

COMMUNITY BANCORP /VT
Form 10-Q
August 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2015

OR

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

For the transition period from _____ to _____

Commission File Number 000-16435

Vermont
(State of Incorporation)

03-0284070
(IRS Employer Identification Number)

4811 US Route 5, Derby, Vermont
(Address of Principal Executive Offices)

05829
(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 (X) No ()

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES (X) NO ()

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 ()

Accelerated filer ()

Non-accelerated filer () (Do not check if a smaller reporting

Smaller reporting company (X)

company)

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

At August 6, 2015, there were 4,964,500 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".

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Community Bancorp. and Subsidiary Consolidated Balance Sheets	June 30, 2015 (Unaudited)	December 31, 2014	June 30, 2014 (Unaudited)
Assets			
Cash and due from banks	\$11,233,651	\$11,935,993	\$16,321,342
Federal funds sold and overnight deposits	8,220,300	13,026,181	21,474
Total cash and cash equivalents	19,453,951	24,962,174	16,342,816
Securities held-to-maturity (fair value \$26,055,000 at 06/30/15, \$42,234,000 at 12/31/14 and \$23,373,000 at 06/30/14)	25,738,769	41,810,945	22,966,558
Securities available-for-sale	31,204,034	32,946,894	31,198,958
Restricted equity securities, at cost	3,332,450	3,332,450	3,332,450
Loans held-for-sale	360,225	26,250	670,255
Loans	459,482,050	447,804,955	450,593,304
Allowance for loan losses	(5,095,212)	(4,905,874)	(4,876,816)
Deferred net loan costs	307,235	303,394	288,237
Net loans	454,694,073	443,202,475	446,004,725
Bank premises and equipment, net	11,702,753	11,488,948	11,516,750
Accrued interest receivable	1,577,886	1,698,448	1,444,775
Bank owned life insurance (BOLI)	4,466,781	4,413,574	4,358,117
Core deposit intangible	681,731	818,081	954,431
Goodwill	11,574,269	11,574,269	11,574,269
Other real estate owned (OREO)	1,122,500	1,238,320	916,820
Other assets	10,589,228	9,198,216	10,960,831
Total assets	\$576,498,650	\$586,711,044	\$562,241,755
Liabilities and Shareholders' Equity			
Liabilities			
Deposits:			
Demand, non-interest bearing	\$84,396,417	\$88,758,469	\$81,327,974
Interest-bearing transaction accounts	111,758,309	125,388,872	104,820,943
Money market funds	71,676,688	88,820,124	67,525,017
Savings	81,578,169	77,029,722	75,556,376
Time deposits, \$100,000 and over	43,309,486	45,284,645	54,293,241
Other time deposits	62,348,260	67,737,631	71,541,368
Total deposits	455,067,329	493,019,463	455,064,919
Federal funds purchased and other borrowed funds	30,000,000	0	19,915,000
Repurchase agreements	24,403,315	28,542,961	23,583,153
Capital lease obligations	599,772	639,544	677,251
Junior subordinated debentures	12,887,000	12,887,000	12,887,000
Accrued interest and other liabilities	3,500,041	2,626,874	2,723,488
Total liabilities	526,457,457	537,715,842	514,850,811
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 5,176,128 shares issued at 06/30/15, 5,142,475 shares issued at 12/31/14 and 5,110,096 shares issued at 06/30/14	12,940,320	12,856,188	12,775,241
Additional paid-in capital	29,748,084	29,359,300	28,975,974
Retained earnings	7,475,708	6,909,934	5,752,161

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Accumulated other comprehensive (loss) income	(142)	(7,443)	10,345
Less: treasury stock, at cost; 210,101 shares at 06/30/15, 12/31/14 and 06/30/14	(2,622,777)	(2,622,777)	(2,622,777)
Total shareholders' equity	50,041,193	48,995,202	47,390,944
Total liabilities and shareholders' equity	\$576,498,650	\$586,711,044	\$562,241,755

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

Community Bancorp. and Subsidiary Consolidated Statements of Income (Unaudited)	Three Months Ended June 30,	
	2015	2014
Interest income		
Interest and fees on loans	\$5,346,764	\$5,373,903
Interest on debt securities		
Taxable	102,608	73,040
Tax-exempt	276,254	241,342
Dividends	23,788	23,026
Interest on federal funds sold and overnight deposits	1,770	2,836
Total interest income	5,751,184	5,714,147
Interest expense		
Interest on deposits	529,181	642,719
Interest on federal funds purchased and other borrowed funds	23,535	20,450
Interest on repurchase agreements	17,933	14,385
Interest on junior subordinated debentures	101,655	100,442
Total interest expense	672,304	777,996
Net interest income	5,078,880	4,936,151
Provision for loan losses	150,000	135,000
Net interest income after provision for loan losses	4,928,880	4,801,151
Non-interest income		
Service fees	642,981	658,972
Income from sold loans	247,565	260,330
Other income from loans	186,433	122,066
Net realized gain on sale of securities available-for-sale	2,723	21,828
Other income	224,779	274,026
Total non-interest income	1,304,481	1,337,222
Non-interest expense		
Salaries and wages	1,683,200	1,650,000
Employee benefits	672,527	573,501
Occupancy expenses, net	609,365	623,843
Other expenses	1,814,748	1,530,104
Total non-interest expense	4,779,840	4,377,448
Income before income taxes	1,453,521	1,760,925
Income tax expense	375,817	476,539
Net income	\$1,077,704	\$1,284,386
Earnings per common share	\$0.21	\$0.26
Weighted average number of common shares used in computing earnings per share	4,954,879	4,889,257
Dividends declared per common share	\$0.16	\$0.16

Book value per common share outstanding at June 30,	\$9.57	\$9.16
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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)	Six Months Ended June 30,	
	2015	2014
Interest income		
Interest and fees on loans	\$10,811,025	\$10,644,679
Interest on debt securities		
Taxable	207,647	139,384
Tax-exempt	547,380	497,970
Dividends	47,671	46,310
Interest on federal funds sold and overnight deposits	4,260	4,080
Total interest income	11,617,983	11,332,423
Interest expense		
Interest on deposits	1,121,638	1,299,974
Interest on federal funds purchased and other borrowed funds	38,276	39,136
Interest on repurchase agreements	37,570	30,983
Interest on junior subordinated debentures	202,333	201,193
Total interest expense	1,399,817	1,571,286
Net interest income	10,218,166	9,761,137
Provision for loan losses	300,000	270,000
Net interest income after provision for loan losses	9,918,166	9,491,137
Non-interest income		
Service fees	1,274,418	1,305,785
Income from sold loans	448,240	509,460
Other income from loans	320,632	266,466
Net realized gain on sale of securities available-for-sale	2,723	21,828
Other income	471,253	547,184
Total non-interest income	2,517,266	2,650,723
Non-interest expense		
Salaries and wages	3,338,352	3,300,000
Employee benefits	1,336,680	1,204,698
Occupancy expenses, net	1,299,667	1,308,041
Other expenses	3,501,869	3,165,947
Total non-interest expense	9,476,568	8,978,686
Income before income taxes	2,958,864	3,163,174
Income tax expense	771,320	807,223
Net income	\$2,187,544	\$2,355,951
Earnings per common share	\$0.43	\$0.47
Weighted average number of common shares used in computing earnings per share	4,946,734	4,880,969
Dividends declared per common share	\$0.32	\$0.32
Book value per common share outstanding at June 30,	\$9.57	\$9.16

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 June	
	2015	2014
Net income	\$1,077,704	\$1,284,386
Other comprehensive (loss) income, net of tax:		
Unrealized holding (loss) gain on available-for-sale securities arising during the period	(189,219)	47,464
Reclassification adjustment for gain realized in income	(2,723)	(21,828)
Net change in unrealized (loss) gain	(191,942)	25,636
Tax effect	65,260	(8,716)
Other comprehensive (loss) income, net of tax	(126,682)	16,920
Total comprehensive income	\$951,022	\$1,301,306

	Six Months Ended June	
	2015	2014
Net income	\$2,187,544	\$2,355,951
Other comprehensive income, net of tax:		
Unrealized holding gain on available-for-sale securities arising during the period	13,785	109,420
Reclassification adjustment for gain realized in income	(2,723)	(21,828)
Net change in unrealized gain	11,062	87,592
Tax effect	(3,761)	(29,781)
Other comprehensive income, net of tax	7,301	57,811
Total comprehensive income	\$2,194,845	\$2,413,762

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

Community Bancorp. and Subsidiary
Consolidated Statements of Cash Flows
(Unaudited)

Six Months Ended June 30,
2015 2014

Cash Flows from Operating Activities:

Net income	\$2,187,544	\$2,355,951
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, bank premises and equipment	487,192	488,888
Provision for loan losses	300,000	270,000
Deferred income tax	(147,121)	(75,275)
Gain on sale of securities available-for-sale	(2,723)	(21,828)
Gain on sale of loans	(194,924)	(251,370)
(Gain) loss on sale of OREO	(51)	1,840
Gain on Trust LLC	(175,191)	(163,260)
Amortization of bond premium, net	95,186	283,156
Write down of OREO	45,320	0
Proceeds from sales of loans held for sale	11,515,834	10,147,291
Originations of loans held for sale	(11,654,885)	(10,356,676)
(Decrease) increase in taxes payable	(1,225)	542,007
Decrease in interest receivable	120,562	333,530
Decrease in mortgage servicing rights	13,547	4,366
Increase in other assets	(391,951)	(154,554)
Increase in cash surrender value of BOLI	(53,207)	(54,810)
Amortization of core deposit intangible	136,350	136,350
Amortization of limited partnerships	282,666	295,560
(Increase) decrease in unamortized loan costs	(3,841)	12,192
Decrease in interest payable	(16,375)	(4,937)
Decrease in accrued expenses	(69,111)	(59,879)
Decrease in other liabilities	(17,813)	(7,032)
Net cash provided by operating activities	2,455,783	3,721,510

Cash Flows from Investing Activities:

Investments - held-to-maturity		
Maturities and pay downs	21,967,164	23,035,127
Purchases	(5,894,988)	(8,064,774)
Investments - available-for-sale		
Maturities, calls, pay downs and sales	9,659,289	16,527,429
Purchases	(7,997,830)	(12,711,520)
Proceeds from redemption of restricted equity securities	0	300,400
Increase in limited partnership contributions payable	975,000	0
Increase in limited partnerships	(975,500)	0
Increase in loans, net	(11,925,533)	(11,019,180)
Capital expenditures of bank premises and equipment	(700,995)	(282,170)
Proceeds from sales of OREO	141,051	237,865
Recoveries of loans charged off	67,276	35,703
Net cash provided by investing activities	5,314,934	8,058,880

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

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	2015	2014
Cash Flows from Financing Activities:		
Net decrease in demand and interest-bearing transaction accounts	(17,992,615)	(22,585,289)
Net decrease in money market and savings accounts	(12,594,989)	(8,785,431)
Net (decrease) increase in time deposits	(7,364,530)	4,883,070
Net decrease in repurchase agreements	(4,139,646)	(6,061,462)
Net increase in short-term borrowings	30,000,000	13,915,000
Proceeds from long-term borrowings	0	6,000,000
Decrease in capital lease obligations	(39,772)	(33,791)
Dividends paid on preferred stock	(40,625)	(40,625)
Dividends paid on common stock	(1,106,763)	(1,059,035)
Net cash used in financing activities	(13,278,940)	(13,767,563)
Net decrease in cash and cash equivalents	(5,508,223)	(1,987,173)
Cash and cash equivalents:		
Beginning	24,962,174	18,329,989
Ending	\$19,453,951	\$16,342,816
Supplemental Schedule of Cash Paid During the Period:		
Interest	\$1,416,192	\$1,576,223
Income taxes	\$637,000	\$44,931
Supplemental Schedule of Noncash Investing and Financing Activities:		
Change in unrealized gain on securities available-for-sale	\$11,062	\$87,592
Loans transferred to OREO	\$70,500	\$51,000
Common Shares Dividends Paid:		
Dividends declared	\$1,581,145	\$1,560,309
Increase in dividends payable attributable to dividends declared	(1,466)	(59,135)
Dividends reinvested	(472,916)	(442,139)
	\$1,106,763	\$1,059,035

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, 2014 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, 2015, or for any other interim period.

