COMMUNITY BANCORP /VT
Form 10-Q
November 13, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2014

OR
o 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 000-16435

Vermont	03-0284070
(State of Incorporation)	(IRS Employer Identification Number)
4811 US Route 5, Derby, Vermont	05829
(Address of Principal Executive Offices)	(zip code)

Registrant's Telephone Number: (802) 334-7915

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 for such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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 þ NO o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting

company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO þ

At November10, 2014, there were 4,916,123 shares outstanding of the Corporation's common stock.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (Unaudited)

The following are the unaudited consolidated financial statements for Community Bancorp. and Subsidiary, "the Company".

Community Bancorp. and Subsidiary Consolidated Balance Sheets	September 30, 2014 (Unaudited)	December 31, 2013	September 30, 2013 (Unaudited)
Assets			
Cash and due from banks	$10,834,783	$11,841,161	$13,106,861
Federal funds sold and overnight deposits	17,584	6,488,828	275,130
Total cash and cash equivalents	10,852,367	18,329,989	13,381,991
Securities held-to-maturity (fair value $48,472,000 at 09/30/14 $38,370,000 at 12/31/13 and $39,610,000 at 09/30/13)	48,069,627	37,936,911	39,218,785
Securities available-for-sale	29,167,525	35,188,602	35,452,071
Restricted equity securities, at cost	3,332,450	3,632,850	3,632,850
Loans held-for-sale	326,400	209,500	1,229,490
Loans	443,988,630	439,908,926	431,981,787
Allowance for loan losses	(4,885,791)	(4,854,915)	(4,799,431)
Deferred net loan costs	288,898	300,429	281,747
Net loans	439,391,737	435,354,440	427,464,103
Bank premises and equipment, net	11,628,750	11,723,468	11,913,170
Accrued interest receivable	1,688,893	1,778,305	1,632,971
Bank owned life insurance	4,385,812	4,303,307	4,274,307
Core deposit intangible	886,257	1,090,781	1,158,951
Goodwill	11,574,269	11,574,269	11,574,269
Other real estate owned (OREO)	1,097,820	1,105,525	1,125,105
Other assets	9,816,035	11,439,457	12,036,436
Total assets	$572,217,942	$573,667,404	$564,094,499
Liabilities and Shareholders' Equity			
Liabilities			
Deposits:			
Demand, non-interest bearing	$87,206,528	$82,156,154	$80,465,454
Interest-bearing transaction accounts	109,045,395	126,578,052	113,732,525
Money market funds	83,523,024	81,960,677	83,547,315
Savings	77,402,718	69,906,147	70,668,274
Time deposits, $100,000 and over	46,713,827	46,928,443	46,573,680
Other time deposits	70,486,316	74,023,096	75,562,336
Total deposits	474,377,808	481,552,569	470,549,584
Federal funds purchased and other borrowed funds	10,175,000	0	8,325,000
Repurchase agreements	23,360,011	29,644,615	23,685,762
Capital lease obligations	658,838	711,042	727,437
Junior subordinated debentures	12,887,000	12,887,000	12,887,000
Accrued interest and other liabilities	2,658,685	2,736,201	2,666,402

Total liabilities	524,117,342	527,531,427	518,841,185
Shareholders' Equity			
Preferred stock, 1,000,000 shares authorized, 25 shares issued			
and outstanding ($100,000 liquidation value)	2,500,000	2,500,000	2,500,000
Common stock - $2.50 par value; 15,000,000 shares authorized,			
5,125,869 shares issued at 09/30/14, 5,078,707 shares issued			
at 12/31/13, and 5,064,718 shares issued at 09/30/13	12,814,673	12,696,768	12,661,795
Additional paid-in capital	29,164,252	28,612,308	28,467,277
Retained earnings	6,325,058	4,997,144	4,245,488
Accumulated other comprehensive (loss) income	(80,606)	(47,466)	1,531
Less: treasury stock, at cost; 210,101 shares at 09/30/14,			
12/31/13 and 09/30/13	(2,622,777)	(2,622,777)	(2,622,777)
Total shareholders' equity	48,100,600	46,135,977	45,253,314
Total liabilities and shareholders' equity	$572,217,942	$573,667,404	$564,094,499

The accompanying notes are an integral part of these consolidated financial statements

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Community Bancorp. and Subsidiary
Consolidated Statements of Income

(Unaudited)	Three Months Ended September 30,	
	2014	2013
Interest income		
Interest and fees on loans	$5,410,445	$5,264,044
Interest on debt securities		
Taxable	103,101	80,025
Tax-exempt	289,661	248,241
Dividends	22,327	14,762
Interest on federal funds sold and overnight deposits	3,507	64
Total interest income	5,829,041	5,607,136
Interest expense		
Interest on deposits	622,762	668,327
Interest on federal funds purchased and other borrowed funds	23,603	23,003
Interest on repurchase agreements	14,292	26,355
Interest on junior subordinated debentures	100,352	101,741
Total interest expense	761,009	819,426
Net interest income	5,068,032	4,787,710
Provision for loan losses	135,000	137,500
Net interest income after provision for loan losses	4,933,032	4,650,210
Non-interest income		
Service fees	666,851	702,671
Income from sold loans	226,279	396,770
Other income from loans	149,444	203,941
Net realized gain (loss) on sale of securities available-for-sale	6,010	(5,521)
Other income	196,096	242,564
Total non-interest income	1,244,680	1,540,425
Non-interest expense		
Salaries and wages	1,575,000	1,610,697
Employee benefits	481,523	487,384
Occupancy expenses, net	591,665	582,507
Other expenses	1,763,240	1,791,008
Total non-interest expense	4,411,428	4,471,596
Income before income taxes	1,766,284	1,719,039
Income tax expense	389,095	364,106
Net income	$1,377,189	$1,354,933
Earnings per common share	$0.28	$0.28
Weighted average number of common shares		
used in computing earnings per share	4,905,055	4,845,044
Dividends declared per common share	$0.16	$0.14

Book value per common share outstanding at September 30,	$9.28	$8.81

The accompanying notes are an integral part of these consolidated financial statements.

Community Bancorp. and Subsidiary
Consolidated Statements of Income

(Unaudited)	Nine Months Ended September 30, 2014	2013
Interest income		
Interest and fees on loans	$16,055,124	$15,916,025
Interest on debt securities		
Taxable	242,485	242,528
Tax-exempt	787,631	762,424
Dividends	68,637	45,123
Interest on federal funds sold and overnight deposits	7,587	7,933
Total interest income	17,161,464	16,974,033
Interest expense		
Interest on deposits	1,922,736	2,175,469
Interest on federal funds purchased and other borrowed funds	62,739	66,939
Interest on repurchase agreements	45,275	95,408
Interest on junior subordinated debentures	301,545	308,810
Total interest expense	2,332,295	2,646,626
Net interest income	14,829,170	14,327,407
Provision for loan losses	405,000	463,750
Net interest income after provision for loan losses	14,424,170	13,863,657
Non-interest income		
Service fees	1,972,636	1,889,603
Income from sold loans	735,739	1,236,295
Other income from loans	415,910	537,630
Net realized gain (loss) on sale of securities available-for-sale	27,838	(5,521)
Other income	743,280	771,468
Total non-interest income	3,895,403	4,429,475
Non-interest expense		
Salaries and wages	4,875,000	4,877,483
Employee benefits	1,686,221	1,719,128
Occupancy expenses, net	1,899,706	1,893,804
Other expenses	5,151,104	5,388,733
Total non-interest expense	13,612,031	13,879,148
Income before income taxes	4,707,542	4,413,984
Income tax expense	974,402	778,929
Net income	$3,733,140	$3,635,055
Earnings per common share	$0.75	$0.74
Weighted average number of common shares used in computing earnings per share	4,889,086	4,831,084
Dividends declared per common share	$0.48	$0.42

Book value per common share outstanding at September 30,	$9.28	$8.81

The accompanying notes are an integral part of these consolidated financial statements.

Community Bancorp. and Subsidiary
Consolidated Statements of Comprehensive Income

(Unaudited)	Three Months Ended September 30, 2014	2013
Net income	$1,377,189	$1,354,933
Other comprehensive (loss) income, net of tax:		
Unrealized holding (loss) gain on available-for-sale securities		
arising during the period	(131,794)	54,595
Reclassification adjustment for (gain) loss realized in income	(6,010)	5,521
Net change in unrealized loss	(137,804)	60,116
Tax effect	46,853	(20,439)
Other comprehensive (loss) income, net of tax	(90,951)	39,677
Total comprehensive income	$1,286,238	$1,394,610

Community Bancorp. and Subsidiary
Consolidated Statements of Comprehensive Income

(Unaudited)	Nine Months Ended September 30, 2014	2013
Net income	$3,733,140	$3,635,055
Other comprehensive loss, net of tax:		
Unrealized holding loss on available-for-sale securities		
arising during the period	(22,374)	(263,440)
Reclassification adjustment for (gain) loss realized in income	(27,838)	5,521
Net change in unrealized loss	(50,212)	(257,919)
Tax effect	17,072	87,692
Other comprehensive loss, net of tax	(33,140)	(170,227)
Total comprehensive income	$3,700,000	$3,464,828

The accompanying notes are an integral part of these consolidated financial statements.

Community Bancorp. and Subsidiary
Consolidated Statements of Cash Flows

(Unaudited)	Nine Months Ended September 30, 2014	2013
Cash Flows from Operating Activities:		
Net income	$3,733,140	$3,635,055
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, bank premises and equipment	736,587	767,837
Provision for loan losses	405,000	463,750
Deferred income tax	(112,439)	407,080
(Gain) loss on sale of securities available-for-sale	(27,838)	5,521
Gain on sale of loans	(341,687)	(625,171)
Loss (gain) on sale of OREO	1,840	(9,728)
Gain on Trust LLC	(224,749)	(196,216)
Amortization of bond premium, net	193,303	342,865
Write down of OREO	0	19,500
Proceeds from sales of loans held for sale	15,779,107	23,373,876
Originations of loans held for sale	(15,554,320)	(22,476,489)
Increase in taxes payable	1,321,462	295,808
Decrease in interest receivable	89,412	118,114
Amortization of FDIC insurance assessment	0	775,595
Decrease (increase) in mortgage servicing rights	2,536	(218,167)
Decrease (increase) in other assets	210,344	(290,733)
Increase in cash surrender value of bank owned life insurance	(82,505)	(86,663)
Amortization of core deposit intangible	204,525	204,525
Amortization of limited partnerships	443,340	432,256
Decrease (increase) in unamortized loan costs	11,531	(112,246)
Decrease in interest payable	(9,932)	(19,501)
(Decrease) increase in accrued expenses	(113,790)	98,794
(Decrease) increase in other liabilities	(12,892)	9,991
Net cash provided by operating activities	6,651,975	6,915,653
Cash Flows from Investing Activities:		
Investments - held-to-maturity		
Maturities and pay downs	28,095,563	34,247,653
Purchases	(38,228,279)	(31,600,883)
Investments - available-for-sale		
Maturities, calls, pay downs and sales	18,516,920	13,095,380
Purchases	(12,711,520)	(8,267,697)
Proceeds from redemption of restricted equity securities	300,400	388,500
Decrease in limited partnership contributions payable	0	(527,000)
Increase in loans, net	(4,784,999)	(17,228,066)
Capital expenditures net of proceeds from sales of bank premises and equipment	(641,869)	(437,687)
Proceeds from sales of OREO	288,865	1,331,428
Recoveries of loans charged off	48,171	253,728

Net cash used in investing activities	(9,116,748)	(8,744,644)

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	2014	2013
Cash Flows from Financing Activities:		
Net decrease in demand and interest-bearing transaction accounts	(12,482,283)	(7,582,283)
Net increase in money market and savings accounts	9,058,918	2,025,056
Net (decrease) increase in time deposits	(3,751,396)	609,952
Net decrease in repurchase agreements	(6,284,604)	(10,463,846)
Net increase in short-term borrowings	10,175,000	8,325,000
Proceeds from long-term borrowings	6,000,000	0
Repayments on long-term borrowings	(6,000,000)	(6,000,000)
Decrease in capital lease obligations	(52,204)	(47,264)
Dividends paid on preferred stock	(60,938)	(60,938)
Dividends paid on common stock	(1,615,342)	(1,476,535)
Net cash used in financing activities	(5,012,849)	(14,670,858)
Net decrease in cash and cash equivalents	(7,477,622)	(16,499,849)
Cash and cash equivalents:		
Beginning	18,329,989	29,881,840
Ending	$10,852,367	$13,381,991
Supplemental Schedule of Cash Paid During the Period		
Interest	$2,342,227	$2,666,127
Income taxes	$(345,087)	$0
Supplemental Schedule of Noncash Investing and Financing Activities:		
Change in unrealized loss on securities available-for-sale	$(50,212)	$(257,919)
Loans transferred to OREO	$283,000	$1,391,600
Common Shares Dividends Paid		
Dividends declared	$2,344,289	$2,026,829
Increase in dividends payable attributable to dividends declared	(59,097)	(26,616)
Dividends reinvested	(669,850)	(523,678)
	$1,615,342	$1,476,535

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1. Basis of Presentation and Consolidation

The interim consolidated financial statements of Community Bancorp. and Subsidiary are unaudited. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments necessary for the fair presentation of the financial condition and results of operations of the Company contained herein have been made. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2013 contained in the Company's Annual Report on Form 10-K. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full annual period ending December 31, 2014, or for any other interim period.

Certain amounts in the 2013 unaudited consolidated income statements have been reclassified to conform to the 2014 presentation. Reclassifications had no effect on prior period net income or shareholders' equity.

Note 2. Recent Accounting Developments

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-01, "Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects". The amendments in this Update permit institutions to make accounting policy elections to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). For those investments in qualified affordable housing projects not accounted for using the proportional amortization method, the ASU requires the investment to be accounted for as an equity method investment or a cost method investment. The amendments in this Update should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this ASU are effective for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. Management has reviewed the ASU and does not believe that it will have a material impact on the Company's consolidated financial statements.

In January 2014, FASB issued ASU No. 2014-04, "Receivables – Troubled Debt Restructurings by Creditors (Sub Topic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure". The amendments in this Update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The amendments in this Update are effective for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Management has reviewed the ASU and does not believe that it will have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers". The ASU was issued to clarify the principles for recognizing revenue and to develop a common revenue standard for accounting principles

generally accepted in the United States of America (U.S. GAAP) and International Financial Reporting Standards (IFRS). The ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating the potential impact of the ASU on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, “Transfers and Servicing: Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures”. The ASU was issued to respond to concerns about current accounting and disclosures for repurchase agreements and similar transactions. The concern was that under current accounting guidance there is an unnecessary distinction between the accounting for different types of repurchase agreements. Under current guidance, repurchase-to-maturity transactions are accounted for as sales with forward agreements, whereas repurchase agreements that settle before the maturity of the transferred financial asset are accounted for as secured borrowings. The ASU amendments require new disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secure borrowings. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Management has reviewed the ASU and does not believe it will have a material impact on the Company's consolidated financial statements.

Note 3. Earnings per Common Share

Earnings per common share amounts are computed based on the weighted average number of shares of common stock issued during the period (retroactively adjusted for stock splits and stock dividends), including Dividend Reinvestment Plan shares issuable upon reinvestment of dividends declared, and reduced for shares held in treasury.

The following tables illustrate the calculation of earnings per common share for the periods presented, as adjusted for the cash dividends declared on the preferred stock:

	Three Months Ended September 30,	
	2014	2013
Net income, as reported	$1,377,189	$1,354,933
Less: dividends to preferred shareholders	20,313	20,313
Net income available to common shareholders	$1,356,876	$1,334,620
Weighted average number of common shares used in calculating earnings per share	4,905,055	4,845,044
Earnings per common share	$0.28	$0.28

	Nine Months Ended September 30,	
	2014	2013
Net income, as reported	$3,733,140	$3,635,055
Less: dividends to preferred shareholders	60,938	60,938
Net income available to common shareholders	$3,672,202	$3,574,117
Weighted average number of common shares used in calculating earnings per share	4,889,086	4,831,084
Earnings per common share	$0.75	$0.74

Note 4. Investment Securities

Securities available-for-sale (AFS) and held-to-maturity (HTM) as of the balance sheet dates consisted of the following:

Securities AFS	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2014				
U.S. Government sponsored enterprise (GSE) debt securities	$15,923,726	$49,645	$87,490	$15,885,881
U.S. Government securities	4,000,608	5,379	3,487	4,002,500
Agency mortgage-backed securities (Agency MBS)	9,365,322	0	86,178	9,279,144
	$29,289,656	$55,024	$177,155	$29,167,525
December 31, 2013				
U.S. GSE debt securities	$29,220,333	$114,102	$195,521	$29,138,914

U.S. Government securities	6,040,188	10,955	1,455	6,049,688
	$35,260,521	$125,057	$196,976	$35,188,602
September 30, 2013				
U.S. GSE debt securities	$28,400,765	$137,888	$149,042	$28,389,611
U.S. Government securities	7,048,987	14,875	1,402	7,062,460
	$35,449,752	$152,763	$150,444	$35,452,071

Securities HTM	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value*
September 30, 2014				
States and political subdivisions	$48,069,627	$402,373	$0	$48,472,000
December 31, 2013				
States and political subdivisions	$37,936,911	$433,089	$0	$38,370,000
September 30, 2013				
States and political subdivisions	$39,218,785	$391,215	$0	$39,610,000

*Method used to determine fair value of HTM securities rounds values to nearest thousand.

