incorporate any of the information contained on our site into this document.

Item 1A. Risk Factors

The Company's business model is subject to many risks and uncertainties. Although the Company seeks ways to manage these risks and develop programs to control those that management can control, the Company ultimately cannot predict the future. Actual results may differ materially from management's expectations. These significant risks and uncertainties are discussed below.

Asset Quality. A significant source of risk for the Company arises from the possibility that losses will be sustained because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loan agreements. Most loans originated by the Bank and CNB Mortgage are secured, but some loans are unsecured depending on the nature of the loan. With respect to secured loans, the collateral securing the repayment of these loans includes a wide variety of real and personal property that may be insufficient to cover the obligations owed under such loans. Collateral values may be adversely affected by changes in prevailing economic, environmental and other conditions, including declines in the value of real estate, changes in interest rates, changes in monetary and fiscal policies of the federal government, wide-spread disease, terrorist activity, environmental contamination and other external events. In addition, collateral appraisals that are out of date or that do not meet industry recognized standards may create the impression that a loan is adequately collateralized when in fact it is not. The Company has adopted underwriting and credit monitoring procedures and policies, including the establishment and review of the

allowance for loan losses and regular review of appraisals and borrower financial statements. Management has also established policies to mitigate the risk of loss by assessing the likelihood of nonperformance and the value of available collateral, monitoring loan performance and diversifying the Company's credit portfolio. Such policies and procedures, however, may not prevent unexpected losses that could have a material adverse effect on the Company's business, financial condition, results of operations or liquidity. See Part II, Item 7, "Loans," incorporated by reference to the Company's 2012 Annual Report, for a complete discussion.

Interest Rate Risk. The Company's earnings depend largely on the relationship between the yield on earning assets, primarily loans and investments, and the cost of funds, primarily deposits and borrowings. This relationship, known as the interest rate spread, is subject to fluctuation and is affected by economic and competitive factors which influence interest rates, the volume and mix of interest-earning assets and interest-bearing liabilities, and the level of non-performing assets. Fluctuations in interest rates affect the demand of customers for the Company's products and services. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities reprice or mature more slowly or more rapidly or on a different basis than its interest-earning assets. Significant fluctuations in interest rates could have a material adverse effect on the Company's business, financial condition, results of operations or liquidity. For additional information regarding interest rate risk, see Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

Liquidity Risk. Liquidity risk is the risk that the Company will have insufficient cash or access to cash to satisfy current and future financial obligations, including demands for loans and deposit withdrawals, funding operating costs, and for other corporate purposes. Liquidity risk arises whenever the maturities of financial instruments included in assets and liabilities differ. The Company is subject to liquidity risk, which it mitigates by establishing and accessing lines of credit with various financial institutions and accessing the brokered CD markets. Results of operations could be affected if the Company were unable to satisfy current or future financial obligations. See Part II, Item 7, "Liquidity," incorporated by reference to the Company's 2012 Annual Report, for more information.

Breach of Information Security and Technology Dependence. The Company depends upon data processing, software, communication, and information exchange on a variety of computing platforms and networks, including the Internet. Despite instituted safeguards, the Company cannot be certain that all of its systems are entirely free from vulnerability to attack or other technological difficulties or failures. The Company relies on the services of a variety of vendors to meet its data processing and communication needs. If information security is breached or other technology difficulties or failures occur, information may be lost or misappropriated, services and operations may be interrupted, and the Company could be exposed to claims from customers. Any of these results could have a material adverse effect on the Company's business, financial condition, results of operations or liquidity.

Economic Conditions, Limited Geographic Diversification. The Company's operations are principally located in the Finger Lakes Region of Western New York State. Because of the geographic concentration of its operations, the Company's results depend largely upon economic conditions in this area, which include losses of manufacturing jobs in the Rochester area and minimal population growth throughout the region. Further deterioration in economic conditions could adversely affect the quality of the Company's loan portfolio and the demand for its products and services, and accordingly, could have a material adverse effect on the Company's business, financial condition, results of operations or liquidity. See also "Geographic Market Served" and "Competition," above.

Ability of the Company to Execute Its Business Strategy. The financial performance and profitability of the Company will depend on its ability to execute its strategic plan and manage its future growth. Failure to execute these plans could have a material adverse effect on the Company's business, financial condition, results of operations or liquidity.

