COMMUNITY BANCORP /VT
Form 10-Q
August 11, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2016

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file for such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes (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 company)	Smaller reporting company (X)

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 08, 2016, there were 5,026,914 shares outstanding of the Corporation's common stock.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (Unaudited)

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

Community Bancorp. and Subsidiary	June 30,	December 31,	June 30,
Consolidated Balance Sheets	2016	2015	2015
	(Unaudited)		(Unaudited)
Assets			
Cash and due from banks	$20,573,382	$9,479,353	$11,233,651
Federal funds sold and overnight deposits	3,760,906	19,372,537	8,220,300
Total cash and cash equivalents	24,334,288	28,851,890	19,453,951
Securities held-to-maturity (fair value $34,682,000 at 06/30/16, $44,143,000 at 12/31/15 and $26,055,000 at 06/30/15)	34,013,002	43,354,419	25,738,769
Securities available-for-sale	28,079,675	26,470,400	31,204,034
Restricted equity securities, at cost	2,610,050	2,441,650	3,332,450
Loans held-for-sale	581,250	1,199,400	360,225
Loans	471,567,355	458,119,429	459,482,050
Allowance for loan losses	(5,077,420)	(5,011,878)	(5,095,212)
Deferred net loan costs	320,298	316,491	307,235
Net loans	466,810,233	453,424,042	454,694,073
Bank premises and equipment, net	10,996,815	11,460,207	11,702,753
Accrued interest receivable	1,557,749	1,633,213	1,577,886
Bank owned life insurance (BOLI)	4,572,871	4,520,486	4,466,781
Core deposit intangible	409,036	545,386	681,731
Goodwill	11,574,269	11,574,269	11,574,269
Other real estate owned (OREO)	409,000	262,000	1,122,500
Other assets	10,259,495	10,397,347	10,589,228
Total assets	$596,207,733	$596,134,709	$576,498,650
Liabilities and Shareholders' Equity			
Liabilities			
Deposits:			
Demand, non-interest bearing	$95,419,388	$93,525,762	$84,396,417
Interest-bearing transaction accounts	106,925,038	130,735,094	111,758,309
Money market funds	70,354,509	81,930,888	71,676,688
Savings	86,733,253	81,731,290	81,578,169
Time deposits, $250,000 and over	14,764,902	9,431,437	9,348,319
Other time deposits	94,786,066	98,131,091	96,309,427
Total deposits	468,983,156	495,485,562	455,067,329
Federal funds purchased and other borrowed funds	30,350,000	10,000,000	30,000,000
Repurchase agreements	26,837,466	22,073,238	24,403,315
Capital lease obligations	515,256	558,365	599,772
Junior subordinated debentures	12,887,000	12,887,000	12,887,000
Accrued interest and other liabilities	3,680,616	3,715,888	3,500,041
Total liabilities	543,253,494	544,720,053	526,457,457
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, 5,236,891 shares issued at 06/30/16, 5,204,517 shares issued at 12/31/15 and 5,176,128 shares issued at 06/30/15	13,092,228	13,011,293	12,940,320
Additional paid-in capital	30,449,175	30,089,438	29,748,084
Retained earnings	9,302,122	8,482,096	7,475,708
Accumulated other comprehensive income (loss)	233,491	(45,394)	(142)
Less: treasury stock, at cost; 210,101 shares at 06/30/16, 12/31/15 and 06/30/15	(2,622,777)	(2,622,777)	(2,622,777)
Total shareholders' equity	52,954,239	51,414,656	50,041,193
Total liabilities and shareholders' equity	$596,207,733	$596,134,709	$576,498,650
Book value per common share outstanding	$10.04	$9.79	$9.57

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

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Community Bancorp. and Subsidiary	Three Months Ended June 30,	
Consolidated Statements of Income	2016	2015
(Unaudited)		
Interest income		
Interest and fees on loans	$5,478,997	$5,346,764
Interest on debt securities		
Taxable	128,197	102,608
Tax-exempt	322,150	276,254
Dividends	29,334	23,788
Interest on federal funds sold and overnight deposits	4,700	1,770
Total interest income	5,963,378	5,751,184
Interest expense		
Interest on deposits	508,701	529,181
Interest on federal funds purchased and other borrowed funds	34,245	23,535
Interest on repurchase agreements	19,314	17,933
Interest on junior subordinated debentures	114,735	101,655
Total interest expense	676,995	672,304
Net interest income	5,286,383	5,078,880
Provision for loan losses	150,000	150,000
Net interest income after provision for loan losses	5,136,383	4,928,880
Non-interest income		
Service fees	655,540	642,981
Income from sold loans	231,297	247,565
Other income from loans	210,703	186,433
Net realized gain on sale of securities available-for-sale	0	2,723
Other income	221,159	224,779
Total non-interest income	1,318,699	1,304,481
Non-interest expense		
Salaries and wages	1,725,000	1,683,200
Employee benefits	685,082	672,527
Occupancy expenses, net	606,358	609,365
Other expenses	1,658,740	1,814,748
Total non-interest expense	4,675,180	4,779,840
Income before income taxes	1,779,902	1,453,521
Income tax expense	484,703	375,817

Net income	$1,295,199	$1,077,704
Earnings per common share	$0.25	$0.21
Weighted average number of common shares used in computing earnings per share	5,016,097	4,954,879
Dividends declared per common share	$0.16	$0.16

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

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Community Bancorp. and Subsidiary	Six Months Ended June 30,	
Consolidated Statements of Income	2016	2015
(Unaudited)		
Interest income		
Interest and fees on loans	$10,849,421	$10,811,025
Interest on debt securities		
Taxable	255,646	207,647
Tax-exempt	602,247	547,380
Dividends	58,713	47,671
Interest on federal funds sold and overnight deposits	15,606	4,260
Total interest income	11,781,633	11,617,983
Interest expense		
Interest on deposits	1,025,295	1,121,638
Interest on federal funds purchased and other borrowed funds	53,403	38,276
Interest on repurchase agreements	37,305	37,570
Interest on junior subordinated debentures	224,254	202,333
Total interest expense	1,340,257	1,399,817
Net interest income	10,441,376	10,218,166
Provision for loan losses	250,000	300,000
Net interest income after provision for loan losses	10,191,376	9,918,166
Non-interest income		
Service fees	1,273,219	1,274,418
Income from sold loans	452,491	448,240
Other income from loans	406,591	320,632
Net realized gain on sale of securities available-for-sale	0	2,723
Other income	424,249	471,253
Total non-interest income	2,556,550	2,517,266
Non-interest expense		
Salaries and wages	3,450,000	3,338,352
Employee benefits	1,370,164	1,336,680
Occupancy expenses, net	1,252,104	1,299,667
Other expenses	3,285,204	3,501,869
Total non-interest expense	9,357,472	9,476,568
Income before income taxes	3,390,454	2,958,864
Income tax expense	925,761	771,320
Net income	$2,464,693	$2,187,544

Earnings per common share	$0.48	$0.43
Weighted average number of common shares used in computing earnings per share	5,008,121	4,946,734
Dividends declared per common share	$0.32	$0.32

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

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Community Bancorp. and Subsidiary

Consolidated Statements of Comprehensive Income

(Unaudited)	Three Months Ended June 30,	
	2016	2015
Net income	$1,295,199	$1,077,704
Other comprehensive income (loss), net of tax:		
Unrealized holding gain (loss) on available-for-sale securities arising during the period	87,670	(189,219)
Reclassification adjustment for gain realized in income	0	(2,723)
Unrealized gain (loss) during the year	87,670	(191,942)
Tax effect	(29,808)	65,260
Other comprehensive income (loss), net of tax	57,862	(126,682)
Total comprehensive income	$1,353,061	$951,022

	Six Months Ended June 30,	
	2016	2015
Net income	$2,464,693	$2,187,544
Other comprehensive income, net of tax:		
Unrealized holding gain on available-for-sale securities arising during the period	422,553	13,785
Reclassification adjustment for gain realized in income	0	(2,723)
Unrealized gain during the year	422,553	11,062
Tax effect	(143,668)	(3,761)
Other comprehensive income, net of tax	278,885	7,301
Total comprehensive income	$2,743,578	$2,194,845

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,	
	2016	2015
Cash Flows from Operating Activities:		
Net income	$2,464,693	$2,187,544
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, bank premises and equipment	514,925	487,192
Provision for loan losses	250,000	300,000
Deferred income tax	(182,039)	(147,121)
Gain on sale of securities available-for-sale	0	(2,723)
Gain on sale of loans	(212,500)	(194,924)
Loss (gain) on sale of OREO	4,965	(51)
Income from Trust LLC	(183,581)	(175,191)
Amortization of bond premium, net	65,277	95,186
Write down of OREO	26,000	45,320
Proceeds from sales of loans held for sale	11,538,775	11,515,834
Originations of loans held for sale	(10,708,125)	(11,654,885)
Increase (decrease) in taxes payable	164,820	(1,225)
Decrease in interest receivable	75,464	120,562
Decrease in mortgage servicing rights	28,931	13,547
Increase in other assets	(126,928)	(391,951)
Increase in cash surrender value of BOLI	(52,385)	(53,207)
Amortization of core deposit intangible	136,350	136,350
Amortization of limited partnerships	292,980	282,666
Increase in unamortized loan costs	(3,807)	(3,841)
Increase (decrease) in interest payable	8,020	(16,375)
Decrease in accrued expenses	(49,844)	(69,111)
Increase (decrease) in other liabilities	4,964	(17,813)
Net cash provided by operating activities	4,056,955	2,455,783
Cash Flows from Investing Activities:		
Investments - held-to-maturity		
Maturities and pay downs	22,584,457	21,967,164
Purchases	(13,243,040)	(5,894,988)

Investments - available-for-sale		
Maturities, calls, pay downs and sales	3,954,848	9,659,289
Purchases	(5,206,847)	(7,997,830)
Purchases of restricted equity securities	(168,400)	0
Increase in limited partnership contributions payable	0	975,000
Investments in limited partnerships	0	(975,500)
Increase in loans, net	(14,070,392)	(11,925,533)
Capital expenditures for bank premises and equipment	(51,533)	(700,995)
Proceeds from sales of OREO	217,143	141,051
Recoveries of loans charged off	42,900	67,276
Net cash (used in) provided by investing activities	(5,940,864)	5,314,934

	2016	2015
Cash Flows from Financing Activities:		
Net decrease in demand and interest-bearing transaction accounts	(21,916,430)	(17,992,615)
Net decrease in money market and savings accounts	(6,574,416)	(12,594,989)
Net increase (decrease) in time deposits	1,988,440	(7,364,530)
Net increase (decrease) in repurchase agreements	4,764,228	(4,139,646)
Net increase in short-term borrowings	20,000,000	30,000,000
Proceeds from long-term borrowings	350,000	0
Decrease in capital lease obligations	(43,109)	(39,772)
Dividends paid on preferred stock	(43,750)	(40,625)
Dividends paid on common stock	(1,158,656)	(1,106,763)
Net cash used in financing activities	(2,633,693)	(13,278,940)
Net decrease in cash and cash equivalents	(4,517,602)	(5,508,223)
Cash and cash equivalents:		
Beginning	28,851,890	24,962,174
Ending	$24,334,288	$19,453,951
Supplemental Schedule of Cash Paid During the Period:		
Interest	$1,332,237	$1,416,192
Income taxes, net of refunds	$650,000	$637,000
Supplemental Schedule of Noncash Investing and Financing Activities:		
Change in unrealized gain on securities available-for-sale	$422,553	$11,062
Loans transferred to OREO	$395,108	$70,500
Common Shares Dividends Paid:		
Dividends declared	$1,600,917	$1,581,145
Increase in dividends payable attributable to dividends declared	(1,589)	(1,466)
Dividends reinvested	(440,672)	(472,916)
	$1,158,656	$1,106,763

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, 2015 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, 2016, or for any other interim period.

Certain amounts in the 2015 unaudited consolidated income statements have been reclassified to conform to the 2016 presentation. Reclassifications had no effect on prior period net income or shareholders' equity.

Note 2. Recent Accounting Developments

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. This guidance also changes certain disclosure requirements and other aspects of current accounting principles generally accepted in the United States of America (US GAAP). Public businesses must use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within the fiscal year. The Company is currently evaluating the impact of the adoption of the ASU on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the amendments in the ASU is permitted for all entities. The Company is currently evaluating the impact of the adoption of the ASU on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Under the new guidance, which will replace the existing incurred loss model for recognizing credit losses, banks and other lending institutions will be required to recognize the full amount of expected credit losses. The new guidance, which is referred to as the current expected credit loss model, requires that expected credit losses for financial assets held at the reporting date that are accounted for at amortized cost be measured and recognized based on historical experience and current and reasonably supportable forecasted conditions to reflect the full amount of expected credit losses. A modified version of these requirements also applies to debt securities classified as available for sale. The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within such years. The Company is evaluating the potential impact of the ASU on its consolidated financial statements.