The scheduled maturities of debt securities AFS were as follows:

	Amortized Cost	Fair Value
September 30, 2014		
Due in one year or less	$3,021,863	$3,033,016
Due from one to five years	16,902,471	16,855,365
Agency MBS*	9,365,322	9,279,144
	$29,289,656	$29,167,525
December 31, 2013		
Due in one year or less	$4,508,181	$4,510,923
Due from one to five years	30,752,340	30,677,679
	$35,260,521	$35,188,602
September 30, 2013		
Due in one year or less	$6,611,216	$6,621,105
Due from one to five years	28,838,536	28,830,966
	$35,449,752	$35,452,071

*Because the actual maturities of Agency MBS usually differ from their contractual maturities due to the right of borrowers to prepay the underlying mortgage loans, usually without penalty, those securities are not presented in the table by contractual maturity date.

The scheduled maturities of debt securities HTM were as follows:

	Amortized Cost	Fair Value*
September 30, 2014		
Due in one year or less	$37,097,781	$37,098,000
Due from one to five years	4,483,933	4,585,000
Due from five to ten years	2,460,860	2,561,000
Due after ten years	4,027,053	4,228,000
	$48,069,627	$48,472,000
December 31, 2013		
Due in one year or less	$27,615,731	$27,616,000
Due from one to five years	3,939,950	4,048,000
Due from five to ten years	2,592,045	2,700,000
Due after ten years	3,789,185	4,006,000
	$37,936,911	$38,370,000
September 30, 2013		
Due in one year or less	$29,860,867	$29,861,000
Due from one to five years	3,649,393	3,747,000
Due from five to ten years	2,441,097	2,539,000
Due after ten years	3,267,428	3,463,000
	$39,218,785	$39,610,000

*Method used to determine fair value of HTM securities rounds values to nearest thousand.

There were no debt securities HTM in an unrealized loss position as of the balance sheet dates. Debt securities AFS with unrealized losses as of the balance sheet dates are presented in the table below.

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2014						
U.S. GSE debt securities	$3,484,256	$3,768	$5,166,278	$83,722	$8,650,534	$87,490
U.S. Government securities	974,375	3,487	0	0	974,375	3,487
Agency MBS	9,279,144	86,178	0	0	9,279,144	86,178
	$13,737,775	$93,433	$5,166,278	$83,722	$18,904,053	$177,155
December 31, 2013						
U.S. GSE debt securities	$11,094,830	$194,188	$1,004,235	$1,333	$12,099,065	$195,521
U.S. Government securities	1,034,336	1,455	0	0	1,034,336	1,455
	$12,129,166	$195,643	$1,004,235	$1,333	$13,133,401	$196,976
September 30, 2013						
U.S. GSE debt securities	$9,167,719	$149,042	$0	$0	$9,167,719	$149,042
U.S. Government securities	1,038,906	1,402	0	0	1,038,906	1,402
	$10,206,625	$150,444	$0	$0	$10,206,625	$150,444

Debt securities in the table above consisted of seven U.S. GSE debt securities, one U.S. Government security and nine mortgage-backed securities at September 30, 2014, twelve U.S. GSE debt securities and one U.S. Government security at December 31, 2013, and nine U.S. GSE debt securities and one U.S. Government security at September 30, 2013. The unrealized losses for all periods presented were principally attributable to changes in prevailing interest rates for similar types of securities and not deterioration in the creditworthiness of the issuer.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions, or adverse developments relating to the issuer, warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than the carrying value, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies or other adverse developments in the status of the securities have occurred, and the results of reviews of the issuer's financial condition. As of September 30, 2014, there were no declines in the fair value of any of the securities reflected in the table above that were deemed by management to be other than temporary.

Note 5. Loans, Allowance for Loan Losses and Credit Quality

The composition of net loans as of the balance sheet dates was as follows:

	September 30, 2014	December 31, 2013	September 30, 2013
Commercial & industrial	$63,959,230	$55,619,285	$55,500,735
Commercial real estate	162,275,498	156,935,803	147,280,787
Residential real estate - 1st lien	165,662,426	172,847,074	174,508,009
Residential real estate - Jr lien	44,147,861	45,687,405	45,279,400
Consumer	7,943,615	8,819,359	9,412,856
	443,988,630	439,908,926	431,981,787
Deduct (add):			
Allowance for loan losses	4,885,791	4,854,915	4,799,431
Deferred net loan costs	(288,898)	(300,429)	(281,747)
	4,596,893	4,554,486	4,517,684
Net Loans	$439,391,737	$435,354,440	$427,464,103

The following is an age analysis of past due loans (including non-accrual), by portfolio segment:

September 30, 2014	30-89 Days	90 Days or More	Total Past Due	Current	Total Loans	Non-Accrual Loans	90 Days or More and Accruing
Commercial & industrial	$450,811	$612,822	$1,063,633	$62,895,597	$63,959,230	$ 1,068,390	$0
Commercial real estate	1,137,779	48,520	1,186,299	161,089,199	162,275,498	1,754,002	5,313
Residential real estate - 1st lien	2,230,067	1,239,799	3,469,866	162,192,560	165,662,426	1,740,509	554,327
Residential real estate - Jr lien	256,212	76,089	332,301	43,815,560	44,147,861	410,187	57,385
Consumer	55,034	8,859	63,893	7,879,722	7,943,615	0	8,859
Total	$4,129,903	$1,986,089	$6,115,992	$437,872,638	$443,988,630	$ 4,973,088	$625,884

December 31, 2013	30-89 Days	90 Days or More	Total Past Due	Current	Total Loans	Non-Accrual Loans	90 Days or More and Accruing
Commercial & industrial	$1,060,971	$310,669	$1,371,640	$54,247,645	$55,619,285	$ 527,105	$21,902
Commercial real estate	713,160	215,507	928,667	156,007,136	156,935,803	1,403,541	5,313
	5,184,457	1,655,950	6,840,407	166,006,667	172,847,074	2,203,106	817,109

Residential real estate - 1st lien							
Residential real estate - Jr lien	533,134	289,169	822,303	44,865,102	45,687,405	593,125	56,040
Consumer	136,922	7,784	144,706	8,674,653	8,819,359	0	7,784
Total	$7,628,644	$2,479,079	$10,107,723	$429,801,203	$439,908,926	$4,726,877	$908,148

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September 30, 2013	30-89 Days	90 Days or More	Total Past Due	Current	Total Loans	Non-Accrual Loans	90 Days or More and Accruing
Commercial & industrial	$75,101	$269,744	$344,845	$55,155,890	$55,500,735	$ 493,272	$0
Commercial real estate	982,378	546,252	1,528,630	145,752,157	147,280,787	1,740,350	50,965
Residential real estate - 1st lien	1,270,029	1,071,400	2,341,429	172,166,580	174,508,009	1,999,274	344,193
Residential real estate - Jr lien	539,828	223,200	763,028	44,516,372	45,279,400	669,292	62,359
Consumer	95,907	8,755	104,662	9,308,194	9,412,856	0	8,755
Total	$2,963,243	$2,119,351	$5,082,594	$426,899,193	$431,981,787	$ 4,902,188	$466,272

For all loan segments, loans over 30 days past due are considered delinquent.

Allowance for loan losses

The allowance for loan losses is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is probable. Subsequent recoveries, if any, are credited to the allowance. No changes in the Company's policies or methodology pertaining to the allowance for loan losses were made during the first nine months of 2014.

Unsecured loans, primarily consumer loans, are charged off when they become uncollectible and no later than 120 days past due. Unsecured loans to customers who subsequently file bankruptcy are charged off within 30 days of receipt of the notification of filing or by the end of the month in which the loans become 120 days past due, whichever occurs first. For secured loans, both residential and commercial, the potential loss on impaired loans is carried as a loan loss reserve specific allocation; the loss portion is charged off when collection of the full loan appears unlikely. The unsecured portion of a real estate loan is that portion of the loan exceeding the "fair value" of the collateral less the estimated cost to sell. Value of the collateral is determined in accordance with the Company's appraisal policy. The unsecured portion of an impaired real estate secured loan is charged off by the end of the month in which the loan becomes 180 days past due.

As described below, the allowance consists of general, specific and unallocated components. However, the entire allowance is available to absorb losses in the loan portfolio, regardless of specific, general and unallocated components considered in determining the amount of the allowance.

General component

The general component of the allowance for loan losses is based on historical loss experience, adjusted for qualitative factors and stratified by the following loan segments: commercial and industrial, commercial real estate, residential real estate first ("1st") lien, residential real estate junior ("Jr") lien and consumer loans. The Company does not disaggregate its portfolio segments further into classes. Loss ratios are calculated by loan segment for one year, two year and five year look back periods. The highest loss ratio among these look-back periods is then applied against the respective segment. Management uses an average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors:

levels of and trends in delinquencies and non-performing loans, levels of and trends in loan risk groups, trends in volumes and terms of loans, effects of any changes in loan related policies, experience, ability and the depth of management, documentation and credit data exception levels, national and local economic trends, external factors such as competition and regulation and lastly, concentrations of credit risk in a variety of areas, including portfolio product mix, the level of loans to individual borrowers and their related interests, loans to industry segments, and the geographic distribution of commercial real estate loans. This evaluation is inherently subjective as it requires estimates that are susceptible to revision as more information becomes available.

The qualitative factors are determined based on the various risk characteristics of each loan segment. The Company has policies, procedures and internal controls that management believes are commensurate with the risk profile of each of these segments. Major risk characteristics relevant to each portfolio segment are as follows:

Commercial & Industrial – Loans in this segment include commercial and industrial loans and to a lesser extent loans to finance agricultural production. Commercial loans are made to businesses and are generally secured by assets of the business, including trade assets and equipment. While not the primary collateral, in many cases these loans may also be secured by the real estate of the business. Repayment is expected from the cash flows of the business. A weakened economy, soft consumer spending, unfavorable foreign trade conditions and the rising cost of labor or raw materials are examples of issues that can impact the credit quality in this segment.

Commercial Real Estate – Loans in this segment are principally made to businesses and are generally secured by either owner-occupied, or non-owner occupied commercial real estate. A relatively small portion of this segment includes farm loans secured by farm land and buildings. As with commercial and industrial loans, repayment of owner-occupied commercial real estate loans is expected from the cash flows of the business and the segment would be impacted by the same risk factors as commercial and industrial loans. The non-owner occupied commercial real estate portion includes both residential and commercial construction loans, vacant land and real estate development loans, multi-family dwelling loans and commercial rental property loans. Repayment of construction loans is expected from permanent financing takeout; the Company generally requires a commitment or eligibility for the take-out financing prior to construction loan origination. Real estate development loans are generally repaid from the sale of the subject real property as the project progresses. Construction and development lending entail additional risks, including the project exceeding budget, not being constructed according to plans, not receiving permits, or the pre-leasing or occupancy rate not meeting expectations. Repayment of multi-family loans and commercial rental property loans is expected from the cash flow generated by rental payments received from the individuals or businesses occupying the real estate. Commercial real estate loans are impacted by factors such as competitive market forces, vacancy rates, cap rates, net operating incomes, lease renewals and overall economic demand. In addition, loans in the recreational and tourism sector can be affected by weather conditions, such as unseasonably low winter snowfalls. Commercial real estate lending also carries a higher degree of environmental risk than other real estate lending.

Residential Real Estate - 1st Lien – All loans in this segment are collateralized by first mortgages on 1 – 4 family owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, has an impact on the credit quality of this segment.

Residential Real Estate – Jr Lien – All loans in this segment are collateralized by junior lien mortgages on 1 – 4 family residential real estate and repayment is primarily dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, has an impact on the credit quality of this segment.

Consumer – Loans in this segment are made to individuals for consumer and household purposes. This segment includes both loans secured by automobiles and other consumer goods, as well as loans that are unsecured. This segment also includes overdrafts, which are extensions of credit made to both individuals and businesses to cover temporary shortages in their deposit accounts and are generally unsecured. The Company maintains policies restricting the size and term of these extensions of credit. The overall health of the economy, including unemployment rates, has an impact on the credit quality of this segment.

Specific component

The specific component of the allowance for loan losses relates to loans that are impaired. Impaired loans are loan(s) to a borrower that in the aggregate are greater than $100,000 and that are in non-accrual status or are troubled debt restructurings (“TDR”) regardless of amount. A specific allowance is established for an impaired loan when its estimated impaired basis is less than the carrying value of the loan. For all loan segments, except consumer loans, a loan is considered impaired when, based on current information and events, in management’s estimation it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant or temporary payment delays and payment shortfalls generally are not classified as impaired. Management evaluates the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length and

frequency of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis, by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Impaired loans also include troubled loans that are restructured. A TDR occurs when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that would otherwise not be granted. TDRs may include the transfer of assets to the Company in partial satisfaction of a troubled loan, a modification of a loan's terms, or a combination of the two.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer loans for impairment evaluation, unless such loans are subject to a restructuring agreement.

Unallocated component

An unallocated component of the allowance for loan losses is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component reflects management's estimate of the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The following summarizes changes in the allowance for loan losses and select loan information, by portfolio segment:

Three Months Ended September 30, 2014

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	$687,416	$2,155,738	$1,337,011	$294,614	$84,115	$317,922	$4,876,816
Charge-offs	(27,881)	(24,100)	(28,382)	(33,875)	(24,255)	0	(138,493)
Recoveries	3,028	0	1,725	60	7,655	0	12,468
Provision (credit)	11,893	118,614	(22,894)	23,329	23,252	(19,194)	135,000
Ending balance	$674,456	$2,250,252	$1,287,460	$284,128	$90,767	$298,728	$4,885,791

Nine Months Ended September 30, 2014

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	$516,382	$2,143,398	$1,452,184	$366,471	$105,279	$271,201	$4,854,915
Charge-offs	(115,095)	(154,919)	(28,382)	(33,875)	(90,024)	0	(422,295)
Recoveries	5,265	0	12,823	180	29,903	0	48,171
Provision (credit)	267,904	261,773	(149,165)	(48,648)	45,609	27,527	405,000
Ending balance	$674,456	$2,250,252	$1,287,460	$284,128	$90,767	$298,728	$4,885,791
Allowance for loan losses							
Evaluated for impairment							
Individually	$21,200	$62,000	$45,400	$0	$0	$0	$128,600
Collectively	653,256	2,188,252	1,242,060	284,128	90,767	298,728	4,757,191
Total	$674,456	$2,250,252	$1,287,460	$284,128	$90,767	$298,728	$4,885,791
Loans evaluated for impairment							
Individually	$983,044	$1,728,772	$947,329	$334,926	$0		$3,994,071
Collectively	62,976,186	160,546,726	164,715,097	43,812,935	7,943,615		439,994,559
Total	$63,959,230	$162,275,498	$165,662,426	$44,147,861	$7,943,615		$443,988,630

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Twelve Months Ended December 31, 2013

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	$428,381	$1,536,440	$1,563,576	$332,556	$138,699	$312,428	$4,312,080
Charge-offs	(83,344)	(124,849)	(56,430)	(56,797)	(67,009)	0	(388,429)
Recoveries	2,953	185,791	15,819	21,277	35,424	0	261,264
Provision (credit)	168,392	546,016	(70,781)	69,435	(1,835)	(41,227)	670,000
Ending balance	$516,382	$2,143,398	$1,452,184	$366,471	$105,279	$271,201	$4,854,915
Allowance for loan losses							
Evaluated for impairment							
Individually	$27,500	$147,700	$99,700	$76,500	$0	$0	$351,400
Collectively	488,882	1,995,698	1,352,484	289,971	105,279	271,201	4,503,515
Total	$516,382	$2,143,398	$1,452,184	$366,471	$105,279	$271,201	$4,854,915
Loans evaluated for impairment							
Individually	$373,696	$1,386,477	$1,788,793	$559,250	$0		$4,108,216
Collectively	55,245,589	155,549,326	171,058,281	45,128,155	8,819,359		435,800,710
Total	$55,619,285	$156,935,803	$172,847,074	$45,687,405	$8,819,359		$439,908,926