Certain amounts in the 2014 unaudited consolidated income statements have been reclassified to conform to the 2015 presentation. Reclassifications had no effect on prior period net income or shareholders' equity.

Note 2. Recent Accounting Developments

There are no recently issued accounting developments applicable to the Company as of this current report.

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 June 30,	
	2015	2014
Net income, as reported	\$1,077,704	\$1,284,386
Less: dividends to preferred shareholders	20,312	20,312
Net income available to common shareholders	\$1,057,392	\$1,264,074
Weighted average number of common shares used in calculating earnings per share	4,954,879	4,889,257
Earnings per common share	\$0.21	\$0.26
	Six Months Ended June 30,	
	2015	2014
Net income, as reported	\$2,187,544	\$2,355,951
Less: dividends to preferred shareholders	40,625	40,625
Net income available to common shareholders	\$2,146,919	\$2,315,326
Weighted average number of common shares used in calculating earnings per share	4,946,734	4,880,969

Earnings per common share	\$0.43	\$0.47
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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
June 30, 2015				
U.S. Government sponsored enterprise (GSE) debt securities	\$14,862,842	\$59,687	\$14,425	\$14,908,104
U.S. Government securities	2,991,281	11,688	0	3,002,969
Agency mortgage-backed securities (Agency MBS)	11,614,125	356	54,708	11,559,773
Other investments	1,736,000	904	3,716	1,733,188
	\$31,204,248	\$72,635	\$72,849	\$31,204,034
December 31, 2014				
U.S. GSE debt securities	\$19,929,061	\$50,378	\$72,289	\$19,907,150
U.S. Government securities	3,997,451	3,486	0	4,000,937
Agency MBS	9,031,661	19,472	12,326	9,038,807
	\$32,958,173	\$73,336	\$84,615	\$32,946,894
June 30, 2014				
U.S. GSE debt securities	\$15,950,885	\$80,833	\$73,657	\$15,958,061
U.S. Government securities	5,518,770	14,716	480	5,533,006
Agency MBS	9,713,629	3,847	9,585	9,707,891
	\$31,183,284	\$99,396	\$83,722	\$31,198,958
Securities HTM	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value*
June 30, 2015				
States and political subdivisions	\$25,738,769	\$316,231	\$0	\$26,055,000
December 31, 2014				
States and political subdivisions	\$41,810,945	\$423,055	\$0	\$42,234,000
June 30, 2014				
States and political subdivisions	\$22,966,558	\$406,442	\$0	\$23,373,000

*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
June 30, 2015		
Due in one year or less	\$5,115,547	\$5,133,829
Due from one to five years	14,474,576	14,510,432
Agency MBS	11,614,125	11,559,773
	\$31,204,248	\$31,204,034
December 31, 2014		
Due in one year or less	\$5,027,864	\$5,034,248
Due from one to five years	18,898,648	18,873,839
Agency MBS	9,031,661	9,038,807
	\$32,958,173	\$32,946,894
June 30, 2014		
Due in one year or less	\$2,025,196	\$2,030,578
Due from one to five years	19,444,459	19,460,489
Agency MBS	9,713,629	9,707,891
	\$31,183,284	\$31,198,958

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*
June 30, 2015		
Due in one year or less	\$12,851,025	\$12,851,000
Due from one to five years	4,101,928	4,181,000
Due from five to ten years	2,166,612	2,246,000
Due after ten years	6,619,204	6,777,000
	\$25,738,769	\$26,055,000
December 31, 2014		
Due in one year or less	\$28,158,718	\$28,159,000
Due from one to five years	4,637,913	4,744,000
Due from five to ten years	2,305,353	2,411,000
Due after ten years	6,708,961	6,920,000
	\$41,810,945	\$42,234,000
June 30, 2014		
Due in one year or less	\$12,616,400	\$12,616,000
Due from one to five years	4,239,436	4,341,000
Due from five to ten years	2,381,853	2,484,000
Due after ten years	3,728,869	3,932,000

\$22,966,558 \$23,373,000

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

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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
June 30, 2015						
U.S. GSE debt securities	\$4,235,402	\$9,709	\$995,284	\$4,716	\$5,230,686	\$14,425
Agency MBS	10,702,696	54,708	0	0	10,702,696	54,708
Other investments	1,236,283	3,716	0	0	1,236,283	3,716
	\$16,174,381	\$68,133	\$995,284	\$4,716	\$17,169,665	\$72,849
December 31, 2014						
U.S. GSE debt securities	\$6,023,946	\$8,548	\$5,186,258	\$63,741	\$11,210,204	\$72,289
Agency MBS	3,206,389	12,326	0	0	3,206,389	12,326
	\$9,230,335	\$20,874	\$5,186,258	\$63,741	\$14,416,593	\$84,615
June 30, 2014						
U.S. GSE debt securities	\$0	\$0	\$5,176,343	\$73,657	\$5,176,343	\$73,657
U.S. Government securities	1,490,193	480	0	0	1,490,193	480
Agency MBS	4,937,780	9,585	0	0	4,937,780	9,585
	\$6,427,973	\$10,065	\$5,176,343	\$73,657	\$11,604,316	\$83,722

Debt securities in the table above consisted of five U.S. GSE debt securities, eleven Agency MBS securities and five certificates of deposit carried under the heading of "Other investments" at June 30, 2015, ten U.S. GSE debt securities and four Agency MBS securities at December 31, 2014, and five U.S. GSE debt securities, two U.S. Government securities and five Agency MBS securities at June 30, 2014. 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 June 30, 2015, 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:

	June 30, 2015	December 31, 2014	June 30, 2014
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Commercial & industrial	\$73,561,125	\$64,390,220	\$64,475,384
Commercial real estate	172,565,221	166,611,830	164,302,843
Residential real estate - 1st lien	162,109,916	163,966,124	169,367,709
Residential real estate - Jr lien	43,816,552	44,801,483	44,564,026
Consumer	7,429,236	8,035,298	7,883,342
	459,482,050	447,804,955	450,593,304
Deduct (add):			
Allowance for loan losses	5,095,212	4,905,874	4,876,816
Deferred net loan costs	(307,235)	(303,394)	(288,237)
	4,787,977	4,602,480	4,588,579
Net Loans	\$454,694,073	\$443,202,475	\$446,004,725

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

June 30, 2015	30-89 Days	90 Days or More	Total Past Due	Current	Total Loans	Non-Accrual Loans	90 Days or More and Accruing
Commercial & industrial	\$ 177,758	\$ 174,184	\$ 351,942	\$ 73,209,183	\$ 73,561,125	\$ 767,235	\$ 0
Commercial real estate	740,547	239,619	980,166	171,585,055	172,565,221	1,909,917	5,313
Residential real estate - 1st lien	2,222,425	828,694	3,051,119	159,058,797	162,109,916	1,927,300	528,211
Residential real estate - Jr lien	346,444	82,021	428,465	43,388,087	43,816,552	311,571	82,021
Consumer	38,159	8,987	47,146	7,382,090	7,429,236	0	8,987
Total	\$ 3,525,333	\$ 1,333,505	\$ 4,858,838	\$ 454,623,212	\$ 459,482,050	\$ 4,916,023	\$ 624,532

December 31, 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	\$ 439,151	\$ 299,095	\$ 738,246	\$ 63,651,974	\$ 64,390,220	\$ 552,386	\$ 23,579
Commercial real estate	988,924	5,313	994,237	165,617,593	166,611,830	1,934,096	5,313
Residential real estate - 1st lien	4,446,138	1,484,334	5,930,472	158,035,652	163,966,124	1,263,046	980,138
Residential real estate - Jr lien	637,917	179,920	817,837	43,983,646	44,801,483	404,061	115,852
Consumer	56,392	0	56,392	7,978,906	8,035,298	0	0
Total	\$ 6,568,522	\$ 1,968,662	\$ 8,537,184	\$ 439,267,771	\$ 447,804,955	\$ 4,153,589	\$ 1,124,882

June 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	\$ 373,363	\$ 605,406	\$ 978,769	\$ 63,496,615	\$ 64,475,384	\$ 1,347,748	\$ 102,961
Commercial real estate	1,378,654	94,609	1,473,263	162,829,580	164,302,843	1,661,324	5,313
Residential real estate - 1st lien	2,542,507	991,146	3,533,653	165,834,056	169,367,709	1,943,475	231,085
Residential real estate - Jr lien	228,014	110,451	338,465	44,225,561	44,564,026	453,304	57,241
Consumer	54,479	17,927	72,406	7,810,936	7,883,342	0	17,927
Total	\$ 4,577,017	\$ 1,819,539	\$ 6,396,556	\$ 444,196,748	\$ 450,593,304	\$ 5,405,851	\$ 414,527

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

As of June 30, 2015, there were four residential mortgage loans in process of foreclosure totaling \$403,526.

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.

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, three year, four 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 reserve methodology was modified during the quarter ended June 30, 2015 to eliminate using the higher of the 1999-2001 losses as compared to current losses, by eliminating the use of the 1999-2001 period. The 1999-2001 information has become dated and the Bank’s credit portfolio management has evolved during that time. The revised methodology now considers the highest annual loss rates for the most recent one to five year look back periods for each segment of the portfolio. This change resulted in a reduction to required reserves of \$529,234. Adjustments were made to the commercial & industrial and commercial real estate qualitative factors to adjust for the impact of the change in methodology, principally in the area of loan growth, loan policy, and delinquency factors. The commercial & industrial and commercial real estate factors were each increased a total of 10 basis points, amounting to increases of \$171,000 and \$70,000 respectively.