Note 3. Earnings per Common Share

Earnings per common share amounts are computed based on the weighted average number of shares of common stock issued during the period (retroactively adjusted for stock splits and stock dividends, if any), 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,	
	2016	2015
Net income, as reported	$1,295,199	$1,077,704
Less: dividends to preferred shareholders	21,875	20,312
Net income available to common shareholders	$1,273,324	$1,057,392
Weighted average number of common shares used in calculating earnings per share	5,016,097	4,954,879
Earnings per common share	$0.25	$0.21

	Six Months Ended June 30,	
	2016	2015
Net income, as reported	$2,464,693	$2,187,544
Less: dividends to preferred shareholders	43,750	40,625
Net income available to common shareholders	$2,420,943	$2,146,919
Weighted average number of common shares used in calculating earnings per share	5,008,121	4,946,734
Earnings per common share	$0.48	$0.43

Note 4. Investment Securities

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

		Gross	Gross	
	Amortized	Unrealized	Unrealized	Fair
Securities AFS				

	Cost	Gains	Losses	Value
June 30, 2016				
U.S. Government sponsored enterprise (GSE) debt securities	$11,752,750	$138,140	$0	$11,890,890
Agency mortgage-backed securities (Agency MBS)	13,000,152	166,905	15,410	13,151,647
Other investments	2,973,000	64,138	0	3,037,138
	$27,725,902	$369,183	$15,410	$28,079,675
December 31, 2015				
U.S. GSE debt securities	$12,832,059	$22,523	$22,139	$12,832,443
Agency MBS	10,734,121	0	69,637	10,664,484
Other investments	2,973,000	5,046	4,573	2,973,473
	$26,539,180	$27,569	$96,349	$26,470,400
June 30, 2015				
U.S. 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 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

Securities HTM	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value*
June 30, 2016				
States and political subdivisions	$34,013,002	$668,998	$0	$34,682,000
December 31, 2015				
States and political subdivisions	$43,354,419	$788,581	$0	$44,143,000
June 30, 2015				
States and political subdivisions	$25,738,769	$316,231	$0	$26,055,000

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

U.S. GSE debt securities, Agency MBS securities and certificates of deposit (CDs) held for investment with a book value of $27,725,902 and a fair value of $28,079,675 collateralized repurchase agreements at June 30, 2016. These repurchase agreements mature daily.

The scheduled maturities of debt securities AFS were as follows:

	Amortized Cost	Fair Value
June 30, 2016		
Due in one year or less	$1,000,000	$1,003,413
Due from one to five years	12,480,750	12,674,932
Due from five to ten years	1,245,000	1,249,683
Agency MBS	13,000,152	13,151,647
	$27,725,902	$28,079,675

December 31, 2015

Due in one year or less	$3,077,544	$3,086,317
Due from one to five years	12,482,515	12,474,599
Due from five to ten years	245,000	245,000
Agency MBS	10,734,121	10,664,484
	$26,539,180	$26,470,400
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

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, 2016		
Due in one year or less	$11,824,312	$11,824,000
Due from one to five years	4,152,445	4,320,000
Due from five to ten years	3,466,701	3,634,000
Due after ten years	14,569,544	14,904,000
	$34,013,002	$34,682,000
December 31, 2015		
Due in one year or less	$27,731,133	$27,731,000
Due from one to five years	4,015,553	4,213,000
Due from five to ten years	3,149,531	3,347,000
Due after ten years	8,458,202	8,852,000
	$43,354,419	$44,143,000
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

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

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

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
June 30, 2016						

Agency MBS	$1,548,890	$15,410	$0	$0	$1,548,890	$15,410
December 31, 2015						
U.S. GSE debt securities	$6,243,373	$22,139	$0	$0	$6,243,373	$22,139
Agency MBS	10,664,484	69,637	0	0	10,664,484	69,637
Other investments	1,483,427	4,573	0	0	1,483,427	4,573
	$18,391,284	$96,349	$0	$0	$18,391,284	$96,349
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

Debt securities in the table above consisted of three Agency MBS securities at June 30, 2016, six U.S. GSE debt securities, twelve Agency MBS and six CDs held for investment at December 31, 2015, and five U.S. GSE debt securities, eleven Agency MBS securities and five CDs at June 30, 2015. 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, 2016, 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, 2016	December 31, 2015	June 30, 2015
Commercial & industrial	$72,878,438	$65,191,124	$73,561,125
Commercial real estate	185,950,674	178,206,542	172,565,221
Residential real estate - 1st lien	161,361,864	162,760,273	162,109,916
Residential real estate - Junior (Jr) lien	44,078,168	44,720,266	43,816,552
Consumer	7,298,211	7,241,224	7,429,236
	471,567,355	458,119,429	459,482,050
Deduct (add):			
Allowance for loan losses	5,077,420	5,011,878	5,095,212
Deferred net loan costs	(320,298)	(316,491)	(307,235)
	4,757,122	4,695,387	4,787,977
Net Loans	$466,810,233	$453,424,042	$454,694,073

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

June 30, 2016	30-89 Days	90 Days or More	Total Past Due	Current	Total Loans	Non-Accrual Loans	90 Days or More and Accruing

Commercial & industrial	$62,073	$120,111	$182,184	$72,696,254	$72,878,438	$256,456	$120,111
Commercial real estate	793,208	432,638	1,225,846	184,724,828	185,950,674	966,071	406,451
Residential real estate							
- 1st lien	1,432,806	905,157	2,337,963	159,023,901	161,361,864	1,467,171	694,007
- Jr lien	212,319	0	212,319	43,865,849	44,078,168	377,911	0
Consumer	83,668	0	83,668	7,214,543	7,298,211	0	0
Total	$2,584,074	$1,457,906	$4,041,980	$467,525,375	$471,567,355	$3,067,609	$1,220,569

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December 31, 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	$224,997	$168,244	$393,241	$64,797,883	$65,191,124	$441,103	$13,556
Commercial real estate	888,994	560,439	1,449,433	176,757,109	178,206,542	2,400,757	45,356
Residential real estate							
- 1st lien	2,875,768	1,408,551	4,284,319	158,475,954	162,760,273	2,009,079	801,241
- Jr lien	521,373	63,031	584,404	44,135,862	44,720,266	386,132	63,031
Consumer	83,343	0	83,343	7,157,881	7,241,224	0	0
Total	$4,594,475	$2,200,265	$6,794,740	$451,324,689	$458,119,429	$5,237,071	$923,184

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
- 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

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

As of June 30, 2016, there were three residential mortgage loans in process of foreclosure totaling $84,458, compared to five residential mortgage loans totaling $400,905 as of December 31, 2015, and four residential mortgages loans totaling $403,526 as of June 30, 2015.

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 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 year over year, 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 tables below 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, 2016

			Residential	Residential
	Commercial	Commercial	Real Estate	Real Estate

	& Industrial	Real Estate	1st Lien	Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	$730,375	$2,295,303	$1,338,927	$423,025	$58,456	$263,402	$5,109,488
Charge-offs	0	0	(192,237)	0	(7,298)	0	(199,535)
Recoveries	1,180	0	5,374	60	10,853	0	17,467
Provision (credit)	93,687	21,663	142,208	(9,003)	18,549	(117,104)	150,000
Ending balance	$825,242	$2,316,966	$1,294,272	$414,082	$80,560	$146,298	$5,077,420

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As of or for the six months ended June 30, 2016

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	$712,902	$2,152,678	$1,368,028	$422,822	$75,689	$279,759	$5,011,878
Charge-offs	(10,836)	0	(192,549)	0	(23,973)	0	(227,358)
Recoveries	20,475	0	5,686	120	16,619	0	42,900
Provision (credit)	102,701	164,288	113,107	(8,860)	12,225	(133,461)	250,000
Ending balance	$825,242	$2,316,966	$1,294,272	$414,082	$80,560	$146,298	$5,077,420
Allowance for loan losses							
Evaluated for impairment							
Individually	$0	$0	$59,900	$121,500	$0	$0	$181,400
Collectively	825,242	2,316,966	1,234,372	292,582	80,560	146,298	4,896,020
Total	$825,242	$2,316,966	$1,294,272	$414,082	$80,560	$146,298	$5,077,420
Loans evaluated for impairment							
Individually	$191,919	$895,626	$1,990,686	$373,028	$0		$3,451,259
Collectively	72,686,519	185,055,048	159,371,178	43,705,140	7,298,211		468,116,096
Total	$72,878,438	$185,950,674	$161,361,864	$44,078,168	$7,298,211		$471,567,355

As of or for the year ended December 31, 2015

	Commercial	Commercial	Residential Real Estate	Residential Real Estate

	& Industrial	Real Estate	1st Lien	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	(200,900)	(14,783)	(150,947)	(66,104)	(69,632)	0	(502,366)
Recoveries	59,264	0	6,042	240	32,824	0	98,370
Provision (credit)	207,819	(144,475)	242,167	167,587	(6,322)	43,224	510,000
Ending balance	$712,902	$2,152,678	$1,368,028	$422,822	$75,689	$279,759	$5,011,878
Allowance for loan losses							
Evaluated for impairment							
Individually	$0	$0	$25,100	$114,600	$0	$0	$139,700
Collectively	712,902	2,152,678	1,342,928	308,222	75,689	279,759	4,872,178
Total	$712,902	$2,152,678	$1,368,028	$422,822	$75,689	$279,759	$5,011,878
Loans evaluated for impairment							
Individually	$286,436	$2,551,748	$1,419,808	$234,004	$0		$4,491,996
Collectively	64,904,688	175,654,794	161,340,465	44,486,262	7,241,224		453,627,433
Total	$65,191,124	$178,206,542	$162,760,273	$44,720,266	$7,241,224		$458,119,429

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
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

Impaired loans, by portfolio segment, were as follows:

As of June 30, 2016

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment(1)	Average Recorded Investment(2)
With an allowance recorded					
Residential real estate - 1st lien	$ 871,603	$ 1,027,861	$ 59,900	$ 435,802	$ 209,078
Residential real estate - Jr lien	293,587	348,757	121,500	262,589	151,836
	1,165,190	1,376,618	181,400	698,391	360,914
With no related allowance recorded					
Commercial & industrial	191,919	263,839		198,137	136,542
Commercial real estate	895,626	953,181		901,468	870,937
Residential real estate - 1st lien	1,119,083	1,319,907		918,378	616,555
Residential real estate - Jr lien	79,441	87,675		39,721	15,888
	2,286,069	2,624,602		2,057,704	1,639,922
Total	$ 3,451,259	$ 4,001,220	$ 181,400	$ 2,756,095	$ 2,000,836

(1) For the three months ended June 30, 2016

(2) For the six months ended June 30, 2016

	As of December 31, 2015			2015
		Unpaid		Average
	Recorded	Principal	Related	Recorded
	Investment	Balance	Allowance	Investment
With an allowance recorded				
Commercial & industrial	$ 0	$ 0	$ 0	$ 37,359
Commercial real estate	0	0	0	40,902
Residential real estate - 1st lien	173,788	182,251	25,100	228,273
Residential real estate - Jr lien	234,004	284,227	114,600	155,207
	407,792	466,478	139,700	461,741
With no related allowance recorded				
Commercial & industrial	286,436	366,387		446,817
Commercial real estate	2,551,748	2,776,729		2,151,713
Residential real estate - 1st lien	1,246,020	1,460,402		973,572
Residential real estate - Jr lien	0	0		113,964
	4,084,204	4,603,518		3,686,066
Total	$ 4,491,996	$ 5,069,996	$ 139,700	$ 4,147,807

	As of June 30, 2015				
		Unpaid		Average	Average
	Recorded	Principal	Related	Recorded	Recorded
	Investment	Balance	Allowance	Investment(1)	Investment(2)

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
With no related allowance recorded					
Commercial & industrial	$ 502,236	$ 560,173		$ 555,057	$ 300,144
Commercial real estate	1,845,751	1,856,008		1,976,769	1,136,004
Residential real estate - 1st lien	1,095,831	1,470,050		780,255	433,329
Residential real estate - Jr lien	0	0		120,465	113,964
	$ 3,443,818	$ 3,886,231		$ 3,432,546	$ 1,983,441
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

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.

Credit Quality Grouping

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

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

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

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

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

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

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

As of June 30, 2016

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Total
Group A	$ 70,175,375	$ 173,220,709	$ 158,425,776	$ 43,400,606	$ 7,298,211	$ 452,520,677
Group B	1,764,165	4,318,817	587,586	156,846	0	6,827,414
Group C	938,898	8,411,148	2,348,502	520,716	0	12,219,264
Total	$ 72,878,438	$ 185,950,674	$ 161,361,864	$ 44,078,168	$ 7,298,211	$ 471,567,355

As of December 31, 2015

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Total
Group A	$ 59,764,081	$ 168,326,527	$ 158,834,849	$ 44,041,594	$ 7,241,224	$ 438,208,275
Group B	4,724,729	4,529,493	599,516	212,508	0	10,066,246
Group C	702,314	5,350,522	3,325,908	466,164	0	9,844,908
Total	$ 65,191,124	$ 178,206,542	$ 162,760,273	$ 44,720,266	$ 7,241,224	$ 458,119,429

As of June 30, 2015

Residential Residential

	Commercial & Industrial	Commercial Real Estate	Real Estate 1st Lien	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

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.

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

	Three months ended June 30, 2016			Six months ended June 30, 2016		
	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	0	$ 0	$ 0	5	$ 395,236	$ 412,923
- Jr lien	1	52,558	54,637	2	62,819	64,977
Total	1	$ 52,558	$ 54,637	7	$ 458,055	$ 477,900

Year ended December 31, 2015		
	Pre-Modification Outstanding	Post-Modification Outstanding

	Number of Contracts	Recorded Investment	Recorded Investment
Commercial & industrial	2	$ 199,134	$ 204,142
Commercial real estate	3	581,431	616,438
Residential real estate			
- 1st lien	12	1,229,100	1,303,228
- Jr lien	2	117,746	121,672
Total	19	$ 2,127,411	$ 2,245,480

	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

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

Twelve months ended June 30, 2016

	Number of Contracts	Recorded Investment
Commercial	1	$ 71,808
Commercial real estate	2	373,767
Residential real estate - 1st lien	1	58,792
Total	4	$ 504,367

Year ended December 31, 2015

	Number of Contracts	Recorded Investment
Commercial real estate	1	$ 149,514
Residential real estate - 1st lien	4	286,803
Residential real estate - Jr lien	1	69,828
Total	6	$ 506,145

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

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, 2016, the specific allocation related to TDRs was approximately $68,500 compared to $25,100 at December 31, 2015 and $104,600 at June 30, 2015.