Three Months Ended September 30, 2013

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	$515,244	$1,698,040	$1,527,962	$414,161	$116,248	$250,524	$4,522,179
Charge-offs	(42,327)	(16,913)	(3,957)	0	(10,647)	0	(73,844)
Recoveries	1,126	185,791	3,128	21,110	2,441	0	213,596
Provision (credit)	4,891	72,698	(14,415)	81,589	22,894	(30,157)	137,500
Ending balance	$478,934	$1,939,616	$1,512,718	$516,860	$130,936	$220,367	$4,799,431

Nine Months Ended September 30, 2013

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	$428,381	$1,536,440	$1,563,576	$332,556	$138,699	$312,428	$4,312,080
Charge-offs	(61,614)	(124,849)	(7,009)	0	(36,655)	0	(230,127)

Recoveries	2,117	185,791	11,764	21,230	32,826	0	253,728
Provision (credit)	110,050	342,234	(55,613)	163,074	(3,934)	(92,061)	463,750
Ending balance	$478,934	$1,939,616	$1,512,718	$516,860	$130,936	$220,367	$4,799,431
Allowance for loan losses							
Evaluated for impairment							
Individually	$0	$115,700	$110,500	$185,700	$0	$0	$411,900
Collectively	478,934	1,823,916	1,402,218	331,160	130,936	220,367	4,387,531
Total	$478,934	$1,939,616	$1,512,718	$516,860	$130,936	$220,367	$4,799,431
Loans evaluated for impairment							
Individually	$319,010	$1,716,870	$1,734,139	$669,292	$0		$4,439,311
Collectively	55,181,725	145,563,917	172,773,870	44,610,108	9,412,856		427,542,476
Total	$55,500,735	$147,280,787	$174,508,009	$45,279,400	$9,412,856		$431,981,787

Impaired loans, by portfolio segment, were as follows:

	As of September 30, 2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment(1)	Average Recorded Investment(2)
With no related allowance recorded					
Commercial & industrial	$726,688	$772,605	$0	$ 772,852	$ 536,388
Commercial real estate	1,305,203	1,414,604	0	1,321,387	1,186,767
Residential real estate - 1st lien	812,609	903,309	0	822,309	1,062,894
Residential real estate - Jr lien	245,666	391,644	0	257,789	193,995
With an allowance recorded					
Commercial & industrial	256,356	294,950	21,200	335,613	198,362
Commercial real estate	423,569	439,630	62,000	322,093	299,003
Residential real estate - 1st lien	134,720	163,115	45,400	338,782	339,732
Residential real estate - Jr lien	89,260	0	0	95,062	209,531
Total					
Commercial & industrial	$983,044	$1,067,555	$21,200	$ 1,108,465	$ 734,750
Commercial real estate	1,728,772	1,854,234	62,000	1,643,480	1,485,770
Residential real estate - 1st lien	947,329	1,066,424	45,400	1,161,091	1,402,626
Residential real estate - Jr lien	334,926	391,644	0	352,851	403,526
Total	$3,994,071	$4,379,857	$128,600	$ 4,265,887	$ 4,026,672

(1) For the Three Months Ended September 30, 2014
(2) For the Nine Months Ended September 30, 2014

	As of December 31, 2013			2013
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded				
Commercial & industrial	$314,510	$363,618	$0	$339,519
Commercial real estate	944,845	1,021,143	0	1,325,504
Residential real estate - 1st lien	1,354,432	1,654,023	0	1,088,631
Residential real estate - Jr lien	164,137	228,134	0	64,606
With an allowance recorded				
Commercial & industrial	59,186	59,186	27,500	11,837
Commercial real estate	441,632	446,963	147,700	272,174
Residential real estate - 1st lien	434,361	474,496	99,700	515,685
Residential real estate - Jr lien	395,113	429,167	76,500	380,855
Total				
Commercial & industrial	$373,696	$422,804	$27,500	$351,356
Commercial real estate	1,386,477	1,468,106	147,700	1,597,678
Residential real estate - 1st lien	1,788,793	2,128,519	99,700	1,604,316
Residential real estate - Jr lien	559,250	657,301	76,500	445,461

Total	$4,108,216	$4,676,730	$351,400	$3,998,811

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	As of September 30, 2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment (1)	Average Recorded Investment (2)
With no related allowance recorded					
Commercial & industrial	$319,010	$366,022	$0	$312,218	$345,772
Commercial real estate	1,199,398	1,269,979	0	1,085,322	1,420,668
Residential real estate - 1st lien	1,156,159	1,390,485	0	1,026,675	1,022,181
Residential real estate - Jr lien	102,913	110,997	0	63,752	39,723
With an allowance recorded					
Commercial & industrial	0	0	0	0	0
Commercial real estate	517,472	517,472	115,700	307,194	229,809
Residential real estate - 1st lien	577,980	657,154	110,500	523,738	536,016
Residential real estate - Jr lien	566,379	595,494	185,700	445,302	377,291
Total					
Commercial & industrial	$319,010	$366,022	$0	$312,218	$345,772
Commercial real estate	1,716,870	1,787,451	115,700	1,392,516	1,650,477
Residential real estate - 1st lien	1,734,139	2,047,639	110,500	1,550,413	1,558,197
Residential real estate - Jr lien	669,292	706,491	185,700	509,054	417,014
Total	$4,439,311	$4,907,603	$411,900	$3,764,201	$3,971,460

(1) For the Three Months Ended September 30, 2013
(2) For the Nine Months Ended September 30, 2013

Interest income recognized on impaired loans was immaterial for all periods presented.

For all loan segments, the accrual of interest is discontinued when a loan is specifically determined to be impaired or when the loan is delinquent 90 days and management believes, after considering collection efforts and other factors, that the borrower's financial condition is such that collection of interest is considered by management to be doubtful. Any unpaid interest previously accrued on those loans is reversed from income. Interest income is generally not recognized on specific impaired loans unless the likelihood of further loss is considered by management to be remote. Interest payments received on impaired loans are generally applied as a reduction of the loan principal balance. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are considered by management to be reasonably assured.

As of the balance sheet dates, the Company was not contractually committed to lend additional funds to debtors with impaired, non-accrual or restructured loans.

Credit Quality Grouping

In developing the allowance for loan losses, management uses credit quality grouping to help evaluate trends in credit quality. The Company groups credit risk into Groups A, B and C. The manner the Company utilizes to assign risk grouping is driven by loan purpose. Commercial purpose loans are individually risk graded while the retail portion of the portfolio is generally grouped by delinquency pool.

Group A loans - Acceptable Risk – are loans that are expected to perform as agreed under their respective terms. Such loans carry a normal level of risk that does not require management attention beyond that warranted by the loan or loan relationship characteristics, such as loan size or relationship size. Group A loans include commercial purpose loans that are individually risk rated and retail loans that are rated by pool. Group A retail loans include both performing consumer and residential real estate loans. Residential real estate loans are loans to individuals secured by 1-4 family homes, including first mortgages, home equity and home improvement loans. Loan balances fully secured by deposit accounts or that are fully guaranteed by the Federal Government are considered acceptable risk.

Group B loans – Management Involved - are loans that require greater attention than the acceptable loans in Group A. Characteristics of such loans may include, but are not limited to, borrowers that are experiencing negative operating trends such as reduced sales or margins, borrowers that have exposure to adverse market conditions such as increased competition or regulatory burden, or borrowers that have had unexpected or adverse changes in management. These loans have a greater likelihood of migrating to an unacceptable risk level if these characteristics are left unchecked. Group B is limited to commercial purpose loans that are individually risk rated.

Group C loans – Unacceptable Risk – are loans that have distinct shortcomings that require a greater degree of management attention. Examples of these shortcomings include a borrower's inadequate capacity to service debt, poor operating performance, or insolvency. These loans are more likely to result in repayment through collateral liquidation. Group C loans range from those that are likely to sustain some loss if the shortcomings are not corrected, to those for which loss is imminent and non-accrual treatment is warranted. Group C loans include individually rated commercial purpose loans, and retail loans adversely rated in accordance with the Federal Financial Institutions Examination Council’s Uniform Retail Credit Classification Policy. Group C retail loans include 1-4 family residential real estate loans and home equity loans past due 90 days or more with loan-to-value ratios greater than 60%, home equity loans 90 days or more past due where the bank does not hold first mortgage, irrespective of loan-to-value, loans in bankruptcy where repayment is likely but not yet established, and lastly consumer loans that are 90 days or more past due.

Commercial purpose loan ratings are assigned by the commercial account officer; for larger and more complex commercial loans, the credit rating is a collaborative assignment by the lender and the credit analyst. The credit risk rating is based on the borrower's expected performance, i.e., the likelihood that the borrower will be able to service its obligations in accordance with the loan terms. Credit risk ratings are meant to measure risk versus simply record history. Assessment of expected future payment performance requires consideration of numerous factors. While past performance is part of the overall evaluation, expected performance is based on an analysis of the borrower's financial strength, and historical and projected factors such as size and financing alternatives, capacity and cash flow, balance sheet and income statement trends, the quality and timeliness of financial reporting, and the quality of the borrower’s management. Other factors influencing the credit risk rating to a lesser degree include collateral coverage and control, guarantor strength and commitment, documentation, structure and covenants and industry conditions. There are uncertainties inherent in this process.

Credit risk ratings are dynamic and require updating whenever relevant information is received. The risk ratings of larger or more complex loans, and Group B and C rated loans, are assessed at the time of their respective annual reviews, during quarterly updates, in action plans or at any other time that relevant information warrants update. Lenders are required to make immediate disclosure to the Chief Credit Officer of any known increase in loan risk, even if considered temporary in nature.

The risk ratings within the loan portfolio, by segment, as of the balance sheet dates were as follows:

As of September 30, 2014

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Total
Group A	$60,077,761	$153,398,713	$162,739,339	$43,546,848	$7,934,756	$427,697,417
Group B	2,717,261	3,447,445	205,415	163,910	0	6,534,031
Group C	1,164,208	5,429,340	2,717,672	437,103	8,859	9,757,182
Total	$63,959,230	$162,275,498	$165,662,426	$44,147,861	$7,943,615	$443,988,630

As of December 31, 2013

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Total
Group A	$51,740,744	$148,516,895	$169,771,357	$44,739,736	$8,800,365	$423,569,097
Group B	2,824,169	3,292,200	160,468	460,844	0	6,737,681
Group C	1,054,372	5,126,708	2,915,249	486,825	18,994	9,602,148
Total	$55,619,285	$156,935,803	$172,847,074	$45,687,405	$8,819,359	$439,908,926

As of September 30, 2013

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Total
Group A	$51,937,275	$139,168,914	$171,694,502	$44,144,667	$9,404,101	$416,349,459
Group B	2,412,663	3,572,369	175,081	497,992	0	6,658,105
Group C	1,150,797	4,539,504	2,638,426	636,741	8,755	8,974,223
Total	$55,500,735	$147,280,787	$174,508,009	$45,279,400	$9,412,856	$431,981,787

Modifications of Loans and TDRs

A loan is classified as a TDR if, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider.

The Company is deemed to have granted such a concession if it has modified a troubled loan in any of the following ways:

Reduced accrued interest;
Reduced the original contractual interest rate to a rate that is below the current market rate for the borrower;
Converted a variable-rate loan to a fixed-rate loan;
Extended the term of the loan beyond an insignificant delay;
Deferred or forgiven principal in an amount greater than three months of payments; or
Performed a refinancing and deferred or forgiven principal on the original loan.

An insignificant delay or insignificant shortfall in the amount of payments typically would not require the loan to be accounted for as a TDR. However, pursuant to regulatory guidance, any payment delay longer than three months is generally not considered insignificant. Management's assessment of whether a concession has been granted also takes into account payments expected to be received from third parties, including third-party guarantors, provided that the third party has the ability to perform on the guarantee.

The Company's TDRs are principally a result of extending loan repayment terms to relieve cash flow difficulties. The Company has only, on a limited basis, reduced interest rates for borrowers below the current market rate for the borrower. The Company has not forgiven principal or reduced accrued interest within the terms of original restructurings, nor has it converted variable rate terms to fixed rate terms. However, the Company evaluates each TDR situation on its own merits and does not foreclose the granting of any particular type of concession.

TDRs, by portfolio segment, for the periods presented were as follows:

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate						

1st lien	2	$ 432,573	$ 436,963	8	$ 913,471	$ 947,700

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	Twelve Months Ended December 31, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate - 1st lien	4	$ 321,406	$ 330,266
Residential real estate - Jr lien	1	23,425	23,425
Total	5	$ 344,831	$ 353,691

There were no TDR's for the three months ended September 30, 2013.

	Nine Months Ended September 30, 2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate - Jr lien	1	$ 23,425	$ 23,425

There were no TDRs for which there was a payment default under the restructured terms during the twelve month period ended September 30, 2013. The TDR's for which there was a payment default during the twelve month period ended September 30, 2014 were as follows:

	Number of Contracts	Recorded Investment
Residential real estate - 1st lien	5	$438,428

TDRs are treated as other impaired loans and carry individual specific reserves with respect to the calculation of the allowance for loan losses. These loans are categorized as non-performing, may be past due, and are generally adversely risk rated. The TDRs that have defaulted under their restructured terms are generally in collection status and their reserve is typically calculated using the fair value of collateral method. The allowance related to TDRs was $6,600 at September 30, 2014, $5,800 at December 31, 2013, and $0 at September 30, 2013.

At September 30, 2014, the Company did not have any commitments to lend additional funds to borrowers with loans classified as TDRs.

Note 6. Goodwill and Other Intangible Assets

As a result of the merger with LyndonBank on December 31, 2007, the Company recorded goodwill amounting to $11,574,269. The goodwill is not amortizable and is not deductible for tax purposes.

The Company also recorded $4,161,000 of acquired identified intangible assets representing the core deposit intangible which is subject to amortization as a non-interest expense over a ten year period. The accumulated amortization expense was $3,274,743 and $3,002,049 as of September 30, 2014 and 2013, respectively.

Amortization expense for the core deposit intangible for the first nine months of 2014 and 2013 was $204,525. As of September 30, 2014, the remaining annual amortization expense related to the core deposit intangible, absent any future impairment, is expected to be as follows:

2014	$68,170
2015	272,695
2016	272,695
2017	272,697
Total remaining core deposit intangible	$886,257

Management evaluates goodwill for impairment annually and the core deposit intangible for impairment if conditions warrant. As of the date of the most recent evaluation (December 31, 2013), management concluded that no impairment existed in either category.

Note 7. Fair Value

Certain assets and liabilities are recorded at fair value to provide additional insight into the Company's quality of earnings. The fair values of some of these assets and liabilities are measured on a recurring basis while others are measured on a non-recurring basis, with the determination based upon applicable existing accounting pronouncements. For example, securities available-for-sale are recorded at fair value on a recurring basis. Other assets, such as mortgage servicing rights, loans held-for-sale, impaired loans, and OREO are recorded at fair value on a non-recurring basis using the lower of cost or market methodology to determine impairment of individual assets. The Company groups assets and liabilities which are recorded at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement (with Level 1 considered highest and Level 3 considered lowest). A brief description of each level follows.

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as U.S. Treasury, other U.S. Government debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes mortgage servicing rights, impaired loans and OREO.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The following methods and assumptions were used by the Company in estimating its fair value measurements and disclosures:

Cash and cash equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate their fair values. As such, the Company classifies these financial instruments as Level 1.

Securities Available-for-Sale and Held-to-Maturity: Fair value measurement is based upon quoted prices for similar assets, if available. If quoted prices are not available, fair values are measured using matrix pricing models, or other model-based valuation techniques requiring observable inputs other than quoted prices such as yield curves, prepayment speeds and default rates. Level 1 securities would include U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Level 2 securities include federal agency securities and securities of local municipalities.

Restricted equity securities: Restricted equity securities are comprised of Federal Reserve Bank of Boston (FRBB) stock and Federal Home Loan Bank of Boston (FHLBB) stock. These securities are carried at cost, which is believed to approximate fair value, based on the redemption provisions of the FRBB and the FHLBB. The stock is nonmarketable, and redeemable at par value, subject to certain conditions. As such the Company classifies these securities as Level 2.

Loans and loans held-for-sale: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans (for example, fixed rate residential, commercial real estate, and rental property mortgage loans, and commercial and industrial loans) are estimated using discounted cash flow analyses, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. Loan impairment is deemed to exist when full repayment of principal and interest according to the contractual terms of the loan is no longer probable. Impaired loans are reported based on one of three measures: the present value of expected future cash flows discounted at the loan's effective interest rate; the loan's observable market price; or the fair value of the collateral if the loan is collateral dependent. If the fair value is less than an impaired loan's recorded investment, an impairment loss is recognized as part of the allowance for loan losses. Accordingly, certain impaired loans may be subject to measurement at fair value on a non-recurring basis. Management has estimated the fair values of these assets using Level 2 inputs, such as the fair value of collateral based on independent third-party appraisals for collateral-dependent loans. All other loans are valued using Level 3 inputs.

