

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

COMMUNITY BANCORP /VT

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015

OR

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

For the transition period from _____ to _____

Commission File No. 000-16435



Vermont
(State of Incorporation)

03-0284070
(IRS Employer Identification Number)

Address of Principal Executive Offices: 4811 US Route 5, Derby, Vermont 05829

Registrant's telephone number, including area code: (802) 334-7915

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

Title of Each Class	Name of each exchange on which registered
NONE	NONE

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

Common Stock - \$2.50 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

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

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

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 definition 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 Smaller reporting company
(Do not check if a smaller reporting company)

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

As of June 30, 2015 the aggregate market value of the voting stock held by non-affiliates of the registrant was \$66,486,258, based on a per share trade price on June 30, 2014 of \$14.35, as reported on the OTC Link ATS® system maintained by the OTC Markets Group Inc. For purposes of the calculation, all directors and executive officers were deemed to be affiliates of the registrant. However, such assumption is not intended as an admission of affiliate status as to any such individual.

There were 4,994,888 shares outstanding of the issuer's class of common stock as of the close of business on March 16, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the year ended December 31, 2015 (2015 Annual Report) are incorporated by reference to Part I of this Report.

Portions of the 2015 Annual Report are incorporated by reference to Part II of this report.

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on May 17, 2016 (2016 Annual Meeting) are incorporated by reference to Part III of this report.

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PART I

Item 1. The Business

Organization and Operation

The Company. Community Bancorp. (the "**Company**") was organized under the laws of the State of Vermont in 1982 and became a registered bank holding company under the Bank Holding Company Act of 1956, as amended, in October 1983 when it acquired all of the voting shares of Community National Bank (the "**Bank**"), headquartered in Derby, Vermont. The Bank is the only subsidiary of the Company and principally all of the Company's business operations are presently conducted through it. Therefore, the following narrative and the other information about the Company contained in this report are based primarily on the Bank's operations.

The Bank; Banking Services. Community National Bank was organized in 1851 as the Peoples Bank, and was subsequently reorganized as the National Bank of Derby Line in 1865. In 1975, after 110 continuous years of operation as the National Bank of Derby Line, the Bank acquired the Island Pond National Bank and changed its name to "Community National Bank." On December 31, 2007, the Company completed its acquisition of LyndonBank, a Vermont bank headquartered in Lyndonville, Vermont, in a cash merger transaction. As a result of the merger, the Company expanded its existing branch network in Caledonia and Orleans Counties and expanded it into Lamoille and Franklin Counties. In addition to its main office in Derby, the Company currently maintains eleven branch offices in northeastern and central Vermont.

The Company, through Community National Bank, provides a broad range of retail banking services to the residents, businesses, nonprofit organizations and municipalities in northeastern and central Vermont. Significant services offered by the Company include:

- *Business Banking* – The Company offers a range of credit products for a variety of general business purposes, including financing for commercial business properties, equipment, inventories and accounts receivable, as well as letters of credit. The Company also offers business checking and other deposit accounts, cash management services, repurchase agreements, automated clearing house (ACH) and wire transfer services and remote deposit capture.
- *Commercial Real Estate Lending* – The Company provides a range of products to meet the financing needs of commercial developers and investors, residential builders and developers and community development entities. Credit products are available to facilitate the purchase of land and/or build structures for business use and for investors who are developing residential or commercial property, as well as for real estate secured financing of existing businesses.
- *Residential Real Estate Lending* – The Company provides products to help meet the home financing needs of consumers, including conventional permanent and construction/permanent (fixed, adjustable, or variable rate) financing arrangements, and FHA/VA loan products. The Company offers both fixed-rate and adjustable rate residential mortgage (ARM) loans and home equity loans. A portion of the first lien residential mortgage loans originated by the Company are sold into the secondary market. The Company offers these products through its network of banking offices. The Company does not originate subprime residential real estate loans.
- *Retail Credit* – The Company provides a full-range of loan products to meet the needs of consumers, including personal loans, automobile loans and boat/recreational vehicle loans. In addition, through a marketing alliance with a third party, the Company offers credit cards.
- *Municipal and Institutional Banking* – The Company provides banking services to meet the needs of state and local governments, schools, charities, membership and not-for-profit associations including deposit account services, tax-exempt loans, lines of credit and term loans. In addition, through an arrangement with the Federal Home Loan Bank of Boston ("**FHLBB**"), the Company offers a secured deposit product to its municipal customers, collateralized by FHLBB letters of credit.
- *Retail Banking* – The Company provides a full-range of consumer banking services, including checking accounts, savings programs, automated teller machines (ATMs), debit/credit cards, night deposit facilities and online, mobile and telephone banking.

The Company focuses on establishing and maintaining long-term relationships with customers and is committed to providing for the financial services needs of the communities it serves. In particular, the Company continues to emphasize its relationships with individual customers and small-to-medium-sized businesses. The Company actively evaluates the banking needs of its markets, including low- and moderate-income areas, and offers products that are responsive to the needs of its customer base. The Company's markets provide a mix of real estate, commercial and industrial, municipal and consumer lending opportunities, as well as a stable core deposit base. Additional information about our business, including the Company's deposit-taking activities, lending activities and credit and risk management policies, is set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in the 2015 Annual Report filed as Exhibit 13 to this Report and is incorporated herein by reference.

Trust Company Affiliate. In 2002, the Bank transferred its trust operations to a newly formed Vermont-chartered nondepository trust and investment management affiliate, Community Financial Services Group, LLC, based in Newport, Vermont ("**CFSG**"). The Bank's ownership interest in CFSG is held indirectly, through Community Financial Services Partners, LLC, a Vermont limited liability company ("**CFSG Partners**"), which owns 100% of the limited liability company equity interests of CFSG. Immediately following transfer of its trust operations to CFSG, the Bank sold a two-thirds interest in CFSG Partners, equally to the National Bank of Middlebury, headquartered in Middlebury, Vermont and Guaranty Bancorp Inc., the bank holding company parent of Woodsville Guaranty Savings Bank, headquartered in Woodsville, New Hampshire. CFSG offers fiduciary services throughout the market areas of the three owner financial institutions and leases space from them in some of their branch offices.

Statutory Business Trust. In 2007, the Company formed CMTV Statutory Trust I (the "**Trust**"), a Delaware statutory business trust, for the purpose of issuing \$12.5 million of trust preferred securities and lending the proceeds to the Company. This funding provided a portion of the cash consideration paid by the Company in the acquisition of LyndonBank and provided additional regulatory capital. The Trust is a variable interest entity for which the Company is not the primary beneficiary, within the meaning of applicable accounting standards. Accordingly, the Trust is not consolidated with the Company for financial reporting purposes.

Tax Credit Entity. In 2011, the Company formed a limited liability company ("**LLC**") to facilitate its purchase of federal New Markets Tax Credits ("**NMTCs**") under an investment structure designed by a local community development entity. The LLC is a variable interest entity for which, in the context of the overall NMTC structure, the Company is not the primary beneficiary, within the meaning of applicable accounting standards. Accordingly, the LLC is not consolidated with the Company for financial reporting purposes.

Competition

All of the Bank's offices are located in northern and central Vermont. The Bank's main office is located in Derby, in Orleans County. In addition to its main office, the Bank has four other banking offices in Orleans County, one office in Essex County, two offices in Caledonia County, two offices in Washington County and one office each in Franklin and Lamoille Counties. (See Part I, Item 2 (Properties) of this report.)

The Bank competes in all aspects of its business with other banks and credit unions in northern and central Vermont, including three of the largest banks in the state, which maintain branch offices throughout the Bank's service area. Changes in the regulatory framework of the banking industry during the past decade have broadened the competition for commercial bank products, such as deposits and loans, to include not only traditional rivals such as banks, savings banks and credit unions, but also many non-traditional rivals such as insurance companies, brokerage firms, mutual funds and consumer and commercial finance and leasing companies. In addition, many out-of-market nationwide banks, nonbank lenders and other financial service firms operate in the Company's market areas through mass marketing solicitations by mail, radio, television, the internet and email. At the same time, technological changes have facilitated remote delivery of financial services by bank and nonbank competitors outside the context of a traditional branch bank network, thereby intensifying competition from out-of-market firms.

Competition from the tax-exempt credit union industry has also intensified in recent years. A number of the Bank's credit union competitors, including the largest state-chartered Vermont credit union, have converted in recent years from an employment based common bond to a community common bond, thereby significantly increasing their fields of membership in the Bank's market areas. Because federal law subsidizes credit unions by giving them a general exemption from federal income taxes, they have a significant pricing advantage over commercial banks for their deposit and loan products. This pricing advantage, coupled with the relaxing of membership and regulatory restrictions on product offerings, has resulted in increased competition for the Bank from this tax exempt sector of the financial services industry.

In order to compete with other bank and non-bank service providers, the Company stresses the community orientation of its banking operations and relies to a large extent upon personal relationships established by its officers, directors and employees with their customers and on their strong ties to the local community. In addition, management's knowledge of the local community assists it in tailoring the Company's products and services to meet the needs of its customer base. Although competition is strong throughout the Company's market area, management believes that the Company can continue to compete effectively, in view of its local market knowledge and community ties and its understanding of customer needs.