As of the balance sheet dates, the Company was not contractually committed to lend additional funds to debtors with impaired or non-accrual loans. The Company is contractually committed to lend on one Small Business Administration (SBA) guaranteed line of credit to a borrower whose lending relationship was previously restructured, but was no longer considered impaired for disclosure purposes.

Note 6. Transactions with Related Parties

Certain Related Party Loans

Some of the incumbent directors, nominees and executive officers of the Company, and some of the corporations and firms with which these individuals are associated, are customers of the Bank in the ordinary course of business, or have loans outstanding from the Bank (referred to in this discussion as “related party loans”), and it is anticipated that they will continue to be customers of and indebted to the Bank in the future. All such related party loans were made in the ordinary course of business, and were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable Bank transactions with unaffiliated persons, although directors were generally allowed the lowest interest rate given to others on comparable loans. Except as disclosed in the following paragraph, none of such related party loans represent more than the normal risk of collectability or present other unfavorable features.

As previously reported, the Bank has loans to two related commercial enterprises in which one of the Company’s Directors is a 35% non-controlling equity owner. The aggregate outstanding balance of principal and accrued interest for these loans as of June 30, 2016 was $3,324,950. The loans are cross-collateralized, with collateral consisting primarily of real estate and equipment, and are also cross-guaranteed by the two borrower entities. The loans are further secured by guaranties of the two principals of the borrower entities. As of June 30, 2016, the loans were considered by management to be potential problem loans and the Bank has subsequently declared the two borrower entities to be in default under their loan agreements. Unless the defaults are timely cured to the Bank’s satisfaction, it will proceed with collection of the two loans in accordance with its normal collection practices. The Bank believes that the value of the collateral exceeds the aggregate amount of the indebtedness and does not expect to incur a loss on the loans, although liquidation of the collateral may take longer than originally anticipated.

Note 7. 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 $3,751,964 and $3,479,269 as of June 30, 2016 and 2015, respectively.

Amortization expense for the core deposit intangible for the first six months of 2016 and 2015 was $136,350. As of June 30, 2016, the remaining annual amortization expense related to the core deposit intangible, absent any impairment, is expected to be as follows:

2016	$ 136,345
2017	272,691
Total remaining core deposit intangible	$ 409,036

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, 2015), management concluded that no impairment existed in either category.

Note 8. 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. Due to their short-term nature 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 Topic 825, “Financial Instruments”, requires disclosures of fair value information about financial instruments, whether or not recognized in the balance sheet, if the fair values can be reasonably determined. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques using observable inputs when available. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

June 30, 2016	Level 2
Assets: (market approach)	
U.S. GSE debt securities	$ 11,890,890
Agency MBS	13,151,647
Other investments	3,037,138
Total	$ 28,079,675

December 31, 2015	Level 2
Assets: (market approach)	
U.S. GSE debt securities	$ 12,832,443
Agency MBS	10,664,484
Other investments	2,973,473
Total	$ 26,470,400

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

There were no transfers of assets between Levels during any of the periods presented. There were no Level 1 assets or liabilities measured on a recurring basis as of June 30, 2016 or December 31, 2015, and there were no Level 3 assets or liabilities measured on a recurring basis as of any 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, 2016	Level 2
Assets: (market approach)	
Residential mortgage servicing rights	$ 1,264,148
Impaired loans, net of related allowance	983,790
OREO	409,000
December 31, 2015	
Assets: (market approach)	
Residential mortgage servicing rights	$ 1,293,079
Impaired loans, net of related allowance	268,092
OREO	262,000
June 30, 2015	
Assets: (market approach)	
Residential mortgage servicing rights	$ 1,298,418
Impaired loans, net of related allowance	391,252
OREO	1,122,500

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

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

June 30, 2016	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	$ 24,334	$ 24,334	$ 0	$ 0	$ 24,334
Securities held-to-maturity	34,013	0	34,682	0	34,682
Securities available-for-sale	28,080	0	28,080	0	28,080

Restricted equity securities	2,610	0	2,610	0	2,610
Loans and loans held-for-sale					
Commercial & industrial	72,030	0	192	73,096	73,288
Commercial real estate	183,577	0	896	188,112	189,008
Residential real estate - 1st lien	160,599	0	1,931	162,930	164,860
Residential real estate - Jr lien	43,650	0	252	44,080	44,333
Consumer	7,215	0	0	7,533	7,533
Mortgage servicing rights	1,264	0	1,333	0	1,333
Accrued interest receivable	1,558	0	1,558	0	1,558
Financial liabilities:					
Deposits					
Other deposits	448,752	0	449,061	0	449,061
Brokered deposits	20,231	0	20,237	0	20,237
Federal funds purchased and short-term borrowings	30,000	0	30,000	0	30,000
Long-term borrowings	350	0	328	0	328
Repurchase agreements	26,837	0	26,837	0	26,837
Capital lease obligations	515	0	515	0	515
Subordinated debentures	12,887	0	12,853	0	12,853
Accrued interest payable	61	0	61	0	61

December 31, 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	$ 28,852	$ 28,852	$ 0	$ 0	$ 28,852
Securities held-to-maturity	43,354	0	44,143	0	44,143
Securities available-for-sale	26,470	0	26,470	0	26,470
Restricted equity securities	2,442	0	2,442	0	2,442
Loans and loans held-for-sale					
Commercial & industrial	64,438	0	286	65,399	65,685
Commercial real estate	175,945	0	2,552	178,502	181,054
Residential real estate - 1st lien	162,492	0	1,395	164,959	166,354
Residential real estate - Jr lien	44,270	0	119	44,939	45,058
Consumer	7,161	0	0	7,482	7,482
Mortgage servicing rights	1,293	0	1,497	0	1,497
Accrued interest receivable	1,633	0	1,633	0	1,633
Financial liabilities:					
Deposits					
Other deposits	467,851	0	467,514	0	467,514
Brokered deposits	27,635	0	27,640	0	27,640
Federal funds purchased and short-term borrowings	10,000	0	10,000	0	10,000
Repurchase agreements	22,073	0	22,073	0	22,073
Capital lease obligations	558	0	558	0	558
Subordinated debentures	12,887	0	12,851	0	12,851
Accrued interest payable	53	0	53	0	53

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	30,000	0	30,000	0	30,000
Repurchase agreements	24,403	0	24,403	0	24,403
Capital lease obligations	600	0	600	0	600
Subordinated debentures	12,887	0	12,856	0	12,856
Accrued interest payable	47	0	47	0	47

Note 9. Loan Servicing

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

	Six Months Ended June 30, 2016	Year Ended December 31, 2015	Six Months Ended June 30, 2015
Balance at beginning of year	$ 1,293,079	$ 1,311,965	$ 1,311,965
Mortgage servicing rights capitalized	98,054	230,818	112,687
Mortgage servicing rights amortized	(134,499)	(257,921)	(128,791)
Change in valuation allowance	7,514	8,217	2,557
Balance at end of period	$ 1,264,148	$ 1,293,079	$ 1,298,418

Note 10. 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 11. 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 U.S. GAAP. On June 9, 2016, the Company declared a cash dividend of $0.16 per common share payable August 1, 2016 to shareholders of record as of July 15, 2016. This dividend, amounting to $801,734, was accrued at June 30, 2016.

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, 2016

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, 2016, December 31, 2015 and June 30, 2015, and its consolidated results of operations for the three- and six-month 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.

The following discussion should be read in conjunction with the Company's audited consolidated financial statements and related notes contained in its 2015 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 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 interest rate spread or margin; (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 Basel III capital framework which, among other things, requires additional regulatory capital, and changes 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, three 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)) and core earnings (as defined and discussed in the Results of Operations section), 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 at June 30, 2016 were $596,207,733, an increase of $73,024 or 0.01% from December 31, 2015 and an increase of $19,709,083, or 3.4%, from June 30, 2015. Although total assets remained relatively unchanged from year end, during the first six months of 2016, loan balances increased $13,447,926, or 2.9% but that growth was offset by decreases of $9,341,417, or 21.6% in maturing municipal investments and $4,517,602, or 15.7% in cash balances. The decrease in municipal investments 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 2017 were funded on July 1, 2016 in an amount comparable to the balances that matured on June 30. Net loans increased $12,116,160, or 2.7%, since June 30, 2015. The increase in loans year to date and year over year is attributable to growth in commercial loans and was funded through an increase in borrowed funds during the first six months of the year and in an increase in deposit accounts year over year.

Total deposits declined $26,502,406, or 5.4%, since December 31, 2015 due primarily to the seasonal runoff of municipal deposits. In the year over year comparison, deposits increased $13,915,827, or 3.1%. This increase was attributable to an increase in checking, savings and time deposits, $250,000 and over totaling $16,954,638, partially offset by a decrease in interest bearing checking accounts of $4,833,271, or 4.3%, and a decrease in other time deposits of $1,523,361, or 1.6%. While rates have been at historic lows for the past several years, maturing time deposit balances have shifted into non-maturity deposits; however, this trend has slowed in recent months as rates have bottomed and the majority of remaining certificates of deposit (CDs) have already repriced to lower rates.

Interest rates remain at historically low levels, and the resulting pressure on margins is being further exacerbated by a flattening yield curve as short rates have increased 25 basis points while long rates stayed flat during the first six months of the year, and then declined substantially at the end of the quarter following Great Britain's vote to leave the European Union. Growth of the commercial loan portfolio in recent years, which typically carries higher yields than residential and consumer loans, has helped to maintain a stable level of interest income despite the challenging interest rate environment. This shift in asset mix is in line with the Company's strategic plan to increase its concentration in commercial loans while maintaining a stable 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 and Chittenden County markets 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. In line with this focus, the Company has plans to open a loan production office in Chittenden County in 2016. The shift of a portion of the investment portfolio to higher yielding mortgage backed securities and attractive Bank Certificates of Deposit has also helped to maintain overall asset yields year over year.

Interest income increased $212,191, or 3.7%, for the second quarter of 2016 compared to the same period in 2015, and $163,650, or 1.4%, for the first six months of 2016 compared to the same period in 2015. Interest expense increased $4,691, or 0.7%, for the second quarter of 2016 compared to the same quarter in 2015, while a decline of $59,560, or 4.3%, is noted for the first six months of 2016 compared to the same period in 2015. The increase in interest income year over year reflects the growth in loan balances, as asset yields, while improving slightly during the second quarter of 2016, continue to experience downward pressure. The decrease in interest paid on deposits is attributable to a shift of customer funds out of higher yielding CDs to lower yielding demand and savings accounts, as well as a decrease in the rate paid on these funds when they reprice at maturity. 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 $207,503, or 4.2%, for the second quarter of 2016 compared to the same quarter in 2015 and by $273,210, or 2.8%, for the six months ended June 30, 2016 compared to the same period in 2015. The charge to income for the provision for loan losses decreased $50,000, or 16.7%, for the comparison period due to lower net charge-offs than anticipated. Please refer to the Allowance for loan losses and provisions discussion in the Credit Risk section for more information.

Net income for the second quarter of 2016 was $1,295,199, an increase of $217,495, or 20.2%, compared to the same quarter in 2015, and net income for the first six months of 2016 was $2,464,693, an increase of $277,149, or 12.7%, compared to the same period in 2015. Non-interest income increased $14,218, or 1.1%, and non-interest expense decreased $104,660, or 2.2%; for the second quarter of 2016, and $39,284, or 1.6%, and $119,096, or 1.3%, respectively, for the first six months of 2016 compared to the same period in 2015. These changes were almost totally offset by increases in income tax expense of $108,886, or 29.0%, for the second quarter of 2016 and $154,441, or 20.0%, for the first six months of 2016 compared to the respective periods in 2015. Loan fee income contributed to the increase in non-interest income. Residential mortgage lending activity improved during 2015 and into 2016, with residential mortgage originations totaling $22,263,622 for the first six months of 2016 compared to $20,136,238 for the same period of 2015, resulting in increases in the Company's loan fee income. Of those originations during the first six months of 2016, secondary market sales totaled $11,326,275, compared to $11,320,910 for the first six months of 2015, providing points and premiums from the sales of these mortgages of $452,491 and $448,240, respectively, an increase of 1.0%. Also contributing to the increase in net income in both periods was a decrease in other expenses of $156,008, or 8.6%, for the second quarter of 2016 and $216,665, or 6.2%, for the first six months of 2016, compared to the same periods in 2015. One of the most significant reasons for the decrease in other expenses year over year was the nonrecurring cost in the amount of $100,000 for issuing the Europay, Mastercard and Visa chip cards in the second quarter of 2015. Please refer to the Non-interest Income and Expense sections for more information on these decreases.

The regulatory environment continues to increase operating costs and place extensive burdens on personnel resources to comply with myriad 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, 2016, the Company's Board of Directors declared a quarterly cash dividend of $0.16 per common share, payable on August 1, 2016 to shareholders of record on July 15, 2016. The Company is focused on increasing the profitability of the balance sheet, and prudently managing operating expenses and risk, particularly credit risk, in order to remain a well-capitalized bank in this challenging economic environment.

CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies, 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 2015 Annual Report on Form 10-K in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies" and in Note 1 (Significant Accounting Policies) to the audited consolidated financial statements. There were no material changes during the first six months of 2016 in the Company's critical accounting policies described in the

2015 Annual Report on Form 10-K.

RESULTS OF OPERATIONS

Net income for the second quarter of 2016 was $1,295,199 or $0.25 per common share, compared to $1,077,704 or $0.21 per common share for the second quarter of 2015 and for the first six months of 2016, net income was $2,464,693 or $0.48 per common share, compared to $2,187,544 or $0.43 per common share for the same period in 2015. Core earnings (net interest income before the provision for loan losses) for the second quarter of 2016 increased $207,503, or 4.1%, and for the six months ended June 30, 2016 increased $223,210, or 2.2%, 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 has continued to shift assets from lower yielding taxable investments to loans when possible, and to shift a portion of the investment portfolio to higher yielding certificates of deposit, Small Business Administration (SBA) securities, and agency mortgage-backed securities (Agency MBS) within its available-for-sale portfolio. Compared to the same period last year, during the first six months of 2016 the loan mix continued to shift at a measured pace in favor of higher yielding commercial loans, while the deposit mix shifted 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 $20,480, or 3.9%, for the second quarter of 2016 compared to the same quarter in 2015, and decreased $96,343, or 8.6%, in the first six months of 2016 compared to the same period of 2015, reflecting the continued low rate environment and shift to lower-cost non-maturity deposits. The Company recorded provisions for loan losses of $150,000 and $250,000, respectively, for the second quarter and first six months of 2016, compared to $150,000 and $300,000, for the respective periods of 2015. Non-interest income increased $14,218, or 1.1%, for the second quarter of 2016 compared to the same quarter in 2015 and $39,284, or 1.6%, for the first six months of 2016 compared to 2015. This growth was due to an increase in residential mortgage loan sales, which generate fee income, and an increase in the collection of commercial and portfolio mortgage loan documentation fees. Non-interest expense decreased $104,660, or 2.2%, for the second quarter of 2016 compared to the same quarter in 2015, and $119,096, or 1.3%, for the first six months of 2016 compared to the prior year with increases in salaries and benefits, which were offset by decreases in occupancy expense and other expenses in both comparison periods. 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,	
	2016	2015
Return on Average Assets	0.87 %	0.74 %
Return on Average Equity	9.87 %	8.60 %

	Six Months Ended June 30,	
	2016	2015
Return on Average Assets	0.84 %	0.76 %
Return on Average Equity	9.46 %	8.84 %

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, 2016	December 31, 2015	June 30, 2015
Balance Sheet Data			
Net loans	$ 466,810,233	$ 453,424,042	$ 454,694,073
Total assets	596,207,733	596,134,709	576,498,650
Total deposits	468,983,156	495,485,562	455,067,329
Borrowed funds	30,350,000	10,000,000	30,000,000
Total liabilities	543,253,494	544,720,053	526,457,457
Total shareholders' equity	52,954,239	51,414,656	50,041,193

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Operating Data		
Total interest income	$ 11,781,633	$ 11,617,983
Total interest expense	1,340,257	1,399,817
Net interest income	10,441,376	10,218,166
Provision for loan losses	250,000	300,000
Net interest income after provision for loan losses	10,191,376	9,918,166
Non-interest income	2,556,550	2,517,266
Non-interest expense	9,357,472	9,476,568
Income before income taxes	3,390,454	2,958,864
Applicable income tax expense(1)	925,761	771,320
Net Income	$ 2,464,693	$ 2,187,544

Per Common Share Data

Earnings per common share (2)	$ 0.48	$ 0.43
Dividends declared per common share	$ 0.32	$ 0.32
Book value per common share outstanding, period end	$ 10.04	$ 9.57
Weighted average number of common shares outstanding	5,008,121	4,946,734
Number of common shares outstanding, period end	5,026,790	4,966,027

(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 of $322,150 for the three months ended June 30, 2016 and $602,247 for the first six months of 2016, compared to $276,254 and $547,380, respective, for the same periods last year was derived from municipal investments, which comprised the entire held-to-maturity portfolio of $34,013,002 at June 30, 2016, and $25,738,769 at June 30, 2015.

The following tables show the reconciliation between reported net interest income and tax equivalent, net interest income for the comparison periods presented.

	Three Months Ended June 30,	
	2016	2015
Net interest income as presented	$ 5,286,383	$ 5,078,880
Effect of tax-exempt income	165,956	142,313
Net interest income, tax equivalent	$ 5,452,339	$ 5,221,193

	Six Months Ended June 30,	
	2016	2015
Net interest income as presented	$ 10,441,376	$ 10,218,166
Effect of tax-exempt income	310,248	281,984
Net interest income, tax equivalent	$ 10,751,624	$ 10,500,150

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

	Three Months Ended June 30,					
	2016			2015		
	Average Balance	Income/ Expense	Average Rate/ Yield	Average Balance	Income/ Expense	Average Rate/ Yield
Interest-Earning Assets						
Loans (1)	$ 464,865,518	$ 5,478,997	4.74 %	$ 455,618,414	$ 5,346,764	4.71 %
Taxable investment securities	26,946,237	128,197	1.91 %	31,166,027	102,608	1.32 %
Tax-exempt investment securities	51,697,883	488,106	3.80 %	43,458,469	418,567	3.86 %
Sweep and interest-earning accounts	4,027,584	4,700	0.47 %	2,521,651	1,770	0.28 %
Other investments (2)	2,542,707	29,334	4.64 %	3,719,450	23,788	2.57 %
Total	$ 550,079,929	$ 6,129,334	4.48 %	$ 536,484,011	$ 5,893,497	4.41 %
Interest-Bearing Liabilities						
Interest-bearing transaction accounts	$ 110,404,866	$ 50,133	0.18 %	$ 112,569,304	$ 53,844	0.19 %
Money market accounts	85,507,052	211,138	0.99 %	87,385,306	221,765	1.02 %
Savings deposits	85,898,605	26,410	0.12 %	80,726,280	24,414	0.12 %
Time deposits	108,754,441	221,020	0.82 %	107,895,810	229,158	0.85 %
Federal funds purchased and other borrowed funds	17,496,525	23,578	0.54 %	17,293,077	11,182	0.26 %
Repurchase agreements	26,355,146	19,314	0.29 %	25,538,488	17,933	0.28 %
Capital lease obligations	522,626	10,667	8.16 %	606,498	12,353	8.15 %
Junior subordinated debentures	12,887,000	114,735	3.58 %	12,887,000	101,655	3.16 %
Total	$ 447,826,261	$ 676,995	0.61 %	$ 444,901,763	$ 672,304	0.61 %
Net interest income		$ 5,452,339			$ 5,221,193	
Net interest spread (3)			3.87 %			3.80 %
Net interest margin (4)			3.99 %			3.90 %

(1) Included in gross loans are non-accrual loans with an average balance of $3,179,107 and $5,058,480 for the three months ended June 30, 2016 and 2015, respectively. Loans are stated before deduction of unearned discount and allowance for loan losses, less loans held-for-sale.
(2) Included in other investments is the Company's FHLBB Stock with an average balance of $1,567,557 and $2,744,300 for the three months ended June 30, 2016 and 2015, respectively, and dividend payout rates of approximately 3.63% and 1.74%, 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.

	Six Months Ended June 30,					
	2016			2015		
	Average Balance	Income/ Expense	Average Rate/ Yield	Average Balance	Income/ Expense	Average Rate/ Yield
Interest-Earning Assets						
Loans (1)	$ 459,842,951	$ 10,849,421	4.74 %	$ 453,180,622	$ 10,811,025	4.81 %
Taxable investment securities	29,081,460	255,646	1.77 %	31,758,150	207,647	1.32 %
Tax-exempt investment securities	48,243,249	912,495	3.80 %	43,123,366	829,364	3.88 %
Sweep and interest-earning accounts	6,557,888	15,606	0.48 %	3,207,206	4,260	0.27 %
Other investments (2)	2,559,163	58,713	4.61 %	3,719,450	47,671	2.58 %
Total	$ 546,284,711	$ 12,091,881	4.45 %	$ 534,988,794	$ 11,899,967	4.49 %
Interest-Bearing Liabilities						
Interest-bearing transaction accounts	$ 112,926,874	$ 103,833	0.18 %	$ 114,728,976	$ 111,859	0.20 %
Money market accounts	86,581,602	428,606	1.00 %	89,645,735	446,545	1.00 %
Savings deposits	84,449,518	52,009	0.12 %	79,084,511	47,751	0.12 %
Time deposits	108,910,228	440,847	0.81 %	109,957,225	515,483	0.95 %
Federal funds purchased and other borrowed funds	12,113,153	31,634	0.53 %	10,000,442	13,171	0.27 %
Repurchase agreements	25,396,197	37,305	0.30 %	26,906,269	37,570	0.28 %
Capital lease obligations	533,515	21,769	8.16 %	616,527	25,105	8.14 %
Junior subordinated debentures	12,887,000	224,254	3.50 %	12,887,000	202,333	3.17 %
Total	$ 443,798,087	$ 1,340,257	0.61 %	$ 443,826,685	$ 1,399,817	0.64 %
Net interest income		$ 10,751,624			$ 10,500,150	
Net interest spread (3)			3.84 %			3.85 %
Net interest margin (4)			3.96 %			3.96 %

(1)

Included in gross loans are non-accrual loans with an average balance of $3,597,146 and $4,897,435 for the six months ended June 30, 2016 and 2015, 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 average balances of $1,584,013 and $2,744,300 respectively, and dividend payout rates of approximately 3.87% and 1.76%, respectively, for the first six months of 2016 and 2015, respectively.

(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 three and six month periods ended June 30, 2016 increased 2.5% and 2.1%, respectively, compared to the same periods last year. Average yield on interest-earning assets for the second quarter increased seven basis points, to 4.48%, compared to 4.41% for the same period last year, but decreased four basis points for the six months ended June 30, 2016, to 4.45%, from 4.49% for the same period last year. Similarly, the average volume of loans increased over the three and six month comparison periods of 2016 versus 2015, by 2.0% and 1.5%, respectively, while the average yield on loans increased three basis points for the second quarter, to 4.74%, compared to 4.71% for the second quarter of 2015, but decreased seven basis points for the six months ended June 30, 2016, to 4.74% from 4.81% for the same period last year. These declines in average yields for the first six months of 2016 compared to 2015, as well as the calculation of the net interest spread and margin for the first six months of 2015 noted below, reflect the boost to interest income during the first quarter of 2015 resulting from the recognition of approximately $170,000 in accrued interest when one large non-accruing residential mortgage loan was paid off and two other non-accruing loans were restored to accrual status. Interest earned on the loan portfolio as a percentage of total interest income remained fairly steady for the three and six month periods ended June 30, 2016, comprising approximately 89.4% and 89.7%, respectively, of total interest income, versus 90.7% and 90.9%, respectively, for the same periods last year. The average volume of the taxable investment portfolio (classified as available for sale) decreased 13.5 % during the second quarter of 2016 and 8.4% year to date, compared to the same periods last year as maturities in 2016 were used to fund loan growth. Average yields on the taxable investment portfolio increased 59 basis points and 45 basis points, for the second quarter of 2016 and year to date, respectively, compared to the same periods last year. These increases are due primarily to the shift in the taxable investment portfolio to higher yielding mortgage-backed securities and certificates of deposit, both of which had very favorable spreads to similar term treasury and agency bonds, while exhibiting similar risk profiles. Compared to the second quarter of 2015, the average volume of the tax exempt portfolio (classified as held to maturity and consisting of municipal securities) increased 19.0% during the second quarter of 2016, due primarily to participation in a local health care bond financing, and increased 11.9% in the 2016 versus 2015 year to date comparison. The average tax-equivalent yield on the tax exempt portfolio decreased by six basis points and eight basis points, respectively, during the three and six month periods ended June 30, 2016 compared to the same periods last year, reflecting the continued low rate environment as well competitive pressures for municipal investments. The average volume of sweep and interest-earning accounts, which consists primarily of an interest bearing account at the Federal Reserve Bank of Boston (FRBB), increased during the three and six month periods ended June 30, 2016 compared to the same periods last year, but the average balances of these funds have remained relatively low throughout 2016 as excess cash has been used to fund loan growth.

In comparison, the average volume of interest-bearing liabilities increased slightly, by 0.7%, for the second quarter of 2016 compared to the same period last year, and remained essentially flat year to date compared to the first six months of 2015, increasing only 0.01%. The average rate paid on interest-bearing liabilities during the second quarter of 2016 remained unchanged from the same period last year, but decreased slightly, by three basis points, during the first six months of 2016 compared to the same period last year. The average volume of interest-bearing transaction accounts decreased by 1.9% and 1.6%, respectively, during the second quarter and first six months of 2016, compared to the same periods last year, and the average rate paid on these accounts during the three and six month comparison periods decreased slightly, by one basis point and two basis points, respectively. The average volume of money market accounts decreased during both the three and six month periods ended June 30, 2016, by 2.2% and 3.4%, respectively, compared to the same periods in 2015, while the average rate paid on these deposits declined three basis points during the second quarter of 2016 versus the second quarter last year and remained flat in the year to date comparison. The decrease in money market accounts in 2016 is due primarily to the run off, as anticipated, of a portion of the approximately $8,000,000 in construction-related escrow funds deposited during the fourth quarter of 2014. The average volume of savings accounts increased by 6.9% and 6.8%, respectively, for the three month and six month comparison periods of 2016 versus 2015, due in part to the continued shift in product mix from time deposits to savings accounts as consumers anticipate higher rates in the near future. Compared to the same periods in 2015, the average volume of retail time deposits decreased 4.9% during the second quarter, and 7.6% year to date 2016, while the average volume of wholesale time deposits increased significantly during both the three and six month comparison periods in 2016, by 241.2% and 421.7%, respectively. Wholesale time deposits have been an increasingly beneficial source of funding in 2016 as they have provided large blocks of funding without the need to disrupt pricing in the Company's local markets. These funds can be obtained relatively quickly on an as-needed basis, making them a valuable alternative to traditional term borrowings from the FHLBB. The average volume of repurchase agreements increased 3.2% for three months ended June 30, 2016 and decreased 5.6% for the six months ended June 30, 2016, compared to the same periods in 2015, while the average rate paid on repurchase agreements during the three and six month comparison periods of 2016 versus 2015 increased by one basis point and two basis points, respectively.