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. While unallocated reserves have increased, they are considered by management to be appropriate in light of the Company’s continued growth strategy and shift in the portfolio from residential loans to commercial and commercial real estate loans and the risk associated with the relatively new, unseasoned loans in those portfolios.

The following tables summarize changes in the allowance for loan losses and select loan information, by portfolio segment, for the periods indicated:

As of or for the three months ended June 30, 2015

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	\$ 750,491	\$ 2,325,111	\$ 1,322,017	\$ 321,407	\$ 86,084	\$ 197,939	\$ 5,003,049
Charge-offs	0	0	(78,700)	0	(22,816)	0	(101,516)
Recoveries	37,306	0	0	60	6,313	0	43,679

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Provision							
(credit)	93,297	(340,552)	115,187	30,658	(5,768)	257,178	150,000
Ending balance	\$ 881,094	\$ 1,984,559	\$ 1,358,504	\$ 352,125	\$ 63,813	\$ 455,117	\$ 5,095,212

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As of or for the six months ended June 30, 2015

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning							
balance	\$646,719	\$2,311,936	\$1,270,766	\$321,099	\$118,819	\$236,535	\$4,905,874
Charge-offs	(35,059)	0	(94,575)	(20,199)	(28,105)	0	(177,938)
Recoveries	42,913	0	6,042	120	18,201	0	67,276
Provision							
(credit)	226,521	(327,377)	176,271	51,105	(45,102)	218,582	300,000
Ending							
balance	\$881,094	\$1,984,559	\$1,358,504	\$352,125	\$63,813	\$455,117	\$5,095,212

Allowance for loan losses

Evaluated for
impairment

Individually	\$70,000	\$0	\$71,800	\$47,500	\$0	\$0	\$189,300
Collectively	811,094	1,984,559	1,286,704	304,625	63,813	455,117	4,905,912
Total	\$881,094	\$1,984,559	\$1,358,504	\$352,125	\$63,813	\$455,117	\$5,095,212

Loans evaluated for impairment

Individually	\$594,176	\$1,845,751	\$1,345,820	\$238,623	\$0		\$4,024,370
Collectively	72,966,949	170,719,470	160,764,096	43,577,929	7,429,236		455,457,680
Total	\$73,561,125	\$172,565,221	\$162,109,916	\$43,816,552	\$7,429,236		\$459,482,050

As of or for the year ended December 31, 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	(153,329)	(167,841)	(58,904)	(51,389)	(112,376)	0	(543,839)
Recoveries	6,249	0	14,543	240	33,766	0	54,798
Provision							
(credit)	277,417	336,379	(137,057)	5,777	92,150	(34,666)	540,000
Ending							
balance	\$646,719	\$2,311,936	\$1,270,766	\$321,099	\$118,819	\$236,535	\$4,905,874

Allowance for loan losses

Evaluated for
impairment

Individually	\$0	\$34,400	\$43,400	\$0	\$0	\$0	\$77,800
Collectively	646,719	2,277,536	1,227,366	321,099	118,819	236,535	4,828,074
Total	\$646,719	\$2,311,936	\$1,270,766	\$321,099	\$118,819	\$236,535	\$4,905,874

Loans evaluated for impairment

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Individually	\$390,605	\$1,930,993	\$721,241	\$328,889	\$0		\$3,371,728
Collectively	63,999,615	164,680,837	163,244,883	44,472,594	8,035,298		444,433,227
Total	\$64,390,220	\$166,611,830	\$163,966,124	\$44,801,483	\$8,035,298		\$447,804,955

As of or for the three months ended June 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	\$556,223	\$2,172,678	\$1,396,934	\$348,738	\$100,386	\$262,619	\$4,837,578
Charge-offs	(70,534)	(30,819)	0	0	(14,241)	0	(115,594)
Recoveries	2,124	0	1,725	60	15,923	0	19,832
Provision (credit)	199,603	13,879	(61,648)	(54,184)	(17,953)	55,303	135,000
Ending balance	\$687,416	\$2,155,738	\$1,337,011	\$294,614	\$84,115	\$317,922	\$4,876,816

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As of or for the six months ended June 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	(87,214)	(130,819)	0	0	(65,769)	0	(283,802)
Recoveries	2,236	0	11,098	120	22,249	0	35,703
Provision							
(credit)	256,012	143,159	(126,271)	(71,977)	22,356	46,721	270,000
Ending							
balance	\$687,416	\$2,155,738	\$1,337,011	\$294,614	\$84,115	\$317,922	\$4,876,816

Allowance for loan losses

Evaluated for
impairment

Individually	\$99,300	\$18,900	\$100,600	\$13,100	\$0	\$0	\$231,900
Collectively	588,116	2,136,838	1,236,411	281,514	84,115	317,922	4,644,916
Total	\$687,416	\$2,155,738	\$1,337,011	\$294,614	\$84,115	\$317,922	\$4,876,816

Loans evaluated for impairment

Individually	\$1,233,885	\$1,558,186	\$1,374,851	\$370,775	\$0		\$4,537,697
Collectively	63,241,499	162,744,657	167,992,858	44,193,251	7,883,342		446,055,607
Total	\$64,475,384	\$164,302,843	\$169,367,709	\$44,564,026	\$7,883,342		\$450,593,304

Impaired loans, by portfolio segment, were as follows:

	As of June 30, 2015					Average Recorded Investment(1)	Average Recorded Investment(2)
	Recorded Investment	Unpaid Principal Balance	Related Allowance				
With no related allowance recorded							
Commercial & industrial	\$502,237	\$560,173	\$0		\$555,057	\$300,144	
Commercial real estate	1,845,751	1,856,008	0		1,976,769	1,136,004	
Residential real estate - 1st lien	1,095,830	1,470,050	0		780,255	433,329	
Residential real estate - Jr lien	0	0	0		120,465	113,964	
	\$3,443,818	\$3,886,231	\$0		\$3,432,546	\$1,983,441	
With an allowance recorded							
Commercial & industrial	\$91,940	\$94,826	\$70,000		\$93,398	\$37,359	
Commercial real estate	0	0	0		0	40,902	
Residential real estate - 1st lien	249,989	284,200	71,800		302,937	144,196	
Residential real estate - Jr lien	238,623	284,202	47,500		152,865	61,146	
	\$580,552	\$663,228	\$189,300		\$549,200	\$283,603	
Total	\$4,024,370	\$4,549,459	\$189,300		\$3,981,746	\$2,267,044	

(1) For the three months ended June 30, 2015

(2) For the six months ended June 30, 2015

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	As of December 31, 2014			2014
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded				
Commercial & industrial	\$390,605	\$424,598	\$0	\$507,232
Commercial real estate	1,726,482	1,689,772	0	1,294,710
Residential real estate - 1st lien	606,133	875,841	0	971,542
Residential real estate - Jr lien	328,889	390,260	0	238,826
	\$3,052,109	\$3,380,471	\$0	\$3,012,310
With an allowance recorded				
Commercial & industrial	\$0	\$0	\$0	\$158,690
Commercial real estate	204,511	220,981	34,400	280,104
Residential real estate - 1st lien	115,108	144,708	43,400	294,807
Residential real estate - Jr lien	0	0	0	149,772
	\$319,619	\$365,689	\$77,800	\$883,373
Total	\$3,371,728	\$3,746,160	\$77,800	\$3,895,683

	As of June 30, 2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment(1)	Average Recorded Investment(2)
With no related allowance recorded					
Commercial & industrial	\$819,016	\$884,377	\$0	\$ 552,178	\$ 472,955
Commercial real estate	1,337,570	1,431,199	0	1,248,510	1,147,288
Residential real estate - 1st lien	832,008	905,092	0	1,042,268	1,146,323
Residential real estate - Jr lien	269,912	316,506	0	183,089	176,772
	\$3,258,506	\$3,537,174	\$0	\$ 3,026,045	\$ 2,943,338
With an allowance recorded					
Commercial & industrial	414,869	415,759	99,300	238,953	179,031
Commercial real estate	220,616	231,221	18,900	165,405	257,481
Residential real estate - 1st lien	542,843	579,363	100,600	394,924	408,070
Residential real estate - Jr lien	100,863	109,217	13,100	176,875	249,621
	\$1,279,191	\$1,335,560	\$231,900	\$ 976,157	\$ 1,094,203
Total	\$4,537,697	\$4,872,734	\$231,900	\$ 4,002,202	\$ 4,037,541

(1) For the three months ended June 30, 2014

(2) For the six months ended June 30, 2014

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.

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

As of June 30, 2015

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Total
Group A	\$70,152,385	\$162,191,020	\$158,224,270	\$43,196,452	\$7,420,249	\$441,184,376
Group B	2,451,677	4,819,930	231,391	228,892	0	7,731,890
Group C	957,063	5,554,271	3,654,255	391,208	8,987	10,565,784
Total	\$73,561,125	\$172,565,221	\$162,109,916	\$43,816,552	\$7,429,236	\$459,482,050

As of December 31, 2014

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Total
Group A	\$61,201,586	\$157,767,641	\$160,912,689	\$44,018,956	\$8,035,298	\$431,936,170
Group B	2,316,908	3,280,904	228,148	251,822	0	6,077,782
Group C	871,726	5,563,285	2,825,287	530,705	0	9,791,003
Total	\$64,390,220	\$166,611,830	\$163,966,124	\$44,801,483	\$8,035,298	\$447,804,955

As of June 30, 2014

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Total
Group A	\$60,373,539	\$155,124,213	\$166,345,054	\$43,883,107	\$7,865,415	\$433,591,328
Group B	2,730,275	3,586,566	598,381	147,531	0	7,062,753
Group C	1,371,570	5,592,064	2,424,274	533,388	17,927	9,939,223
Total	\$64,475,384	\$164,302,843	\$169,367,709	\$44,564,026	\$7,883,342	\$450,593,304

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 June 30, 2015			Six months ended June 30, 2015		
	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
Commercial & industrial	3	\$ 198,999	\$ 198,829	3	\$ 198,999	\$ 198,829
Residential real estate						
- 1st lien	3	618,317	660,196	8	962,646	1,021,102
- Jr lien	0	0	0	2	117,745	121,672
Total	6	\$ 817,316	\$ 859,025	13	\$ 1,279,390	\$ 1,341,603

	Year ended December 31, 2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate	1	\$ 301,823	\$ 301,823
Residential real estate - 1st lien	11	1,294,709	1,332,336
Total	12	\$ 1,596,532	\$ 1,634,159

	Three months ended June 30, 2014			Six months ended June 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	3	\$218,330	\$237,090	6	\$480,899	\$510,737

The TDR's for which there was a payment default during the twelve month periods presented were as follows:

Twelve months ended June 30, 2015

	Number of Contracts	Recorded Investment
Commercial	1	\$82,336
Residential real estate - 1st lien	3	258,568
Total	4	\$340,904

Year ended December 31, 2014

	Number of Contracts	Recorded Investment
Residential real estate - 1st lien	2	\$137,830

Twelve months ended June 30, 2014

	Number of Contracts	Recorded Investment
Residential real estate – 1st lien	5	\$441,679

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. At June 30, 2015 and 2014, the specific allocation related to TDRs was approximately \$104,600 and \$88,300, respectively. There was no specific allowance related to TDRs at December 31, 2014.