Employees

As of December 31, 2015, the Company did not have any employees at the holding company level. However, as of such date, the Bank employed 127 full-time employees and 17 part-time employees. The Bank is not a party to any collective bargaining agreement and management of the Bank considers its employee relations to be good.

Regulation and Supervision

The following discussion describes elements of an extensive regulatory framework applicable to bank holding companies and banks, to which the Company and the Bank are subject. Regulation of banks and bank holding companies is intended primarily for the protection of depositors and the Deposit Insurance Fund of the FDIC, rather than for the protection of shareholders and creditors.

The Company's earnings are affected by general economic conditions, management policies, changes in federal and state laws and regulations and actions of various regulatory authorities, including those referred to below. Banking is a highly regulated business and proposals to change the laws and regulations to which the Company and the Bank are subject are frequently introduced at both the federal and state levels. The likelihood and timing of any such changes and the impact such changes may have on the Company and the Bank is impossible to predict with any certainty.

The following summary does not purport to be complete and is qualified by reference to the particular statutes and regulations.

Dodd-Frank Act. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "**Dodd-Frank Act**") represents a comprehensive revision and restructuring of many aspects of financial services industry regulation and impacts practically all aspects of a banking organization. Implementation of the Dodd-Frank Act continued throughout 2015, including through various agency rulemakings. Many of the provisions of the Dodd-Frank Act are designed to reduce systemic risk from large, complex "systemically significant" financial institutions, and thus do not apply to a smaller banking organization such as the Company. Nevertheless, certain of its provisions do directly apply to the Company and others will indirectly impact its operations, as the Dodd-Frank Act continues to reshape the financial services environment. Among other things, the Act:

- Established a new independent agency, the Consumer Financial Protection Bureau ("**CFPB**"), with centralized responsibility for implementing and (with respect to large organizations) enforcing and examining compliance with federal consumer financial laws. Although the CFPB does not have enforcement or examination authority over smaller banking organizations such as the Company, its regulatory standards and mandates will ultimately affect all financial service providers;
- Applies the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies, savings and loan holding companies and systemically important non-bank financial companies on a consolidated basis. These changes prohibit the use of additional trust preferred securities as Tier 1 capital, but the Company's existing trust preferred securities are grandfathered;
- Requires debit card interchange transaction fees charged by large financial institutions to be reasonable and proportional to the cost incurred by the issuer for the transaction. The Federal Reserve adopted regulations in 2011 establishing such fee standards, eliminating exclusivity arrangements between issuers and networks for debit card transactions and limiting restrictions on merchant discounting for use of certain payment forms and minimum or maximum amount thresholds as a condition for acceptance of credit cards. Although smaller institutions such as the Company are not subject to the interchange fee restrictions, it is possible that, over time, competitive pricing pressures in the marketplace may operate to make the restrictions applicable to them by default;
- Requires public companies to periodically seek "say on executive pay" and "say on frequency" votes of shareholders, and in some circumstances, a "say on golden parachute" vote of shareholders. As a smaller reporting company, these vote requirements first became applicable for the Company's 2013 annual meeting of shareholders;
- Allowed depository institutions to pay interest on demand deposits effective July 21, 2011;
- Established by statute the Federal Reserve's "source of strength" doctrine mandating holding company financial support of subsidiary insured depository institutions;

- Eliminated state restrictions on de novo interstate branching;
- Established new requirements related to mortgage lending, including prohibitions against payment of steering incentives and provisions relating to underwriting standards, disclosures, appraisals and escrows. Many of these provisions have been implemented through CFPB rulemakings;
- Weakened federal preemption standards for national banks and federal savings associations and their operating subsidiaries by granting states greater authority to enforce consumer protection laws against them;
- Provided permanent relief for smaller reporting companies, such as the Company, from the requirements of Section 404 of the Sarbanes-Oxley Act for auditor attestation of management's assessment of internal controls and their effectiveness;
- Requires a bank holding company to be well capitalized and well managed to receive regulatory approval of an interstate bank acquisition; and
- Permanently increases the FDIC's standard maximum deposit insurance amount to \$250,000, changes the FDIC insurance assessment base to assets rather than deposits and increases the reserve ratio for the deposit insurance fund to ensure the future strength of the fund.

The Company will continue to monitor the impact of ongoing regulatory implementation of this significant legislation.

Bank Holding Company Act. As a registered bank holding company, the Company is subject to on-going regulation, supervision and examination by the Board of Governors of the Federal Reserve System ("**Federal Reserve**"), under the Bank Holding Company Act of 1956, as amended (the "**Act**"). A bank holding company for example, must generally obtain the prior approval of the Federal Reserve before it acquires all or substantially all of the assets of any bank, or acquires ownership or control of more than 5% of the voting shares of a bank. Federal Reserve approval is also generally required before a bank holding company may acquire more than 5% of any outstanding class of voting securities of a company other than a bank or a more than 5% interest in its property.

The Act generally limits the activity in which the Company and its subsidiaries may engage to certain specified activities, including those activities which the Federal Reserve may find, by order or regulation, to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the activities that the Federal Reserve has determined to be closely related to banking are: (1) making and servicing loans that could be made by mortgage, finance, credit card or factoring companies; (2) performing the functions of a trust company; (3) certain leasing of real or personal property; (4) providing certain financial, banking or economic data processing services; (5) except as otherwise prohibited by law, acting as an insurance agent or broker with respect to insurance that is directly related to the extension of credit or the provision of other financial services or, under certain circumstances, with respect to insurance that is sold in certain small communities in which the bank holding company system maintains banking offices; (6) acting as an underwriter for credit life insurance and credit health and accident insurance directly related to extensions of credit by the holding company system; (7) providing certain kinds of management consulting advice to unaffiliated banks and non-bank depository institutions; (8) performing real estate appraisals; (9) issuing and selling money order and similar instruments and travelers checks and selling U.S. Savings Bonds; (10) providing certain securities brokerage and related services for the account of bank customers; (11) underwriting and dealing in certain government obligations and other obligations such as bankers' acceptances and certificates of deposit; (12) providing consumer financial counseling; (13) providing tax planning and preparation services; (14) providing check guarantee services to merchants; (15) operating a collection agency; and (16) operating a credit bureau. Trust and investment management activities conducted through a nondepository trust company such as the Company's affiliate, CFSG, are also considered by the Federal Reserve to be permissible nonbanking activities that are closely related to banking.

Except for CFSG's trust and investment management operations, the Company does not presently engage, directly or indirectly through any affiliate, in any other permissible non-banking activities.

A bank holding company must also obtain prior Federal Reserve approval in order to purchase or redeem its own stock if the gross consideration to be paid, when added to the net consideration paid by the company for all purchases or redemptions by the company of its equity securities within the preceding 12 months, will equal 10% or more of the company's consolidated net worth.

The Company is required to file with the Federal Reserve Board annual and quarterly reports and such additional information as the Board may require pursuant to the Act. The Board may also make examinations of the Company and any direct or indirect subsidiary of the Company.

The Company, the Bank, CFSG Partners and CFSG are all considered "affiliates" of each other for the purposes of Section 18(j) of the Federal Deposit Insurance Act ("FDIA"), as amended, and Sections 23A and 23B of the Federal Reserve Act, as amended. In particular, section 23A limits loans or other extensions of credit to, asset purchases with and investments in affiliates of the Bank to 10% of the Bank's capital and surplus. In addition, such loans and extensions of credit and certain other transactions must be collateralized in specified amounts. Section 23B requires, among other things, that certain transactions between the Bank and its affiliates must be on terms substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving non-affiliated persons. Further, the Company is prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or lease or sale of any property or the furnishing of services.

Capital Adequacy Requirements. Revised regulatory capital rules were adopted in July 2013 by the federal banking regulators to implement capital standards referred to as Basel III and developed by an international body known as the Basel Committee on Banking Supervision and to implement certain requirements of the Dodd-Frank Act. The effect of the rules is to impose higher minimum capital requirements for bank holding companies and banks. The rules apply to all national and state banks and savings associations regardless of size and bank holding companies and savings and loan holding companies with \$500 million or more in total consolidated assets. More stringent requirements apply to certain larger banking organizations. The requirements in the rule began to phase in on January 1, 2015, for the Company and the Bank. The requirements in the rule will be fully phased in by January 1, 2019.

The Basel III capital rules include certain new and higher risk-based capital and leverage requirements than those previously in place. Specifically, the following minimum capital requirements now apply to the Company and the Bank:

- a new common equity Tier 1 risk-based capital ratio of 4.5%;
- a Tier 1 risk-based capital ratio of 6% (increased from the former 4% requirement);
- a total risk-based capital ratio of 8% (unchanged from the former requirement); and
- a leverage ratio of 4% (also unchanged from the former requirement).