Competition. Regional, national and international competitors are much larger in total assets and capitalization than the Company, have greater access to capital markets, and can offer a broader array of financial services than the Company. There can be no assurance that the Company will be able to compete effectively in its markets.

Furthermore, developments increasing the nature or level of competition could have a material adverse effect on the Company's business, financial condition, results of operations or liquidity. See also "Geographic Market Served," "Competition," and "Supervision and Regulation of Banking Activities," above.

Government Regulation and Monetary Policy. The Company and the banking industry are subject to extensive regulation and supervision under federal and state laws and regulations. The restrictions imposed by such laws and regulations limit the manner in which the Company conducts its business, undertakes new investments and activities, and obtains financing. These regulations are designed primarily for the protection of the deposit insurance funds and consumers and not to benefit the Company's shareholders. Financial institution regulation has been the subject of significant legislation and agency regulation in recent years and may be the subject of further significant legislation in the future, none of which is in the control of the Company. Significant new laws or changes in, or repeals of, existing laws could have a material adverse effect on the Company's business, financial condition, results of operations, or liquidity. Further, federal monetary policy, particularly as implemented through the Federal Reserve System, significantly affects credit conditions for the Company, and any unfavorable change in these conditions could have a material adverse effect on the Company's business, financial condition, results of operations or liquidity. See also "Supervision and Regulation of Banking Activities," above.

Compliance with Bank Secrecy Act and Related Laws and Regulations. These specific laws and regulations have significant implications for all financial institutions including any entity involved in the transfer of money. They increase due diligence requirements and reporting obligations for financial institutions, create new crimes and penalties, and require the federal banking agencies, in reviewing merger and other acquisition transactions, to consider the effectiveness of the parties to such transactions in combating money laundering activities. Even innocent noncompliance and inconsequential failure to follow the regulations may result in significant fines or other penalties, which could have a material adverse impact on the Company's business, financial condition, results of operations, or liquidity.

Impairment of Intangible Assets or Goodwill. Through our recent acquisitions, we have intangible assets, including goodwill with an indefinite life, which are susceptible to valuation adjustments as a result of changes in various factors or conditions. The most significant intangible assets on our balance sheet are customer relationships. Customer relationships are amortized on an accelerated basis based upon the pattern in which the economic benefits of customer relationships are being utilized. Other identifiable intangible assets are amortized on a straight-line basis over their estimated useful lives. We assess the potential impairment of goodwill on an annual basis, as well as whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We assess definite-lived intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that could trigger an impairment of such assets include (a) significant underperformance relative to historical or projected future operating results, (b) significant negative industry or economic trends, and (c) significant and sustained decline in the underlying value of managed assets.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Canandaigua National Corporation operates from the main office of the Bank at 72 South Main Street, Canandaigua, New York. CNB Mortgage Company owns and operates from a building in Pittsford, New York. Genesee Valley Trust Company leases and operates from an office in Pittsford, New York. Canandaigua National Trust Company of Florida leases and operates from an office in Sarasota, Florida. WBI OBS Financial, LLC's principal operating

subsidiary leases and operates from an office in Whitehouse, Ohio.

As of December 31, 2012, the Bank's operations were conducted from nine offices (including the main office) located in Ontario County, New York, and fifteen offices located in Monroe County, New York. Four are owned by the Bank with all but one leased from unrelated third parties over terms ranging from one month to 25 years. The Brighton, New York office is leased from Richard C. Fox, a member of the Company's Board of Directors. This lease was originated on an arm's-length basis several years prior to Mr. Fox becoming a director of the Company. Its original terms are unchanged. The main office of the Bank is located at 72 South Main Street, Canandaigua, New York. The administrative, operational and electronic data processing offices of the Bank are located in this facility. There are drive-up facilities located at all permanent offices except for the Eastview Mall and Geneva Offices.

The Bank, a member of an ATM/Debit card processing network, also provides, free to its customers, 24-hour banking services through nearly 50 automatic teller machines located at each office and through remote automatic teller machines and cash dispenser machines.

Item 3. 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 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities

The information required by this item with respect to market information, holders, dividends, sales of securities, and stock purchases are included in the section entitled Our Common Stock in our 2012 Annual Report and is incorporated herein by reference thereto.