As of June 30, 2015, the Company is contractually committed to lend up to \$450,000 in additional funds to one debtor with an impaired SBA guaranteed cap line of credit; that debtor's loan relationship is expected to strengthen as a result of a prior troubled debt restructuring. With this exception, 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.

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 \$3,479,269 and \$3,206,569 as of June 30, 2015 and 2014, respectively.

Amortization expense for the core deposit intangible for the first six months of 2015 and 2014 was \$136,350. As of June 30, 2015, the remaining annual amortization expense related to the core deposit intangible, absent any future impairment, is expected to be as follows:

2015	\$ 136,345
2016	272,695
2017	272,691
Total remaining core deposit intangible	\$681,731

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, 2014), 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 and compared to fair value for impairment. 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

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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:

June 30, 2015	Level 1	Level 2
Assets: (market approach)		
U.S. GSE debt securities	\$0	\$14,908,104
U.S. Government securities	3,002,969	0
Agency MBS	0	11,559,773
Other investments	0	1,733,188
Total	\$3,002,969	\$28,201,065

December 31, 2014	Level 1	Level 2
Assets: (market approach)		
U.S. GSE debt securities	\$0	\$19,907,150
U.S. Government securities	4,000,937	0
Agency MBS	0	9,038,807
Total	\$4,000,937	\$28,945,957
June 30, 2014		
Assets: (market approach)		
U.S. GSE debt securities	\$0	\$15,958,061
U.S. Government securities	5,533,006	0
Agency MBS	0	9,707,891
Total	\$5,533,006	\$25,665,952

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:

June 30, 2015	Level 2
Assets: (market approach)	
Residential mortgage servicing rights	\$1,298,418
Impaired loans, net of related allowance	391,252
OREO	1,122,500
December 31, 2014	
Assets: (market approach)	
Residential mortgage servicing rights	\$1,311,965
Impaired loans, net of related allowance	241,819
OREO	1,238,320
June 30, 2014	
Assets: (market approach)	
Residential mortgage servicing rights	\$1,324,713
Impaired loans, net of related allowance	1,047,291
OREO	916,820

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

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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:

June 30, 2015

	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	\$19,454	\$19,454	\$0	\$0	\$19,454
Securities held-to-maturity	25,739	0	26,055	0	26,055
Securities available-for-sale	31,204	3,003	28,201	0	31,204
Restricted equity securities	3,332	0	3,332	0	3,332
Loans and loans held-for-sale					
Commercial & industrial	72,607	0	524	73,638	74,162
Commercial real estate	170,410	0	1,846	174,080	175,926
Residential real estate - 1st lien	160,951	0	1,274	164,014	165,288
Residential real estate - Jr lien	43,421	0	191	44,160	44,351
Consumer	7,358	0	0	7,695	7,695
Mortgage servicing rights	1,298	0	1,496	0	1,496
Accrued interest receivable	1,578	0	1,578	0	1,578
Financial liabilities:					
Deposits					
Other deposits	432,657	0	432,533	0	432,533
Brokered deposits	22,410	0	22,426	0	22,426
Federal funds purchased and short-term borrowings					
Repurchase agreements	30,000	0	30,000	0	30,000
Capital lease obligations	24,403	0	24,403	0	24,403
Subordinated debentures	600	0	600	0	600
Accrued interest payable	12,887	0	12,856	0	12,856
	47	0	47	0	47

December 31, 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	\$24,962	\$24,962	\$0	\$0	\$24,962
Securities held-to-maturity	41,811	0	42,234	0	42,234
Securities available-for-sale	32,947	4,001	28,946	0	32,947
Restricted equity securities	3,332	0	3,332	0	3,332
Loans and loans held-for-sale					
Commercial & industrial	63,709	0	391	64,800	65,191
Commercial real estate	164,212	0	1,897	167,961	169,858
Residential real estate - 1st lien	162,635	0	678	166,171	166,849
Residential real estate - Jr lien	44,457	0	329	45,113	45,442
Consumer	7,912	0	0	8,315	8,315
Mortgage servicing rights	1,312	0	1,528	0	1,528

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Accrued interest receivable	1,698	0	1,698	0	1,698
Financial liabilities:					
Deposits					
Other deposits	472,966	0	473,100	0	473,100
Brokered deposits	20,053	0	20,054	0	20,054
Repurchase agreements	28,543	0	28,543	0	28,543
Capital lease obligations	640	0	640	0	640
Subordinated debentures	12,887	0	12,867	0	12,867
Accrued interest payable	64	0	64	0	64

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June 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	\$16,343	\$16,343	\$0	\$0	\$16,343
Securities held-to-maturity	22,967	0	23,373	0	23,373
Securities available-for-sale	31,199	5,533	25,666	0	31,199
Restricted equity securities	3,332	0	3,332	0	3,332
Loans and loans held-for-sale					
Commercial & industrial	63,742	0	1,135	64,023	65,158
Commercial real estate	162,031	0	1,539	165,635	167,174
Residential real estate - 1st lien	168,582	0	1,274	172,278	173,552
Residential real estate - Jr lien	44,238	0	358	44,839	45,197
Consumer	7,793	0	0	8,167	8,167
Mortgage servicing rights	1,325	0	1,523	0	1,523
Accrued interest receivable	1,445	0	1,445	0	1,445
Financial liabilities:					
Deposits					
Other deposits	428,186	0	428,924	0	428,924
Brokered deposits	26,879	0	26,884	0	26,884
Federal funds purchased and short-term borrowings					
Long-term borrowings	6,000	0	6,000	0	6,000
Repurchase agreements	23,583	0	23,583	0	23,583
Capital lease obligations	677	0	677	0	677
Subordinated debentures	12,887	0	12,869	0	12,869
Accrued interest payable	70	0	70	0	70

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:

	June 30, 2015	December 31, 2014	June 30, 2014
Balance at beginning of year	\$1,311,965	\$1,329,079	\$1,329,079
Mortgage servicing rights capitalized	112,687	209,713	112,601
Mortgage servicing rights amortized	(128,791)	(250,955)	(122,727)
Change in valuation allowance	2,557	24,128	5,760
Balance at end of period	\$1,298,418	\$1,311,965	\$1,324,713

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 June 9, 2015, the Company declared a cash dividend of \$0.16 per common share payable August 1, 2015 to shareholders of record as of July 15, 2015. This dividend, amounting to \$791,903, was accrued at June 30, 2015.

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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 June 30, 2015

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 June 30, 2015, December 31, 2014 and June 30, 2014, 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 2014 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, requires 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 June 30, 2015 were \$576,498,650, a decrease of \$10,212,394 or 1.7% from December 31, 2014 and an increase of \$14,256,895, or 2.5%, from June 30, 2014. Contributing to the decrease in assets from year end was a decrease in short-term municipal loans, recorded as held-to-maturity securities which generally mature at the end of the second quarter and are not replaced until after the start of the third quarter. Municipal loans totaling \$23,051,194 matured on June 30, 2015, with renewals and new municipal loans of approximately \$22 million recorded in July, 2015. Net loans increased \$11,491,598, or 2.6%, since December 31, 2014 and \$8,689,348, or 2.0%, since June 30, 2014. The increase in net loans is attributable to solid growth in commercial loans. The loan growth has been funded primarily through short-term borrowings, totaling \$30,000,000 at June 30, 2015 compared with no borrowings at December 31, 2014, and a combination of \$17,000,000 in short term borrowings and \$7,066,165 of brokered time deposits at June 30, 2014.

Total deposits declined \$37,952,134, or 7.7%, since December 31, 2014 due primarily to the seasonal runoff of municipal deposits. In the year over year comparison, deposits declined \$2,410, or 0.0%. Core deposits saw increases in all areas except time deposits, which continue to shift into non-maturity deposits as they mature. 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 2015 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 more robust than in the Company's Orleans and Caledonia county markets, and where 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 year to year.

Interest income increased \$37,037, or 0.7%, for the second quarter of 2015 compared to the same period in 2014. Interest expense declined \$105,692, or 13.6%, 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 the provision for loan losses improved by \$127,729, or 2.7%, for the three months ended June 30, 2015 compared to the same period in 2014. The charge to income for the provision for loan losses increased \$15,000, or 11.1%, year over year based on the increase in the loan portfolio for the year, not a decline in asset quality.

Net income for the second quarter of 2015 was \$1,077,704, a decrease of \$206,682, or 16.1%, compared with the same period in 2014. Net income for the first six months of 2015 was \$2,187,544, a decrease of \$168,407 or 7.2% compared to the same period in 2014. Total non-interest income decreased \$32,741, or 2.4%, during the second quarter of 2015 compared to 2014, with declines seen in all major categories. 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. The residential mortgage lending activity slowed during 2014, resulting in decreases in the Company's fee income from the sale of residential loans in the secondary market. In 2015, this trend has started to turn with new mortgage originations totaling \$20,136,238 for the first six months of 2015, compared with \$16,975,336 for the same period in 2014, an increase of \$3,160,902, or 18.6%. Of those originations, during the first six months of 2015 secondary market sales totaled \$11,654,885, compared to \$10,356,676 for the first six months of 2014, providing points and premiums from the sales of these mortgages of \$168,670 and \$235,150, respectively, a decline of 28.4%. Mirroring trends in the mortgage banking industry, as mortgage rates decreased to spur higher volume, margins declined to keep mortgage rates competitive, resulting in the decline between periods in points and premiums from the sale of mortgages on the secondary market. The remainder of the loans originated were held in portfolio. Total operating expenses increased by \$497,882, or 5.6%, for the first six months 2015 when compared to the same period in 2014, including non-recurring charges associated with the mandated replacement of customer debit cards with computer chip enhanced cards and costs associated with the closure of two branch offices in July. Please refer to the Non-interest Income and Expense sections for more information.