Under the rules, Tier 1 capital is redefined to include two components: Common Equity Tier 1 capital and additional Tier 1 capital. The new and highest form of capital, Common Equity Tier 1 capital, consists solely of common stock (plus related surplus), retained earnings, accumulated other comprehensive income, and limited amounts of minority interests that are in the form of common stock. Additional Tier 1 capital includes other perpetual instruments historically included in Tier 1 capital, such as noncumulative perpetual preferred stock. Tier 2 capital consists of instruments that currently qualify in Tier 2 capital plus instruments that the rule has disqualified from Tier 1 capital treatment. Cumulative perpetual preferred stock, formerly includable in Tier 1 capital, is now included only in Tier 2 capital. Although accumulated other comprehensive income (AOCI) is presumptively included in Common Equity Tier 1 capital, the rule provided a one-time opportunity at the end of the first quarter of 2015 for covered banking organizations to opt out of much of this treatment of AOCI. The Company and Bank made this opt-out election and, as a result, will retain the pre-existing regulatory capital treatment for AOCI.

In addition, in order to avoid restrictions on capital distributions or discretionary bonus payments to executives, a covered banking organization must maintain a "capital conservation buffer" on top of its minimum risk-based capital requirements. This buffer must consist solely of Tier 1 Common Equity, but the buffer applies to all three measurements (Common Equity Tier 1, Tier 1 capital and total capital). The capital conservation buffer will be phased in incrementally over time, becoming fully effective on January 1, 2019, and when fully-phased in, will consist of an additional amount of common equity equal to 2.5% of risk-weighted assets. As of January 1, 2016, the Company and the Bank are required to hold a capital conservation buffer of 0.625%, increasing by that amount each successive year until 2019.

In general, the rules have had the effect of increasing capital requirements by increasing the risk weights on certain assets, including high volatility commercial real estate, certain loans past due 90 days or more or in nonaccrual status, mortgage servicing rights not includable in Common Equity Tier 1 capital, equity exposures, and claims on securities firms, that are used in the denominator of the three risk-based capital ratios.

The Company's capital ratios exceeded all applicable regulatory requirements at December 31, 2015. (See Note 20 to the Company's consolidated financial statements included in Part II, Item 8 of this report for additional information about the Company's and the Bank's regulatory capital ratios.) In addition, management has modeled the potential impact of the Basel III capital rules and believes that, as of December 31, 2015, the Company and the Bank would meet all applicable capital adequacy requirements under the Basel III capital standards on a fully-phased in basis as if such requirements had been in effect at December 31, 2015.

The Basel III capital standards also revised the FDIC's "prompt corrective action" requirements (see "Prompt Corrective Action" below).

Sarbanes-Oxley Act The Sarbanes-Oxley Act of 2002 ("**SOX**") was enacted to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. SOX and the SEC's implementing regulations include provisions addressing, among other matters, the duties, functions and qualifications of audit committees for all public companies; certification of financial statements by the chief executive officer and the chief financial officer; the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement; disclosure of off-balance sheet transactions; a prohibition on personal loans to directors and officers, except (in the case of banking companies) loans in the normal course of business; expedited filing requirements for reports of beneficial ownership of company stock by insiders; disclosure of a code of ethics for senior officers, and of any change or waiver of such code; the formation of a public accounting oversight board; auditor independence; disclosure of fees paid to the company's auditors for non-audit services and limitations on the provision of such services; attestation requirements for company management and external auditors, relating to internal controls and procedures; and various increased criminal penalties for violations of federal securities laws.

Since 2007 Section 404 of SOX has required management of the Company to undertake a periodic assessment of the adequacy and effectiveness of the Company's internal controls over financial reporting. Management's report on internal control over financial reporting for 2015 is contained in Item 9A of this Report. The Company has incurred, and expects to continue to incur, costs in connection with its on-going compliance with Section 404.

As enacted in 2002 and implemented by the SEC, SOX provided that, beginning with annual financial statements for 2010, the Company's external auditors would be required to attest to, and report on, management's assessment of the Company's internal controls and the operating effectiveness of these controls. As noted above, however, the Dodd-Frank Act included permanent relief from this requirement for smaller reporting companies such as the Company.

Information on the Company's corporate governance practices, including committee charters, is available on the Company's website at www.communitybancorpvt.com.

SEC Regulatory Relief for Smaller Reporting Companies. In December 2007, the SEC adopted amendments to its disclosure and reporting rules to extend to more public companies the benefits of the simplified and less rigorous disclosure requirements previously applicable only to "small business issuers." The amendments established a new category of "smaller reporting companies" with a public float of less than \$75 million. The Company continues to qualify as a smaller reporting company as of its last measurement date (June 30, 2015). Under the amendments, smaller reporting companies are able to elect whether to comply with specified financial and nonfinancial disclosure requirements on an item by item basis. The amendments were effective February 4, 2008 and the Company has elected to avail itself of some of the relief provided in the amendments in connection with preparation of the Company's annual meeting proxy statement and its periodic reports, including this annual report on Form 10-K.

Dividends. The Company derives funds for payment of dividends to its shareholders primarily from dividends received from its subsidiary, Community National Bank. Under the National Bank Act, prior approval from the Office of the Comptroller of the Currency ("**OCC**") is required if the total of all dividends declared by a national bank in any calendar year will exceed the sum of such bank's net profits for that last year and its retained net profits for the preceding two calendar years, less any required transfers to surplus. Federal law also prohibits national banks from paying dividends greater than the bank's undivided profits after deducting statutory bad debt in excess of the bank's allowance for loan losses.

In addition, the Company and the Bank are subject to various general regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The appropriate federal or state banking agency is authorized to determine under certain circumstances relating to the financial condition of a bank or bank holding company that the payment of dividends would be an unsafe or unsound practice and to prohibit such payment.

The Federal Reserve has issued supervisory guidance on the payment of dividends and redemption and repurchases of stock by bank holding companies reflecting the expectation that a bank holding company will inform and consult with Federal Reserve supervisory staff in advance of declaring and paying any dividend that could raise safety and soundness concerns. Examples of actions that might raise such concerns include declaration of a dividend exceeding current period earnings; redeeming or repurchasing regulatory capital instruments when the bank holding company is experiencing financial weaknesses; or redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. The guidance provides that a bank holding company should eliminate, defer or severely limit dividends if net income for the past four quarters is not sufficient to fully fund dividends; the prospective rate of earnings retention is not consistent with the holding company's capital needs and overall current and prospective financial condition; or the holding company will not meet, or is in danger of not meeting, its minimum regulatory capital ratios. The Company would be required in future periods to consult with, and obtain the approval of, the Federal Reserve for payment of any dividends, including regular quarterly cash dividends, that are in excess of earnings for the applicable quarterly period.

OCC Supervision. The Bank is a national banking association and subject to the provisions of the National Bank Act and federal and state statutes and rules and regulations applicable to national banks. The primary supervisory authority for the Bank is the OCC. The OCC's examinations are designed for the protection of the Bank's depositors and not its shareholders. The Bank is subject to periodic examination by the OCC and must file periodic reports with the OCC containing a complete statement of its financial condition and results of operations.

The CFPB created by the Dodd-Frank Act took over responsibility for enforcing the principal federal consumer protection laws, such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act and the Truth in Saving Act, among others, in 2011. Institutions that have assets of \$10 billion or less, such as our Bank subsidiary, will continue to be supervised and examined in this area by their primary federal regulators (in the case of our Bank subsidiary, the OCC). However, the Dodd-Frank Act gives the CFPB expanded data collecting powers for fair lending purposes for both small business and mortgage loans, as well as expanded authority to prevent unfair, deceptive and abusive practices.

Prompt Corrective Action. The Bank is subject to regulatory capital requirements established under the Federal Deposit Insurance Company Improvement Act of 1991 ("FDICIA"). Among other things, FDICIA identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and requires the respective U.S. federal regulatory agencies to implement systems for "prompt corrective action" for insured depository institutions that do not meet minimum capital requirements within such categories. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. Failure to meet the capital guidelines could also subject a banking institution to capital raising requirements. An "undercapitalized" bank must develop a capital restoration plan and its parent holding company must guarantee that bank's compliance with the plan. The liability of the parent holding company under any such guarantee is limited to the lesser of 5% of the bank's assets at the time it became undercapitalized or the amount needed to comply with the plan. Furthermore, in the event of the bankruptcy of the parent holding company, such guarantee would take priority over the parent's general unsecured creditors. In addition, FDICIA requires the various regulatory agencies to prescribe certain non-capital standards for safety and soundness related generally to operations and management, asset quality and executive compensation and permits regulatory action against a financial institution that does not meet such standards.

The federal bank regulatory agencies, including the OCC, have adopted substantially similar regulations that define the five capital categories identified by FDICIA. These regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Effective January 1, 2015, the FDIC's Prompt Corrective Action regulations were revised in accordance with the Basel III capital standards. The enhanced requirements (i) introduce a Common Equity Tier 1 ratio requirement at each capital category (other than critically undercapitalized), and set the required Common Equity Tier 1 ratio at 6.5% for well-capitalized status; (ii) increase the minimum Tier 1 capital ratio requirement for each category (other than critically undercapitalized), and set the minimum Tier 1 capital ratio for well-capitalized status at 8.0% (as compared to 6.0% under the prior rule); and (iii) eliminate the provision that permitted a bank with a composite supervisory rating of 1 to have a 3% leverage ratio and still be considered adequately capitalized. The Basel III capital standards do not change the total risk-based capital requirement for any prompt corrective action category.