The information required by this item with respect to equity compensation plans under Regulation S-K 201(d) is included in the section entitled Compensation Discussion and Analysis in the Proxy Statement for the 2013 Annual Meeting of Shareholders and is incorporated herein by reference thereto.

PERFORMANCE GRAPH

The following performance graph is required by SEC regulations. The theory underlying this requirement is that all reporting corporations have organized trading markets for their securities. The graph is provided so that shareholders and prospective shareholders can compare market results with peer companies or with indices of companies in similar businesses or having similar capitalization, e.g., those companies which are listed on the NASDAQ or NYSE.

The graph compares the Company's cumulative total stockholder return since December 31, 2007, with (1) the total return index for the NASDAQ Composite, (2) the total return index for the SNL Bank Index of \$1Billion to \$5 Billion banks, and (3) a total return index of transaction in the Company's stock from the OTC Bulletin Board® (OTCBB). The graph assumes \$100.00 was invested on December 31, 2007, in the Company's common stock and the comparison indices and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all cash dividends.

THE COMPANY'S COMMON STOCK IS NOT LISTED ON A NATIONAL SECURITIES EXCHANGE, NOR IS IT ACTIVELY TRADED; LESS THAN 1.5% OF THE COMPANY'S OUTSTANDING SHARES HAVE BEEN BOUGHT AND SOLD IN ANY YEAR REPRESENTED IN THE GRAPH. DUE TO THE EXTREMELY LIMITED NUMBER OF TRANSACTIONS, THE AVERAGE SALE PRICE OF THE COMPANY'S COMMON STOCK USED IN THE GRAPH MAY NOT BE INDICATIVE OF ITS ACTUAL VALUE. THE FOLLOWING GRAPH DEPICTS THE AVERAGE SALE PRICE OF THE COMPANY'S COMMON STOCK BASED UPON TRANSACTIONS OCCURRING IN SEALED BID PUBLIC AUCTIONS ADMINISTERED BY THE TRUST DEPARTMENT OF THE BANK AT THE REQUEST OF THE SELLING SHAREHOLDERS (LABELED: CANANDAIGUA NATIONAL CORPORATION).

THERE ARE PURCHASES AND SALES OF THE COMPANY'S COMMON STOCK FOR WHICH THE COMPANY HAS LIMITED OR NO PRICE INFORMATION. THE ACTUAL AVERAGE SALE PRICE OF ALL SHARES BOUGHT AND SOLD IN ANY PERIOD MAY BE DIFFERENT THAN SET FORTH IN THE GRAPH.

THE GRAPH ALSO SETS FORTH INFORMATION REGARDING TRANSACTIONS IN THE COMPANY'S COMMON STOCK FROM THE OVER THE COUNTER BULLETIN BOARD (LABELED: CNND.OB). THE 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 MARKETSM, INVESTORS MUST CONTACT A BROKER/DEALER TO TRADE OTCBB SECURITIES. INVESTORS DO NOT HAVE DIRECT ACCESS TO THE OTCBB SERVICE. THE SEC'S ORDER-HANDLING RULES WHICH APPLY TO NASDAQ-LISTED SECURITIES DO NOT APPLY TO OTCBB SECURITIES.

THE OTCBB MARKET QUOTATIONS SET FORTH IN THE GRAPH, LABELED CNND.OB, REFLECT INTER-DEALER PRICES, WITHOUT RETAIL MARK-UP, MARK-DOWN OR COMMISSION AND MAY NOT NECESSARILY REPRESENT ACTUAL TRANSACTIONS.

<i>Index</i>	<i>Period Ending</i>					
	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12
Canandaigua National Corporation	100.00	100.09	106.87	129.28	179.33	204.78
NASDAQ Composite	100.00	60.02	87.24	103.08	102.26	120.42
SNL Bank \$1B-\$5B	100.00	82.94	59.45	67.39	61.46	75.78
CNND.OB	100.00	61.10	101.51	108.49	118.22	178.06

Certain of the Company's future filings with the SEC may incorporate by reference this Form 10-K. Unless we specifically stated otherwise, the Performance Graph shall not be deemed to be incorporated by reference and shall not constitute soliciting material or otherwise be considered filed under the Securities Act of 1933, as amended, or

the Securities Act of 1934, as amended.