The regulatory environment continues to increase operating costs and place extensive burdens 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 June 9, 2015, the Company's Board of Directors declared a quarterly cash dividend of \$0.16 per common share, payable on August 1, 2015 to shareholders of record on July 15, 2015. 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.

On April 16, 2015, the Company announced plans to close two branch office locations in Caledonia County, effective at the close of business on July 17, 2015. The two affected locations will be consolidated into the Bank's two other Caledonia County branch offices.

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 2014 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 2014 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. Except for certain changes to the methodology for calculating the allowance for loan losses as described below under "RISK MANAGEMENT – Allowance for loan losses and provisions", there have been no material changes in the critical accounting policies described in the 2014 Annual Report on Form 10-K.

RESULTS OF OPERATIONS

Net income for the second quarter of 2015 was \$1,077,704, a decrease of \$206,682, or 16.1%, compared with the same period in 2014. This resulted in earnings per share of \$0.21, compared with \$0.26 for the second quarter 2014. Net income for the first six months of 2015 was \$2,187,544 or \$0.43 per common share, compared to \$2,355,951 or \$0.47 per common share for the same period in 2014. Core earnings (net interest income before the provision for loan losses) for the second quarter of 2015 increased \$142,729, or 2.9%, compared to the second quarter of 2014. For the six months ended June 30, 2015, core earnings increased \$457,029, or 4.7% compared to the prior year. 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 during the second quarter of 2014. The Company has continued to maintain that overall mix of investments. The tax-exempt municipal loan portfolio also increased significantly compared with the prior year, generating additional interest income. During 2015, the loan mix has continued to shift in favor of higher yielding commercial loans, while the deposit mix is shifting to lower cost non-maturity deposits, both of which have benefitted the Company's net interest income. Interest paid on deposits, which is the major component of total interest expense, decreased \$105,692, or 13.6%, in the second quarter 2015 compared to the same period of 2014. The Company recorded a provision for loan losses of \$150,000 for the first six months of 2015, compared to \$135,000 for the same period of 2014. Non-interest income decreased \$32,741, or 2.5%, for the second quarter of 2015 compared to 2014, partly due to a lower pace of residential mortgage loan sales, together with a decrease in overdraft charges and paper statement fees. Non-interest expense increased \$402,392, or 9.2%, for the second quarter of 2015 compared to the prior year with increases in salaries & benefits as well as other non-interest expenses including collection and OREO write-down expense. 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 June 30,			
	2015		2014	
Return on Average Assets	0.74	%	0.90	%
Return on Average Equity	8.60	%	10.91	%
	Six Months Ended June 30,			
	2015		2014	
Return on Average Assets	0.76	%	0.83	%
Return on Average Equity	8.84	%	10.15	%

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

SELECTED FINANCIAL DATA (Unaudited)

	June 30, 2015	December 31, 2014	June 30, 2014
Balance Sheet Data			
Net loans	\$454,694,073	\$443,202,475	\$446,004,725
Total assets	576,498,650	586,711,044	562,241,755
Total deposits	455,067,329	493,019,463	455,064,919
Borrowed funds	30,000,000	0	19,915,000
Total liabilities	526,457,457	537,715,842	514,850,811
Total shareholders' equity	50,041,193	48,995,202	47,390,944
		Six Months Ended June 30,	
		2015	2014
Operating Data			
Total interest income		\$11,617,983	\$11,332,423
Total interest expense		1,399,817	1,571,286
Net interest income		10,218,166	9,761,137
Provision for loan losses		300,000	270,000
Net interest income after provision for loan losses		9,918,166	9,491,137
Non-interest income		2,517,266	2,650,723
Non-interest expense		9,476,568	8,978,686
Income before income taxes		2,958,864	3,163,174
Applicable income tax expense(1)		771,320	807,223
Net Income		\$2,187,544	\$2,355,951
Per Common Share Data			
Earnings per common share (2)		\$0.43	\$0.47
Dividends declared per common share		\$0.32	\$0.32
Book value per common share outstanding, period end		\$9.57	\$9.16
Weighted average number of common shares outstanding		4,946,734	4,880,969
Number of common shares outstanding, period end		4,966,027	4,899,995

(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 \$25,738,769 at June 30, 2015, and \$22,966,558 at June 30, 2014.

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 June 30,	
	2015	2014
Net interest income as presented	\$5,078,880	\$4,936,151
Effect of tax-exempt income	142,313	124,328
Net interest income, tax equivalent	\$5,221,193	\$5,060,479

The following table presents 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 June 30,						
	2015			2014			
	Average Balance	Income/Expense	Average Rate/Yield	Average Balance	Income/Expense	Average Rate/Yield	
Interest-Earning Assets							
Loans (1)	\$455,618,414	\$5,346,764	4.71 %	\$450,294,322	\$5,373,903	4.79 %	
Taxable investment securities	31,166,027	102,608	1.32 %	30,894,207	73,040	0.95 %	
Tax-exempt investment securities	43,458,469	418,567	3.86 %	39,420,328	365,670	3.72 %	
Sweep and interest-earning accounts	2,521,651	1,770	0.28 %	4,215,122	2,836	0.27 %	
Other investments (2)	3,719,450	23,788	2.57 %	3,821,784	23,026	2.42 %	
Total	\$536,484,011	\$5,893,497	4.41 %	\$528,645,763	\$5,838,475	4.43 %	
Interest-Bearing Liabilities							
Interest-bearing transaction accounts							
Money market accounts	\$112,569,304	\$53,844	0.19 %	\$110,063,106	\$57,926	0.21 %	
Savings deposits	87,385,306	221,765	1.02 %	82,360,369	209,803	1.02 %	
Time deposits	80,726,280	24,414	0.12 %	75,552,538	23,674	0.13 %	
Federal funds purchased and other borrowed funds	107,895,810	229,158	0.85 %	129,584,072	351,315	1.09 %	
Repurchase agreements	17,293,077	11,182	0.26 %	12,350,604	6,576	0.21 %	
Capital lease obligations	25,538,488	17,933	0.28 %	23,917,037	14,385	0.24 %	
Junior subordinated debentures	606,498	12,353	8.15 %	683,027	13,875	8.13 %	
Total	12,887,000	101,655	3.16 %	12,887,000	100,442	3.13 %	
Total	\$444,901,763	\$672,304	0.61 %	\$447,397,753	\$777,996	0.70 %	

Net interest income	\$5,221,193			\$5,060,479	
Net interest spread (3)		3.80	%		3.73 %
Net interest margin (4)		3.90	%		3.84 %

(1) Included in gross loans are non-accrual loans with an average balance of \$5,058,480 and \$5,228,954 for the three months ended June 30, 2015 and 2014, 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 \$2,846,634

for the three months ended June 30, 2015 and 2014, respectively, and dividend payout rates of approximately 1.74%

and 1.49%, 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 second quarter of 2015 increased \$7,838,248, or 1.5% compared to the same period of 2014, and the average yield decreased two basis points to 4.41% for the second quarter of 2015 compared to 4.43% for the same quarter of 2014. The average volume of loans increased \$5,324,092, or 1.2%, and the average yield declined by eight basis points. Interest earned on the loan portfolio equaled approximately 90.7% of total interest income for the second quarter of 2015 and 92.0% for the 2014 comparison period. The average volume of the taxable investment portfolio (classified as available-for-sale) increased \$271,820, or 0.9%, for the same period, while the average yield increased 37 basis points due in part to the shift to higher yielding mortgage backed securities late in the second quarter of 2014. The average volume of the tax-exempt investment portfolio (classified as held-to-maturity) increased \$4,038,141, or 10.2%, between periods, while the average tax equivalent yield increased 14 basis points year over 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), decreased \$1,693,471, or 40.2%. The balance of these funds has remained relatively low as all excess cash has been used to fund loan growth.

In comparison, the average volume of interest-bearing liabilities for the second quarter of 2015 decreased \$2,495,990, or 0.6% over the 2014 comparison period, and the average rate paid on these liabilities decreased nine basis points. The average volume of money market funds increased \$5,024,937, or 6.1%, while the average rate paid remained flat at 1.02%. The increase in money market funds is due primarily to approximately \$8,000,000 of construction related escrow accounts opened in the fourth quarter of 2014, which are expected to remain in place into 2016. The average volume of savings accounts increased \$5,173,742 or 6.9% for the second quarter of 2015 compared to the same period in 2014 due to the continued shift in product mix from time deposits to savings accounts as consumers anticipate higher rates in the near future. The average total volume of time deposits, both retail and wholesale, decreased \$21,688,262, or 16.7%. This includes average wholesale time deposits of \$7,066,165. The average volume of federal funds purchased and other borrowed funds increased \$4,942,473, or 40.0%, as short term advances were largely used in place of overnight funds in 2015. A decrease of 24 basis points is noted in the average rate paid on time deposits while an increase of five basis points is noted on the average rate paid on federal funds purchased and other borrowed funds. The Company drew down short-term FHLBB advances totaling \$30,000,000 in the second quarter of 2015 to fund loan growth and offset the seasonal runoff of municipal deposits. This compares with \$17,000,000 of FHLBB advances and \$7,066,165 of brokered time deposits at June 30, 2014.

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 both replaced with, and repricing to, lower interest rates, while the opportunity to reduce rates further on non-maturing interest-bearing deposits is limited given the already low rates paid on deposits. For the second quarter comparison periods of 2015 and 2014 the average yield in interest-earning assets stayed relatively flat, while the average rate paid on interest-bearing liabilities decreased nine basis points. Net interest margin for the second quarter was 3.80% for 2015, down from 3.84% the prior year.

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

	Six Months Ended June 30,	
	2015	2014
Net interest income as presented	\$10,218,166	\$9,761,137
Effect of tax-exempt income	281,984	256,530
Net interest income, tax equivalent	\$10,500,150	\$10,017,667

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The following table presents 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.