As of December 31, 2015, the Bank was considered "well capitalized" under FDICIA's Prompt Corrective Action capital requirements. (See Note 20 to the Company's consolidated financial statements included in Part II, Item 8 of this report for additional information about the Bank's regulatory capital ratios.)

Deposit Insurance. The deposits of the Bank are insured by the Deposit Insurance Fund ("DIF") of the FDIC up to the limits set forth under applicable law and are subject to the deposit insurance premium assessments of the DIF. The FDIC imposes a risk-based deposit premium assessments system, which was amended pursuant to the Federal Deposit Insurance Reform Act of 2005 and further amended by the Dodd-Frank Act. Under this system, as amended, the assessment rates for an insured depository institution vary according to the level of risk incurred in its activities. To arrive at an assessment rate for a banking institution, the FDIC places it in one of four risk categories determined by reference to its capital levels and supervisory ratings. In addition, in the case of those institutions in the lowest risk category, the FDIC further determines its assessment rate based on certain specified financial ratios or, if applicable, its long-term debt ratings. The assessment rate schedule can change from time to time, at the discretion of the FDIC, subject to certain limits. In addition, all FDIC insured depository institutions are required to pay a pro rata portion of the interest due on the obligations issued by the Financing Corporation ("FICO") to fund the closing and disposal of failed thrift institutions by the Resolution Trust Corporation.

The Dodd-Frank Act changed the assessment formula for determining deposit insurance premiums and modified certain insurance coverage provisions of the FDIA. The FDIC's implementing rules, which redefined the base for FDIC insurance assessments from the amount of insured deposits to average consolidated total assets less average tangible equity, became effective April 1, 2011. The Bank's total FDIC insurance assessment for 2015 was \$365,804.

The Dodd-Frank Act also permanently increased from \$100,000 to \$250,000 the maximum per depositor FDIC insurance amount.

Brokered Deposits. Under FDICIA, an FDIC-insured bank is prohibited from accepting brokered deposits without prior approval of the FDIC unless it is well capitalized under the FDICIA's prompt corrective actions guidelines. The Company participates in the Certificate of Deposit Account Registry Service ("**CDARS**") of the Promontory Interfinancial Network, which uses a deposit-matching engine to match CDARS deposits in other participating banks, dollar-for-dollar. This product is designed to provide deposit insurance in excess of FDIC limits and thereby enhance customer attraction and retention, build deposits and improve net interest margins. CDARS also permits the "one-way" purchase of deposits, which the Company utilizes from time to time for liquidity management purposes. CDARS are considered brokered deposits for certain purposes under the Federal Deposit Insurance Act and FDIC regulations. As of December 31, 2015 the Company had CDARS deposits totaling \$4,164,471 in exchanged funds and \$2,777,775 in one-way funds. The Company's Asset, Liability and Funds Management Policy limits the use of brokered deposits to 5% of total assets.

USA Patriot Act. The USA PATRIOT Act is intended to strengthen the ability of U.S. law enforcement and the intelligence community to work cooperatively to combat terrorism on a variety of fronts. The Act contains sweeping anti-money laundering and financial transparency provisions and imposes various requirements, including standards for verifying client identification at account opening, and rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. The Secretary of the Treasury and federal banking regulators have adopted several regulations to implement these provisions. The Act also amended the federal Bank Holding Company Act and the Bank Merger Act to require the federal banking regulatory authorities to consider the effectiveness of a bank holding company or a financial institution's anti-money laundering activities when reviewing an application to expand operations. As required by law, Community National Bank has in place a Bank Secrecy Act and Anti-Money Laundering compliance program, as well as a customer identification program.

Financial Privacy. Under the federal Gramm-Leach-Bliley Financial Modernization Act of 1999 all financial institutions, including the Company, are required to adopt privacy policies, restrict the sharing of nonpublic consumer customer data with nonaffiliated parties, and establish procedures and practices to protect customer data from unauthorized access. The Company is also subject to similar, but more stringent, requirements under state law, including the Vermont Financial Privacy Act. In addition, the Company is subject to the federal Fair Credit Reporting Act, including the amendments adopted in the federal Fair and Accurate Credit Transactions Act of 2003 ("**FACT Act**"). The FACT Act includes many provisions concerning national credit reporting standards and permits consumers to opt out of information sharing among affiliated companies for marketing purposes. It also requires financial institutions to notify their customers if they report negative information about them to a credit bureau or if they are granted credit terms less favorable than those generally available. The Federal Reserve and the OCC have extensive rulemaking authority under the FACT Act and have promulgated rules implementing the Act, including rules limiting information sharing for affiliate marketing and rules requiring programs to identify, detect and mitigate certain identity theft red flags. The Company is also subject to the requirements of the Vermont Fair Credit Reporting Act, which generally requires an individual's consent in order to obtain a credit report, and to data security standards and data breach notice requirements.

Qualified Mortgage Rules. Pursuant to the Dodd-Frank Act, the CFPB adopted significant amendments to the regulations that implement the Truth in Lending Act. These amendments, which became effective January 10, 2014, address mortgage origination practices by certain housing creditors, including the Bank, and generally require mortgage lenders to determine consumers' ability to repay in one of two ways. The first alternative requires the mortgage lender to consider eight underwriting factors when making the credit decision. Alternatively, the mortgage lender can originate so-called "qualified mortgages ("**QMs**")," which are entitled to a presumption that the creditor making the loan satisfied the ability-to-repay requirements. In general, a qualified mortgage is a residential mortgage loan that does not have certain high risk features, such as negative amortization, interest-only payments, balloon payments, or a term exceeding 30 years. In addition, to be a qualified mortgage, the points and fees paid by a consumer cannot exceed 3% of the total loan amount and the borrower's total debt-to-income ratio must be no higher than 43% (subject to certain limited exceptions for loans eligible for purchase, guarantee or insurance by a government sponsored entity or a federal agency).

A lender originating a QM is protected against a legal claim that the lender failed to comply with the ability-to-repay requirement. A lender originating a mortgage that is not a QM is exposed to the risk of a potential claim that the lender did not comply with the ability-to-repay rules, which could require the lender to pay damages to the borrower, and could impair the lender's ability to enforce the loan terms or foreclose on the real estate collateral. The ability-to-repay requirement creates a new basis for after-the-fact challenge of QM status by regulators and by consumers and its future interpretation by the courts may create substantial legal uncertainty. The CFPB's mission is consumer protection, not lender safety and soundness, and for that reason the CFPB wrote the ability-to-repay rule with the goal of preventing consumers from being steered by lenders into expensive and unsustainable borrowing, rather than with the goal of assuring loan repayment. Accordingly, typical credit-quality features such as loan-to-value standards are not elements of the ability-to-repay rule, and it will not necessarily be the case that QMs have a higher probability or history of repayment than other mortgages. Compliance with the ability-to-repay/QM requirements have increased the Company's compliance costs, and may adversely affect the profitability of our routine residential mortgage lending operations. In addition, for the mortgage lending industry the ability-to-repay rule creates a bias in favor of QMs, which because of factors such as a minimum 43% debt-to-income ratio, could have unintended adverse effects, such as reducing community bank lending to low- and moderate-income borrowers and communities.

Integrated TILA/RESPA ("TRID") Disclosures. As required by the Dodd-Frank Act, the CFPB issued final rules in 2013 revising and integrating previously separate disclosures required under the Real Estate Settlement Procedures Act (RESPA) and the Truth in Lending Act (TILA) in connection with certain closed-end consumer mortgage loans. These final rules became effective in October 2015 and require lenders to provide a new Loan Estimate (which combines content from the former Good Faith Estimate required under RESPA and the initial disclosures required under TILA) not later than the third business day after submission of a loan application, and a new Closing Disclosure (which combines content of the former HUD-1 Settlement Statement required under RESPA and the final disclosures required under TILA) at least three days prior to the loan closing. Other significant changes included in the TRID rules include: (1) expansion of the scope of loans that require RESPA early disclosures, including bridge loans, vacant land loans, and construction loans; (2) changes and additions to "waiting period" requirements to close a loan; (3) reduced tolerances for estimated fees and (4) the lender, rather than the closing agent, is responsible for providing final disclosures. As with the CFPB's ability-to-repay/QM rules, compliance with the TRID rules has increased the Company's compliance costs and may adversely affect the profitability of our routine residential mortgage lending operations.

Community Reinvestment Act. The Federal Community Reinvestment Act ("CRA") requires banks to define the communities they serve, identify the credit needs of those communities, collect and maintain data for each small business or small farm loan originated or purchased by the Bank, and maintain a Public File at each location. The federal banking regulators examine the institutions they regulate for compliance with the CRA and assign one of the following four ratings: "outstanding," "satisfactory," "needs to improve" or "substantial noncompliance". The rating assigned reflects the bank's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the bank. As of the Bank's last CRA examination, completed during 2014, it received a rating of "Outstanding".