The fair value of loans held-for-sale is based upon an actual purchase and sale agreement between the Company and an independent market participant. The sale is executed within a reasonable period following quarter end at the stated fair value.

Mortgage servicing rights: Mortgage servicing rights represent the value associated with servicing residential mortgage loans. Servicing assets and servicing liabilities are reported using the amortization method. In evaluating the carrying values of mortgage servicing rights, the Company obtains third party valuations based on loan level data including note rate, and the type and term of the underlying loans. As such, the Company classifies mortgage servicing rights as non-recurring Level 2.

OREO: Real estate acquired through or in lieu of foreclosure and bank properties no longer used as bank premises are initially recorded at fair value. The fair value of OREO is based on property appraisals and an analysis of similar properties currently available. As such, the Company records OREO as non-recurring Level 2.

Deposits, federal funds purchased and borrowed funds: The fair values disclosed for demand deposits (for example, checking accounts, savings accounts and repurchase agreements) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for certificates of deposit and borrowed funds are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates and indebtedness to a schedule of aggregated contractual maturities on such time deposits and indebtedness. As such the Company classifies deposits, federal funds purchased and borrowed funds as Level 2.

Capital lease obligations: Fair value is determined using a discounted cash flow calculation using current rates. Based on current rates, carrying value approximates fair value. As such the Company classifies these obligations as Level 2.

Junior subordinated debentures: Fair value is estimated using current rates for debentures of similar maturity. As such the Company classifies these instruments as Level 2.

Accrued interest: The carrying amounts of accrued interest approximate their fair values. As such the Company classifies accrued interest as Level 2.

Off-balance-sheet credit related instruments: Commitments to extend credit are evaluated and fair value is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit-worthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

FASB Accounting Standards Codification (ASC) Topic 825 “Financial Instruments”, requires disclosures of fair value information about financial instruments, whether or not recognized in the balance sheet, if the fair values can be reasonably determined. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques using observable inputs when available. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis and reflected in the consolidated balance sheets at the dates presented, segregated by fair value hierarchy, are summarized below:

September 30, 2014	Level 1	Level 2	Total
Assets: (market approach)			
U.S. GSE debt securities	$0	$15,885,881	$15,885,881
U.S. Government securities	4,002,500	0	4,002,500
Agency MBS	0	9,279,144	9,279,144
December 31, 2013			
Assets: (market approach)			
U.S. GSE debt securities	$0	$29,138,914	$29,138,914
U.S. Government securities	6,049,688	0	6,049,688
September 30, 2013			
Assets: (market approach)			
U.S. GSE debt securities	$0	$28,389,611	$28,389,611
U.S. Government securities	7,062,460	0	7,062,460

There were no transfers between Levels 1 and 2 for the periods presented. There were no Level 3 assets or liabilities measured on a recurring basis as of the balance sheet dates presented.

Assets and Liabilities Recorded at Fair Value on a Non-Recurring Basis

The following table includes assets measured at fair value on a non-recurring basis that have had a fair value adjustment since their initial recognition. Impaired loans measured at fair value only include impaired loans with a related specific allowance for loan losses and are presented net of specific allowances as disclosed in Note 5.

Assets measured at fair value on a non-recurring basis and reflected in the consolidated balance sheets at the dates presented, segregated by fair value hierarchy, are summarized below:

September 30, 2014	Level 2
Assets: (market approach)	
Residential mortgage servicing rights	$1,326,543
Impaired loans, net of related allowance	775,305
OREO	1,097,820
December 31, 2013	
Assets: (market approach)	
Residential mortgage servicing rights	$1,329,079
Impaired loans, net of related allowance	978,892
OREO	1,105,525
September 30, 2013	
Assets: (market approach)	
Residential mortgage servicing rights	$1,227,790
Impaired loans, net of related allowance	1,249,931

OREO	1,125,105

There were no Level 1 or Level 3 assets or liabilities measured on a non-recurring basis as of the balance sheet dates presented.

The estimated fair values of commitments to extend credit and letters of credit were immaterial as of the dates presented in the tables below. The estimated fair values of the Company's financial instruments were as follows:

September 30, 2014	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total
			(Dollars in Thousands)		
Financial assets:					
Cash and cash equivalents	$10,852	$10,852	$0	$0	$10,852
Securities held-to-maturity	48,070	0	48,472	0	48,472
Securities available-for-sale	29,168	4,003	25,165	0	29,168
Restricted equity securities	3,332	0	3,332	0	3,332
Loans and loans held-for-sale					
Commercial & industrial	63,242	0	962	63,697	64,659
Commercial real estate	159,916	0	1,667	163,360	165,027
Residential real estate - 1st lien	164,589	0	901	168,133	169,034
Residential real estate - Jr lien	43,834	0	335	44,446	44,781
Consumer	7,848	0	0	8,239	8,239
Mortgage servicing rights	1,327	0	1,561	0	1,561
Accrued interest receivable	1,689	0	1,689	0	1,689
Financial liabilities:					
Deposits					
Other deposits	454,629	0	455,002	0	455,002
Brokered deposits	19,749	0	19,751	0	19,751
Federal funds purchased and short-term borrowings	10,175	0	10,175	0	10,175
Repurchase agreements	23,360	0	23,360	0	23,360
Capital lease obligations	659	0	659	0	659
Subordinated debentures	12,887	0	12,870	0	12,870
Accrued interest payable	65	0	65	0	65

December 31, 2013	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total
			(Dollars in Thousands)		
Financial assets:					
Cash and cash equivalents	$18,330	$18,330	$0	$0	$18,330
Securities held-to-maturity	37,937	0	38,370	0	38,370
Securities available-for-sale	35,189	6,050	29,139	0	35,189
Restricted equity securities	3,633	0	3,633	0	3,633
Loans and loans held-for-sale					
Commercial & industrial	55,069	0	346	56,035	56,381
Commercial real estate	154,696	0	1,239	157,843	159,082
Residential real estate - 1st lien	171,498	0	1,689	174,776	176,465
Residential real estate - Jr lien	45,292	0	483	45,785	46,268
Consumer	8,708	0	0	9,130	9,130
Mortgage servicing rights	1,329	0	1,608	0	1,608
Accrued interest receivable	1,778	0	1,778	0	1,778

Financial liabilities:					
Deposits					
Other deposits	463,160	0	464,220	0	464,220
Brokered deposits	18,393	0	18,401	0	18,401
Repurchase agreements	29,645	0	29,645	0	29,645
Capital lease obligations	711	0	711	0	711
Subordinated debentures	12,887	0	12,880	0	12,880
Accrued interest payable	75	0	75	0	75

September 30, 2013	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total
			(Dollars in Thousands)		
Financial assets:					
Cash and cash equivalents	$13,382	$13,382	$0	$0	$13,382
Securities held-to-maturity	39,219	0	39,610	0	39,610
Securities available-for-sale	35,452	7,062	28,390	0	35,452
Restricted equity securities	3,633	0	3,633	0	3,633
Loans and loans held-for-sale					
Commercial & industrial	54,994	0	319	56,038	56,357
Commercial real estate	145,266	0	1,601	148,401	150,002
Residential real estate - 1st lien	174,135	0	1,624	177,800	179,424
Residential real estate - Jr lien	44,739	0	483	45,272	45,755
Consumer	9,278	0	0	9,742	9,742
Mortgage servicing rights	1,228	0	1,228	0	1,228
Accrued interest receivable	1,633	0	1,633	0	1,633
Financial liabilities:					
Deposits					
Other deposits	454,521	0	455,772	0	455,772
Brokered deposits	16,029	0	16,038	0	16,038
Federal funds purchased and short-term borrowings	8,325	0	8,325	0	8,325
Long-term borrowings	0	0	0	0	0
Repurchase agreements	23,686	0	23,686	0	23,686
Capital lease obligations	727	0	727	0	727
Subordinated debentures	12,887	0	12,872	0	12,872
Accrued interest payable	73	0	73	0	73

Note 8. Loan Servicing

The following table shows the changes in the carrying amount of the mortgage servicing rights, included in other assets on the consolidated balance sheets, for the periods indicated:

	September 30, 2014	December 31, 2013	September 30, 2013
Balance at beginning of year	$1,329,079	$1,009,623	$1,009,623
Mortgage servicing rights capitalized	166,295	274,253	215,196
Mortgage servicing rights amortized	(186,441)	(317,865)	(259,697)
Change in valuation allowance	17,610	363,068	262,668
Balance at end of period	$1,326,543	$1,329,079	$1,227,790

Note 9. Legal Proceedings

In the normal course of business the Company and its subsidiary are involved in litigation that is considered incidental to their business. Management does not expect that any such litigation will be material to the Company's consolidated

financial condition or results of operations.

Note 10. Subsequent Event

The Company has evaluated events and transactions through the date that the financial statements were issued for potential recognition or disclosure in these financial statements, as required by GAAP. On September 23, 2014, the Company declared a cash dividend of $0.16 per common share payable November 1, 2014 to shareholders of record as of October 15, 2014. This dividend, amounting to $783,979, was accrued at September 30, 2014.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Period Ended September 30, 2014

The following discussion analyzes the consolidated financial condition of Community Bancorp. (the "Company") and its wholly-owned subsidiary, Community National Bank (the "Bank"), as of September 30, 2014, December 31, 2013 and September 30, 2013, and its consolidated results of operations for the two interim periods presented. The Company is considered a "smaller reporting company" under applicable regulations of the Securities and Exchange Commission ("SEC") and is therefore eligible for relief from certain disclosure requirements. In accordance with such provisions, the Company has elected to provide its interim consolidated statements of income, comprehensive income, and cash flows for two, rather than three, years.

The following discussion should be read in conjunction with the Company's audited consolidated financial statements and related notes contained in its 2013 Annual Report on Form 10-K filed with the SEC.

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains certain forward-looking statements about the results of operations, financial condition and business of the Company and its subsidiary. Words used in the discussion below such as "believes," "expects," "anticipates," "intends," "estimates," "plans," "predicts," or similar expressions, indicate that management of the Company is making forward-looking statements.

Forward-looking statements are not guarantees of future performance. They necessarily involve risks, uncertainties and assumptions. Future results of the Company may differ materially from those expressed in these forward-looking statements. Examples of forward looking statements included in this discussion include, but are not limited to, estimated contingent liability related to assumptions made within the asset/liability management process, management's expectations as to the future interest rate environment and the Company's related liquidity level, credit risk expectations relating to the Company's loan portfolio and its participation in the Federal Home Loan Bank of Boston ("FHLBB") Mortgage Partnership Finance ("MPF") program, and management's general outlook for the future performance of the Company or the local or national economy. Although forward-looking statements are based on management's current expectations and estimates, many of the factors that could influence or determine actual results are unpredictable and not within the Company's control. Readers are cautioned not to place undue reliance on such statements as they speak only as of the date they are made. The Company does not undertake, and disclaims any obligation, to revise or update any forward-looking statements to reflect the occurrence or anticipated occurrence of events or circumstances after the date of this Report, except as required by applicable law. The Company claims the protection of the safe harbor for forward-looking statements provided in the Private Securities Litigation Reform Act of 1995.

Factors that may cause actual results to differ materially from those contemplated by these forward-looking statements include, among others, the following possibilities: (1) general economic conditions, either nationally, regionally or locally continue to deteriorate, resulting in a decline in credit quality or a diminished demand for the Company's products and services; (2) competitive pressures increase among financial service providers in the Company's northern New England market area or in the financial services industry generally, including competitive pressures from non-bank financial service providers, from increasing consolidation and integration of financial service providers, and from changes in technology and delivery systems; (3) interest rates change in such a way as to reduce the Company's margins; (4) changes in laws or government rules, including the rules of the federal Consumer Financial Protection

Bureau, or the way in which courts or government agencies interpret or implement those laws or rules, increase our costs of doing business causing us to limit or change our product offerings or pricing, or otherwise adversely affect the Company's business; (5) changes in federal or state tax policy; (6) changes in the level of nonperforming assets and charge-offs; (7) changes in estimates of future reserve requirements based upon relevant regulatory and accounting requirements; (8) changes in consumer and business spending, borrowing and savings habits; (9) the effect of changes to the calculation of the Company’s regulatory capital ratios under the recently adopted Basel III capital framework which, among other things, will require additional regulatory capital, and change the framework for risk-weighting of certain assets; (10) the effect of and changes in the United States monetary and fiscal policies, including the interest rate policies of the Federal Reserve Board (“FRB”) and its regulation of the money supply; and (11) adverse changes in the credit rating of U.S. government debt.

NON-GAAP FINANCIAL MEASURES

Under SEC Regulation G, public companies making disclosures containing financial measures that are not in accordance with generally accepted accounting principles in the United States (“US GAAP” or “GAAP”) must also disclose, along with each non-GAAP financial measure, certain additional information, including a reconciliation of the non-GAAP financial measure to the closest comparable GAAP financial measure, as well as a statement of the company’s reasons for utilizing the non-GAAP financial measure. The SEC has exempted from the definition of non-GAAP financial measures certain commonly used financial measures that are not based on GAAP. However, two non-GAAP financial measures commonly used by financial institutions, namely tax-equivalent net interest income and tax-equivalent net interest margin (as presented in the tables in the section labeled Interest Income Versus Interest Expense (Net Interest Income), have not been specifically exempted by the SEC, and may therefore constitute non-GAAP financial measures under Regulation G. We are unable to state with certainty whether the SEC would regard those measures as subject to Regulation G.

Management believes that these non-GAAP financial measures are useful in evaluating the Company's financial performance and facilitate comparisons with the performance of other financial institutions. However, that information should be considered supplemental in nature and not as a substitute for related financial information prepared in accordance with GAAP.

OVERVIEW

The Company's consolidated assets on September 30, 2014 were $572,217,942, a decrease of $1,449,462, or 0.3%, from December 31, 2013, and an increase of $8,123,443, or 1.4%, from September 30, 2013. Loans increased $4,079,704, or 1.0%, since December 31, 2013 and increased $12,006,843, or 2.6%, since September 30, 2013. The increase in loans is attributed to solid growth in commercial loans, while residential mortgages balances have declined throughout the year. The loan growth has been funded primarily through a combination of maturities and sales of securities in the investment portfolio, which provided $6,284,546 in funding since September 30, 2013, and short term borrowings, which totaled $10,175,000 as of September 30, 2014.

Total deposits declined $7,174,761, or 1.5%, since December 31, 2013 due primarily to the seasonal runoff of municipal deposits. In the year over year comparison, deposits grew by $3,828,224, or 0.8%, with increases in non-maturity deposits and wholesale time deposits while balances in retail time deposits have decreased. The decrease in retail time deposits is a trend that has been prevalent for several years while rates have been at historic lows. Management believes that the low interest rates being paid on certificates of deposit and other investment products is likely causing some depositors to place their money in non-maturity products such as demand and savings accounts while awaiting an improvement in interest rates and market conditions.

Interest rates remain at historically low levels, causing continued pressure on yields as earning assets re-price at lower rates, although the rate of decline has slowed in 2014 as rates have stabilized at this lower base. Growth of the commercial loan portfolio, which typically carries higher yields than consumer loans, has helped to maintain a stable level of interest income. This shift in asset mix is in line with the Company's strategic plan to increase its concentration in commercial loans while maintaining a sizeable residential loan portfolio. While commercial loans inherently carry more risk, the Company has dedicated significant resources in the credit administration department to mitigate the additional risk. The opportunities for growth continue to be primarily in the Central Vermont market where economic activity is much more robust, and the Company is increasing its presence and market share. The shift of a portion of the investment portfolio to higher yielding mortgage backed securities at the end of the second quarter of 2014 has also improved overall asset yields.

Interest income increased $221,905, or 4.0%, in the third quarter of 2014 compared to the third quarter of 2013 as earning assets increased, and the mix of earning assets shifted from low yielding investments to higher earning loans, generating a stable overall asset yield of 4.45% for both periods. Interest expense declined $58,417, or 7.1%, due to the continued decrease in interest rates paid on deposits and borrowings. The decrease in interest paid on deposits is largely attributable to a shift of customer funds out of higher yielding CDs to lower yielding demand and savings accounts. Rates paid on non-maturity deposits have also been adjusted downward when necessary to account for changes in market rates.

Net interest income after provision for loan losses improved by $560,513, or 4.0%, for the nine months ended September 30, 2014 compared to the same period in 2013. The charge to income for the provision for loan losses decreased $58,750, or 12.7%, year over year based on improvement in asset quality seen during the year.