After years of this low interest rate environment which put pressure on the Company's net interest spread and margin due to the Company's earning assets being both replaced with, and repricing to, lower interest rate instruments, and due to limited opportunity to reduce rates further on non-maturing interest-bearing deposits, the asset growth and changes to the mix of the balance sheet, combined with low cost of funds, is starting to have a positive effect on both the net interest spread and margin. In addition, the 25 basis point increase in the prime rate in December 2015 provided some benefit to the Company's variable rate loan portfolio, although the prospect for further rate increases is unclear due to the continued uncertainty in the global economy. For the three months ended June 30, 2016 and 2015, the average yield on interest-earning assets increased seven basis points, while the average rate paid on interest-bearing liabilities remained flat. For the six months ended June 30, 2016 and 2015, the average yield on interest-earning assets decreased four basis points, while the average rate paid on interest-bearing liabilities decreased three basis points. Net interest spread for the first three months of 2016 was 3.87%, an increase of seven basis points from 3.80% for the same period in 2015, and for the six month comparison periods of 2016 and 2015, was 3.84% and 3.85%, respectively. Net interest margin increased nine basis points during the second quarter of 2016 compared to the second quarter of 2015, and remained unchanged at 3.96% for the six month comparison periods of 2016 and 2015.

The following table summarizes the variances in interest income and interest expense on a fully tax-equivalent basis for the periods presented for 2016 and 2015 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	Variance		Variance	Variance	
	Due to	Due to	Total	Due to	Due to	Total
	Rate (1)	Volume (1)	Variance	Rate (1)	Volume (1)	Variance
Average Interest-Earning Assets						
Loans	$ 23,647	$ 108,586	$ 132,233	$ (120,516)	$ 158,912	$ 38,396
Taxable investment securities	45,628	(20,039)	25,589	71,558	(23,559)	47,999
Tax-exempt investment securities	(9,754)	79,293	69,539	(15,378)	98,509	83,131
Sweep and interest-earning accounts	1,879	1,051	2,930	6,860	4,486	11,346
Other investments	19,122	(13,576)	5,546	37,640	(26,598)	11,042
Total	$ 80,522	$ 155,315	$ 235,837	$ (19,836)	$ 211,750	$ 191,914

Average Interest-Bearing Liabilities						
Interest-bearing transaction accounts	$ (2,742)	$ (969)	$ (3,711)	$ (6,413)	$ (1,613)	$ (8,026)
Money market accounts	(6,004)	(4,623)	(10,627)	(2,702)	(15,237)	(17,939)
Savings deposits	449	1,547	1,996	1,065	3,193	4,258
Time deposits	(9,958)	1,820	(8,138)	(70,419)	(4,217)	(74,636)
Federal funds purchased and other borrowed funds	12,264	132	12,396	15,634	2,829	18,463
Repurchase agreements	811	570	1,381	1,988	(2,253)	(265)
Capital lease obligations	16	(1,702)	(1,686)	32	(3,368)	(3,336)
Junior subordinated debentures	13,080	0	13,080	21,921	0	21,921
Total	$ 7,916	$ (3,225)	$ 4,691	$ (38,894)	$ (20,666)	$ (59,560)
Changes in net interest income	$ 72,606	$ 158,540	$ 231,146	$ 19,058	$ 232,416	$ 251,474

(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		Change		Six Months Ended		Change	
	June 30,				June 30,			
	2016	2015	$	%	2016	2015	$	%
Service fees	$ 655,540	$ 642,981	$ 12,559	1.95 %	$ 1,273,219	$ 1,274,418	$ (1,199)	-0.09 %
Income from sold loans	231,297	247,565	(16,268)	-6.57 %	452,491	448,240	4,251	0.95 %
Other income from loans	210,703	186,433	24,270	13.02 %	406,591	320,632	85,959	26.81 %
Net realized gain (loss) on sale of securities available-for-sale	0	2,723	(2,723)	-100.00 %	0	2,723	(2,723)	-100.00 %
Income from CFSG Partners	101,002	81,345	19,657	24.16 %	183,581	175,191	8,390	4.79 %
Rental income on OREO properties	0	1,101	(1,101)	-100.00 %	0	36,521	(36,521)	-100.00 %
Exchange income	24,000	23,000	1,000	4.35 %	51,500	38,500	13,000	33.77 %
SERP fair value adjustment	7,935	(10,442)	18,377	175.99 %	14,406	529	13,877	2,623.25 %
Other income	88,222	129,775	(41,553)	-32.02 %	174,762	220,512	(45,750)	-20.75 %
Total non-interest income	$ 1,318,699	$ 1,304,481	$ 14,218	1.09 %	$ 2,556,550	$ 2,517,266	$ 39,284	1.56 %

Total non-interest income increased $14,218 for the second quarter of 2016, and $39,284 for the first six months of 2016 versus the same periods in 2015, with significant changes noted in the following:

Income from sold loans decreased $16,268, or 6.6% for the second quarter, with a marginal increase of $4,251, or 1.0%, year over year, due to a moderate increase in secondary market sales year over year and an increase in pair-off fees of $15,760 for the second quarter and $33,262 year over year offsetting any increase in points and premiums.

Other income from loans increased $24,270, or 13.0% for the second quarter and $85,959, or 26.8%, year over year, due primarily to an increase in commercial loan documentation fees.

Income from CFSG Partners increased $19,657, or 24.2% for the second quarter compared to the same period in 2015 and $8,390, or 4.8%, year over year. These increases were attributable to an increase in estate administration fees and a slight increase in the amount of their assets under management, upon which their investment fee income is based.

The Company sold an OREO property in 2015 that had generated rental income accounting for the absence of rental income year to date.

Currency exchange income increased $1,000, or 4.4% for the second quarter and $13,000, or 33.8%, year over year due to the weakening Canadian dollar during 2015.

SERP fair value adjustment increased $18,377, or 176.0% for the second quarter and $13,877, or 2,623.3% year over year due to changes in the equity markets.

Other income decreased $41,553, or 32.0% for the second quarter and $45,750, or 20.8% year over year due to timing differences.

Non-interest Expense

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

					Six Months Ended			
	June 30,		Change		June 30,		Change	
	2016	2015	$	%	2016	2015	$	%
Salaries and wages	$ 1,725,000	$ 1,683,200	$ 41,800	2.48 %	$ 3,450,000	$ 3,338,352	$ 111,648	3.34 %
Employee benefits	685,082	672,527	12,555	1.87 %	1,370,164	1,336,680	33,484	2.51 %
Occupancy expenses, net	606,358	609,365	(3,007)	-0.49 %	1,252,104	1,299,667	(47,563)	-3.66 %
Other expenses								
Computer outsourcing	125,280	124,302	978	0.79 %	247,975	242,869	5,106	2.10 %
Service contracts - administrative	96,217	57,915	38,302	66.13 %	185,916	155,667	30,249	19.43 %
Telephone expense	77,692	78,572	(880)	-1.12 %	154,117	159,713	(5,596)	-3.50 %
Collection & non-accruing loan expense	10,000	41,005	(31,005)	-75.61 %	38,000	53,005	(15,005)	-28.31 %
OREO expense	36,463	67,320	(30,857)	-45.84 %	31,969	80,286	(48,317)	-60.18 %
ATM fees	89,091	95,375	(6,284)	-6.59 %	183,311	182,778	533	0.29 %
State deposit tax	134,799	137,905	(3,106)	-2.25 %	275,010	275,695	(685)	-0.25 %
Other miscellaneous expenses	1,089,198	1,212,354	(123,156)	-10.16 %	2,168,906	2,351,856	(182,950)	-7.78 %

Total non-interest expense	$ 4,675,180	$ 4,779,840	$ (104,660)	-2.19 %	$ 9,357,472	$ 9,476,568	$ (119,096)	-1.26 %

Total non-interest expense decreased $104,660, or 2.2% for the second quarter and $119,096, or 1.3%, for the first six months of 2016 compared to the same periods in 2015 with significant changes noted in the following:

Salaries increased $41,800, or 2.5%, for the second quarter and $111,648, or 3.3% year over year, due in part to normal increases in salaries.

Employee benefits increased $12,555, or 1.9% for the second quarter and $33,484, or 2.5%, year over year, mostly due to an increase in insurance premiums.

Occupancy expenses decreased $47,563, or 3.7% year over year, due in part to lower heating costs and maintenance costs associated with the winter months as the region experienced a fairly mild winter compared to the last few years. Also contributing to the decrease in occupancy expenses is the reduction in operating costs due to the closing of two branches in the third quarter of 2015.

Service contracts – administrative increased $38,302, or 66.1% for the second quarter and $30,249, or 19.4% year over year due mostly to a new service contract for our upgraded telephone system and other technology.

Collection & non-accruing loan expense decreased $31,005, or 75.6% for the second quarter and $15,005 or 28.3%, year over year, due in part to a $14,000 recovery of expenses in the second quarter of 2016, which were partially offset by a non-recurring recovery of expenses in 2015 in the amount of approximately $10,000.

OREO expense decreased $30,857, or 45.8% for the second quarter and $48,317, or 60.2%, year over year. During the first quarter of 2016, the Company received approximately $15,000 in reimbursed condo fees associated with the OREO property that was sold in December of 2015.

Other miscellaneous expenses decreased $123,156, or 10.2% for the second quarter and $182,950, or 7.8%, year over year. During the first three months of 2015, the Company experienced a loss of approximately $45,000 on a fraudulent check, making up a portion of the decrease between periods. Additionally, during the second quarter of 2015 the Company incurred a cost of $110,850 in increased printing & supplies expense associated with the mandatory re-issuance of customer debit cards with enhanced security chip technology.

APPLICABLE INCOME TAXES

The provision for income taxes increased $108,886, or 29.0% to $484,703 for the second quarter of 2016 compared to $375,817 for the same period in 2015 and $154,441, or 20.0%, to $925,761 for the first six months of 2016 compared to $771,320 for the same period in 2015. Income before taxes increased $326,381, or 22.5% for the second quarter of 2016 and $431,590, or 14.6% for the first six months of 2016, accounting for most of the increase in the provision in both periods. A decrease in tax credits of $9,453 for the second quarter comparison period and $18,906 for the six month comparison period makes up a small portion of the increase in tax expense in both periods. Tax credits related to limited partnerships amounted to $98,475 and $107,928, respectively, for the second quarters of 2016 and 2015 and

$196,950 and $215,856, respectively, for the first six months of 2016 and 2015.

Pursuant to Accounting Standards Update No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects, effective December 15, 2014, amortization expense related to limited partnership investments is included as a component of tax expense and amounted to $102,006 and $100,860, respectively, for the second quarters of 2016 and 2015, and $204,012 and $201,720, respectively, for the first six months of 2016 and 2015. These investments provide tax benefits, including tax credits, and are designed to provide an effective yield between 8% and 10%.

Amortization expense relating to the Company's New Market Tax Credit investment is also recorded as a separate component of tax expense and for the second quarters of 2016 and 2015 amounted to $44,484 and $40,473, respectively, and for the first six months of 2016 and 2015 amounted to $88,968 and $80,946, 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, 2016		December 31, 2015		June 30, 2015	
Assets						
Loans	$ 471,567,355	79.09 %	$ 458,119,429	76.85 %	$ 459,482,050	79.70 %
Securities available-for-sale	28,079,675	4.71 %	26,470,400	4.44 %	31,204,034	5.41 %
Securities held-to-maturity	34,013,002	5.70 %	43,354,419	7.27 %	25,738,769	4.46 %
Liabilities						
Demand deposits	95,419,388	16.00 %	93,525,762	15.69 %	84,396,417	14.64 %
Interest-bearing transaction accounts	106,925,038	17.93 %	130,735,094	21.93 %	111,758,309	19.39 %
Money market accounts	70,354,509	11.80 %	81,930,888	13.74 %	71,676,688	12.43 %
Savings deposits	86,733,253	14.55 %	81,731,290	13.71 %	81,578,169	14.15 %
Time deposits	$ 109,550,968	18.37 %	$ 107,562,528	18.04 %	$ 105,657,746	18.33 %
Short-term advances	30,000,000	5.03 %	10,000,000	1.68 %	30,000,000	5.20 %
Long-term advances	350,000	0.06 %	0	0.00 %	0	0.00 %

The Company's loan portfolio at June 30, 2016 increased $13,447,926, or 2.9%, from December 31, 2015 and $12,085,305, or 2.6%, year over year. Increases in both periods are the results of increases in commercial loans. These changes in the relative composition of the loan portfolio are consistent with the Company's goal to increase its commercial loan portfolio, and reflect the efforts of a seasoned commercial lending team with a strong presence in the small business community. Most of the growth in the commercial loan portfolio has occurred in the Company's Chittenden County and Washington County (Central Vermont) market. Securities available-for-sale increased $1,609,275, or 6.1%, year to date, but noted a decrease of $3,124,359, or 10.0%, year over year. Securities held-to-maturity decreased $9,341,417, or 21.6%, at June 30, 2016, compared to December 31, 2015, and increased $8,274,233, or 32.2%, compared to June 30, 2015. Held-to-maturity securities are made up of investments from the Company's municipal customers in its service areas. While the Company has used maturing securities in the AFS portfolio to fund loan growth in recent periods, the liquidity provided by these investments is very important, and as such the portfolio is not expected to see further decline in balances.