Home Mortgage Disclosure Act. The federal Home Mortgage Disclosure Act ("HMDA"), which is implemented by Federal Reserve Board Regulation C, requires mortgage lenders that maintain offices within Metropolitan Statistical Areas (MSAs) to report and make available to the public specified information regarding their residential mortgage lending activities, such as the pricing of home mortgage loans, including the "rate spread" between the interest rate on loans and certain treasury securities and other benchmarks. In July 2015, the CFPB implemented and expanded new HMDA rules. The final rule adopts a dwelling-secured standard for all loans or lines of credit that are for personal, family, or household purposes. Thus, many consumer-purpose transactions, including closed-end home-equity loans, home-equity lines of credit, and reverse mortgages, are subject to the regulation. Most commercial-purpose transactions (i.e., loans or lines of credit not for personal, family, or household purposes) are subject to the regulation only if they are for the purpose of home purchase, home improvement, or refinancing. The final rule excludes from coverage home improvement loans that are not secured by a dwelling (i.e., home improvement loans that are unsecured or that are secured by some other type of collateral) and all agricultural-purpose loans and lines of credit. Community National Bank became subject to HMDA reporting requirements as a result of its merger with LyndonBank in 2007, as the former LyndonBank branch in Enosburg Falls in Franklin County is included within the Burlington, Vermont MSA.

Flood Insurance Reform. The Biggert-Waters Flood Insurance Reform Act of 2012 ("Biggert-Waters Act"), as amended by the Homeowner Flood Insurance Affordability Act of 2014, modified the National Flood Insurance Program by: (i) increasing the maximum civil penalty for Flood Disaster Protection Act violations to \$2,000 and eliminating the annual penalty cap; (ii) requiring certain lenders to escrow premiums and fees for flood insurance on residential improved real estate; (iii) directing lenders to accept private flood insurance and to notify borrowers of its availability; (iv) amending the force placement requirement provisions; and (v) permitting lenders to charge borrowers costs for lapses in or insufficient coverage. The civil penalty and force placed insurance provisions were effective immediately.

In July 2015, certain federal agencies issued a joint final rule exempting: (1) detached structures that are not used as a residence from the mandatory flood insurance purchase requirements and (2) HELOCs, business purpose loans, nonperforming loans, loans with terms of less than one year, loans for co-ops and condominiums, and subordinate loans on the same property from the mandatory escrow of flood insurance premium requirements. Additionally, the final rule requires certain lenders to escrow flood insurance payments and offer the option to escrow flood insurance premiums on residential improved real estate securing a loan, effective January 1, 2016. The federal agencies intend to address the private flood insurance provisions of the Biggert-Waters Act in a separate rulemaking.

The Company is complying with the revised flood insurance rules, including having given notice to certain customers of their option to escrow and as of January 1, 2016 requiring flood insurance escrow accounts on residential mortgages covered by the rule.

Reserve Requirements. Federal Reserve Board Regulation D requires all depository institutions to maintain reserves against their transaction accounts (generally, demand deposits, NOW accounts and certain other types of accounts that permit payments or transfers to third parties) or non-personal time deposits (generally, money market deposit accounts or other savings deposits held by corporations or other depositors that are not natural persons, and certain other types of time deposits), subject to certain exemptions. Because required reserves must be maintained in the form of either vault cash, a non-interest bearing account at the Federal Reserve Bank of Boston or a pass through account (as defined by the Federal Reserve Board), the effect of these reserve requirements is to reduce the amount of the Company's interest-bearing assets.

Federal Home Loan Bank System. Community National Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. Member institutions are required to purchase and hold shares of capital stock in the applicable regional Federal Home Loan Bank (the Federal Home Loan Bank of Boston, in the case of Community National Bank), in an amount at least equal to the sum of 0.35% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year and 4.5% of its advances (borrowings) from the Federal Home Loan Bank. Community National Bank was in compliance with this requirement with an investment in Federal Home Loan Bank of Boston ("FHLBB") stock at December 31, 2015 of approximately \$1.9 million. During 2009, the FHLBB experienced significant net operating losses, and as a result temporarily ceased paying dividends on its stock and instituted a moratorium on stock repurchases and redemptions. In 2011, the FHLBB resumed paying dividends, but at a more modest rate than previous years and in February 2012 it lifted the moratorium on stock redemptions. As a member, the Bank is subject to future capital calls by the FHLBB in order to maintain compliance with its capital plan.

Executive Compensation Guidelines. In 2009, the Federal Reserve issued comprehensive guidance on executive compensation policies, intended to ensure that the incentive compensation practices of banking organizations do not undermine their safety and soundness by encouraging excessive risk-taking. The guidance covers all employees that have the ability to affect materially an institution's risk profile, either individually or as part of a group, and establishes that incentive compensation arrangements should (1) provide incentives that do not encourage risk-taking beyond the institution's ability to identify and manage effectively; (2) be compatible with effective internal controls and risk management; and (3) be supported by strong corporate governance, including active and effective oversight by the board of directors. The guidance instructed institutions to begin an immediate review of their incentive compensation policies to ensure that they do not encourage excessive risk-taking and implement corrective programs as needed. Where deficiencies in incentive compensation arrangements exist, they must be immediately addressed. For institutions such as the Company that are not "large, complex banking organizations" as defined in the guidance, the Federal Reserve will review the incentive compensation arrangements as part of its regular, risk-focused examination process and not in a separate examination. These examinations will be tailored to the scope and complexity of the institution's activity and compensation arrangements. The findings will be included in the Federal Reserve's examination report and deficiencies will be incorporated into the institution's supervisory ratings. Enforcement actions may be taken against an institution if its incentive compensation arrangements, or related risk management control or governance processes, pose a risk to the institution's safety and soundness and the institution fails to take prompt and effective measures to correct the deficiencies.

Other Legislative and Regulatory Initiatives. In addition to the statutes, regulations and regulatory initiatives described above, new legislation and regulations affecting financial institutions are frequently proposed. If enacted or adopted, these measures could change banking statutes and the Company's operating environment in substantial and unpredictable ways and could further increase reporting and compliance requirements, governance structures and costs of doing business. The Company cannot predict whether any such additional legislation or other regulatory initiatives will be adopted or the effect they may have on the Company's business, results of operations or financial condition.

Effects of Government Monetary Policy

The earnings of the Company are affected by general and local economic conditions and by the policies of various governmental regulatory authorities. In particular, the Federal Reserve Board regulates money supply, credit conditions and interest rates in order to influence general economic conditions, primarily through open market operations in United States Government Securities, varying the discount rate on member bank borrowings, setting reserve requirements against member and nonmember bank deposits, regulating interest rates payable by member banks on time and savings deposits and expanding or contracting the money supply. Federal Reserve Board monetary policies have had a significant effect on the operating results of commercial banks, including the Company, in the past and are expected to continue to do so in the future.

Other Available Information

This annual report on Form 10-K is on file with SEC. The Company also files with the SEC quarterly reports on Form 10-Q and current reports on Form 8-K, as well as proxy materials for its annual meetings of shareholders. You may obtain copies of these documents by visiting the SEC's Public Reference Room at 100F Street, NE, Washington, DC 20549-0213, by calling the SEC at 1-800-SEC-0330 or by accessing the SEC's website at <http://www.sec.gov>. The Company's SEC-filed reports and proxy statements are also available through a link on the Company's website at www.communitybancorpvt.com. The Company has also posted on its website the Company's Code of Ethics for Senior Financial Officers and the Principal Executive Officer, the Insider Trading Policy and the charters of the Audit, Compensation and Nominating Committees. The information and documents contained on the Company's website do not constitute part of this report. Copies of the Company's reports filed with the SEC (other than exhibits) can also be obtained by contacting Chris Bumps, Corporate Secretary, at our principal offices, which are located at 4811 U.S. Route 5, Derby, Vermont 05829 or by calling (802) 334-7915.

Item 1A. Risk Factors

Omitted, in accordance with the regulatory relief available to smaller reporting companies in SEC Release Nos. 33-8876 and 34-56994 (effective February 4, 2008).

Item 1B. Unresolved Staff Comments

Not Applicable

Item 2. Properties

Although Community Bancorp. does not itself own or lease real property, Community National Bank owns and leases various properties for its banking operations. All of the Bank's offices are located in Vermont. In July, 2015, the Company closed two of its banking offices in Caledonia County in an effort to reduce overhead costs by consolidating those offices with other Bank branches in close proximity.

The Company's administrative offices are located at the main offices of the Bank on U.S. Route 5 in Derby, Vermont, with total office space of approximately 34,000 square feet, including retail banking offices, an operations center as well as a community room used by the Bank for meetings and various functions. This community room has a secure outside access making it possible for the Bank to offer it to non-profit organizations after banking hours free of charge. This office is equipped with a remote drive-up facility and a drive-up ATM as well as an inside lobby ATM.