	Six Months Ended June 30,					
	2015			2014		
	Average Balance	Income/Expense	Average Rate/Yield	Average Balance	Income/Expense	Average Rate/Yield
Interest-Earning Assets						
Loans (1)	\$ 453,180,622	\$ 10,811,025	4.81 %	\$ 448,006,236	\$ 10,644,679	4.79 %
Taxable investment securities	31,758,150	207,647	1.32 %	31,600,140	139,384	0.89 %
Tax-exempt investment securities	43,123,366	829,364	3.88 %	39,086,004	754,500	3.89 %
Sweep and interest-earning accounts	3,207,206	4,260	0.27 %	3,077,958	4,080	0.27 %
Other investments (2)	3,719,450	47,671	2.58 %	3,920,270	46,310	2.38 %
Total	\$ 534,988,794	\$ 11,899,967	4.49 %	\$ 525,690,608	\$ 11,588,953	4.45 %
Interest-Bearing Liabilities						
Interest-bearing transaction accounts	\$ 114,728,976	\$ 111,859	0.20 %	\$ 113,564,182	\$ 121,358	0.22 %
Money market accounts	89,645,735	446,545	1.00 %	82,929,078	421,232	1.02 %
Savings deposits	79,084,511	47,751	0.12 %	73,915,242	46,307	0.13 %
Time deposits	109,957,225	515,483	0.95 %	125,852,809	711,077	1.14 %
Federal funds purchased and other borrowed funds	10,000,442	13,171	0.27 %	10,059,033	11,049	0.22 %
Repurchase agreements	26,906,269	37,570	0.28 %	25,674,294	30,983	0.24 %
Capital lease obligations	616,527	25,105	8.14 %	691,579	28,087	8.12 %
Junior subordinated debentures	12,887,000	202,333	3.17 %	12,887,000	201,193	3.15 %
Total	\$ 443,826,685	\$ 1,399,817	0.64 %	\$ 445,573,217	\$ 1,571,286	0.71 %
Net interest income		\$ 10,500,150			\$ 10,017,667	
Net interest spread (3)			3.85 %			3.74 %
			3.96 %			3.84 %

Net interest margin

(4)

- (1) Included in gross loans are non-accrual loans with an average balance of \$4,897,435 and \$4,865,916 for the six months ended June 30, 2015 and 2014, 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 \$2,945,120, respectively, for the first six months of 2015 and 2014, and dividend payout rates of approximately 1.74% and 1.49%, respectively, six month period.
- (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.

For the six months ended June 30, 2015, average interest-earning assets grew \$9,298,186, or 1.8% compared with the same period in 2014, split between growth in commercial loan and municipal securities.

Interest income increased by \$311,014, or 2.7% between periods resulting in a corresponding increase in yield on average assets of four basis points to 4.49%. Contributing to the increase was a one-time recovery of non-accrual interest on loans during the first quarter of 2015 of approximately \$200,000. Accordingly, management believes the three month average yield of 4.43% better reflects the true current yield on loans.

The investment portfolios also contributed to the increase in interest income with an increase of \$68,263, or 49.0% in the interest income from the taxable investment securities. Despite flat average balances, yields and income for the investment portfolio increased substantially year to date in 2015 compared to the prior year, due to the addition of mortgage backed securities as a portion of the portfolio. The increased tax exempt income in 2015 of \$74,864, or 9.9%, is a result of a higher volume of non-arbitrage municipal loans.

The total cost of interest bearing liabilities declined by seven basis points for the first half of 2015 versus the first half of 2014, with the continued shift from time deposits to non-maturity products, and the repricing of the remaining time deposit balances to lower rates.

The resulting net interest spread and margin improved by 11 and 12 basis points, respectively, between the first six months of 2015 and the same period a year earlier.

The following table summarizes the variances in interest income and interest expense on a fully tax-equivalent basis for the periods presented for 2015 and 2014 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 June 30,			Six Months Ended June 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	\$(90,720)	\$63,581	\$(27,139)	\$43,438	\$122,908	\$166,346
Taxable investment securities	28,924	644	29,568	67,566	697	68,263
Tax-exempt investment securities	15,445	37,452	52,897	(3,017)	77,881	74,864
Sweep and interest-earning accounts	116	(1,182)	(1,066)	7	173	180
Other investments	1,418	(656)	762	3,930	(2,569)	1,361
Total	\$(44,817)	\$99,839	\$55,022	\$111,924	\$199,090	\$311,014
Average Interest-Bearing Liabilities						
Interest-bearing transaction accounts						
Money market accounts	\$(5,394)	\$1,312	\$(4,082)	\$(10,770)	\$1,271	\$(9,499)
Savings deposits	(816)	12,778	11,962	(8,660)	33,973	25,313
Time deposits	(937)	1,677	740	(1,888)	3,332	1,444
Federal funds purchased and other borrowed funds	(76,196)	(45,961)	(122,157)	(120,711)	(74,883)	(195,594)
Repurchase agreements	2,018	2,588	4,606	2,200	(78)	2,122
Capital lease obligations	2,578	970	3,548	5,121	1,466	6,587
Junior subordinated debentures	33	(1,555)	(1,522)	48	(3,030)	(2,982)
Total	1,213	0	1,213	1,140	0	1,140
Total	\$(77,501)	\$(28,191)	\$(105,692)	\$(133,520)	\$(37,949)	\$(171,469)
Changes in net interest income	\$32,684	\$128,030	\$160,714	\$245,444	\$237,039	\$482,483

(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				Six Months Ended			
	June 30,		Change		June 30,		Change	
	2015	2014	\$	%	2015	2014	\$	%
Service fees	\$642,981	\$658,972	\$(15,991)	-2.43 %	\$1,274,418	\$1,305,785	\$(31,367)	-2.40 %
Income from sold loans	247,565	260,330	(12,765)	-4.90 %	448,240	509,460	(61,220)	-12.02 %
Other income from loans	186,433	122,066	64,367	52.73 %	320,632	266,466	54,166	20.33 %
Net realized gain (loss) on sale of securities available-for-sale	2,723	21,828	(19,105)	-87.53 %	2,723	21,828	(19,105)	-87.53 %
Income from CFSG Partners	81,345	83,448	(2,103)	-2.52 %	175,191	163,260	11,931	7.31 %
Rental income on OREO properties	1,101	1,270	(169)	-13.31 %	36,521	49,807	(13,286)	-26.67 %
Exchange income	23,000	36,500	(13,500)	-36.99 %	38,500	65,000	(26,500)	-40.77 %
SERP fair value adjustment	(10,442)	28,690	(39,132)	-136.40 %	529	44,738	(44,209)	-98.82 %
Other income	129,775	124,118	5,657	4.56 %	220,512	224,379	(3,867)	-1.72 %
Total non-interest income	\$1,304,481	\$1,337,222	\$(32,741)	-2.45 %	\$2,517,266	\$2,650,723	\$(133,457)	-5.03 %

Total non-interest income decreased \$32,741 for the second quarter of 2015 versus the same quarter last year and \$133,457 for the first six months of 2015 versus the same period in 2014, with significant changes noted in the following:

Service fees declined a net 2.4% in the second quarter, including decreases of \$21,578, or 11.6%, in overdraft fees and \$11,611, or 16.8%, in paper statement fees as customers move to online banking, partially offset by an increase of \$23,663, or 10.1%, in Visa interchange fee income.

Income from sold loans decreased \$12,765 for the second quarter, or 4.9%, and \$61,220, or 12.0%, for the year to date, which is attributable primarily to a decrease in secondary market loan sales in the first quarter of 2015 compared with 2014.

Other income from loans increased \$64,367, or 52.7% for the second quarter 2015, as documentation fees on all loan types have improved compared with the same period a year ago.

Exchange income decreased \$13,500, or 37.0%, for the second quarter, and \$26,500, or 40.8%, for the six month period year over year due to the weakening Canadian dollar during 2015.

SERP fair value adjustment decreased \$39,132, or 136.4% compared with the second quarter 2014 due to changes in equity markets. For the six months ended June 30, 2015, the net adjustment was similar, with a decrease of \$44,209 compared with the same period in 2014.

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Non-interest Expense

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

	Three Months Ended				Six Months Ended			
	June 30,		Change		June 30,		Change	
	2015	2014	\$	%	2015	2014	\$	%
Salaries and wages	\$1,683,200	\$1,650,000	\$33,200	2.01 %	\$3,338,352	\$3,300,000	\$38,352	1.16 %
Employee benefits	672,527	573,501	99,026	17.27 %	1,336,680	1,204,698	131,982	10.96 %
Occupancy expenses, net	609,365	623,843	(14,478)	-2.32 %	1,299,667	1,308,041	(8,374)	-0.64 %
Other expenses								
Computer outsourcing	124,302	105,533	18,769	17.78 %	242,869	209,588	33,281	15.88 %
Service contracts - administrative	57,915	116,614	(58,699)	-50.34 %	155,667	225,728	(70,061)	-31.04 %
Telephone expense	78,572	82,479	(3,907)	-4.74 %	159,713	163,718	(4,005)	-2.45 %
Loss on limited partnerships	100,860	110,958	(10,098)	-9.10 %	201,720	221,916	(20,196)	-9.10 %
Collection & non-accruing loan expense	41,005	(26,469)	67,474	254.92 %	53,005	(4,826)	57,831	1198.32 %
OREO expense	67,320	7,563	59,757	790.12 %	80,286	50,403	29,883	59.29 %
Debit cards/ATM cards losses	7,933	10,759	(2,826)	-26.27 %	13,720	16,628	(2,908)	-17.49 %
ATM fees	95,375	92,333	3,042	3.29 %	182,778	186,069	(3,291)	-1.77 %
State deposit tax	137,905	135,794	2,111	1.55 %	275,695	271,063	4,632	1.71 %
Other miscellaneous expenses	1,103,561	894,540	209,021	23.37 %	2,136,416	1,825,660	310,756	17.02 %
Total non-interest expense	\$4,779,840	\$4,377,448	\$402,392	9.19 %	\$9,476,568	\$8,978,686	\$497,882	5.55 %

Total non-interest expense increased \$402,392, or 9.2%, for the second quarter of 2015 compared to the same quarter in 2014 and \$497,882, or 5.6%, for the first six months of 2015 compared to the same period in 2014 with significant changes noted in the following:

Salaries increased \$33,200, or 2.0%, primarily as a result of severance cost accruals associated with the closure of two branch offices in July 2015.

Employee benefits increased \$99,026, or 17.3%, due to group insurance premium increases of \$60,649, and increased retirement account contributions of \$32,874. Employee benefits for the six months ended June 30, 2015 increased \$131,982, or 10.9% year over year with similar increases.

Computer outsourcing increased \$18,769, or 17.8%, for the quarter and \$33,281, or 15.9%, year to date with the continued addition of services being performed by a third party.

Service contracts – administrative decreased \$58,699, or 50.3%, for the quarter compared with the prior year due to the reallocation of certain occupancy related expenses.

Collection & non-accruing loan expense increased \$57,831 during the first six months of 2015 compared with the prior year, as the bank had substantial recoveries in 2014 which offset expenses, and this has not occurred in 2015.

OREO expense in the second quarter of 2015 increased by \$59,757 compared with the same period in 2014 due primarily to a write-down of \$45,320 in the second quarter of 2015, with no write-down taken in the same period of the prior year.

Other miscellaneous expenses increased \$209,021, or 23.4% in the second quarter, due primarily to the \$110,850 increase in printing & supplies expense associated with the mandatory re-issuance of customer debit cards with enhanced security chip technology. In addition, advertising expense increased \$30,954 in the second quarter with upgrades to the bank's website.