Item 6. Selected Financial Data

The information required by this item is included in the section entitled *Financial Highlights* in the 2012 Annual Report and is incorporated herein by reference thereto.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required by this item is included in the section entitled *Management's Discussion and Analysis of Financial Condition and Results of Operations* in the 2012 Annual Report and is incorporated herein by reference thereto.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The information required by this item is included in the section entitled *Interest Rate Risk Management* of the *Management's Discussion and Analysis of Financial Condition and Results of Operations* in the 2012 Annual Report and is incorporated herein by reference thereto.

Item 8. Financial Statements and Supplementary Data

The information required by this item is included in the section entitled *Consolidated Financial Statements* in the 2012 Annual Report and in the section entitled *Summary Quarterly Financial Data* of the *Management's Discussion and Analysis of Financial Condition and Results of Operations* in the 2012 Annual Report and is incorporated herein by reference thereto.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of December 31, 2012, that the Company's disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) 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. There have been no changes in the Company's internal control over financial reporting that occurred during the fourth quarter of 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's annual report on internal control over financial reporting and the attestation report of KPMG LLP are included in the 2012 Annual Report, which is incorporated herein by reference thereto.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The information required by this item is included in the sections entitled *Election of Directors and Information with Respect to Board of Directors*, *Transactions with Certain Related Persons*, *Section 16(a) Beneficial Ownership Reporting Compliance*, and *Executive Officer Information* in the Proxy Statement for the 2013 Annual Meeting of Shareholders and is incorporated herein by reference thereto, except for item 229.406, which follows.

The Company has adopted a Code of Conduct, which applies to all employees of the Company and its subsidiaries, including its chief executive officer, chief accounting officer, and all other persons having similar functions. The Code of Conduct is filed as Exhibit 14 to this Annual Report on Form 10-K and is posted on the Company's website at: [http://www.cnbank.com/uploadedFiles/CNB_Site_Home/About_CNB_\(Your_Bank\)/code_of_conduct.pdf](http://www.cnbank.com/uploadedFiles/CNB_Site_Home/About_CNB_(Your_Bank)/code_of_conduct.pdf)

Item 11. Executive Compensation

The information required by this item is included in the sections entitled *Directors' Compensation*, *Compensation Discussion and Analysis*, and *The Compensation Committee* in the Proxy Statement for the 2013 Annual Meeting of Shareholders and is incorporated herein by reference thereto.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is included in Note 14 to the *Consolidated Financial Statements* in the 2012 Annual Report and the section entitled *Stock Ownership of Certain Beneficial Owners and Management* in the Proxy Statement for the 2013 Annual Meeting of Shareholders and is incorporated herein by reference thereto.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is included in Note 4 to the *Consolidated Financial Statements* in the 2012 Annual Report and the section entitled *Transactions with Certain Related Persons* in the Proxy Statement for the 2013 Annual Meeting of Shareholders and is incorporated herein by reference thereto.

Item 14. Principal Accounting Fees and Services

The information required by this item is included in the section entitled *Report of the Audit Committee* in the Proxy Statement for the 2013 Annual Meeting of Shareholders and is incorporated herein by reference thereto.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this report:

(1) Financial statements are filed as part of this Annual Report on Form 10-K. See Part II, Item 8. "Financial Statements and Supplementary Data."

Financial Highlights

Management's Discussion and Analysis of Financial Condition
and Results of Operations

Our Common Stock

Management Report on the Effectiveness of Internal Controls
over Financial Reporting

Report of Independent Registered Public Accounting Firm

Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm
on Consolidated Financial Statements

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Comprehensive Income
Consolidated Statements of Stockholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

(2) Schedules - All financial statement schedules are omitted, because the required information is not applicable or is included in the Consolidated Financial Statements.