In addition to its main office, the Company currently owns or leases the following premises in five Vermont counties:

Branch Location	Owned	Leased	CFSG Office¹
<i>Caledonia County</i>			
St. Johnsbury (Railroad Street)		X ²	
St. Johnsbury (Route 5)		X ³	
Lyndon (Memorial Drive)		X ⁴	X
<i>Franklin County</i>			
Enosburg Falls (Sampsonville Road)	X		
<i>Lamoille County</i>			
Morrisville (Route 15 West)		X	
<i>Orleans County</i>			
Barton (Church Street)	X		
Derby Line (Main Street)	X		
Island Pond (Route 105)		X	
Newport (Main Street)	X		X
Troy (Route 101)	X		
<i>Washington County</i>			
Barre (North Main Street)	X		X
Montpelier (State Street)		X	

¹ The Bank leases space at some of its branch locations to its affiliated trust and investment management affiliate, Community Financial Services Group, LLC (CFSG), including premises in Newport, Vermont used as CFSG's main office.

² These premises consist of approximately 1,600 square feet on the southern end of Railroad Street and were formerly used as a branch office, now closed.

³ This branch consists of approximately 2,250 square feet in the front of the Price Chopper building at the corner of the I-91 Access Road and Route 5 in the town of St. Johnsbury and is leased on market terms from St. Johnsbury Properties, Inc., a wholly owned subsidiary of Murphy Realty Co. Inc. of St. Johnsbury. Peter Murphy, President of Murphy Realty, is a former director of the Company and the Bank.

⁴ This branch consists of a building on Memorial Drive comprising approximately 2,600 square feet in the town of Lyndon and is leased on market terms from a neighboring business, 48 Broad Street, LLC, owned by David Stahler who is a member of the Bank's Caledonia County advisory board.

In addition to ATMs at the main office and all branch locations, the Company maintains cash machines at 10 third party locations throughout its market area. A complete listing of the Company's banking offices and off-premises ATM and cash machine locations is contained on the Bank's website at www.communitynationalbank.com.

All of the Company's owned premises are free and clear of any mortgages or encumbrances and, in management's view, all locations are suitable for conducting the Bank's business.

Item 3. Legal Proceedings

There are no pending legal proceedings to which the Company or the Bank is a party or of which any of its property is the subject, other than routine litigation incidental to its banking business, none of which, in the opinion of management, is material to the Company's consolidated operations or financial condition.

Item 4. Mine Safety Disclosures

Not Applicable

PART II.

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

Information on the trading market in, market price of, and dividends paid on, the Company's common stock is incorporated by reference to the section of the 2015 Annual Report under the caption "Common Stock Performance by Quarter" immediately following the "Management's Discussion and Analysis of Financial Condition and Results of Operations", filed as Exhibit 13 to this report. The balance of the information required by item 201 of Regulation S-K is omitted in accordance with the regulatory relief available to smaller reporting companies in SEC Release Nos. 33-8876 and 34-56994 (effective February 4, 2008).

During the fourth quarter ended December 31, 2015, purchases of the Company's common stock by the Company or by any affiliated purchaser (as defined in SEC Rule 10b-18) were as follows:

For the period:	<u>Total Number of Shares Purchased(1)(2)</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plan</u>	<u>Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period</u>
October 1 - October 31	1,060	\$ 14.40	N/A	N/A
November 1 - November 30	0	0.00	N/A	N/A
December 1 - December 31	0	0.00	N/A	N/A
Total	<u>1,060</u>	<u>\$ 14.40</u>	N/A	N/A

Item 6. Selected Financial Data

Omitted, in accordance with the regulatory relief available to smaller reporting companies in SEC Release Nos. 33-8876 and 34-56994 (effective Feb. 4, 2008).

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

Incorporated by reference to the section of the 2015 Annual Report under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," immediately following the "Notes to Consolidated Financial Statements", filed as Exhibit 13 to this report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Incorporated by reference to the subsection labeled "Risk Management" of Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in the 2015 Annual Report, filed as Exhibit 13 to this report.

Item 8. Financial Statements and Supplementary Data

The audited consolidated financial statements and related notes of Community Bancorp. and Subsidiary and the report thereon of the independent registered accounting firm of Berry Dunn McNeil & Parker, LLC are incorporated herein by reference from the 2015 Annual Report, filed as Exhibit 13 to this report.

In accordance with the regulatory relief available to smaller reporting companies in SEC Release Nos. 33-8876 and 34-56994 (effective Feb. 4, 2008), the Company has elected to present audited statements of income, comprehensive income, cash flows and changes in shareholders' equity for each of the preceding two, rather than three, fiscal years.

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

None

Item 9A. 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 December 31, 2015, an evaluation was performed under the supervision and with the participation of management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, management concluded that its disclosure controls and procedures as of December 31, 2015 were effective in ensuring that material information required to be disclosed in the reports it files with the Commission under the Exchange Act was recorded, processed, summarized, and reported on a timely basis.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. As of December 31, 2015, an evaluation was performed under the supervision and with the participation of management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's internal control over financial reporting. Management assessed the Company's system of internal control over financial reporting as of December 31, 2015, in relation to criteria for effective internal control over financial reporting as described in "Internal Control – Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2015, its system of internal control over financial reporting met those criteria and is effective.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report is not subject to attestation by the Company's independent registered public accounting firm pursuant to permanent relief accorded to smaller reporting companies in the Dodd-Frank Act.

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 December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None

PART III.

Item 10. Directors, Executive Officers and Corporate Governance

The following is incorporated by reference to the Company's Proxy Statement for the 2016 Annual Meeting.

Listing of the names, ages, principal occupations, business experience and specific qualifications of the incumbent directors and nominees under the caption "PROPOSAL I - ELECTION OF DIRECTORS."

Listing of the names, ages, titles and business experience of the executive officers under the caption EXECUTIVE OFFICERS."

Information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 under the caption "SHARE OWNERSHIP INFORMATION - Section 16(a) Beneficial Ownership Reporting Compliance."

Information regarding changes in the Company's procedures for submission of director nominations by shareholders under the caption "SHAREHOLDER NOMINATIONS AND OTHER PROPOSALS."

Information regarding whether a member of the Audit Committee qualifies as an audit committee financial expert under applicable SEC rules, under the caption "CORPORATE GOVERNANCE - Board Committees."

The Code of Ethics for Senior Financial Officers and the Principal Executive Officer is available on the Company's website at www.communitybancorpvt.com. The Code is also listed as Exhibit 14 to this report and incorporated by reference to a prior filing with the SEC. There were no waivers of any provision of the Code during 2015.

Item 11. Executive Compensation

The following is incorporated by reference to the Company's Proxy Statement for the 2016 Annual Meeting:

Information regarding compensation of directors under the captions "PROPOSAL I - ELECTION OF DIRECTORS - Directors' Fees and Other Compensation" and "-Directors' Deferred Compensation Plan."

Information regarding executive compensation and benefit plans under the caption "EXECUTIVE COMPENSATION."

Information regarding management interlocks and certain transactions under the caption "CORPORATE GOVERNANCE - Compensation Committee Interlocks and Insider Participation."

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

The following is incorporated by reference to the Company's Proxy Statement for the 2016 Annual Meeting:

Information regarding the share ownership of management and principal shareholders under the caption "SHARE OWNERSHIP INFORMATION."

The Company does not maintain any equity compensation plans for which disclosure is required under Item 201(d) of SEC Regulation S-K.

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

The following is incorporated by reference to the Company's Proxy Statement for the 2016 Annual Meeting:

Information regarding transactions with management under the caption "CORPORATE GOVERNANCE -Transactions with Management."

Information regarding the independence of directors under the caption "CORPORATE GOVERNANCE – Director Independence."

Item 14. Principal Accounting Fees and Services

The following is incorporated by reference to the Company's Proxy Statement for the 2016 Annual Meeting under the caption "PROPOSAL 3 - RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS - Fees Paid to Independent Auditors":

Fees paid to the principal accountant for various audit functions including, but not limited to, the audit of the annual financial statements in the Company's Form 10-K Report and review of the financial statements in the Company's Form 10-Q Reports.

Description of the audit committee's pre-approval policies and procedures required by paragraph (c) (7)(I) of rule 2-01 of Regulation S-X.

PART IV.