Net income for the third quarter of 2014 was $1,377,189, or $0.28 per common share, compared to $1,354,933, or $0.28 per common share for the same period in 2013. Earnings per common share for the nine months ended September 30, 2014 and September 30, 2013 were $0.75 and $0.74, respectively. Total non-interest income decreased

$295,745, or 19.2%, during the third quarter of 2014 compared to the third quarter 2013. For the nine months ended September 30, 2014, total non-interest income declined $534,072, or 12.1%, compared with the same period in 2013. One of the components of non-interest income is income generated from selling loans in the secondary market. For several years, the Federal Reserve's efforts to stimulate the real estate market by keeping mortgage interest rates low provided for several refinancing cycles. Residential mortgage lending activity slowed during 2013 and continued to decline during the first nine months of 2014, resulting in decreases in the Company's fee income from the sale of residential loans in the secondary market. During the third quarter of 2014 mortgage activity resulted in originations of $5,265,050, compared to $8,213,315 for the third quarter of 2013, providing points and premiums from the sales of these mortgages of $83,574 and $147,696, respectively, a decline of 43.4%. For the nine months ended September 30, 2013, points and premiums totaled $318,724, a decrease of $235,952, or 42.5%, when compared to the same period in 2013. Also contributing to the decrease in non-interest income was the fair value adjustment to the impairment of the mortgage servicing rights; for the third quarter of 2014 this adjustment to reduce the impairment reserve was just $11,850, versus $102,660 for the third quarter of 2013, while year to date 2014 the adjustment to reduce the impairment reserve was $17,610, compared with $262,668 for the nine months ended September 30, 2013, amounting to a 93.3% decline. The resulting net gain from the sale of mortgages was $226,279 for the third quarter of 2014, compared to $396,770 for the third quarter of 2013, a 43.0% decrease. For the nine months ended September 30, 2014, the total gain from the sale of mortgages was $735,739, compared with $1,236,295 for the same period in 2013, a decrease of 40.5%. Operating expenses for 2014 decreased by 1.4% for the quarter and 1.9% year to date when compared to the same period in 2013. Please refer to the Non-interest Income and Expense sections for more information.

The regulatory environment continues to increase operating costs and place extensive burden on personnel resources to comply with a myriad of legal requirements, including those under the Dodd-Frank Act of 2010, and the numerous rulemakings it has spawned, the Sarbanes-Oxley Act of 2002, the USA Patriot Act, the Bank Secrecy Act, the Real Estate Settlement Procedures Act and the Truth in Lending Act, as well as the new Basel III capital framework. It is unlikely that these administrative costs and burdens will moderate in the future.

On September 23, 2014, the Company's Board of Directors declared a quarterly cash dividend of $0.16 per common share, payable on November 1, 2014 to shareholders of record on October 15, 2014. The Company is focused on increasing the profitability of the balance sheet, and prudently managing operating expenses and risk, particularly credit risk, in order to remain a well-capitalized bank in this challenging economic environment.

CRITICAL ACCOUNTING POLICIES

The Company’s significant accounting policies, which are described in Note 1 (Significant Accounting Policies) to the Company’s audited consolidated financial statements in its 2013 Annual Report on Form 10-K, are fundamental to understanding the Company’s results of operations and financial condition because they require management to use estimates and assumptions that may affect the value of the Company’s assets or liabilities and financial results. These policies are considered by management to be critical because they require subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. The Company’s critical accounting policies govern:

- the allowance for loan losses;
- other real estate owned (OREO);
- valuation of residential mortgage servicing rights (MSRs);
- other than temporary impairment of investment securities; and
- the carrying value of goodwill.

These policies are described further in the Company’s 2013 Annual Report on Form 10-K in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies” and in Note 1 (Significant Accounting Policies) to the audited consolidated financial statements. There have been no material changes in the critical accounting policies described in the 2013 Annual Report on Form 10-K.

RESULTS OF OPERATIONS

The Company’s net income for the third quarter of 2014 was $1,377,189, representing an increase of $22,256, or 1.6%, over net income of $1,354,933 for the third quarter of 2013. This resulted in earnings per common share of $0.28 for both periods. Net income for the first nine months of 2014 was $3,733,140, compared to $3,635,055 for the first nine months of 2013, representing an increase of $98,085, or 2.7%, resulting in earnings per share of $0.75 and $0.74, respectively. Core earnings (net interest income before provision expense) for the third quarter of 2014 increased $280,322, or 5.9%, compared to the third quarter of 2013, while the nine month comparison periods revealed a more significant increase with figures of $14,829,170 for 2014, compared to $14,327,407 for 2013, which translates to an increase of $501,763, or 3.5%. In light of the continued pressure on net interest margin and spread in this persistently low interest rate environment, the Company is pleased with these increases. To help offset this pressure, the Company shifted assets from lower yielding taxable investments to loans, and shifted a portion of the investment portfolio to higher yielding agency mortgage-backed securities (Agency MBS) within its available-for-sale portfolio. The tax-exempt municipal loan portfolio also increased significantly compared with the prior year, generating additional interest income. With this shift in investments and increased loan balances, the Company’s interest income increased $221,905, or 4.0%, for the third quarter of 2014 compared to 2013, and $187,431, or 1.1%, for the first nine months of 2014 compared to the same period in 2013. In addition, interest expense saw a decline in both periods, further

improving net interest income. Interest expense on deposits, which is the major component of total interest expense, decreased $45,565, or 6.8%, for the third quarter of 2014 compared to the third quarter of 2013, and decreased $252,733, or 11.6%, for the first nine months of 2014 compared to the same period in 2013. This decrease is attributable to a decrease in the rates paid on interest-bearing deposit accounts, as rates paid on deposits continued to drop throughout the period. The rate change on the Company's junior subordinated debentures has now been in effect for a full year, resulting in comparable debenture interest expense figures for both interim periods, with a decrease of $1,389, or 1.4%, for the third quarter of 2014 compared to the same quarter of 2013, and $7,265, or 2.4%, for the first nine months of 2014 compared to the first nine months of 2013. The rate paid on these debentures repriced from a fixed rate of 7.56% through December 15, 2012, to a quarterly adjustable floating rate equal to the 3-month London Interbank Offered Rate (LIBOR) plus 2.85%, or 3.08%, for the third quarter of 2014 compared to 3.13% for the third quarter of 2013. The Company recorded a provision for loan losses of $135,000 for the third quarter of 2014, compared to $137,500 for the third quarter of 2013, to end the first nine months with total provisions of $405,000 and $463,750 for 2014 and 2013, respectively. Non-interest income decreased $295,745, or 19.2%, for the third quarter of 2014 compared to the third quarter of 2013, and $534,072, or 12.1%, for the first nine months of 2014 compared to the first nine months of 2013, primarily due to a lower pace of residential loan sales. Non-interest expense decreased $60,168, or 1.4%, for the third quarter of 2014 compared to the third quarter of 2013 and $267,117, or 1.9%, for the first nine months of 2014 compared to the same period of 2013. The section below labeled Non-Interest Income and Non-Interest Expense provides a more detailed discussion on the significant components of these two items.

Return on average assets, which is net income divided by average total assets, measures how effectively a corporation uses its assets to produce earnings. Return on average equity, which is net income divided by average shareholders' equity, measures how effectively a corporation uses its equity capital to produce earnings.

The following table shows these ratios annualized for the comparison periods.

	Three Months Ended September 30,	
	2014	2013
Return on Average Assets	0.96 %	0.96 %
Return on Average Equity	11.43 %	12.00 %

	Nine Months Ended September 30,	
	2014	2013
Return on Average Assets	0.87 %	0.86 %
Return on Average Equity	10.59 %	11.00 %

The following table summarizes the earnings performance and certain balance sheet data of the Company for the periods presented.

SELECTED FINANCIAL DATA (Unaudited)

Balance Sheet Data	September 30, 2014	December 31, 2013	September 30, 2013
Net loans	$439,391,737	$435,354,440	$427,464,103
Total assets	572,217,942	573,667,404	564,094,499
Total deposits	474,377,808	481,552,569	470,549,584
Borrowed funds	10,175,000	0	8,325,000
Total liabilities	524,117,341	527,531,427	518,841,185
Total shareholders' equity	48,100,600	46,135,977	45,253,314

	Nine Months Ended September 30,	
	2014	2013
Operating Data		
Total interest income	$17,161,464	$16,974,033
Total interest expense	2,332,295	2,646,626
Net interest income	14,829,170	14,327,407
Provision for loan losses	405,000	463,750
Net interest income after provision for loan losses	14,424,170	13,863,657

Non-interest income	3,895,403	4,429,475
Non-interest expense	13,612,031	13,879,148
Income before income taxes	4,707,542	4,413,984
Applicable income tax expense(1)	974,402	778,929
Net Income	$3,733,140	$3,635,055
Per Common Share Data		
Earnings per common share (2)	$0.75	$0.74
Dividends declared per common share	$0.48	$0.42
Book value per common share outstanding, period end	$9.28	$8.81
Weighted average number of common shares outstanding	4,889,086	4,831,084
Number of common shares outstanding, period end	4,915,768	4,854,617

(1) Applicable income tax expense assumes a 34% tax rate.

(2) Computed based on the weighted average number of common shares outstanding during the periods presented.

INTEREST INCOME VERSUS INTEREST EXPENSE (NET INTEREST INCOME)

The largest component of the Company's operating income is net interest income, which is the difference between interest earned on loans and investments versus the interest paid on deposits and other sources of funds (i.e. other borrowings). The Company's level of net interest income can fluctuate over time due to changes in the level and mix of earning assets, and sources of funds (volume) and from changes in the yield earned and costs of funds (rate). A portion of the Company's income from municipal investments is not subject to income taxes. Because the proportion of tax-exempt items in the Company's portfolio varies from year-to-year, to improve comparability of information, the non-taxable income shown in the tables below has been converted to a tax equivalent basis. Because the Company's corporate tax rate is 34%, to equalize tax-free and taxable income in the comparison, we divide the tax-free income by 66%, with the result that every tax-free dollar is equivalent to $1.52 in taxable income.

The Company's tax-exempt interest income is derived from municipal investments, which comprised the entire held-to-maturity portfolio of $48,069,627 at September 30, 2014, and $39,218,785 at September 30, 2013.

The following table shows the reconciliation between reported net interest income and tax equivalent, net interest income for the quarterly comparison periods presented.

	Three Months Ended September 30,	
	2014	2013
Net interest income as presented	$5,068,032	$4,787,710
Effect of tax-exempt income	149,219	127,882
Net interest income, tax equivalent	$5,217,251	$4,915,592

The following tables present average earning assets and average interest-bearing liabilities supporting earning assets. Interest income (excluding interest on non-accrual loans) and interest expense are both expressed on a tax equivalent basis, both in dollars and as a rate/yield for the comparison periods presented.

	Three Months Ended September 30,					
	2014			2013		
	Average Balance	Income/ Expense	Average Rate/ Yield	Average Balance	Income/ Expense	Average Rate/ Yield
Interest-Earning Assets						
Loans (1)	$447,188,920	$5,410,445	4.80 %	$429,627,632	$5,264,044	4.86 %
Taxable investment securities	30,549,280	103,101	1.34 %	42,070,480	80,025	0.75 %
Tax-exempt investment securities	46,454,074	438,880	3.75 %	35,782,949	376,123	4.17 %
Sweep and interest earning accounts	5,309,459	3,507	0.26 %	61,793	64	0.41 %
Other investments (2)	3,719,450	22,327	2.38 %	4,019,850	14,762	1.46 %
Total	$533,221,183	$5,978,260	4.45 %	$511,562,704	$5,735,018	4.45 %
Interest-Bearing Liabilities						

Interest-bearing transaction accounts	$105,433,025	$52,569	0.20	%	$107,975,682	$57,594	0.21	%
Money market accounts	83,269,715	208,247	0.99	%	83,595,766	202,774	0.96	%
Savings deposits	76,551,055	24,104	0.12	%	70,439,724	23,114	0.13	%
Time deposits	126,577,310	337,842	1.06	%	123,541,718	384,846	1.24	%
Federal funds purchased and other borrowed funds	17,175,217	10,077	0.23	%	10,245,815	8,134	0.31	%
Repurchase agreements	23,589,412	14,292	0.24	%	27,179,946	26,355	0.38	%
Capital lease obligations	665,582	13,526	8.13	%	732,993	14,868	8.11	%
Junior subordinated debentures	12,887,000	100,352	3.09	%	12,887,000	101,741	3.13	%
Total	$446,148,316	$761,009	0.68	%	$436,598,644	$819,426	0.74	%
Net interest income		$5,217,251				$4,915,592		
Net interest spread (3)			3.77	%			3.71	%
Net interest margin (4)			3.88	%			3.81	%

(1) Included in gross loans are non-accrual loans with an average balance of $5,234,217 and $4,157,661 for the quarters ended September 30, 2014 and 2013, respectively. Loans are stated before deduction of unearned discount and allowance for loan losses.

(2) Included in other investments is the Company's FHLBB Stock with an average balance of $2,744,300 and $3,044,700 for the quarters ended September 30, 2014 and 2013, respectively, and dividend payout rates of approximately 1.48% and 0.38%, respectively, per quarter.

(3) Net interest spread is the difference between the average yield on average interest-earning assets and the average rate paid on average interest-bearing liabilities.

(4) Net interest margin is net interest income divided by average earning assets.

The average volume of interest-earning assets increased $21,658,479, or 4.0%, for the third quarter of 2014 compared to the same period of 2013, while the average yield remained stable at 4.45%. The average volume of loans increased $17,561,288, or 4.1%, while the average yield decreased 6 basis points. Interest earned on the loan portfolio equaled approximately 90.5% of total interest income for the third quarter of 2014 and 91.8% for the same quarter of 2013. The increase in the average volume of loans for the third quarter was offset in part by a decrease of $11,521,200, or 27.4%, in the average volume of the taxable investment portfolio (classified as available-for-sale); however the average volume of the tax-exempt investment portfolio (classified as held-to-maturity) increased $10,671,125, or 30.0%, for the same period.

In comparison, the average volume of interest-bearing liabilities for the third quarter of 2014 increased $9,549,672, or 2.1%, over the 2013 comparison period, and the average rate paid on these liabilities decreased 6 basis points. The largest increase of $6,929,402, or 67.6%, was noted in the average volume of federal funds purchased and other borrowed funds, while an increase of $6,111,331, or 8.7%, was noted in the average volume of savings deposits. A decrease of $3,590,534, or 13.2%, was observed in the average volume of repurchase agreements while the average volume of interest-bearing transaction accounts declined $2,542,657, or 2.4%.

With the exception of money market accounts, which saw an increase of 3 basis points, all interest bearing accounts saw a reduction in the average rate paid, the most significant being time deposits, which fell 18 basis points compared to the same period a year ago, as maturing deposits continue to re-price at a lower rate. The average rate paid on repurchase accounts declined 14 basis points, while on Federal funds purchased and other borrowed funds it decreased by 8 basis points.

The following table shows the reconciliation between reported net interest income and tax equivalent, net interest income for the comparison nine-month periods presented.

	Nine Months Ended September 30,	
	2014	2013
Net interest income as presented	$14,829,170	$14,327,407
Effect of tax-exempt income	405,749	392,764
Net interest income, tax equivalent	$15,234,919	$14,720,171

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	Average Balance	Income/ Expense	Average Rate/ Yield	Average Balance	Income/ Expense	Average Rate/ Yield
Interest-Earning Assets						
Loans (1)	$447,730,804	$16,055,124	4.79 %	$422,756,037	$15,916,025	5.03 %
Taxable investment securities	31,246,004	242,485	1.04 %	43,265,845	242,528	0.75 %
Tax-exempt investment securities	41,569,017	1,193,380	3.84 %	40,210,592	1,155,188	3.84 %
Sweep and interest earning accounts	3,829,966	7,587	0.26 %	3,477,139	7,933	0.31 %
Other investments (2)	3,852,594	68,637	2.38 %	4,118,042	45,123	1.46 %
Total	$528,228,385	$17,567,213	4.45 %	$513,827,655	$17,366,797	4.52 %
Interest-Bearing Liabilities						
Interest-bearing transaction accounts	$110,824,012	$173,928	0.21 %	$113,210,431	$213,361	0.25 %
Money market accounts	83,043,872	629,478	1.01 %	89,770,981	706,045	1.05 %
Savings deposits	74,803,501	70,411	0.13 %	68,720,917	74,530	0.15 %
Time deposits	126,096,963	1,048,919	1.11 %	124,344,086	1,181,533	1.27 %
Federal funds purchased and other borrowed funds	12,457,161	21,126	0.23 %	6,720,817	21,386	0.43 %
Repurchase agreements	24,971,697	45,275	0.24 %	29,122,873	95,408	0.44 %
Capital lease obligations	682,818	41,613	8.13 %	748,696	45,553	8.11 %
Junior subordinated debentures	12,887,000	301,545	3.13 %	12,887,000	308,810	3.20 %
Total	$445,767,024	$2,332,295	0.70 %	$445,525,801	$2,646,626	0.79 %
Net interest income		$15,234,919			$14,720,171	
Net interest spread (3)			3.75 %			3.73 %
Net interest margin (4)			3.86 %			3.83 %

(1) Included in gross loans are non-accrual loans with an average balance of $4,988,683 and $4,298,002 for the nine months ended September 30, 2014 and 2013, respectively. Loans are stated before deduction of unearned discount and allowance for loan losses.