(3) Exhibits

<u>Exhibit</u>	<u>Where exhibit may be found (incorporated by reference to the extent not filed herewith):</u>
(2.1) Stock Purchase Agreement, dated September 6, 2007, by and among Canandaigua National Corporation, Genesee Valley Trust Company	Filed as an Exhibit 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 an Exhibit 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 an Exhibit to Form 10-Q for the period ended June 30, 2010*
(3.i) Certificate of Incorporation of the Registrant, as amended	Filed as an Exhibit to Form 10-Q for the period ended March 31, 2011
(3.ii.) By-laws of the Registrant, as amended	Filed as an Exhibit to Form 10-Q for the period ended March 31, 2011
(10.1) Canandaigua National Corporation Stock Option Plan, as amended	Filed as an Exhibit to Form 10-K for the year ended December 31, 2008
(10.2) Canandaigua National Corporation Incentive Stock Plan, as amended	Filed as an Exhibit to Form 10-K for the year ended December 31, 2008
(10.3) The Canandaigua National Bank and Trust Company Supplemental Executive Retirement Plan #1	Filed as an Exhibit to Form 10-K for the year ended December 31, 2008
(10.4) The Canandaigua National Bank and Trust Company Supplemental Executive Retirement Plan #2	Filed as an Exhibit to Form 10-K for the year ended December 31, 2008
(10.5) Canandaigua National Corporation Employee Stock Ownership Plan	Filed as an Exhibit to Form 10-K for the year ended December 31, 2009

(10.6) Employment Agreement of Joseph L. Dugan
dated November 20, 2000

Filed as an Exhibit to Form 10-K for the year ended
December 31, 2009

(3) **Exhibits** (continued)

<u>Exhibit</u>	<u>Where exhibit may be found (incorporated by reference to the extent not filed herewith):</u>
(10.10) Canandaigua National Corporation Omnibus Incentive Plan	Filed as an Exhibit to Form 10-Q for the period ended March 31, 2012
(11) Calculations of Basic Earnings Per Share and Diluted Earnings Per Share	Note 12 to the Consolidated Financial Statements as contained in the Annual Report for the year ended December 31, 2012, filed as Exhibit 13 hereto
(13) Annual Report for the year ended December 31, 2012	Filed Herewith
(14) Code of Conduct	Filed Herewith
(20.1) CEO's Letter to Shareholders	Furnished Herewith
(20.2) President's Letter to Shareholders	Furnished Herewith
(21) Subsidiaries	Filed Herewith
(24) Powers of Attorney	Filed Herewith
(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	Furnished Herewith
(101)**The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Condition as of December 31, 2012 and December 31, 2011; (ii) Consolidated Statements of Income for the years ended December 31, 2012, 2011 and 2010; (iii) Consolidated Statements of Changes in Stockholders Equity for the years ended December 31, 2012, 2011 and 2010; (iv) Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010; (v) Consolidated Statements	

of Cash Flows for the years ended December 31, 2012, 2011 and 2010; and, (vi) Notes to Consolidated Financial Statements.

*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

Pursuant to the requirements of Section 13 or 15(d) 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

February 21, 2013

By: /s/ George W. Hamlin, IV
George W. Hamlin, IV, Chairman and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ George W. Hamlin, IV</u> (George W. Hamlin, IV)	Chairman and Chief Executive Officer, (Principal Executive Officer)	February 21, 2013
<u>/s/ Lawrence A. Heilbronner</u> (Lawrence A. Heilbronner)	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 21, 2013
<u>/s/ George W. Hamlin, IV</u> (George W. Hamlin, IV)	For Directors as Attorney-In-Fact	February 21, 2013

George W. Hamlin, IV
Robert G. Sheridan
Richard C. Fox
Daniel P. Fuller
Frank H. Hamlin, III
Stephen D. Hamlin
Richard P. Miller, Jr.
Caroline C. Shipley

Sue S. Stewart
Alan J. Stone

INDEX OF EXHIBITS

	<u>Exhibit</u>	<u>Where exhibit may be found (incorporated by reference to the extent not filed herewith):</u>
(2.1)	Stock Purchase Agreement, dated September 6, 2007, by and among Canandaigua National Corporation, Genesee Valley Trust Company	Filed as an Exhibit 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 an Exhibit 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 an Exhibit to Form 10-Q for the period ended June 30, 2010*
(3.i)	Certificate of Incorporation of the Registrant, as amended	Filed as an Exhibit to Form 10-Q for the period ended March 31, 2011
(3.ii.)	By-laws of the Registrant, as amended	Filed as an Exhibit to Form 10-Q for the period ended March 31, 2011
(10.1)	Canandaigua National Corporation Stock Option Plan, as amended	Filed as an Exhibit to Form 10-K for the year ended December 31, 2008
(10.2)	Canandaigua National Corporation Incentive Stock Plan, as amended	Filed as an Exhibit to Form 10-K for the year ended December 31, 2008
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L. Dugan dated November 20,
2000

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