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements

The following are included in this report and are incorporated by reference to the 2015 Annual Report, filed as Exhibit 13 to this report:

Consolidated Balance Sheets at December 31, 2015 and 2014
Consolidated Statements of Income for the years ended December 31, 2015 and 2014
Consolidated Statements of Comprehensive Income for the years ended December 31, 2015 and 2014
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2015 and 2014
Consolidated Statements of Cash Flows for the years ended December 31, 2015 and 2014
Notes to Consolidated Financial Statements
Report of Berry Dunn McNeil & Parker, LLC, independent registered public accountants

(b) Exhibits

The following exhibits, previously filed with the Commission, are incorporated by reference:

Exhibit 3(i) - Amended and Restated Articles of Association, filed as Exhibit 3.1 to the Company's Form 10-Q Report filed on August 12, 2014.
Exhibit 3(ii) - Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of the Series A Fixed-to-Floating Non-Cumulative Perpetual Preferred Stock, filed as Exhibit 3(i) to the Company's Form 8-K Report filed on December 31, 2007.
Exhibit 3(iii) - Amended and Restated By-laws of Community Bancorp. as amended and restated through March 12, 2013, filed as Exhibit 3.1 in the Company's Form 8-K Report filed on March 14, 2013.
Exhibit 4(i) - Indenture dated as of October 31, 2007 between Community Bancorp., as issuer and Wilmington Trust Company, as indenture trustee, filed as Exhibit 4.1 to the Company's Form 8-K Report filed on November 2, 2007.
Exhibit 4(ii) - Amended and Restated Declaration of Trust dated as of October 31, 2007 among Community Bancorp., as sponsor, Wilmington Trust Company, as Delaware and institutional Trustee, and the administrators named therein, filed as Exhibit 4.2 to the Company's Form 8-K Report filed on November 2, 2007.
Exhibit 10(i) - Guarantee Agreement dated as of October 31, 2007 between Community Bancorp., as guarantor and Wilmington Trust Company, as guarantee trustee, filed as Exhibit 10.1 to the Company's Form 8-K Report filed on November 2, 2007.
Exhibit 10(ii)* - Amended and Restated Deferred Compensation Plan for Directors, filed as Exhibit 10.2 to the Company's Form 8-K Report filed on December 15, 2008.
Exhibit 10(iii)* - Amended and Restated Supplemental Retirement Plan, filed as Exhibit 10.1 to the Company's Form 8-K Report filed on December 15, 2008.
Exhibit 10(iv)* - Amended and Restated Officer Incentive Plan, filed as Exhibit 10.1 to the Company's Form 8-K Report filed on March 13, 2015.
Exhibit 10(v)* - Description of the Directors Retirement Plan, filed as Exhibit 10(iv) to the Company's Form 10-K Report filed on March 30, 2005; plan terminated in 2005 with respect to future accruals, as disclosed in the Company's Form 8-K Report filed on December 19, 2005.
Exhibit 10(vi)* - Change in Control Agreement for Executive Vice President (Company), Chief Operating Officer (Bank), filed as Exhibit 10.1 to the Company's Form 8-K Report filed on June 23, 2015.
Exhibit 10(vii)* - Change in Control Agreement for Treasurer (Company), Senior Vice President and Chief Financial Officer (Bank), filed as Exhibit 10.2 to the Company's Form 8-K Report filed on June 23, 2015.
Exhibit 10(viii)* - Change in Control Agreement for Vice President (Company), Senior Vice President and Chief Credit Officer (Bank), filed as Exhibit 10.3 to the Company's Form 8-K Report filed on June 23, 2015.
Exhibit 14 - Amended Code of Ethics for Senior Financial Officers and the Principal Executive Officer, filed as Exhibit 14 to the Company's Form 8-K Report on July 12, 2010.

The following exhibits are filed as part of this report:**

[Exhibit 13](#) - Portions of the 2015 Annual Report, specifically incorporated by reference into this report.

[Exhibit 21](#) - Subsidiaries of Community Bancorp.

[Exhibit 23](#) - Consent of Berry Dunn McNeil & Parker, LLC

[Exhibit 31\(i\)](#) - 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\(ii\)](#) - Certification from the Treasurer (Principal Financial Officer) of the Company pursuant to section 302 of the Sarbanes-Oxley Act of 2002

[Exhibit 32\(i\)](#) - Certification from the Chief Executive Officer (Principal Executive Officer) of the Company pursuant to section 906 of the Sarbanes-Oxley Act of 2002

[Exhibit 32\(ii\)](#) - Certification from the Treasurer (Principal Financial Officer) of the Company pursuant to section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 101--The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2015 formatted in eXtensible Business Reporting Language (XBRL): (i) the audited consolidated balance sheets, (ii) the audited consolidated statements of income, (iii) the audited consolidated statements of comprehensive income; (iv) the audited consolidated statements of changes in shareholders' equity, (v) the audited consolidated statements of cash flows and (vi) related notes, for the years ended December 31, 2015 and 2014.

* Denotes compensatory plan or arrangement.

** Exhibit 12 (Statement re Computation of Ratios) is omitted in accordance with the regulatory relief available to smaller reporting companies in SEC Release Nos. 33-8876 and 34-56994 (effective February 4, 2008).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMMUNITY BANCORP.

BY: /s/ Stephen P. Marsh
Stephen P. Marsh, Chief Executive
Officer and Board Chair
(Principal Executive Officer)

Date: March 25, 2016

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

BY: /s/ Stephen P. Marsh
Stephen P. Marsh, Chief Executive
Officer and Board Chair
(Principal Executive Officer)

Date: March 25, 2016

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

Date: March 25, 2016

BY: /s/ Candace A. Patenaude
Candace A. Patenaude
(Principal Accounting Officer)

Date: March 25, 2016

COMMUNITY BANCORP. DIRECTORS

/s/ Thomas E. Adams
Thomas E. Adams

Date: March 25, 2016

/s/ Kathryn M. Austin
Kathryn M. Austin

Date: March 25, 2016

/s/ David M. Bouffard
David M. Bouffard

Date: March 25, 2016

/s/ Charles W. Bucknam, Jr.
Charles W. Buckman, Jr.

Date: March 25, 2016

/s/ Aminta K. Conant
Aminta K. Conant

Date: March 25, 2016

/s/ Jacques R. Couture
Jacques R. Couture

Date: March 25, 2016

/s/ Rosemary M. Lalime
Rosemary M. Lalime

Date: March 25, 2016

/s/ Patrick M. Malone
Patrick M. Malone

Date: March 25, 2016

/s/ Stephen P. Marsh
Stephen P. Marsh

Date: March 25, 2016

/s/ Dorothy R. Mitchell
Dorothy R. Mitchell

Date: March 25, 2016

/s/ Frederic Oeschger
Frederic Oeschger

Date: March 25, 2016

/s/James G. Wheeler, Jr.
James G. Wheeler, Jr.

Date: March 25, 2016



To the Board of Directors and Shareholders
Community Bancorp. and Subsidiary

We have audited the accompanying consolidated balance sheets of Community Bancorp. and Subsidiary as of December 31, 2015 and 2014 and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Community Bancorp. and Subsidiary as of December 31, 2015 and 2014, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

BerryDunn McNeil & Parker, LLC

Portland, Maine
March 25, 2016
Vermont Registration No. 92-0000278

Portland, ME • Bangor, ME • Manchester, NH
WWW.BERRYDUNN.COM

Community Bancorp. and Subsidiary
Consolidated Balance Sheets

	December 31, 2015	December 31, 2014
Assets		
Cash and due from banks	\$ 9,479,353	\$ 11,935,993
Federal funds sold and overnight deposits	19,372,537	13,026,181
Total cash and cash equivalents	28,851,890	24,962,174
Securities held-to-maturity (fair value \$44,143,000 at December 31, 2015 and \$42,234,000 at December 31, 2014)	43,354,419	41,810,945
Securities available-for-sale	26,470,400	32,946,894
Restricted equity securities, at cost	2,441,650	3,332,450
Loans held-for-sale	1,199,400	26,250
Loans	458,119,429	447,804,955
Allowance for loan losses	(5,011,878)	(4,905,874)
Deferred net loan costs	316,491	303,394
Net loans	453,424,042	443,202,475
Bank premises and equipment, net	11,460,207	11,488,948
Accrued interest receivable	1,633,213	1,698,448
Bank owned life insurance (BOLI)	4,520,486	4,413,574
Core deposit intangible	545,386	818,081
Goodwill	11,574,269	11,574,269
Other real estate owned (OREO)	262,000	1,238,320
Other assets	10,397,347	9,198,216
Total assets	<u>\$ 596,134,709</u>	<u>\$ 586,711,044</u>
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Demand, non-interest bearing	\$ 93,525,762	\$ 88,758,469
Interest-bearing transaction accounts	130,735,094	125,388,872
Money market funds	81,930,888	88,820,124
Savings	81,731,290	77,029,722
Time deposits, \$250,000 and over	9,431,437	10,584,468
Other time deposits	98,131,091	102,437,808
Total deposits	495,485,562	493,019,463
Federal funds purchased and other borrowed funds	10,000,000	0
Repurchase agreements	22,073,238	28,542,961
Capital lease obligations	558,365	639,544
Junior subordinated debentures	12,887,000	12,887,000
Accrued interest and other liabilities	3,715,888	2,626,874
Total liabilities	<u>544,720,053</u>	<u>537,715,842</u>
Shareholders' Equity		
Preferred stock, 1,000,000 shares authorized, 25 shares issued and outstanding (\$100,000 liquidation value)	2,500,000	2,500,000
Common stock - \$2.50 par value; 15,000,000 shares authorized and 5,204,517 and 5,142,475 shares issued at December 31, 2015 and 2014, respectively (including 15,430 and 16,642 shares issued February 1, 2016 and 2015, respectively)	13,011,293	12,856,188
Additional paid-in capital	30,089,438	29,359,300
Retained earnings	8,482,096	6,909,934
Accumulated other comprehensive loss	(45,394)	(7,443)
Less: treasury stock, at cost; 210,101 shares at December 31, 2015 and 2014	(2,622,777)	(2,622,777)
Total shareholders' equity	<u>51,414,656</u>	<u>48,995,202</u>
Total liabilities and shareholders' equity	<u>\$ 596,134,709</u>	<u>\$ 586,711,044</u>