(2) Included in other investments is the Company's FHLBB Stock with an average balance of $2,877,444 and $3,142,892, respectively, for the first nine months of 2014 and 2013, and dividend payout rates of approximately 1.49% and 0.38%, respectively, per quarter.

(3) Net interest spread is the difference between the average yield on average interest-earning assets and the average rate paid on average interest-bearing liabilities.

(4) Net interest margin is net interest income divided by average earning assets.

The average volume of interest-earning assets for the first nine months of 2014 increased $14,400,730 or 2.8% compared to the same period of 2013, while the average yield decreased 7 basis points. The average volume of loans increased $24,974,767, or 5.9%, while the average yield decreased 24 basis points. Interest earned on the loan portfolio equaled 91.4% of total interest income for the first nine months of 2014 and 91.7% for the 2013 comparison period. The average volume of the taxable investment portfolio (classified as available-for-sale) decreased $12,019,841, or 27.8%, for the same period, while the average yield increased 29 basis points with the shift to higher yielding mortgage backed securities late in the second quarter of 2014. Sales and maturities within the Company's taxable investment portfolio helped fund loan growth throughout 2013 and into 2014, accounting for the decrease in these funds for both the third quarter and nine month average volumes. The average volume of the tax-exempt investment portfolio (classified as held-to-maturity) increased $1,358,425, or 3.4%, between periods, while the average tax equivalent yield remained constant at 3.84% per year. The average volume of sweep and interest-earning accounts, which is primarily made up of the interest-earning deposit account at the Federal Reserve Bank of Boston (FRBB), increased $352,827, or 10.2%. These funds have remained stable year to year and relatively low as all excess cash has been used to fund loan growth.

In comparison, the average volume of interest-bearing liabilities for the first nine months of 2014 increased $241,223, or just 0.1% over the 2013 comparison period, and the average rate paid on these liabilities decreased 9 basis points. The average volume of interest-bearing transaction accounts decreased $2,386,419, or 2.1%, and the average volume of money market funds decreased $6,727,109, or 7.5%, and the average rate paid decreased 4 basis points on both interest-bearing transaction accounts and money market funds. The average volume carried in the Company's money market product, an insured cash sweep account (ICS) offered through Promontory Interfinancial Network, increased $1,437,580, or 9.0%, year over year from $15,947,125 in 2013 to $17,384,705 in 2014, while the average volume in the Company's non-arbitrage borrowing account offered to municipal customers decreased $5,522,717, or 21.1%. The decrease in these municipal deposits is due in part to a change in the pricing strategy of the Company. Offsetting these decreases were increases in three of the Company's interest-bearing liability accounts with the largest increase of $6,082,584, or 8.9%, noted in the average volume of savings accounts, followed by federal funds purchased and other borrowed funds with an increase of $5,736,344, or 85.4%, and then time deposits with an increase of $1,752,877, or 1.4%, in the average volume for the first nine months of 2014 compared to the first nine months of 2013. The increase in average time deposit volume is due entirely to the use of brokered time deposits; retail time deposit balances continue to decline with the shift to non-maturity deposits such as savings accounts. Decreases are noted in the average rate paid on these interest-bearing liabilities, with federal funds purchased and other borrowed funds, along with repurchase accounts, reporting the biggest decreases of 20 basis points each. Interest paid on time deposits comprised 45.0% and 44.6%, respectively, of total interest expense for the first nine months of 2014 and 2013. As mentioned above, the increase in the average volume of savings deposits is primarily due to a shift in customer deposits, as it appears that customers may be waiting for more favorable rates from other interest-bearing accounts. The Company drew down FHLBB advances totaling $17,000,000 in both short-term and long-term categories in the first and second quarters of 2014, and as of September 30, 2014, $10,175,000 remained outstanding, including an overnight advance of $2,175,000, accounting for the increase in the average balance of these funds in both the third quarter and nine month comparison periods.

The prolonged low interest rate environment has resulted in continued pressure on the Company's net interest spread and margin. The Company's earning assets are being replaced and repricing to lower interest rates, while the opportunity to reduce rates further on non-maturing interest-bearing deposits is more limited, given the already low rates paid on deposits. Between the third quarter comparison periods of 2014 and 2013 the average yield in interest-earning assets stayed flat, while the average rate paid on interest-bearing liabilities decreased 6 basis points and in the nine month comparison periods of 2014 and 2013, decreases of 7 basis points and 9 basis points, respectively, were noted. The cumulative results of all these changes were increases of 6 basis points in the net interest spread and 7 basis points in net interest margin for the third quarter comparison periods of 2014 and 2013, and an increase of 2 basis points in the net interest spread and 3 basis points in the net interest margin for the nine month comparison periods of 2014 and 2013.

The following table summarizes the variances in interest income and interest expense on a fully tax-equivalent basis for the periods presented for 2014 and 2013 resulting from volume changes in average assets and average liabilities and fluctuations in average rates earned and paid.

Changes in Interest Income and Interest Expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
	Variance Due to Rate (1)	Variance Due to Volume (1)	Total Variance	Variance Due to Rate (1)	Variance Due to Volume (1)	Total Variance
Average Interest-Earning Assets						
Loans	$(68,722)	$215,123	$146,401	$(800,493)	$939,592	$139,099
Taxable investment securities	61,989	(38,913)	23,076	93,455	(93,498)	(43)

Tax-exempt investment securities	(49,404)	112,161	62,757	(823)	39,015	38,192
Sweep and interest earning accounts	(1,980)	5,423	3,443	(1,164)	818	(346)
Other investments	9,367	(1,802)	7,565	28,239	(4,725)	23,514
Total	$(48,750)	$291,992	$243,242	$(680,786)	$881,202	$200,416
Average Interest-Bearing Liabilities						
Interest-bearing transaction accounts	$(3,743)	$(1,282)	$(5,025)	$(35,685)	$(3,748)	$(39,433)
Money market accounts	6,287	(814)	5,473	(25,749)	(50,818)	(76,567)
Savings deposits	(1,013)	2,003	990	(10,943)	6,824	(4,119)
Time deposits	(56,492)	9,488	(47,004)	(149,264)	16,650	(132,614)
Federal funds purchased and other borrowed funds	(3,471)	5,414	1,943	(18,709)	18,449	(260)
Repurchase agreements	(9,891)	(2,172)	(12,063)	(42,681)	(7,452)	(50,133)
Capital lease obligations	39	(1,381)	(1,342)	66	(4,006)	(3,940)
Junior subordinated debentures	(1,389)	0	(1,389)	(7,265)	0	(7,265)
Total	$(69,673)	$11,256	$(58,417)	$(290,230)	$(24,101)	$(314,331)
Changes in net interest income	$20,923	$280,736	$301,659	$(390,555)	$905,303	$514,748

(1) Items which have shown a year-to-year increase in volume have variances allocated as follows:

Variance due to rate = Change in rate x new volume

Variance due to volume = Change in volume x old rate

Items which have shown a year-to-year decrease in volume have variances allocated as follows:

Variance due to rate = Change in rate x old volume

Variances due to volume = Change in volume x new rate

NON-INTEREST INCOME AND NON-INTEREST EXPENSE

Non-interest Income

The components of non-interest income for the periods presented are as follows:

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2014	2013	$	%	2014	2013	$	%
Service fees	$666,851	$702,671	$(35,820)	-5.10 %	$1,972,636	$1,889,603	$83,033	4.39 %
Income from sold loans	226,279	396,770	(170,491)	-42.97 %	735,739	1,236,295	(500,556)	-40.49 %
Other income from loans	149,444	203,941	(54,497)	-26.72 %	415,910	537,630	(121,720)	-22.64 %
Net realized (loss) gain on sale of securities available-for-sale	6,010	(5,521)	11,531	-208.86 %	27,838	(5,521)	33,359	-604.22 %
Income from CFSG Partners	61,488	57,814	3,674	6.35 %	224,748	196,216	28,532	14.54 %
Rental income on OREO properties	2,926	2,228	698	31.33 %	52,733	40,878	11,855	29.00 %
Exchange income	36,000	43,000	(7,000)	-16.28 %	101,000	92,000	9,000	9.78 %
SERP fair value adjustment	(15,742)	34,224	(49,966)	-146.00 %	28,996	96,904	(67,908)	-70.08 %
Other income	111,424	105,298	6,126	5.82 %	335,803	345,470	(9,667)	-2.80 %
Total non-interest income	$1,244,680	$1,540,425	$(295,745)	-19.20 %	$3,895,403	$4,429,475	$(534,072)	-12.06 %

Total non-interest income decreased $295,745 for the third quarter of 2014 versus the same quarter last year, and $534,072 for the first nine months of 2014 compared to the first nine months of 2013, with significant changes noted in the following:

Service fees declined $35,820 for the third quarter compared with 2013 as a result of lower overdraft fee income, paper statement fee income, and service charges. Year to date results show an increase of $83,033 compared with the same period in 2013, due primarily to higher paper statement fees of $63,340, which were not introduced until June 2013. Paper statement fees have declined on a monthly basis since inception as more customers shift to online banking; however this also results in lower account maintenance and postage costs incurred by the Company.

Income from sold loans decreased $170,491 for the quarter and $500,556 year over year, which is attributable to a decrease in secondary market sales, as the pace of refinancing continued to slow throughout 2014. Proceeds from sale of loans held-for-sale amounted to $15,779,107 for the first nine months of 2014 compared to $23,373,876 for the first nine months of 2013.

Other income from loans decreased $54,497 for the quarter and $121,720 year over year due primarily to a decrease in residential loan documentation fees. Residential mortgage loan activity has been very slow during the

first nine months of 2014, generating less income from the document fee process and resulting in a decrease of $14,230, or 26.7%, quarter over quarter and $92,069, or 49.5%, year over year. Commercial loan documentation fee income decreased $34,471, or 34.4%, compared with the third quarter in 2013, and was down $18,528, or 8.3%, year over year as the rate of growth in commercial lending has slowed compared with the prior year.

Income from the Company's trust and investment management affiliate, Community Financial Services Group (CFSG Partners), increased $3,674 for the quarter and $28,532 year to date due in part to an increase in the client base and assets under management, as well as an increase in the market value for various investments. CFSG Partners is compensated chiefly through fees based on the assets under management from its clients.

The Supplemental Employee Retirement Program (SERP) fair value adjustment decreased $49,966, or 146.0%, for the quarter and $67,908, or 70.1%, year over year. A decrease in the market value of the Company's SERP investment account was recognized during the first and third quarters of 2014, offsetting a gain seen in the second quarter.

Non-interest Expense

The components of non-interest expense for the periods presented are as follows:

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Change $	Change %	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Change $	Change %
Salaries and wages	$1,575,000	$1,610,697	$(35,697)	-2.22 %	$4,875,000	$4,877,483	$(2,483)	-0.05 %
Employee benefits	481,523	487,384	(5,861)	-1.20 %	1,686,221	1,719,128	(32,907)	-1.91 %
Occupancy expenses, net	591,665	582,507	9,158	1.57 %	1,899,706	1,893,804	5,902	0.31 %
Other expenses								
Computer outsourcing	103,791	75,443	28,348	37.58 %	313,380	99,824	213,556	213.93 %
Service contracts - administrative	104,324	123,777	(19,453)	-15.72 %	330,052	437,023	(106,971)	-24.48 %
Telephone expense	81,179	81,367	(188)	-0.23 %	244,897	276,287	(31,390)	-11.36 %
Loss on limited partnerships	110,958	117,769	(6,811)	-5.78 %	332,874	356,215	(23,341)	-6.55 %
Collection & non-accruing loan expense	46,500	34,950	11,550	33.05 %	41,674	91,449	(49,775)	-54.43 %
OREO expense	30,000	40,026	(10,026)	-25.05 %	78,563	122,078	(43,515)	-35.65 %
Debit Cards/ATM Cards Losses	5,879	39,786	(33,907)	-85.22 %	22,506	106,446	(83,940)	-78.86 %
ATM Fees	86,746	100,889	(14,143)	-14.02 %	272,815	309,002	(36,187)	-11.71 %
State Deposit Tax	136,576	102,165	34,411	33.68 %	407,639	431,546	(23,907)	-5.54 %
Other miscellaneous expenses	1,057,287	1,074,836	(17,549)	-1.63 %	3,106,704	3,158,865	(52,161)	-1.65 %
Total non-interest expense	$4,411,428	$4,471,596	$(60,168)	-1.35 %	$13,612,031	$13,879,148	$(267,117)	-1.92 %

Total non-interest expense decreased $60,168 for the third quarter of 2014 compared to the third quarter of 2013 and $267,117 for the first nine months of 2014 compared to the same period in 2013, with significant changes noted in the following:

Computer outsourcing increased $28,349, or 37.6%, for the quarter and $213,556, or 213.9%, year over year. The Company began outsourcing its data processing operations at the end of the fourth quarter of 2012, but due to incentive credits received for various functions, the Company did not incur data processing expenses until late in the third quarter of 2013. Outsourcing of the core processing function has provided the opportunity for the existing information technology staff to take on additional duties and roles in response to regulatory and industry changes.

Service contracts – administrative decreased $19,453, or 15.7%, for the quarter and $106,970, or 24.5%, year over year. Payments under our service contract with our core processor decreased upon implementation of the computer outsourcing accounting for the decreases in both comparison periods.

Collections & non-accruing loan expense increased $11,550 for the quarter, but year to date totaled $49,775 less than the same period in 2013 with improvement in asset quality and recoveries during the year.

OREO expense year to date is down $43,515, or 35.6%, compared with the same period in 2013, as the bank held fewer properties in OREO that required significant carrying costs.

Debit Cards/ATM losses remain well under 2013 levels for both the third quarter and year to date. The decrease is generally attributable to a new processor that utilizes sophisticated fraud detection tools to minimize fraudulent transactions from being approved.

Losses related to limited partnership investments are included in other miscellaneous expenses in the table above and amounted to $110,958 and $117,769 for the third quarters of 2014 and 2013, respectively and $332,874 and $356,215 for the first nine months of 2014 and 2013, respectively. These investments provide tax benefits, including tax credits, and are designed to provide an effective yield between 8% and 10%.

Losses relating to the Company's New Market Tax Credit (NMTC) investment are recorded as a separate component of tax expense and for the third quarter of 2014 amounted to $36,822 compared to $25,347 for the third quarter of 2013, with tax credits amounting to $33,805 and $28,175, respectively. NMTC losses amounted to $110,466 for the first nine months of 2014 and $76,041 for the first nine months of 2013, with tax credits of $101,425 and $84,521, respectively. The Company amortizes these investments under the effective yield method.

APPLICABLE INCOME TAXES

The provision for income taxes increased $24,989, or 6.9%, for the third quarter of 2014 compared to the third quarter of 2013, with provisions of $389,095 and $364,106, respectively. An increase of $195,473, or 25.1%, is noted for the first nine months of 2014 compared to the first nine months of 2013, with respective provisions totaling $974,402 and $778,929. In both comparison periods the increase was primarily due to higher income before taxes. Income before taxes was $1,766,284 for the third quarter of 2014 and $1,719,039 for the third quarter of 2013, with tax credits of $161,940 and $161,166, respectively. Income before taxes amounted to $4,707,542 for the first nine months of 2014 compared to $4,413,985 for the first nine months of 2013 with tax credits totaling $485,820 and $483,501, respectively.