Total deposits decreased $26,502,406, or 5.4%, from December 31, 2015 to June 30, 2016, with an increase of $13,915,827, or 3.1%, noted year over year. The decrease compared with December 31, 2015 is primarily the result of typical municipal deposit runoff from the peak balances observed in the fourth quarter when property tax funds are received. Demand deposits increased $1,893,626, or 2.0%, year to date and $11,022,971, or 13.1%, year over year. Interest-bearing transactions accounts decreased $23,810,056, or 18.2% year to date and $4,833,271, or 4.3% year over year. The year to date decrease was due primarily to the decrease in municipal deposit described above. Time deposits increased $1,988,440, or 1.9%, from December 31, 2015 to June 30, 2016 and $3,893,222, or 3.7%, year over year. Wholesale time deposits increased $316,752, or 3.8% from December 31, 2015 to June 30, 2016 and $5,480,945 year over year. Retail time deposits increased $1,671,688, or 1.7% year to date, while a decrease of $1,587,723, or 1.5% is noted year over year as some retail customers rolled maturing funds into non-maturity deposits. Money market accounts decreased $11,576,379, or 14.1% year to date and $1,322,179, or 1.8% year over year. Savings deposits increased in both comparison periods, by $5,001,963, or 6.1%, year to date, and $5,155,084, or 6.3%, year over year. Short-term advances from the FHLBB totaling $30,000,000 were reported at June 30, 2016 and 2015 and $10,000,000 at December 31, 2015. In addition, there was an outstanding long-term advance from the FHLBB of $350,000 at June 30, 2016, compared to no such advances at either December 31, 2015 or June 30, 2015.

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, 2016:

Rate Change	Percent Change in NII

Down 100 basis points	-1.10 %
Up 200 basis points	4.80 %

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 to help ensure accuracy of the Company's internal risk ratings and compliance with various internal policies, procedures and regulatory guidance.

Residential mortgages represent approximately half of the Company’s loan balances; that level has been on a gradual decline in recent years, with a strategic shift to commercial lending. The Company maintains a mortgage loan portfolio of traditional mortgage products and does not engage in higher risk loans 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 prior liens) of 80%. The Company also originates some home equity loans greater than 80% under an insured loan program with stringent underwriting criteria.

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 2015, and continued strong commercial loan demand and originations in 2016, despite some significant loan payoffs during the first quarter of 2016. This growth has included balances being drawn on commercial construction loans and higher balances on commercial lines of credit. Commercial and commercial real estate loans together comprised 53.6% of the Company’s loan portfolio at June 30, 2015, decreasing slightly to 53.1% at December 31, 2015 and increasing again to 54.9% at June 30, 2016. 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 Chittenden County.

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, 2016		December 31, 2015		June 30, 2015	
Commercial & industrial	$ 72,878,438	15.45 %	$ 65,191,124	14.23 %	$ 73,561,125	16.01 %
Commercial real estate	185,950,674	39.43 %	178,206,542	38.90 %	172,565,221	37.56 %
1 - 4 family residential - 1st lien	161,361,864	34.22 %	162,760,273	35.53 %	162,109,916	35.28 %
1 - 4 family residential - Jr lien	44,078,168	9.35 %	44,720,266	9.76 %	43,816,552	9.53 %
Consumer	7,298,211	1.55 %	7,241,224	1.58 %	7,429,236	1.62 %
Total loans	471,567,355	100.00 %	458,119,429	100.00 %	459,482,050	100.00 %
Deduct (add):						
Allowance for loan losses	5,077,420		5,011,878		5,095,212	
Deferred net loan costs	(320,298)		(316,491)		(307,235)	
	4,757,122		4,695,387		4,787,977	
Net loans	$ 466,810,233		$ 453,424,042		$ 454,694,073	

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 SBA and U.S. Department of Agriculture (USDA) Rural Development. At June 30, 2016, the Company had $23,426,836 in guaranteed loans with guaranteed balances of $17,764,760, compared to $21,823,375 in guaranteed loans with guaranteed balances of $16,853,181 at December 31, 2015 and $27,550,093 in guaranteed loans with guaranteed balances of $21,617,082 at June 30, 2015.

The Company works actively with customers early in the delinquency process to help them to avoid default and foreclosure. 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.

The Company’s non-performing assets decreased $2,169,462 or 41.4% during the first six months of 2016. The improvement in non-performing loans resulted principally from a combination of two loans moving to Other Real Estate Owned and several loan relationships moving from non-accrual to accrual status, with one of those relationships accounting for the majority of the improvement. Claims receivable on related government guarantees were $126,909 at June 30, 2016 compared to $200,377 at December 31, 2015 and $88,177 at June 30, 2015, with several USDA and SBA claims settled and paid throughout the year. Non-performing loans as of June 30, 2016 carried USDA or SBA guarantees totaling $149,341.

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, 2016		December 31, 2015		June 30, 2015	
Loans past due 90 days or more and still accruing						
Commercial & industrial	$ 96,659	2.07 %	$ 13,556	0.21 %	$ 0	0.00 %
Commercial real estate	406,451	8.70 %	45,356	0.71 %	5,313	0.08 %
Residential real estate - 1st lien	694,007	14.85 %	801,241	12.48 %	528,211	7.93 %
Residential real estate - Jr lien	0	0.00 %	63,031	0.98 %	82,021	1.23 %
Consumer	0	0.00 %	0	0.00 %	8,987	0.13 %
Total	1,197,117	25.62 %	923,184	14.38 %	624,532	9.37 %
Non-accrual loans (1)						
Commercial & industrial	256,456	5.49 %	441,103	6.87 %	767,235	11.51 %
Commercial real estate	966,071	20.67 %	2,400,757	37.38 %	1,909,917	28.66 %
Residential real estate - 1st lien	1,467,171	31.39 %	2,009,079	31.28 %	1,927,300	28.93 %
Residential real estate - Jr lien	377,911	8.09 %	386,132	6.01 %	311,571	4.68 %
Total	3,067,609	65.64 %	5,237,071	81.54 %	4,916,023	73.78 %
Other real estate owned	409,000	8.75 %	262,000	4.08 %	1,122,500	16.85 %
Total	$ 4,673,726	100.01 %	$ 6,422,255	100.00 %	$ 6,663,055	100.00 %

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

As of the balance sheet dates, the Company was not contractually committed to lend additional funds to debtors with impaired or non-accrual loans. The Company is contractually committed to lend on one SBA guaranteed line of credit to a borrower whose lending relationship was previously restructured, but was no longer considered impaired for disclosure purposes.

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 in the table above include the following TDRs that were past due 90 days or more or in non-accrual status as of the dates presented:

	June 30, 2016		December 31, 2015		June 30, 2015	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
Commercial	3	$ 191,919	4	$ 298,115	5	$ 265,798
Commercial real estate	2	373,767	5	1,414,380	3	1,126,639
Residential real estate - 1st lien	10	684,636	11	967,324	6	463,435
Residential real estate - Jr lien	1	52,130	1	55,633	1	47,357
Total	16	$ 1,302,452	21	$ 2,735,452	15	$ 1,903,229

The remainder of the Company’s TDRs were performing in accordance with their modified terms as of the dates presented and consisted of the following:

	June 30, 2016		December 31, 2015		June 30, 2015	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
Commercial	2	$ 35,340	0	$ 0	0	$ 0
Commercial real estate	5	1,391,990	2	429,170	1	227,865
Residential real estate - 1st lien	27	2,558,079	21	1,958,699	19	1,670,261
Residential real estate - Jr lien	3	132,822	1	69,828	1	70,507
Total	37	$ 4,118,231	24	$ 2,457,697	21	$ 1,968,633

The increase in the performing TDRs is primarily attributable to one large commercial real estate loan that has performed for an extended period of time and was moved from non-accrual status to accruing during the first quarter of 2016.

The Company’s OREO portfolio at June 30, 2016 consisted of two residential properties compared to one residential property and one commercial property at December 31, 2015 and four residential properties and one commercial property at June 30, 2015. All properties were acquired through the normal foreclosure process or by deed-in-lieu of foreclosure. The Company took control of a commercial property in February, 2016 and then sold the property in March, 2016, and acquired one residential property in February, 2016 which is still held in its OREO portfolio. In June, 2016, the Company sold one of its OREO properties that had been held since 2011 and took a write-down of $26,000 on a property held since 2014. This activity resulted in an increase of $147,000 in its OREO portfolio, to end the first six months of 2016 at $409,000.

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

When establishing the allowance each quarter the Company applies a combination of historical loss factors and qualitative factors to loan segments, including residential first and junior lien mortgages, commercial real estate, commercial & industrial, and consumer loan portfolios. No changes were made to the allowance methodology during the first six months of 2016. The Company will shorten or lengthen its look back period for determining average portfolio historical loss rates as the economy either contracts or expands; during a period of economic contraction, a shortening of the look back period may more conservatively reflect the current economic climate. The highest loss rates experienced for the look back period are applied to the various segments in establishing the allowance.

The Company 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. 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 Six Months Ended June 30,	
	2016	2015
Loans outstanding, end of period	$ 471,567,355	$ 459,482,050
Average loans outstanding during period	$ 459,842,951	$ 453,180,622
Non-accruing loans, end of period	$ 3,067,609	$ 4,916,023
Non-accruing loans, net of government guarantees	$ 2,918,268	$ 4,003,897
Allowance, beginning of period	$ 5,011,878	$ 4,905,874
Loans charged off(1):		
Commercial & industrial	(10,836)	(35,059)
Residential real estate - 1st lien	(192,549)	(94,575)
Residential real estate - Jr lien	0	(20,199)
Consumer loans	(23,973)	(28,105)
Total loans charged off	(227,358)	(177,938)
Recoveries(1):		
Commercial & industrial	20,475	42,913
Residential real estate - 1st lien	5,686	6,042
Residential real estate - Jr lien	120	120
Consumer loans	16,619	18,201
Total recoveries	42,900	67,276
Net loans charged off	(184,458)	(110,662)
Provision charged to income	250,000	300,000
Allowance, end of period	$ 5,077,420	$ 5,095,212
Net charge offs to average loans outstanding	0.040 %	0.024 %
Provision charged to income as a percent of average loans	0.054 %	0.066 %
Allowance to average loans outstanding	1.104 %	1.124 %
Allowance to non-accruing loans	165.517 %	103.645 %
Allowance to non-accruing loans net of government guarantees	173.987 %	127.256 %

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

The Company decreased its provision during the first three months of 2016, while staying on budget for the second quarter of 2016, resulting in a provision of $250,000 for the six months ended June 30, 2016 compared to $300,000 for the same period in 2015, a decrease of $50,000 or 16.7%. The decrease in the provision was principally related to the comparatively low level of net loan losses experienced during the first three months of 2016. Despite the lower provision, the Company’s allowance coverage of non-accruing loans as of the end of the first six months of 2016 reflected a marked increase as a result of the decrease in non-accruing loans. 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 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.

Certain Related Party Loans

Some of the incumbent directors, nominees and executive officers of the Company, and some of the corporations and firms with which these individuals are associated, are customers of the Bank in the ordinary course of business, or have loans outstanding from the Bank (referred to in this discussion as “related party loans”), and it is anticipated that they will continue to be customers of and indebted to the Bank in the future. All such related party loans were made in the ordinary course of business, and were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable Bank transactions with unaffiliated persons, although directors were generally allowed the lowest interest rate given to others on comparable loans. Except as disclosed in the following paragraph, none of such related party loans represent more than the normal risk of collectability or present other unfavorable features.

As previously reported, Community National Bank has loans to two related commercial enterprises in which one of the Company’s Directors is a 35% non-controlling equity owner. The aggregate outstanding balance of principal and accrued interest for these loans as of June 30, 2016 was $3,324,950, consisting of a commercial real estate term loan with an outstanding principal balance of $2,577,937 plus accrued interest of $6,443, and a commercial line of credit with an outstanding principal balance of $737,237 plus accrued interest of $3,333. The loans are cross-collateralized, with collateral consisting primarily of real estate and equipment, and are also cross-guaranteed by the two borrower entities. The loans are further secured by guaranties of the two principals of the borrower entities, including a guaranty by the Director of 35% of the indebtedness under the loans. As of June 30, 2016, the loans were considered by management to be potential problem loans, and the Bank has subsequently declared the two borrower entities to be in default under their amended loan agreements. The Director has worked cooperatively with the Bank to try to resolve the loan defaults and has sought a court appointment as a receiver to operate the entities and manage an orderly liquidation of the collateral to pay down the indebtedness. The receivership appointment is contingent upon execution by the parties and the Bank of a mutually acceptable forbearance agreement. Unless forbearance terms acceptable to the Bank are agreed upon by all parties, including liquidation of collateral, repayment of the matured line of credit, bringing the term loan current and continuing to make the regularly scheduled payments of principal and interest, the Bank will proceed with foreclosure and collection of the two loans in accordance with its normal collection practices. The Bank believes that the value of the collateral exceeds the aggregate amount of the indebtedness and does not expect to incur a loss on the loans, although liquidation of the collateral may take longer than originally anticipated.