APPLICABLE INCOME TAXES

The provision for income taxes decreased \$100,722, or 21.1% to \$375,817 for the second quarter of 2015 compared to the second quarter of 2014, and \$35,903, or 4.5%, for the first six months of 2015 compared to the first six months of 2014, with provisions of \$771,320 and \$807,223, respectively. The decrease was primarily due to lower income before taxes. Income before taxes was \$1,453,521 for the second quarter of 2015 compared to \$1,760,925 for the second quarter of 2014 and \$2,958,864 for the first six months of 2015 and \$3,163,174 for the first six months of 2014. Tax credits related to limited partnerships amounted to \$107,928 and \$128,130, respectively, for the second quarter of 2015 and 2014 and \$215,856 and \$256,260, respectively, for the first six months of 2015 and 2014.

Pursuant to Accounting Standards Update (ASU) No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects, effective December 15, 2014, losses related to limited partnership investments, are included as a component of tax expense and amounted to \$100,860 and \$110,958 for the second quarters of 2015 and 2014, respectively and \$201,720 and \$221,916 for the first six months of 2015 and 2014, 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 second quarter of 2015 amounted to \$40,473 compared to \$36,822 for the second quarter of 2014 and for the first six months of 2015 and 2014 amounted to \$80,946 and \$73,644, respectively. The Company amortizes these investments under the effective yield method.

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:

	June 30, 2015			December 31, 2014			June 30, 2014		
Assets									
Loans	\$459,482,050	79.70	%	\$447,804,955	76.32	%	\$450,593,304	80.14	%
Securities available-for-sale	31,204,034	5.41	%	32,946,894	5.62	%	31,198,958	5.55	%
Securities held-to-maturity	25,738,769	4.46	%	41,810,945	7.13	%	22,966,558	4.08	%
Liabilities									
Time deposits	\$105,657,746	18.33	%	\$113,022,276	19.26	%	\$125,834,609	22.38	%
Savings deposits	81,578,169	14.15	%	77,029,722	13.13	%	75,556,376	13.44	%
Demand deposits	84,396,417	14.64	%	88,758,469	15.13	%	81,327,974	14.46	%
Interest-bearing transaction accounts									
Money market accounts	111,758,309	19.39	%	125,388,872	21.37	%	104,820,943	18.64	%
Federal funds purchased	71,676,688	12.43	%	88,820,124	15.14	%	67,525,017	12.01	%
Short-term advances	0	0.00	%	0	0.00	%	2,915,000	0.52	%
Long-term advances	30,000,000	5.20	%	0	0.00	%	11,000,000	1.96	%
Long-term advances	0	0.00	%	0	0.00	%	6,000,000	1.07	%

The Company's loan portfolio at June 30, 2015 increased \$11,677,095, or 2.6%, from December 31, 2014 and \$8,888,746, or 2.0%, year over year. These increases reflect continued strong commercial loan growth during the first six months of 2015 which has offset the continued decline in the residential loan portfolio. 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 remained stable through the three periods reported, ending the second quarter essentially unchanged compared with the same period in 2014. Securities held-to-maturity increased \$2,772,211, or 12.1%, at June 30, 2015, compared with a year prior, and declined \$16,072,176 compared to December 31, 2014 due to the maturity of municipal tax anticipation loans. Held-to-maturity securities are made up of investments from the Company's municipal customers in its service areas. The decrease is cyclical in nature as June 30 is the end of the annual municipal finance cycle for school districts in Vermont. Tax anticipation loans for fiscal year 2016 were funded on July 1, 2015, replenishing this asset class to a comparable level with the maturing securities.

Total deposits decreased \$37,952,134, or 7.7%, from December 31, 2014 to June 30, 2015 and \$2,410 or 0%, year over year. The decrease compared with December 31, 2014 is primarily the result of municipal deposit runoff associated with the repayment of tax anticipation loans. Time deposits decreased \$7,364,530, or 6.5%, from December 31, 2014 to June 30, 2015 and \$20,176,863, or 16.0%, year over year as retail customers continue to roll maturing funds into non-maturity deposits, and \$10,000,000 of CDARS one way funds obtained in the first quarter of 2014 were not replaced at maturity. As a result, savings deposits increased in both comparison periods, by \$4,548,447 or 5.9% year to date, and \$6,021,793, or 8.0%, year to year. Demand deposits decreased \$4,362,052, or 4.9%, during the second quarter of 2015, and increased \$3,068,443, or 3.8%, year to year. Short-term advances from the FHLBB totaling \$30,000,000 were reported at June 30, 2015 compared to no borrowings at December 31, 2014 and \$17,000,000 in combined short-term and long-term advances at June 30, 2014. This fluctuation is due to the seasonal outflow of municipal deposits and continued loan growth.

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 certain 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 time deposits mature and are 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 June 30, 2015:

Rate Change	Percent Change in NII
-------------	-----------------------

Down 100 basis points	-.60%
Up 200 basis points	5.70%

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 June 30, 2015, the residential mortgage portfolio, consisting of first mortgages and junior liens, accounted for 44.8% of the Company's loan portfolio, down from 47.5% a year ago, consistent with the Company's strategy to grow the commercial loan portfolio. The drop is also attributable to the late 2014 increase in long-term interest rates that brought to an end the large volume of refinance activity seen in recent years. Early 2015 saw mortgage rates decrease once again, spurring some refinance activity; home purchase activity is seeing a modest increase. The Company originates and services a mortgage loan portfolio of traditional mortgage products and does not offer 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 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 2014 that has continued into 2015. Commercial and commercial real estate loans together comprised 50.8% of the Company's loan portfolio at June 30, 2014, growing to 51.6% at December 31, 2014 and 53.6% at June 30, 2015. 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 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 U.S. Department of Agriculture (USDA) Rural Development. At June 30, 2015, the Company had \$27,550,093 in guaranteed loans with guaranteed balances of \$21,617,082, compared to \$27,410,531 in guaranteed loans with guaranteed balances of \$21,585,884 at December 31, 2014 and \$24,725,030 in guaranteed loans with guaranteed balances of \$19,491,555 at June 30, 2014.

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:

	June 30, 2015			December 31, 2014			June 30, 2014		
Commercial & industrial	\$73,561,125	16.01	%	\$64,390,220	14.38	%	\$64,475,384	14.31	%
Commercial real estate	172,565,221	37.56	%	166,611,830	37.21	%	164,302,843	36.46	%
1 - 4 family residential - 1st lien	162,109,916	35.28	%	163,966,124	36.62	%	169,367,709	37.59	%
1 - 4 family residential - Jr lien	43,816,552	9.53	%	44,801,483	10.00	%	44,564,026	9.89	%

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Consumer	7,429,236	1.62	%	8,035,298	1.79	%	7,883,342	1.75	%
Total loans	459,482,050	100.00	%	447,804,955	100.00	%	450,593,304	100.00	%
Deduct (add):									
Allowance for loan losses	5,095,212			4,905,874			4,876,816		
Deferred net loan costs	(307,235)			(303,394)			(288,237)		
	4,787,977			4,602,480			4,588,579		
Net loans	\$454,694,073			\$443,202,475			\$446,004,725		

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 & industrial 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 & industrial 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. Continued growth in the level of the loan loss reserve is attributable to gradual increases in both Group B and C loans during the first six months of 2015, as well as continued growth in the commercial & industrial and commercial real estate portfolios.

Commercial & industrial 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 were relatively unchanged, increasing \$146,264 or 2.2% during the first six months of 2015. Several past due commercial & industrial and residential real estate loans were moved from accruing to non-accrual status, but these additions were more than offset by the resolution of several other problem loans. Claims receivable on related government guarantees were \$88,177 at June 30, 2015 compared to \$365,147 at June 30, 2014, with numerous USDA and SBA claims settled and paid throughout the year.

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:

	June 30, 2015			December 31, 2014			June 30, 2014		
Loans past due 90 days or more and still accruing									
Commercial & industrial	\$0	0.00	%	\$23,579	0.36	%	\$102,961	1.53	%
Commercial real estate	5,313	0.08	%	5,313	0.08	%	5,313	0.08	%
Residential real estate - 1st lien	528,211	7.93	%	980,138	15.04	%	231,085	3.43	%
Residential real estate - Jr lien	82,021	1.23	%	115,852	1.78	%	57,241	0.85	%
Consumer	8,987	0.13	%	0	0.00	%	17,927	0.27	%
Total	624,532	9.37	%	1,124,882	17.26	%	414,527	6.16	%
Non-accrual loans (1)									
Commercial & industrial	767,235	11.51	%	552,386	8.48	%	1,347,748	20.00	%
Commercial real estate	1,909,917	28.66	%	1,934,096	29.68	%	1,661,324	24.66	%
Residential real estate - 1st lien	1,927,300	28.93	%	1,263,046	19.38	%	1,943,475	28.84	%
Residential real estate - Jr lien	311,571	4.68	%	404,061	6.20	%	453,304	6.73	%
Total	4,916,023	73.78	%	4,153,589	63.74	%	5,405,851	80.23	%
Other real estate owned	1,122,500	16.85	%	1,238,320	19.00	%	916,820	13.61	%
Total	\$6,663,055	100.00	%	\$6,516,791	100.00	%	\$6,737,198	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 June 30, 2015, the Company is contractually committed to lend up to \$450,000 in additional funds to one debtor with an impaired SBA guaranteed cap line of credit; that debtor's loan relationship is expected to strengthen as a result of a prior troubled debt restructuring. With this exception, 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. 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 21 TDRs totaling \$2,642,536 that were past due 90 days or more or in non-accrual status as of June 30, 2015, compared to 12 TDRs totaling \$1,777,463 as of December 31, 2014 and 15 TDRs totaling \$2,021,140 as of June 30, 2014. The remainder of the Company's TDRs consist of 19 residential mortgage loans, one home equity loan, one commercial real estate loan and one commercial & industrial loan totaling \$1,967,437 at June 30, 2015 compared to 18 residential mortgage loans and one commercial real estate loan totaling \$1,740,246 at December 31, 2014 and 14 residential mortgage loans and one commercial real estate loan totaling \$1,214,617 at June 30, 2014.

The Company's OREO portfolio at June 30, 2015 consisted of four residential properties and one commercial property compared to four residential properties and one commercial property at December 31, 2014 and three residential properties and one commercial property at June 30, 2014. All properties were acquired through the normal foreclosure process or by deed-in-lieu of foreclosure. The Company sold two of the residential properties with balances totaling \$70,500 which were taken into the portfolio during the fourth quarter of 2014 and one residential property with a balance of \$70,500 that the Company took control of during the first three months of 2015. The Company recorded a write-down of \$45,320 on one of the residential properties resulting in a decrease of \$115,820 in its OREO portfolio, to end the first six months of 2015 at \$1,122,500.