CHANGES IN FINANCIAL CONDITION

The following table reflects the composition of the Company's major categories of assets and liabilities as a percentage of total assets or liabilities and shareholders' equity, as the case may be, as of the dates indicated:

	September 30, 2014			December 31, 2013			September 30, 2013		
Assets									
Loans	$443,988,630	77.59	%	$439,908,926	76.68	%	$431,981,787	76.58	%
Securities available-for-sale	29,167,525	5.10	%	35,188,602	6.13	%	35,452,071	6.28	%
Securities held-to-maturity	48,069,627	8.40	%	37,936,911	6.61	%	39,218,785	6.95	%
Liabilities									
Time deposits	$117,200,143	20.48	%	$120,951,539	21.08	%	$122,136,016	21.65	%
Savings deposits	77,402,718	13.53	%	69,906,147	12.19	%	70,668,274	12.53	%
Demand deposits	87,206,528	15.24	%	82,156,154	14.32	%	80,465,454	14.26	%
Interest-bearing transaction accounts	109,045,395	19.06	%	126,578,052	22.06	%	113,732,525	20.16	%
Money market accounts	83,523,024	14.60	%	81,960,677	14.29	%	83,547,315	14.81	%
Federal funds purchased	2,175,000	0.38	%	0	0.00	%	8,325,000	1.48	%
Short-term advances	8,000,000	1.40	%	0	0.00	%	0	0.00	%

The Company's loan portfolio increased throughout the comparison periods with increases of $4,079,704, or 0.9%, from December 31, 2013 to September 30, 2014, and $12,006,843, or 2.8%, year over year. This increase is due to strong commercial loan growth during the fourth quarter of 2013 and the first quarter of 2014. The Company set goals to increase its commercial loan portfolio, and with the help of a seasoned commercial lending team with a strong presence in the small business community, these goals are becoming a reality. Most of the growth in the commercial loan portfolio has occurred in the Company's Washington County (Central Vermont) market. Securities available-for-sale decreased $6,021,077, or 17.1%, from December 31, 2013 to September 30, 2014, and $6,284,546, or 17.7%, year over year. During 2013 and continuing throughout the first nine months of 2014 as loan demand increased, the Company used sales, calls and maturities from its available-for-sale portfolio to help fund this loan growth, contributing to the decrease in both periods. Securities held-to-maturity increased $10,132,716, or 26.7%, during the first nine months of 2014, and $8,850,842, or 22.6%, year over year. Held-to-maturity securities are made up of investments from the Company's municipal customers in its service areas. The increase is due to a higher volume in non-arbitrage lending as well as traditional loans and lines of credit, with several new municipal customers obtained during the year.

Total deposits decreased $7,174,761, or 1.5%, from December 31, 2013 to September 30, 2014 but increased $3,828,224, or 0.8%, year over year. Time deposits decreased $3,751,396, or 3.1%, from December 31, 2013 to

September 30, 2014 and $4,935,873, or 4.0%, year over year as retail customers continue to roll maturing funds into non-maturity deposits. As a result, savings deposits increased in both comparison periods; $7,496,571 or 10.7% year to date, and $6,734,444, or 9.5%, year to year. Demand deposits increased $5,050,374, or 6.2%, during the first nine months of 2014, and increased $6,741,074, or 8.4%, year to year. Business demand deposits increased $6,133,172, or 12.5%, year to year, explaining much of the overall increase. Interest-bearing transaction accounts decreased $17,532,657, or 13.9%, during the first nine months of 2014, and $4,687,130, or 4.1%, year to year. The seasonal runoff of government agency accounts is reflected in the decrease in interest-bearing transaction accounts during the first nine months of 2014. Money market accounts increased $1,562,347, or 1.9%, for the first nine months of 2014 and decreased $24,291 year to year. Short term borrowings from the FHLBB totaling $10,175,000 were up $1,850,000, or 22.2%, from the same period in 2013, as loan growth outpaced deposit gathering, compared with no borrowing need at December 31, 2013 following the cyclical receipt of municipal deposits typically occurring in the fourth quarter of the year.

RISK MANAGEMENT

Interest Rate Risk and Asset and Liability Management - Management actively monitors and manages the Company's interest rate risk exposure and attempts to structure the balance sheet to maximize net interest income while controlling its exposure to interest rate risk. The Company's Asset/Liability Management Committee (ALCO) is made up of the Executive Officers and all the Vice Presidents of the Bank. The ALCO formulates strategies to manage interest rate risk by evaluating the impact on earnings and capital of such factors as current interest rate forecasts and economic indicators, potential changes in such forecasts and indicators, liquidity and various business strategies. The ALCO meets at least quarterly to review financial statements, liquidity levels, yields and spreads to better understand, measure, monitor and control the Company's interest rate risk. In the ALCO process, the committee members apply policy limits set forth in the Asset Liability, Liquidity and Investment policies approved and periodically reviewed by the Company's Board of Directors. The ALCO's methods for evaluating interest rate risk include an analysis of the effects of interest rate changes on net interest income and an analysis of the Company's interest rate sensitivity "gap", which provides a static analysis of the maturity and repricing characteristics of the entire balance sheet. The ALCO Policy also includes a contingency funding plan to help management prepare for unforeseen liquidity restrictions, including hypothetical severe liquidity crises.

Interest rate risk represents the sensitivity of earnings to changes in market interest rates. As interest rates change, the interest income and expense streams associated with the Company's financial instruments also change, thereby impacting net interest income (NII), the primary component of the Company's earnings. Fluctuations in interest rates can also have an impact on liquidity. The ALCO uses an outside consultant to perform rate shock simulations to the Company's net interest income, as well as a variety of other analyses. It is the ALCO's function to provide the assumptions used in the modeling process. Assumptions used in prior period simulation models are regularly tested by comparing projected NII with actual NII. The ALCO utilizes the results of the simulation model to quantify the estimated exposure of NII and liquidity to sustained interest rate changes. The simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all interest-earning assets and interest-bearing liabilities reflected on the Company's balance sheet. The model also simulates the balance sheet's sensitivity to a prolonged flat rate environment. All rate scenarios are simulated assuming a parallel shift of the yield curve; however further simulations are performed utilizing non-parallel changes in the yield curve. The results of this sensitivity analysis are compared to the ALCO policy limits which specify a maximum tolerance level for NII exposure over a 1-year horizon, assuming no balance sheet growth, given a 200 basis point (bp) shift upward and a 100 bp shift downward in interest rates.

Under the Company's rate sensitivity modeling, in the current flat rate environment, NII levels are projected to be flat as the downward pressure on asset yields is projected to slow down as cash flow is replaced at equal yields. Funding costs are expected to provide slight relief as longer-term funding is retired and replaced at current rates. In a rising rate environment, NII is expected to trend upward as the short-term asset base (cash and adjustable rate loans) quickly cycle upward while the retail funding base (deposits) lags the market. If rates paid on deposits have to be increased more and/or more quickly than projected, the expected benefit to rising rates would be reduced. In a falling rate environment, NII is expected to trend in-line with the current rate environment scenario for the first year of the simulation as asset yield erosion is offset by decreasing funding costs. Thereafter, net interest income is projected to experience sustained downward pressure as funding costs reach their assumed floors and asset yields continue to reprice into the lower rate environment.

The following table summarizes the estimated impact on the Company's NII over a twelve month period, assuming a gradual parallel shift of the yield curve beginning September 30, 2014:

Rate Change	Percent Change in NII
Down 100 basis points	-.60%
Up 200 basis points	5.50%

The amounts shown in the table are well within the ALCO Policy limits. However, those amounts do not represent a forecast and should not be relied upon as indicative of future results. While assumptions used in the ALCO process, including the interest rate simulation analyses, are developed based upon current economic and local market conditions, and expected future conditions, the Company cannot provide any assurances as to the predictive nature of these assumptions, including how customer preferences or competitor influences might change.

Credit Risk - As a financial institution, one of the primary risks the Company manages is credit risk, the risk of loss stemming from borrowers' failure to repay loans or inability to meet other contractual obligations. The Company's Board of Directors prescribes policies for managing credit risk, including Loan, Appraisal and Environmental policies. These policies are supplemented by comprehensive underwriting standards and procedures. The Company maintains a Credit Administration Department whose function includes credit analysis and monitoring of and reporting on the status of the loan portfolio, including delinquent and non-performing loan trends. The Company also monitors concentration of credit risk in a variety of areas, including portfolio mix, the level of loans to individual borrowers and their related interest, loans to industry segments, and the geographic distribution of commercial real estate loans. Loans are reviewed periodically by an independent loan review firm in order to assure accuracy of the Company's internal risk ratings and compliance with various internal policies and procedures and regulatory guidance.

As of September 30, 2014, the residential mortgage portfolio, including first mortgages and junior liens, accounted for 47.3% of the Company's loan portfolio, down from 50.9% a year ago, consistent with the company's strategy to grow the commercial loan portfolio. The drop is also attributable to the increase in long-term interest rates that brought to an end the large volume of refinance activity seen in recent years. The Company originates and services a mortgage loan portfolio of traditional mortgage products and does not engage in higher risk loan products such as option adjustable rate mortgage products, high loan-to-value products, interest only mortgages, subprime loans and products with deeply discounted teaser rates. Residential mortgages with loan-to-values exceeding 80% are generally covered by private mortgage insurance ("PMI"). A 90% loan-to-value residential mortgage product without PMI is only available to borrowers with excellent credit and low debt-to-income ratios and has not been widely originated. Junior lien home equity products make up approximately 21% of the residential mortgage portfolio with maximum loan-to-value ratios (including senior liens) of 80%. The residential mortgage portfolio has had satisfactory performance in light of the depth of the latest recession and the slow recovery; portfolio performance improved throughout 2013 and has been stable thus far in 2014.

The Company's strategy is to continue growing the commercial & industrial and commercial real estate portfolios. Consistent with the strategic focus on commercial lending, both segments saw solid growth during 2013 that has

continued into 2014. Commercial & industrial and commercial real estate loans together comprised 46.9% of the Company's loan portfolio at September 30, 2013, growing to 48.3% at December 31, 2013 and 51.0% at September 30, 2014. The increase in the size of the commercial loan portfolio has also increased geographic diversification, with much of the growth in commercial loans occurring in central Vermont, the Company's newest market and in Chittenden County.

Risk in the Company's commercial & industrial and commercial real estate loan portfolios is mitigated in part by government guarantees issued by federal agencies such as the U.S. Small Business Administration and USDA Rural Development. At September 30, 2014, the Company had $26,193,676 in guaranteed loans with guaranteed balances of $20,623,067, compared to $25,150,175 in guaranteed loans with guaranteed balances of $20,044,091 at December 31, 2013 and $26,299,484 in guaranteed loans with guaranteed balances of $20,898,326 at September 30, 2013.

The following table reflects the composition of the Company's loan portfolio, by portfolio segment, as a percentage of total loans as of the dates indicated:

	September 30, 2014			December 31, 2013			September 30, 2013		
Commercial & industrial	$63,959,230	14.41	%	$55,619,285	12.64	%	$55,500,735	12.85	%
Commercial real estate	162,275,498	36.55	%	156,935,803	35.67	%	147,280,787	34.09	%
1 - 4 family residential - 1st lien	165,662,426	37.31	%	172,847,074	39.30	%	174,508,009	40.40	%
1 - 4 family residential - Jr lien	44,147,861	9.94	%	45,687,405	10.39	%	45,279,400	10.48	%
Consumer	7,943,615	1.79	%	8,819,359	2.00	%	9,412,856	2.18	%
Total loans	443,988,630	100.00	%	439,908,926	100.00	%	431,981,787	100.00	%
Deduct (add):									
Allowance for loan losses	4,885,791			4,854,915			4,799,431		
Unearned loan fees	(288,898)			(300,429)			(281,747)		
	4,596,893			4,554,486			4,517,684		
Net loans	$439,391,737			$435,354,440			$427,464,103		

The Company works actively with customers early in the delinquency process to help them to avoid default and foreclosure. With the economic recovery continuing, the levels of both Group B (Management Involved) and Group C (Unacceptable Risk) loans (as defined in Note 5 to the Company’s unaudited interim consolidated financial statements) showed gradual improvement throughout 2012 and into 2013 and thus the loan loss reserve factors for trends in delinquency and non-accrual loans and criticized and classified loans were gradually decreased. However, qualitative factors were increased principally to account for growth in the commercial and commercial real estate segments of the loan portfolio. During 2013 and into 2014, lower loan losses were offset by strong commercial loan volume, the deterioration of several commercial and commercial real estate loans and the migration of some past due residential loans to later stage delinquency, resulting in increases in the associated loan loss reserve qualitative factors.

Commercial and commercial real estate loans are generally placed on non-accrual status when there is deterioration in the financial position of the borrower, payment in full of principal and interest is not expected, and/or principal or interest has been in default for 90 days or more. However, such a loan need not be placed on non-accrual status if it is both well secured and in the process of collection. Residential mortgages and home equity loans are considered for non-accrual status at 90 days past due and are evaluated on a case-by-case basis. The Company obtains current property appraisals or market value analyses and considers the cost to carry and sell collateral in order to assess the level of specific allocations required. Consumer loans are generally not placed in non-accrual but are charged off by the time they reach 120 days past due. When a loan is placed in non-accrual status, the Company's policy is to reverse the accrued interest against current period income and to discontinue the accrual of interest until the borrower clearly demonstrates the ability and intention to resume normal payments, typically demonstrated by regular timely payments for a period of not less than six months. Interest payments received on non-accrual or impaired loans are generally applied as a reduction of the loan principal balance. Deferred taxes are calculated monthly, based on interest amounts that would have accrued through the normal accrual process.

The Company’s non-performing assets decreased $43,758 or 0.65% during the first nine months of 2014. Through mid-year 2014 the decrease in residential non-performing loans resulting principally from loan payoffs and had been largely offset with the transfer of one commercial loan relationship into non-accrual status during the second quarter. Third quarter activity saw non-performing levels remain relatively unchanged. Claims receivable on related government guarantees were $146,062 at September 30, 2014 compared to $318,906 at September 30, 2013.

The following table reflects the composition of the Company's non-performing assets, by portfolio segment, as a percentage of total non-performing assets as of the dates indicated:

	September 30, 2014			December 31, 2013			September 30, 2013		
Loans past due 90 days or more and still accruing									
Commercial & industrial	$0	0.00	%	$21,902	0.32	%	$0	0.00	%
Commercial real estate	5,313	0.08	%	5,313	0.08	%	50,965	0.78	%
Residential real estate - 1st lien	554,327	8.28	%	817,109	12.12	%	344,193	5.30	%
Residential real estate - Jr lien	57,385	0.86	%	56,040	0.83	%	62,359	0.96	%
Consumer	8,859	0.13	%	7,784	0.12	%	8,755	0.13	%
Total	625,884	9.35	%	908,148	13.47	%	466,272	7.17	%
Non-accrual loans (1)									
Commercial & industrial	1,068,390	15.95	%	527,105	7.82	%	493,272	7.60	%
Commercial real estate	1,754,002	26.19	%	1,403,541	20.82	%	1,740,350	26.80	%
Residential real estate - 1st lien	1,740,509	25.99	%	2,203,106	32.69	%	1,999,274	30.79	%
Residential real estate - Jr lien	410,187	6.13	%	593,125	8.80	%	669,292	10.31	%
Total	4,973,088	74.26	%	4,726,877	70.13	%	4,902,188	75.50	%
Other real estate owned	1,097,820	16.39	%	1,105,525	16.40	%	1,125,105	17.33	%
Total	$6,696,792	100.00	%	$6,740,550	100.00	%	$6,493,565	100.00	%

(1) No consumer loans were in non-accrual status as of the consolidated balance sheet dates. In accordance with Company policy, delinquent consumer loans are charged off at 120 days past due.

As of the balance sheet dates, the Company was not contractually committed to lend additional funds to debtors with impaired, non-accrual or modified loans.

The Company’s Troubled Debt Restructurings (TDRs) are principally a result of extending loan repayment terms to relieve cash flow difficulties. The Company has only infrequently reduced interest rates for borrowers below the current market rate. The Company has not forgiven principal or reduced accrued interest within the terms of original restructurings, nor has it converted variable rate terms to fixed rate terms. Management evaluates each TDR situation on its own merits and does not foreclose the granting of any particular type of concession. The Non-Performing Assets table above includes 15 TDRs totaling $1,848,277 that were past due 90 days or more or in non-accrual status as of September 30, 2014, compared to 12 TDRs totaling $1,847,266 as of December 31, 2013 and 10 TDRs totaling $1,786,058 as of September 30, 2013. The remainder of the Company’s TDRs consist of 15 residential mortgage loans, one home equity loan and one commercial real estate loan totaling $1,643,037 at September 30, 2014 compared to 10 residential mortgage loans, two commercial real estate loans and three commercial & industrial loans totaling $1,312,260 at December 31, 2013 and eight residential loans, two commercial real estate loans, and three commercial & industrial loans totaling $1,219,202 at September 30, 2013.

The Company's OREO portfolio at September 30, 2014 consisted of three residential and one commercial property acquired through the normal foreclosure process, compared to three residential and two commercial properties at December 31, 2013 and two residential properties, three commercial properties, and one parcel of raw land at September 30, 2013. During the second quarter of 2014, the Company took control of one vacant residential property which was sold during the third quarter of 2014 and acquired a residential property through normal proceedings during the third quarter. The Company sold one of the commercial properties taken into the portfolio during the fourth quarter of 2013 and one of the residential properties that the Bank has owned since 2012, resulting in a slight decrease in OREO, as of the end of the third quarter of 2014, with an OREO portfolio of $1,097,820.

Allowance for loan losses and provisions - The Company maintains an allowance for loan losses (allowance) at a level that management believes is appropriate to absorb losses inherent in the loan portfolio as of the measurement date (See Critical Accounting Policies). Although the Company, in establishing the allowance, considers the inherent losses in individual loans and pools of loans, the allowance is a general reserve available to absorb all credit losses in the loan portfolio. No part of the allowance is segregated to absorb losses from any particular loan or segment of loans.