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 2016, 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, 2016	December 31, 2015
Unused portions of home equity lines of credit	$ 25,837,620	$ 25,074,972
Residential construction lines of credit	1,985,870	3,658,037
Commercial real estate and other construction lines of credit	17,829,936	15,586,595
Commercial and industrial commitments	35,718,772	46,197,882
Other commitments to extend credit	40,042,635	19,991,513
Standby letters of credit and commercial letters of credit	1,733,488	1,859,059
Recourse on sale of credit card portfolio	273,555	262,625
MPF credit enhancement obligation, net of liability recorded	716,519	1,051,601

Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

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 Certificate of Deposit Account Registry Service (CDARS) of the Promontory Interfinancial Network (Promontory) provide an alternative funding source when needed. Such deposits are generally considered a form of brokered deposits. At June 30, 2016 and 2015, the Company did not have any one way CDARS deposits outstanding compared to $4,164,471 at December 31, 2015. 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, 2016, the Company reported $2,865,275 in two-way CDARS deposits representing exchanged deposits with other CDARS participating banks, compared to $2,777,775 at December 31, 2015 and $2,769,581 at June 30, 2015. Promontory also sponsors a deposit-exchange for participating banks to offer their customers full insured cash sweep (ICS) money market accounts and ICS demand deposit accounts. The balance in ICS reciprocal money market deposits was $11,411,879 at June 30, 2016, compared to $12,054,406 at December 31, 2015 and $12,255,211 at June 30, 2015, and the balance in ICS reciprocal demand deposits as of such dates was $5,954,280, $8,637,935 and $7,385,399, respectively.

At June 30, 2016, December 31, 2015 and June 30, 2015, borrowing capacity of approximately $71,600,549, $72,091,633 and $73,238,055, respectively, was available through the FHLBB, secured by the Company's qualifying loan portfolio (generally, residential mortgage loans), reduced by outstanding advances and by collateral pledges securing FHLBB letters of credit collateralizing public unit deposits. The Company also has an unsecured Federal Funds credit line with the FHLBB with an available balance of $500,000 and no outstanding advances during any of the respective comparison periods. Interest on the credit line is chargeable at a rate determined daily, approximately 25 basis points higher than the rate paid on federal funds sold.

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

	June 30, 2016	December 31, 2015	June 30, 2015
Long-Term Advances			
FHLBB term advance, 0.00%, due February 26, 2021(1)	$ 350,000	$ 0	$ 0
Short-Term Advances			
FHLBB term advances, 0.65%, 0.48% and 0.24% fixed rate, due August 10, 2016, February 26, 2016 and July 31, 2015, respectively	5,000,000	10,000,000	10,000,000
FHLBB term advances, 0.54% and 0.24% fixed rate, due August 24, 2016 and August 28, 2015, respectively	10,000,000	0	10,000,000
FHLBB term advances, 0.54% and 0.24% fixed rate, due August 26, 2016 and September 30, 2015, respectively	15,000,000	0	10,000,000
	30,000,000	10,000,000	30,000,000
Total Advances	$ 30,350,000	$ 10,000,000	$ 30,000,000

(1)
The Company borrowed $350,000 under the FHLBB's Jobs for New England (JNE) program, a program dedicated to supporting job growth and economic development throughout New England. The FHLBB is providing a subsidy, funded by the FHLBB's earnings, to write down interest rates to zero percent on JNE advances that finance qualifying loans to small businesses. JNE advances must support lending to small businesses in New England that create and/or retain jobs, or otherwise contribute to overall economic development activities.

The Company has a Borrower-in-Custody arrangement with the FRBB secured by eligible commercial loans, commercial real estate loans and home equity loans, resulting in an available credit line of $71,600,549, $72,345,479, and $87,450,601, respectively, at June 30, 2016, December 31, 2015 and June 30, 2015. Credit advances under this FRBB lending program are overnight advances with interest chargeable at the primary credit rate (generally referred to as the discount rate), currently 100 basis points. The Company had no outstanding advances against this credit line during any of the periods presented.

The Company has unsecured credit lines with two of its correspondent banks with available lines totaling $7,500,000 as of the balance sheet dates presented. There were no outstanding advances against either of these lines during any of the respective comparison periods.

Securities sold under agreements to repurchase provide another funding source for the Company. At June 30, 2016, December 31, 2015 and June 30, 2015, the Company had outstanding repurchase agreement balances of $26,837,466, $22,073,238 and $24,403,315, respectively, as of such dates. These repurchase agreements mature and are repriced daily.

The following table illustrates the changes in shareholders' equity from December 31, 2015 to June 30, 2016:

Balance at December 31, 2015 (book value $9.79 per common share)	$ 51,414,656
Net income	2,464,693
Issuance of stock through the Dividend Reinvestment Plan	440,672
Dividends declared on common stock	(1,600,917)
Dividends declared on preferred stock	(43,750)
Unrealized gain on available-for-sale securities during the period, net of tax	278,885
Balance at June 30, 2016 (book value $10.04 per common share)	$ 52,954,239

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 2015 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, 2016, the Bank was considered well capitalized under the regulatory capital framework for Prompt Corrective Action and the Company exceeded all applicable consolidated regulatory capital guidelines.

The following table shows the Company's actual capital ratios and those of its subsidiary, as well as applicable regulatory capital requirements, as of the dates indicated.

	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, 2016						
Common equity tier 1 capital						
(to risk-weighted assets)						
Company	$ 53,805	12.12 %	$ 19,975	4.50 %	N/A	N/A
Bank	$ 53,049	11.96 %	$ 19,952	4.50 %	$ 28,819	6.50 %

Tier 1 capital (to risk-weighted assets)						
Company	$ 53,805	12.12 %	$ 26,633	6.00 %	N/A	N/A
Bank	$ 53,049	11.96 %	$ 26,603	6.00 %		$ 8.00 %
Total capital (to risk-weighted assets)						
Company	$ 58,926	13.28 %	$ 35,511	8.00 %	N/A	N/A
Bank	$ 58,170	13.12 %	$ 35,470	8.00 %	$ 44,295	10.00 %
Tier 1 capital (to average assets)						
Company	$ 53,805	9.19 %	$ 23,410	4.00 %	N/A	N/A
Bank	$ 53,049	9.07 %	$ 23,392	4.00 %	$ 29,240	5.00 %
December 31, 2015:						
Common equity tier 1 capital						
Company	$ 52,555	12.38 %	$ 19,100	4.50 %	N/A	N/A
Bank	$ 52,000	12.27 %	$ 19,072	4.50 %	$ 27,549	6.50 %
Tier 1 capital (to risk-weighted assets)						
Company	$ 52,555	12.38 %	$ 25,467	6.00 %	N/A	N/A
Bank	$ 52,000	12.27 %	$ 25,430	6.00 %	$ 33,906	8.00 %
Total capital (to risk-weighted assets)						
Company	$ 57,610	13.57 %	$ 33,956	8.00 %	N/A	N/A
Bank	$ 57,056	13.46 %	$ 33,906	8.00 %	$ 42,383	10.00 %
Tier 1 capital (to average assets)						
Company	$ 52,555	9.01 %	$ 23,324	4.00 %	N/A	N/A
Bank	$ 52,000	8.93 %	$ 23,301	4.00 %	$ 29,126	5.00 %

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

The table above reflects the Basel III regulatory capital ratio requirements that became effective on January 1, 2015. Beginning in 2016, an additional capital conservation buffer has been 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 capital 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, 2016, 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, and 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 "CHANGES IN FINANCIAL CONDITION", “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 2015 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, 2016, 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, 2016 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, 2016 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 1A. Risk Factors

Before deciding to invest in our common stock or deciding to maintain or increase your investment, you should carefully consider the risks described below, in addition to the other information contained in this report and in our other filings with the SEC, including but not limited to, our annual report on Form 10-K for the year ended December 31, 2015. The risks and uncertainties described below and in our other filings are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs, our business, financial condition and results of operations could be adversely affected, which in turn could result in a decline in the value of your investment, including the possible loss of your invested funds.

Our common stock is not exchange-listed and our trading volume is less than that of larger public companies, which can contribute to volatility in our stock price and adversely affect the price and liquidity of an investment in our common stock.

Our common stock is not traded on any securities exchange. Bid and ask quotations and trades in our stock made by certain brokerage firms are reported through the OTC Link® Alternative Trading System (ATS) maintained by a subsidiary of the OTC Markets Group, Inc. However, trading in our stock is sporadic. A public trading market for a particular class of stock having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of numerous buyers and sellers of that stock at any given time, which in turn depends on the individual decisions of investors and general economic and market conditions over which issuers have no control. The trading market in our stock does not exhibit these characteristics. The trading history of our common stock has been characterized by relatively low trading volume. This lack of an active public market means that the value of a shareholder’s investment in our common stock may be subject to sudden fluctuations, as individual trades have a greater effect on our reported trading price than would be the case in a broad public market with significant daily trading volume.

The market price of our common stock may also be subject to fluctuations in response to numerous other factors, including the factors discussed below, regardless of our actual operating performance. The possibility of such fluctuations occurring is increased due to the illiquid nature of the trading market in our common stock. Therefore, a shareholder may be unable to sell our common stock at or above the price at which it was purchased, or at or above the current market price or at the time of his or her choosing.

Our ability to pay dividends on our capital stock and to service our debt depends primarily on dividends from our subsidiary and may be subject to regulatory limitations.

As a holding company, our cash flow typically comes from dividends that our bank subsidiary, Community National Bank, pays to us. Therefore, our ability to pay dividends on our common and preferred stock and to service our subordinated debentures, depends on the dividends we receive from the Bank. Dividend payments from the Bank are subject to federal statutory and regulatory limitations, generally based on net profits and retained earnings and may be subject to additional prudential considerations, such as capital planning needs. In addition, Federal Reserve policy, which applies to us as a registered bank holding company, provides that dividends by bank holding companies should generally be paid out of current earnings looking back over a one-year period and should not be paid if regulatory capital levels are deemed insufficient. Our failure to pay dividends on our common or preferred stock or our failure to service our debt could have a material adverse effect on the market price of our common stock. Moreover, if sufficient dividend funding from the Bank is not available to cover all our requirements, we would be obligated first to pay interest and, if applicable, principal on our debentures and then to pay dividends on our preferred stock before making any dividend payments on our common stock.

Although we have generally paid quarterly cash dividends on our common stock, we cannot provide any assurance that dividends will continue to be paid in the future or that the dividend rate will not be reduced in future periods.

Changes in interest rates could adversely affect our business, results of operations and financial condition.

Our results of operations depend substantially on our net interest income, which is the difference between the interest earned on loans, securities and other interest-earning assets and the interest paid on deposits and borrowings. These rates are highly sensitive to many factors beyond our control, including general economic conditions, inflation, recession, unemployment, money supply and the monetary policies of the Federal Reserve. If the interest rate we pay on deposits and other borrowings increases at a faster rate than the interest rate we earn on loans and other investments, our net interest income and therefore earnings, could be adversely affected. Conversely, our earnings could be adversely affected if the interest rate we earn on loans and other investments falls more quickly than the interest rate we pay on deposits and borrowings. While we have taken measures intended to manage the risks of operating in a changing interest rate environment, we cannot provide assurance that these measures will be effective in avoiding undue interest rate risk.

Increases in interest rates also can affect the value of loans and other assets, such as investment securities, and may affect our ability to realize gains on the sale of assets. For example, we originate loans for sale to secondary market investors, and increasing interest rates may reduce the volume of loans originated for sale, resulting in a reduction in the fee income we earn on such sales. Further, increasing interest rates may adversely affect the ability of borrowers to pay the principal or interest on loans, resulting in an increase in our non-performing assets and a reduction in our income.

In addition, increases in interest rates will increase the dividend rate on our Series A preferred stock, which is tied to the prime rate, and the interest rate on our debentures, which is tied to the London Interbank Offered Rate (LIBOR). Higher preferred stock dividend payments and debenture interest costs would decrease the amount of funds available for payment of dividends on our common stock.

We are subject to liquidity risk because we rely primarily on deposit-gathering to satisfy our funding needs.

Our primary source of liquidity is through the growth of deposits, which provide low cost funding for our operations. If we are unable to attract enough deposits in our market area to fund loan growth and our other funding needs, then we may be forced to purchase deposits or to borrow through the FHLBB or in the capital markets. Purchased deposits and borrowings would tend to be more expensive than funding through core deposits and therefore could have a negative impact on our results of operations, cash flow, liquidity and regulatory capital levels.

We are subject to credit risk and if our allowance for loan losses is not adequate to cover actual losses, our earnings could decrease.

We are exposed to the risk that our borrowers may default on their obligations. A borrower's default on its obligations under one or more loans may result in lost principal and interest income and increased operating expenses as a result of the allocation of management time and resources to the collection and work-out of the credit. In certain situations, where collection efforts are unsuccessful or acceptable work-out arrangements cannot be reached, we may have to write off the loan in whole or in part. In loan default situations, we may acquire real estate or other assets, if any, that secure the loan, through foreclosure or other similar available remedies, and the amount owed under the defaulted loan could exceed the value of the collateral acquired.

We periodically make a determination of the adequacy of our allowance for loan losses based on available information, including, but not limited to, the quality of the loan portfolio as indicated by loan risk ratings, economic conditions, the value of the underlying collateral and the level of non-accruing and criticized loans. Management relies on its loan officers and credit quality reviews, its experience and its evaluation of economic conditions, among other factors, in determining the amount of the provision required for the allowance. Provisions to this allowance result in an expense for the period. If, as a result of general economic conditions, previously incorrect assumptions, an increase in defaulted loans, or other pertinent factors, we determine that additional increases in the allowance for loan losses are necessary, additional expenses may be incurred.