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. 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 reserve methodology was modified during the quarter ending June 30, 2015 to eliminate using the higher of the 1999-2001 losses as compared to current losses, by eliminating use of the 1999-2001 period. The 1999-2001 information has become dated and the bank's credit portfolio management has evolved during that time. The revised methodology now considers the highest annual loss rates for the most recent one to five year look back periods for each segment of the portfolio. This change resulted in a reduction to required reserves of \$529,234.

The Company applies numerous qualitative factors to each segment 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. Adjustments were made to the commercial and commercial real estate qualitative factors to adjust for the impact of the change in methodology, principally in the area of loan growth, loan policy, and delinquency factors. The commercial and commercial real estate factors were each increased a total of 10 basis

points, amounting to increases of \$171,000 and \$70,000 respectively. The unallocated reserve increased from \$197,939 at March 31, 2015 to \$455,117 at June 30, 2015. While unallocated reserves have increased, they are considered by management to be appropriate in light of the Company's continued growth strategy and shift in the portfolio from residential loans to commercial and commercial real estate loans and the risk associated with the relatively new, unseasoned loans in those portfolios.

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:

	As of or for the six months ended June 30,			
	2015		2014	
Loans outstanding, end of period	\$459,482,050		\$450,593,304	
Average loans outstanding during period	\$453,180,622		\$448,006,236	
Non-accruing loans, end of period	\$4,916,023		\$5,405,851	
Non-accruing loans, net of government guarantees	\$4,140,634		\$4,449,212	
Allowance, beginning of period	\$4,905,874		\$4,854,915	
Loans charged off:				
Commercial & industrial	(35,059))	(87,214))
Commercial real estate	0		(130,819))
Residential real estate - 1st lien	(94,575))	0	
Residential real estate - Jr lien	(20,199))	0	
Consumer loans	(28,105))	(65,769))
Total loans charged off	(177,938))	(283,802))
Recoveries(1):				
Commercial & industrial	42,913		2,236	
Residential real estate - 1st lien	6,042		11,098	
Residential real estate - Jr lien	120		120	
Consumer loans	18,201		22,249	
Total recoveries	67,276		35,703	
Net loans charged off	(110,662))	(248,099))
Provision charged to income	300,000		270,000	
Allowance, end of period	\$5,095,212		\$4,876,816	
Net charge offs to average loans outstanding	0.024	%	0.055	%
Provision charged to income as a percent of average loans	0.066	%	0.060	%
Allowance to average loans outstanding	1.124	%	1.089	%
Allowance to non-accruing loans	103.645	%	90.214	%
Allowance to non-accruing loans net of government guarantees	123.054	%	109.611	%

(1) No commercial real estate recoveries were recorded during the periods presented in the table above.

The Company increased its provision during the first six months of 2015, resulting in a provision of \$300,000 for the six months ended June 30, 2015 compared to \$270,000 for the same period in 2014, an increase of \$30,000 or 11.1%. The increase in the provision is principally related to loan portfolio growth and the strategic increase in commercial and commercial real estate lending. The Company's allowance coverage of non-accruing loans as of the end of the first six months of 2015 reflected an increase year over year as did the coverage of non-accruing loans net of government guarantees, and remain within the historical ranges for their respective coverages. 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 or are current year troubled debt restructurings. 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 six months of 2015, 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	
	June 30, 2015	December 31, 2014
Unused portions of home equity lines of credit	\$25,416,274	\$23,519,696
Other commitments to extend credit	69,517,819	59,558,700
Residential construction lines of credit	2,142,349	2,308,167
Commercial real estate and other construction lines of credit	16,336,436	15,894,462
Standby letters of credit and commercial letters of credit	1,989,059	1,714,382
Recourse on sale of credit card portfolio	249,700	265,650
MPF credit enhancement obligation, net of liability recorded	1,025,202	1,007,250

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. At June 30, 2015 and December 31, 2014, the Company did not have any one way CDARS outstanding, compared with \$8,727,500 at June 30, 2014. In addition, two-way CDARS deposits allow the Company to provide Federal Deposit Insurance Corporation (FDIC) deposit insurance to its customers in excess of account coverage limits by exchanging deposits with other CDARS members. At June 30, 2015, the Company reported \$2,769,581 in two-way CDARS deposits representing exchanged deposits with other CDARS participating banks, compared to \$1,103,008 at December 31, 2014 and \$1,108,246 at June 30, 2014. The balance in insured cash sweep (ICS) reciprocal money market deposits was \$12,255,211 at June 30, 2015, compared to \$18,943,667 at December 31, 2014 and \$17,043,076 at June 30, 2014.

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 \$87,450,601, \$78,580,859, and \$77,988,919, respectively, at June 30, 2015, December 31, 2014 and June 30, 2014. 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 periods presented.

The Company has an unsecured Federal Funds credit line with the FHLBB with an available balance of \$500,000 at June 30, 2015, December 31, 2014 and June 30, 2014. Interest is chargeable at a rate determined daily, approximately 25 basis points higher than the rate paid on federal funds sold. In addition, at June 30, 2015, December 31, 2014 and June 30, 2014, additional borrowing capacity of approximately \$73,238,055, \$67,136,178 and \$70,071,212, respectively, was available through the FHLBB, secured by the Company's qualifying loan portfolio (generally, residential mortgage loans).

The Company has unsecured credit lines with two of its correspondent banks with available lines of \$7,500,000 at June 30, 2015, December 31, 2014 and June 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:

	June 30, 2015	December 31, 2014	June 30, 2014
Long-Term Advances			
FHLBB term borrowing, 0.23% fixed rate, due August 29, 2014	\$0	\$0	\$6,000,000
Short-Term Advances			
FHLBB term advances, 0.24% and 0.19% fixed rate, due July 31, 2015 and July 7, 2014, respectively	10,000,000	0	6,000,000
FHLBB term advances, 0.24% and 0.23% fixed rate, due August 28, 2015 and September 26, 2014, respectively	10,000,000	0	5,000,000
FHLBB term advance, 0.24% fixed rate, due September 30, 2015	10,000,000	0	0
	30,000,000	0	11,000,000
Overnight Borrowings			
Federal funds purchased (FHLBB), 0.3125%	0	0	2,915,000
Total Advances and Overnight Borrowings	\$30,000,000	\$0	\$19,915,000

The following table illustrates the changes in shareholders' equity from December 31, 2014 to June 30, 2015:

Balance at December 31, 2014 (book value \$9.43 per common share)	\$48,995,202
Net income	2,187,544
Issuance of stock through the Dividend Reinvestment Plan	472,916
Dividends declared on common stock	(1,581,145)
Dividends declared on preferred stock	(40,625)
Change in unrealized loss on available-for-sale securities, net of tax	7,301
Balance at June 30, 2015 (book value \$9.57 per common share)	\$50,041,193

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 2014 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 June 30, 2015, 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.

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The following table shows the Company's actual capital ratios and those of its subsidiary, as well as applicable regulatory capital requirements, as of June 30, 2015 and December 31, 2014:

	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)							
June 30, 2015								
Common equity tier I capital (to risk-weighted assets)								
Company	\$51,004	12.18	%	\$18,849	4.50	%	N/A	N/A
Bank	\$50,314	12.03	%	\$18,826	4.50	%	\$27,193	6.50 %
Tier I capital (to risk-weighted assets)								
Company	\$51,004	12.18	%	\$25,132	6.00	%	N/A	N/A
Bank	\$50,314	12.03	%	\$25,101	6.00	%	\$33,468	8.00 %
Total capital (to risk-weighted assets)								
Company	\$56,220	13.42	%	\$33,509	8.00	%	N/A	N/A
Bank	\$55,453	13.26	%	\$33,468	8.00	%	\$41,835	10.00 %
Tier I capital (to average assets)								
Company	\$51,004	8.93	%	\$22,847	4.00	%	N/A	N/A
Bank	\$50,314	8.82	%	\$22,829	4.00	%	\$28,536	5.00 %
December 31, 2014:								
Tier I capital (to risk-weighted assets)								
Company	\$49,071	12.31	%	\$15,949	4.00	%	N/A	N/A
Bank	\$48,952	12.30	%	\$15,924	4.00	%	\$23,886	6.00 %
Total capital (to risk-weighted assets)								
Company	\$54,447	13.66	%	\$31,897	8.00	%	N/A	N/A
Bank	\$53,902	13.54	%	\$31,847	8.00	%	\$39,809	10.00 %
Tier I capital (to average assets)								
Company	\$49,071	8.62	%	\$22,768	4.00	%	N/A	N/A
Bank	\$48,952	8.61	%	\$22,745	4.00	%	\$28,431	5.00 %

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

As disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC, the FRB and the Office of the Comptroller of the Currency (OCC) issued final rules implementing the Basel III regulatory capital framework and related Dodd-Frank Wall Street Reform and Consumer Protection Act changes. The rules revise minimum capital requirements and adjust prompt corrective action thresholds. The final rules revise the regulatory capital elements, add a new common equity Tier 1 capital ratio, increase the minimum Tier 1 ratio requirements and implement a new capital conservation buffer. The rules also permit certain banking organizations to retain, through a one-time election, the existing regulatory treatment for accumulated other comprehensive income. The Company and the Bank have made the election to retain the existing regulatory treatment for accumulated other comprehensive income. The final rules took effect for the Company and the Bank on January 1, 2015, subject to a transition period for certain parts of the rules.

The table above includes the new regulatory capital ratio requirements that became effective on January 1, 2015. Beginning in 2016, an additional capital conservation buffer will be added to the minimum requirements for capital adequacy purposes, subject to a three year phase-in period. The capital conservation buffer will be fully phased-in on January 1, 2019 at 2.5 percent. A banking organization with a conservation buffer of less than 2.5 percent (or the required phase-in amount in years prior to 2019) will be subject to limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. As of June 30, 2015, on a pro forma basis both the Company and the Bank would be compliant with the fully phased-in capital conservation buffer requirement.

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 2014 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 June 30, 2015, 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 June 30, 2015 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 June 30, 2015 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 June 30, 2015, 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 of Publicly Announced Plan	Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period
April 1 - April 30	0	\$0.00	N/A	N/A
May 1 - May 30	0	0.00	N/A	N/A
June 1 - June 30	1,050	14.40	N/A	N/A
Total	1,050	\$ 14.40	N/A	N/A

(1) All 1,050 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 June 30, 2015 formatted in eXtensible Business Reporting Language (XBRL): (i) the unaudited consolidated balance sheets, (ii) the unaudited consolidated statements of income for the three month and six month interim periods ended June 30, 2015 and 2014, (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: August 13, 2015

/s/ Stephen P. Marsh
Stephen P. Marsh, Chairman,
President
& Chief Executive Officer

DATED: August 13, 2015

/s/ Louise M. Bonvechio
Louise M. Bonvechio, Treasurer
(Principal Financial Officer)