When establishing the allowance each quarter the Company applies a combination of historical loss factors and qualitative factors to loan segments, including residential first and junior lien mortgages, commercial real estate, commercial & industrial, and consumer loan portfolios. No changes were made to the allowance methodology during the first nine months of 2014. The Company will shorten or lengthen its look back period for determining average portfolio historical loss rates as the economy either contracts or expands; during a period of economic contraction, a shortening of the look back period may more conservatively reflect the current economic climate. The highest loss rates experienced for the look back period are applied to the various segments in establishing the allowance.

The Company then applies numerous qualitative factors to each of these segments of the loan portfolio. Those factors include the levels of and trends in delinquencies and non-accrual loans, criticized and classified assets, volumes and terms of loans, and the impact of any loan policy changes. Experience, ability and depth of lending personnel, levels of policy and documentation exceptions, national and local economic trends, the competitive environment, and concentrations of credit are also factors considered.

The adequacy of the allowance is reviewed quarterly by the risk management committee of the Board of Directors and then presented to the full Board of Directors for approval.

The following table summarizes the Company's loan loss experience for the periods presented:

	Nine Months Ended September 30,	
	2014	2013
Loans outstanding, end of period	$443,988,630	$431,981,787
Average loans outstanding during period	$447,730,804	$422,756,037
Non-accruing loans, end of period	$4,973,088	$4,902,188
Non-accruing loans, net of government guarantees	$4,197,699	$4,319,917
Allowance, beginning of period	$4,854,915	$4,312,080
Loans charged off:		
Commercial & industrial	(115,095)	(61,614)
Commercial real estate	(154,919)	(124,849)
Residential real estate - 1st lien	(28,382)	(7,009)
Residential real estate - Jr lien	(33,875)	0
Consumer loans	(90,024)	(36,655)
Total loans charged off	(422,295)	(230,127)
Recoveries:		
Commercial & industrial	5,265	2,117
Commercial real estate	0	185,791
Residential real estate - 1st lien	12,823	11,764
Residential real estate - Jr lien	180	21,230
Consumer loans	29,903	32,826
Total recoveries	48,171	253,728
Net loans (charged off) recovered	(374,124)	23,601
Provision charged to income	405,000	463,750
Allowance, end of period	$4,885,791	$4,799,431
Net charge offs to average loans outstanding	0.084 %	-0.006 %
Provision charged to income as a percent of average loans	0.090 %	0.110 %
Allowance to average loans outstanding	1.091 %	1.135 %
Allowance to non-accruing loans	98.245 %	97.904 %
Allowance to non-accruing loans net of government guarantees	116.392 %	111.100 %

With the 2013 improvements in delinquency and criticized and classified levels, the Company decreased its provision during the first nine months of 2014, resulting in a provision of $405,000 for the nine months ended September 30, 2014 compared to $463,750 for the same period in 2013, a decrease of $58,750 or 12.7%. The Company’s allowance coverage of non-accruing loans as of the end of the third quarter of 2014 reflected a slight increase year over year as

did the coverage of non-accruing loans net of government guarantees. The Company has an experienced collections department that continues to work actively with borrowers to resolve problem loans and manage the OREO portfolio, and management continues to monitor the loan portfolio closely.

Specific allocations to the allowance are made for certain impaired loans. Impaired loans include loans to a borrower that in aggregate are greater than $100,000 and that are in non-accrual status. A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due, including interest and principal, according to the contractual terms of the loan agreement. The Company will review all the facts and circumstances surrounding non-accrual loans and on a case-by-case basis may consider loans below the threshold as impaired when such treatment is material to the financial statements. See Note 5 to the accompanying unaudited interim consolidated financial statements for information on the recorded investment in impaired loans and their related allocations.

The portion of the allowance termed "unallocated" is established to absorb inherent losses that exist as of the measurement date although not specifically identified through management's process for estimating credit losses. While the allowance is described as consisting of separate allocated portions, the entire allowance is available to support loan losses, regardless of category.

Market Risk - In addition to credit risk in the Company’s loan portfolio and liquidity risk in its loan and deposit-taking operations, the Company’s business activities also generate market risk. Market risk is the risk of loss in a financial instrument arising from adverse changes in market prices and rates, foreign currency exchange rates, commodity prices and equity prices. Declining capital markets can result in fair value adjustments necessary to record decreases in the value of the investment portfolio for other-than-temporary-impairment. The Company does not have any market risk sensitive instruments acquired for trading purposes. The Company’s market risk arises primarily from interest rate risk inherent in its lending and deposit taking activities. During times of recessionary periods, a declining housing market can result in an increase in loan loss reserves or ultimately an increase in foreclosures. Interest rate risk is directly related to the different maturities and repricing characteristics of interest-bearing assets and liabilities, as well as to loan prepayment risks, early withdrawal of time deposits, and the fact that the speed and magnitude of responses to interest rate changes vary by product. The prolonged weak economy and disruption in the financial markets in recent years may heighten the Company’s market risk. As discussed above under "Interest Rate Risk and Asset and Liability Management", the Company actively monitors and manages its interest rate risk through the ALCO process.

COMMITMENTS, CONTINGENCIES AND OFF-BALANCE-SHEET ARRANGEMENTS

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and risk-sharing commitments on certain sold loans. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. During the first nine months of 2014, the Company did not engage in any activity that created any additional types of off-balance sheet risk.

The Company generally requires collateral or other security to support financial instruments with credit risk. The Company's financial instruments whose contract amount represents credit risk were as follows:

	Contract or Notional Amount	
	September 30, 2014	December 31, 2013
Unused portions of home equity lines of credit	$23,806,259	$21,961,527
Other commitments to extend credit	49,434,863	41,230,202

Residential construction lines of credit	3,300,832	2,010,417
Commercial real estate and other construction lines of credit	8,626,153	15,592,702
Standby letters of credit and commercial letters of credit	1,669,756	1,655,469
Recourse on sale of credit card portfolio	275,000	276,650
MPF credit enhancement obligation, net of liability recorded	1,002,943	1,543,211

Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company sold its credit card portfolio during the third quarter of 2007, but retained a partial recourse obligation under the terms of the sale, based on total lines, not balances outstanding. Based on historical losses, the Company does not expect any significant losses from this commitment.

In connection with its 2007 trust preferred securities financing, the Company guaranteed the payment obligations under the $12,500,000 of capital securities of its subsidiary, CMTV Statutory Trust I. The source of funds for payments by the Trust on its capital securities is payments made by the Company on its debentures issued to the Trust. The Company's obligation under those debentures is fully reflected in the Company's balance sheet, in the gross amount of $12,887,000 for each of the comparison periods, of which $12,500,000 represents external financing through the issuance to investors of capital securities by CMTV Statutory Trust I.

LIQUIDITY AND CAPITAL RESOURCES

Managing liquidity risk is essential to maintaining both depositor confidence and stability in earnings. Liquidity management refers to the ability of the Company to adequately cover fluctuations in assets and liabilities. Meeting loan demand (assets) and covering the withdrawal of deposit funds (liabilities) are two key components of the liquidity management process. The Company's principal sources of funds are deposits, amortization and prepayment of loans and securities, maturities of investment securities, sales of loans available-for-sale, and earnings and funds provided from operations. Maintaining a relatively stable funding base, which is achieved by diversifying funding sources, competitively pricing deposit products, and extending the contractual maturity of liabilities, reduces the Company's exposure to roll over risk on deposits and limits reliance on volatile short-term borrowed funds. Short-term funding needs arise from declines in deposits or other funding sources and from funding requirements for loan commitments. The Company's strategy is to fund assets to the maximum extent possible with core deposits that provide a sizable source of relatively stable and low-cost funds.

The Company recognizes that, at times, when loan demand exceeds deposit growth or the Company has other liquidity demands, it may be desirable to utilize alternative sources of deposit funding to augment retail deposits and borrowings. One-way deposits purchased through the CDARS program provide an alternative funding source when needed. Such deposits are generally considered a form of brokered deposits. During the first three quarters of 2014, the Company utilized one-way CDARS purchases with a balance of $1,331,346 as of September 30, 2014, compared to no one-way CDARS purchases at December 31, 2013 or at September 30, 2013. In addition, two-way CDARS deposits allow the Company to provide FDIC deposit insurance to its customers in excess of account coverage limits by exchanging deposits with other CDARS members. At September 30, 2014, the Company reported $1,107,608 in two-way CDARS deposits representing exchanged deposits with other CDARS participating banks, compared to $1,103,008 at December 31, 2013 and $1,101,465 at September 30, 2013. The balance in ICS deposits was $17,309,810 at September 30, 2014, compared to $17,290,435 at December 31, 2013 and $14,927,159 at September 30, 2013.

The Company has a Borrower-in-Custody ("BIC") arrangement with the FRBB secured by eligible commercial loans, commercial real estate loans and home equity loans, resulting in an available credit line of $79,201,886, $74,929,216, and $76,626,565, respectively, at September 30, 2014, December 31, 2013 and September 30, 2013. Credit advances in this FRBB lending program are overnight advances with interest chargeable at the primary credit rate (generally referred to as the discount rate), currently 75 basis points. The Company had no outstanding advances against this credit line during any of the respective comparison periods.

The Company has an unsecured Federal Funds credit line with the FHLBB with an available balance of $500,000 at September 30, 2014, December 31, 2013 and September 30, 2013. Interest is chargeable at a rate determined daily, approximately 25 basis points higher than the rate paid on federal funds sold. In addition, at September 30, 2014, December 31, 2013 and September 30, 2013, additional borrowing capacity of approximately $67,179,563, $72,556,030 and $74,008,675, respectively, was available through the FHLBB, secured by the Company's qualifying loan portfolio (generally, residential mortgages).

The Company has an unsecured credit line with one of its correspondent banks with an available line of $3,000,000 at September 30, 2014, December 31, 2013 and September 30, 2013. During the first quarter of 2014, the Company established an additional unsecured credit line with a different correspondent bank with an available line of $4,000,000 as of September 30, 2014. There were no outstanding advances against either of these lines during any of the respective comparison periods.

The following table reflects the Company's outstanding FHLBB advances against the respective lines as of the dates indicated:

	September 30, 2014	December 31, 2013	September 30, 2013
Short-Term Advances			
FHLBB term advance, 0.22% fixed rate, due October 3, 2014	$8,000,000	$0	$0
	8,000,000	0	0
Overnight Borrowings			
Federal funds purchased (FHLBB), 0.3125% and 0.3125%	2,175,000	0	8,325,000
Total Advances and Overnight Borrowings	$10,175,000	$0	$8,325,000

The following table illustrates the changes in shareholders' equity from December 31, 2013 to September 30, 2014:

Balance at December 31, 2013 (book value $8.96 per common share)	$46,135,977
Net income	3,733,140
Issuance of stock through the Dividend Reinvestment Plan	669,850
Dividends declared on common stock	(2,344,289)
Dividends declared on preferred stock	(60,938)
Change in unrealized loss on available-for-sale securities, net of tax	(33,140)
Balance at September 30, 2014 (book value $9.28 per common share)	$48,100,600

The primary objective of the Company's capital planning process is to balance appropriately the retention of capital to support operations and future growth, with the goal of providing shareholders an attractive return on their investment. To that end, management monitors capital retention and dividend policies on an ongoing basis.

As described in more detail in the Company's 2013 Annual Report on Form 10-K in Note 20 to the audited consolidated financial statements contained therein and under the caption "LIQUIDITY AND CAPITAL RESOURCES" in the Management's Discussion and Analysis section of such report, the Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies pursuant to which they must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

As of September 30, 2014, the Bank was considered well capitalized under the regulatory capital framework for Prompt Corrective Action and the Company exceeded all applicable consolidated regulatory capital guidelines.

The following table shows the Company's actual capital ratios and those of its subsidiary, as well as applicable regulatory capital requirements, as of September 30, 2014 and December 31, 2013:

	Actual		Minimum For Capital Adequacy Purposes:		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions(1):	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
September 30, 2014						
Total capital (to risk-weighted assets)						
Company	$53,537	13.45 %	$31,855	8.00 %	N/A	N/A
Bank	$52,912	13.31 %	$31,809	8.00 %	$39,762	10.00 %
Tier I capital (to risk-weighted assets)						
Company	$47,884	12.03 %	$15,928	4.00 %	N/A	N/A
Bank	$47,982	12.07 %	$15,905	4.00 %	$23,857	6.00 %
Tier I capital (to average assets)						
Company	$47,884	8.44 %	$22,703	4.00 %	N/A	N/A
Bank	$47,982	8.46 %	$22,682	4.00 %	$28,352	5.00 %
December 31, 2013:						
Total capital (to risk-weighted assets)						
Company	$51,304	13.09 %	$31,365	8.00 %	N/A	N/A
Bank	$50,765	12.97 %	$31,314	8.00 %	$39,143	10.00 %
Tier I capital (to risk-weighted assets)						
Company	$45,027	11.48 %	$15,682	4.00 %	N/A	N/A
Bank	$45,873	11.72 %	$15,657	4.00 %	$23,486	6.00 %
Tier I capital (to average assets)						
Company	$45,027	8.04 %	$22,409	4.00 %	N/A	N/A
Bank	$45,873	8.20 %	$22,386	4.00 %	$27,983	5.00 %

(1) Applicable to banks, but not bank holding companies.

The Company's ability to pay dividends to its shareholders is largely dependent on the Bank's ability to pay dividends to the Company. In general, a national bank may not pay dividends that exceed net income for the current and preceding two years regardless of statutory restrictions, as a matter of regulatory policy, banks and bank holding companies should pay dividends only out of current earnings and only if, after paying such dividends, they remain adequately capitalized.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's management of the credit, liquidity and market risk inherent in its business operations is discussed in Part 1, Item 2 of this report under the captions "RISK MANAGEMENT". "COMMITMENTS, CONTINGENCIES AND OFF-BALANCE-SHEET ARRANGEMENTS" and "LIQUIDITY & CAPITAL RESOURCES", which are

incorporated herein by reference. Management does not believe that there have been any material changes in the nature or categories of the Company's risk exposures from those disclosed in the Company’s 2013 Annual Report on Form 10-K.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"). As of September 30, 2014, an evaluation was performed under the supervision and with the participation of management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, management concluded that its disclosure controls and procedures as of September 30, 2014 were effective in ensuring that material information required to be disclosed in the reports it files with the Commission under the Exchange Act was recorded, processed, summarized, and reported on a timely basis.

For this purpose, the term "disclosure controls and procedures" means controls and other procedures of the Company that are designed to ensure that information required to be disclosed by it in the reports that it files or submits under the Exchange Act (15 U.S.C. 78a et seq.) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

In the normal course of business, the Company and its subsidiary are involved in litigation that is considered incidental to their business. Management does not expect that any such litigation will be material to the Company's consolidated financial condition or results of operations.

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

The following table provides information as to purchases of the Company's common stock during the quarter ended September 30, 2014, by the Company and by any affiliated purchaser (as defined in SEC Rule 10b-18):

For the period:	Total Number of Shares Purchased(1)(2)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period
July 1 - July 31	0	$0.00	N/A	N/A
August 1 - August 31	0	0.00	N/A	N/A
September 1 - September 30	5,170	14.50	N/A	N/A
Total	5,170	$14.50	N/A	N/A

(1) All 5,170 shares were purchased for the account of participants invested in the Company Stock Fund under the Company's Retirement Savings Plan by or on behalf of the Plan Trustee, the Human Resources Committee of Community National Bank. Such share purchases were facilitated through CFSG, which provides certain investment advisory services to the Plan. Both the Plan Trustee and CFSG may be considered affiliates of the Company under Rule 10b-18.

(2) Shares purchased during the period do not include fractional shares repurchased from time to time in connection with the participant's election to discontinue participation in the Company's Dividend Reinvestment Plan.

ITEM 6. Exhibits

The following exhibits are filed with this report:

Exhibit 31.1 - Certification from the Chief Executive Officer of the Company pursuant to section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 - Certification from the Chief Financial Officer of the Company pursuant to section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1 - Certification from the Chief Executive Officer of the Company pursuant to 18 U.S.C., Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002*
Exhibit 32.2 - Certification from the Chief Financial Officer of the Company pursuant to 18 U.S.C., Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002*

Exhibit 101--The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 formatted in eXtensible Business Reporting Language (XBRL): (i) the unaudited consolidated balance sheets, (ii) the unaudited consolidated statements of income for the interim periods ended September 30, 2014 and 2013, (iii) the unaudited consolidated statements of comprehensive income, (iv) the unaudited consolidated statements of cash flows and (v) related notes.

* This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

SIGNATURES

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.

COMMUNITY BANCORP.

DATED: November 13, 2014	/s/ Stephen P. Marsh Stephen P. Marsh, Chairman, President & Chief Executive Officer
DATED: November 13, 2014	/s/ Louise M. Bonvechio Louise M. Bonvechio, Treasurer (Principal Financial Officer)