Determining the amount of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and trends, all of which may undergo material changes. At any time, we are likely to have loans in our portfolio that will result in losses but that have not been identified as nonperforming or potential problem credits. We cannot be certain that we will be able to identify deteriorating credits before they become nonperforming assets or that we will be able to limit or correctly estimate losses on those loans that are identified. The Office of the Comptroller of the Currency (OCC), our subsidiary Bank’s primary federal regulator, reviews the loan portfolio from time to time as part of its regulatory examination and may request that we increase the allowance for loan losses. Changes in economic conditions or individual business or personal circumstances affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance. In addition, if charge-offs in future periods exceed the allowance for loan losses, we will need to make additional provisions to restore the allowance. Any provisions to increase or restore the allowance for loan losses would decrease our net income and, possibly, our capital, and could have an adverse effect on our results of operations and financial condition.

Prepayments of loans may negatively impact our business.

Generally, our customers may prepay the principal amount of their outstanding loans at any time. The speeds at which such prepayments occur, as well as the size of such prepayments, are within our customers' discretion and may be affected by many factors beyond our control, including changes in prevailing interest rates. If customers prepay the principal amount of their loans, and we are unable to lend those funds to other borrowers or invest the funds at the same or higher interest rates, our interest income will be reduced. A significant reduction in interest income could have a negative impact on our results of operations and financial condition.

Adverse local economic conditions could negatively affect our business.

Unlike many larger banking institutions, our banking operations are not geographically diversified. Substantially all of our loans, deposits and fee income are generated in northeastern and central Vermont. As a result, poor economic conditions in northeastern and central Vermont could adversely impact the demand for loans and our other financial products and services and may cause us to incur losses associated with higher default rates and decreased collateral values in our loan portfolio. Much of our market area is located in the poorest region of the state. Economic conditions in northeastern and central Vermont are subject to various uncertainties, to a greater degree than other regions of the state. If economic conditions in our market area decline, we expect that our level of problem assets would increase and our prospects for growth would be impaired.

Our banking business is highly regulated, and we may be adversely affected by changes in law and regulation.

We are subject to regulation and supervision by the Federal Reserve, and the Bank is subject to regulation and supervision by the OCC and the FDIC. Federal laws and regulations govern numerous matters affecting us, including changes in the ownership or control of banks and bank holding companies, maintenance of adequate capital, the permissible types, amounts and terms of loans and investments, permissible nonbanking activities, the level of reserves against deposits and restrictions on dividend payments. The OCC possesses the power to issue cease and desist orders to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulation, and the Federal Reserve possesses similar powers with respect to bank holding companies. We are also subject to certain state laws, including certain Vermont laws designed to protect consumers of banking products and services. These and other federal and state laws and restrictions limit the manner in which we may conduct business and obtain financing.

Our business is highly regulated and the various federal and state laws, rules, regulations, and supervisory guidance, policies and interpretations applicable to us are subject to regular modification and change. It is impossible to predict the nature of such changes or their competitive impact on the banking and financial services industry in general or on our banking operations in particular. Such changes may, among other things, increase our cost of doing business, limit our permissible activities, or affect the competitive balance between banks and other financial institutions. In addition, failure to comply with applicable laws, regulations, policies or supervisory guidance could result in enforcement and other legal actions by federal or state authorities, including criminal and civil penalties, the loss of FDIC insurance, revocation of a banking charter, other sanctions by regulatory agencies, civil money penalties, litigation by private parties, and/or reputational damage, which could have a material adverse effect on our business, results of operations and financial condition.

The requirement to record certain assets and liabilities at fair value may adversely affect our financial results.

We report certain assets, including investment securities, at fair value. Generally, for assets that are reported at fair value we use quoted market prices or valuation models that utilize market data inputs to estimate fair value. Because we carry these assets on our books at their estimated fair value, we may incur losses even if the asset in question presents minimal credit risk. For example, we could be required to recognize other-than-temporary impairments in future periods with respect to investment securities in our portfolio. The amount and timing of any impairment recognized will depend on the severity and duration of the decline in fair value of our investment securities and our estimation of the anticipated recovery period.

Market changes in delivery of financial services may adversely affect demand for our services.

Channels for delivering financial products and services to our customers are evolving rapidly, with less reliance on traditional branch facilities and more use of online and mobile banking. We compete with larger providers that have significant resources to dedicate to improved technology and delivery channels. We periodically evaluate the profitability of our branch system and other office and operational facilities to improve efficiencies. However, identification and closure of unprofitable operations and facilities can lead to restructuring charges and introduce the risk of disruptions to revenues and customer relationships.

Substantial competition could adversely affect us.

Banking is a highly competitive business. We compete actively for loan, deposit, and other financial services business in northeastern and central Vermont. Our competitors include a number of state and national banks and tax-advantaged credit unions, as well as financial and nonfinancial firms that offer services similar to those that we offer. Some of our competitors are community or regional banks that have strong local market positions. Our large bank competitors, in particular, have substantial capital, technology and marketing resources that are well in excess of ours. These larger financial institutions may have greater access to capital at a lower cost and have a higher per-borrower lending limit than our Company, which may adversely affect our ability to compete with them effectively.

In addition, technology and other changes increasingly allow parties to complete financial transactions electronically, without the need for a physical presence in a market area. We are therefore likely to face increasing competition from out-of-market competitors, including national firms. Moreover, in many cases transactions may now be completed without the involvement of banks. For example, consumers can pay bills and transfer funds over the Internet and by telephone without banks. Many non-bank financial service providers have lower overhead costs and are subject to fewer regulatory constraints. If consumers do not use banks to complete their financial transactions, we could potentially lose fee income, deposits and income generated from those deposits.

Systems failures, interruptions or breaches of security could disrupt our business and have an adverse effect on our business, results of operations and financial condition.

We depend upon data processing, software, communication, and information access and exchange on a variety of computing platforms and networks and over the internet, and we rely on the services of a variety of third party vendors to meet our data processing and communication needs. Consequently, we are subject to certain related operational risks, both in our operations and through those of our service providers. These risks include, but are not limited to, data processing system failures and errors, inadequate or failed internal processes, customer or employee fraud, cyberattacks and catastrophic failures resulting from terrorist acts or natural disasters. Despite the safeguards we maintain, we cannot be certain that all of our systems are entirely free from vulnerability to attack or other technological difficulties or failures. Information security risks have increased significantly due to the use of online, telephone and mobile banking channels by customers and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. Our technologies, systems and networks and those of certain of our service providers as well as our customers' devices, may be the target of cyberattacks, computer viruses, malicious code, phishing attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers' confidential, proprietary and other information, the theft of customer assets through fraudulent transactions or disruption of our or our customers' or other third parties' business operations. If information security is breached or other technology difficulties or failures occur, information may be lost or misappropriated, services and operations may be interrupted and we could be exposed to claims from customers. While we have instituted safeguards and controls, we cannot provide assurance that they will be effective in all cases, and their failure in some circumstances could have a material adverse effect on our business, financial condition or results of operations.

Changes in accounting standards could materially affect our financial statements.

From time to time the Financial Accounting Standards Board and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements and applicable disclosures in our SEC filings. These changes can be very difficult to predict and can materially affect how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements. Implementation of accounting changes, with associated professional consultation and advice, can be costly, even if the change will not have any material effect on our financial statements.

Our internal controls and procedures may fail or be circumvented.

Management periodically reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. However, any system of controls, no matter how well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurance that the objectives of the system are met. Any failure or circumvention of our controls and procedures, or failure to comply with regulations related to controls and procedures, could have a material adverse effect on our business, results of operations and financial condition.

Changes in our tax rates could affect our future results.

Our future effective tax rates and tax liabilities could be unfavorably affected by increases in applicable tax rates and changes in federal or state tax laws, regulations and agency interpretations. Our effective tax rates could also be affected by changes in the valuation of our deferred tax assets and liabilities or by the outcomes of any examinations of our income tax returns by the Internal Revenue Service or our state income, franchise, sales and use or other tax returns by the Vermont Department of Taxes.

Our business could suffer if we fail to attract and retain skilled personnel.

Our success depends, in large part, on our ability to attract and retain key personnel, including executives. Any of our current employees, including our senior management, may terminate their employment with us at any time. Competition for qualified personnel in our industry can be intense and our geographic market area might not be favorably perceived by potential executive management candidates. We may not be successful in attracting and retaining sufficient qualified personnel. We may also incur increased expenses and be required to divert the attention of other senior executives to recruit replacements for the loss of any key personnel.

Environmental liability associated with our lending activities could result in losses.

In the course of business, we may acquire, through foreclosure, properties securing loans originated or purchased that are in default. Particularly in commercial real estate lending, there is a risk that material environmental violations could be discovered on these properties. In this event, we might be required to remedy these violations at the affected properties at our sole cost and expense. The cost of remedial action could substantially exceed the value of affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have an adverse effect on our results of operations and financial condition.

We have become subject to more stringent capital requirements.

As of January 1, 2015, we were required to comply with new capital rules issued by the federal banking agencies that implemented the Basel II capital standards and established the minimum capital levels required under the Dodd-Frank Act. These new capital rules require banks and bank holding companies to maintain a minimum common equity Tier I capital ratio of 4.5% of risk-weighted assets, a minimum Tier I capital ratio of 6.0% of risk-weighted assets, a minimum total capital ratio of 8.0% of risk-weighted assets, and a minimum leverage ratio of 4.0%. Subject to a transition period, the new capital rules require banks and bank holding companies to maintain a 2.5% common equity Tier I capital conservation buffer above the minimum risk-based capital requirements for adequately capitalized institutions to avoid restrictions on the ability to pay dividends, discretionary bonuses, and to engage in share repurchases. The Company and the Bank met these requirements as of December 31, 2015. The new rules permanently grandfathered trust preferred securities issued before May 19, 2010 for institutions with less than $15.0 billion in total assets as of December 31, 2009, subject to a limit of 25% of Tier I capital. Our trust preferred securities qualify for this grandfather treatment. The new rules increased the required capital for certain categories of assets, including high volatility construction real estate loans and certain exposures related to securitizations, but retained the previous capital treatment of residential mortgages. Under the new rules, we were permitted to make, and did make, a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital.

Continued implementation of these standards, or any other new regulations, may adversely affect our ability to pay dividends, or require us to reduce business levels or raise capital, including in ways that may adversely affect our results of operations or financial condition.

We may be required to write down goodwill and other identifiable intangible assets.

When we acquire a business, a portion of the purchase price of the acquisition may be allocated to goodwill and other identifiable intangible assets. The excess of the purchase price over the fair value of the net identifiable tangible and intangible assets acquired determines the amount of the purchase price that is allocated to goodwill acquired. At December 31, 2015, our goodwill and other identifiable intangible assets totaled approximately $15.7 million, which included goodwill and core deposit intangible assets created in connection with the LyndonBank acquisition in 2007 of approximately $11.5 million and $4.2 million, respectively. Under current accounting standards, if we determine goodwill or intangible assets are impaired, we would be required to write down the value of these assets to fair value. We conduct a review each year, or more frequently if events or circumstances warrant such, to determine whether goodwill is impaired. We last completed a goodwill impairment analysis as of December 31, 2015, and concluded goodwill was not impaired. We conduct a review of our other intangible assets for impairment should events or circumstances warrant such. There were no triggers for such review for impairment for other intangible assets for the year ended December 31, 2015. We cannot provide assurance that we will not be required to take an impairment charge in the future. Any impairment charge would have a negative effect on our shareholders' equity and financial results and may cause a decline in our stock price.

We are not able to offer all of the financial services and products of a financial holding company.

Banks, securities firms, and insurance companies can now combine under a “financial holding company” umbrella. Financial holding companies can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting), and merchant banking. Some of our competitors have elected to become financial holding companies. We offer only traditional banking products and, through our affiliate, Community Financial Services Group, LLC, trust and investment management services.

Our organizational documents may have the effect of discouraging a third party from acquiring us.

Our Amended and Restated Articles of Association and By-Laws contain provisions, including a staggered board of directors and a supermajority vote requirement, that make it more difficult for a third party to gain control or acquire us without the consent of the board of directors. These provisions could also discourage proxy contests and may make it more difficult for dissident shareholders to elect representatives as directors and take other corporate actions.

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

The following table provides information as to the purchases of the Company's common stock during the three months ended June 30, 2016, by the Company or by any affiliated purchaser (as defined in SEC Rule 10b-18).

For the period:	Total Number of Shares Purchased(1)(2)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period
April 1 - April 30	7,000	$ 13.90	N/A	N/A
May 1 - May 30	4,134	14.00	N/A	N/A
June 1 - June 30	700	14.00	N/A	N/A
Total	11,834	$ 13.94	N/A	N/A

(1) All 11,834 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 (Principal Executive Officer) of the Company pursuant to section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2 - Certification from the Treasurer (Principal 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 (Principal 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 Treasurer (Principal 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, 2016 formatted in eXtensible Business Reporting Language (XBRL): (i) the unaudited consolidated balance sheets, (ii) the unaudited consolidated statements of income for the three and six month interim periods ended June 30, 2016 and 2015, (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 11, 2016	/s/ Stephen P. Marsh Stephen P. Marsh, Board Chair & Chief Executive Officer (Principal Executive Officer)
DATED: August 11, 2016	/s/ Louise M. Bonvechio Louise M. Bonvechio, Treasurer (Principal Financial Officer)