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

Community Bancorp. and Subsidiary
Consolidated Statements of Income

	Years Ended December 31,	
	2015	2014
Interest income		
Interest and fees on loans	\$ 21,717,394	\$ 21,423,462
Interest on debt securities		
Taxable	441,808	343,554
Tax-exempt	1,113,250	1,079,093
Dividends	116,943	90,784
Interest on federal funds sold and overnight deposits	17,294	13,384
Total interest income	<u>23,406,689</u>	<u>22,950,277</u>
Interest expense		
Interest on deposits	2,078,239	2,515,078
Interest on federal funds purchased and other borrowed funds	88,483	76,250
Interest on repurchase agreements	69,496	62,405
Interest on junior subordinated debentures	409,432	402,011
Total interest expense	<u>2,645,650</u>	<u>3,055,744</u>
Net interest income	20,761,039	19,894,533
Provision for loan losses	510,000	540,000
Net interest income after provision for loan losses	<u>20,251,039</u>	<u>19,354,533</u>
Non-interest income		
Service fees	2,565,079	2,624,792
Income from sold loans	947,325	977,702
Other income from loans	738,454	593,093
Net realized gain on sale of securities available-for-sale	17,502	27,838
Other income	881,795	918,326
Total non-interest income	<u>5,150,155</u>	<u>5,141,751</u>
Non-interest expense		
Salaries and wages	6,888,352	6,475,000
Employee benefits	2,576,772	2,257,354
Occupancy expenses, net	2,576,496	2,466,714
Other expenses	6,769,353	6,386,912
Total non-interest expense	<u>18,810,973</u>	<u>17,585,980</u>
Income before income taxes	6,590,221	6,910,304
Income tax expense	1,764,630	1,785,396
Net income	<u>\$ 4,825,591</u>	<u>\$ 5,124,908</u>
Earnings per common share	\$ 0.96	\$ 1.03
Weighted average number of common shares used in computing earnings per share	4,961,972	4,897,281
Dividends declared per common share	\$ 0.64	\$ 0.64
Book value per common share outstanding at December 31	\$ 9.79	\$ 9.43

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

Community Bancorp. and Subsidiary
Consolidated Statements of Comprehensive Income

	Years Ended December 31,	
	2015	2014
Net income	\$ 4,825,591	\$ 5,124,908
Other comprehensive (loss) income, net of tax:		
Unrealized holding (loss) gain on available-for-sale securities arising during the period	(40,000)	88,478
Reclassification adjustment for gain realized in income	(17,502)	(27,838)
Unrealized (loss) gain during the year	(57,502)	60,640
Tax effect	19,551	(20,617)
Other comprehensive (loss) income, net of tax	(37,951)	40,023
Total comprehensive income	\$ 4,787,640	\$ 5,164,931

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

Community Bancorp. and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2015 and 2014

	Common stock		Preferred stock	
	Shares	Amount	Shares	Amount
Balances, December 31, 2013	4,868,606	\$ 12,696,768	25	\$ 2,500,000
Comprehensive income				
Net income	0	0	0	0
Other comprehensive income	0	0	0	0
Total comprehensive income				
Cash dividends declared - common stock	0	0	0	0
Cash dividends declared - preferred stock	0	0	0	0
Issuance of common stock	63,768	159,420	0	0
Balances, December 31, 2014	4,932,374	12,856,188	25	2,500,000
Comprehensive income				
Net income	0	0	0	0
Other comprehensive loss	0	0	0	0
Total comprehensive income				
Cash dividends declared - common stock	0	0	0	0
Cash dividends declared - preferred stock	0	0	0	0
Issuance of common stock	62,042	155,105	0	0
Balances, December 31, 2015	4,994,416	\$ 13,011,293	25	\$ 2,500,000

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

<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Accumulated other comprehensive loss</u>	<u>Treasury stock</u>	<u>Total shareholders' equity</u>
\$ 28,612,308	\$ 4,997,144	\$ (47,466)	\$ (2,622,777)	\$ 46,135,977
0	5,124,908	0	0	5,124,908
0	0	40,023	0	40,023
				<u>5,164,931</u>
0	(3,130,868)	0	0	(3,130,868)
0	(81,250)	0	0	(81,250)
746,992	0	0	0	906,412
29,359,300	6,909,934	(7,443)	(2,622,777)	48,995,202
0	4,825,591	0	0	4,825,591
0	0	(37,951)	0	(37,951)
				<u>4,787,640</u>
0	(3,172,179)	0	0	(3,172,179)
0	(81,250)	0	0	(81,250)
730,138	0	0	0	885,243
<u>\$ 30,089,438</u>	<u>\$ 8,482,096</u>	<u>\$ (45,394)</u>	<u>\$ (2,622,777)</u>	<u>\$ 51,414,656</u>

Community Bancorp. and Subsidiary
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2015	2014
Cash Flows from Operating Activities:		
Net income	\$ 4,825,591	\$ 5,124,908
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, bank premises and equipment	969,661	969,691
Provision for loan losses	510,000	540,000
Deferred income tax	(172,374)	755,139
Gain on sale of securities available-for-sale	(17,502)	(27,838)
Gain on sale of loans	(424,240)	(460,505)
Loss on sale of bank premises and equipment	130,603	6,610
Loss on sale of OREO	20,058	1,840
Income from CFSG Partners	(361,044)	(272,821)
Amortization of bond premium, net	148,526	239,580
Write down of OREO	75,820	10,000
Proceeds from sales of loans held for sale	24,397,411	21,346,042
Originations of loans held for sale	(25,146,321)	(20,702,287)
Increase in taxes payable	54,669	784,222
Decrease in interest receivable	65,235	79,857
Decrease in mortgage servicing rights	18,886	17,114
(Increase) decrease in other assets	(309,552)	345,847
Increase in cash surrender value of BOLI	(106,912)	(110,267)
Amortization of core deposit intangible	272,695	272,700
Amortization of limited partnerships	565,335	591,122
Increase in deferred net loan costs	(13,097)	(2,965)
Decrease in interest payable	(11,038)	(11,632)
Increase (decrease) in accrued expenses	23,407	(36,802)
Increase (decrease) in other liabilities	76,798	(116,873)
Net cash provided by operating activities	<u>5,592,615</u>	<u>9,342,682</u>
Cash Flows from Investing Activities:		
Investments - held-to-maturity		
Maturities and pay downs	40,831,786	41,212,607
Purchases	(42,375,260)	(45,086,640)
Investments - available-for-sale		
Maturities, calls, pay downs and sales	15,522,796	19,836,586
Purchases	(9,234,828)	(17,745,980)
Proceeds from redemption of restricted equity securities	890,800	300,400
Increase in limited partnership contributions payable	975,000	0
Investments in limited partnerships	(975,500)	0
Increase in loans, net	(10,903,013)	(8,873,368)
Capital expenditures net of proceeds from sales of bank premises and equipment	(1,071,523)	(741,781)
Proceeds from sales of OREO	966,615	288,865
Recoveries of loans charged off	98,370	54,798
Net cash used in investing activities	<u>(5,274,757)</u>	<u>(10,754,513)</u>

	<u>2015</u>	<u>2014</u>
Cash Flows from Financing Activities:		
Net increase in demand and interest-bearing transaction accounts	10,113,515	5,413,135
Net (decrease) increase in money market and savings accounts	(2,187,668)	13,983,022
Net decrease in time deposits	(5,459,748)	(7,929,263)
Net decrease in repurchase agreements	(6,469,723)	(1,101,654)
Net increase in short-term borrowings	10,000,000	0
Proceeds from long-term borrowings	0	6,000,000
Repayments on long-term borrowings	0	(6,000,000)
Decrease in capital lease obligations	(81,179)	(71,498)
Dividends paid on preferred stock	(81,250)	(81,250)
Dividends paid on common stock	(2,262,089)	(2,168,476)
Net cash provided by financing activities	<u>3,571,858</u>	<u>8,044,016</u>
Net increase in cash and cash equivalents	3,889,716	6,632,185
Cash and cash equivalents:		
Beginning	24,962,174	18,329,989
Ending	<u>\$ 28,851,890</u>	<u>\$ 24,962,174</u>
Supplemental Schedule of Cash Paid (Received) During the Period:		
Interest	<u>\$ 2,656,688</u>	<u>\$ 3,067,376</u>
Income taxes, net of refunds	<u>\$ 1,317,000</u>	<u>\$ (345,087)</u>
Supplemental Schedule of Noncash Investing and Financing Activities:		
Unrealized (loss) gain on securities available-for-sale during the year	<u>\$ (57,502)</u>	<u>\$ 60,640</u>
Loans transferred to OREO	<u>\$ 86,173</u>	<u>\$ 433,500</u>
Investment in limited partnership, not yet paid	<u>\$ 975,000</u>	<u>\$ 0</u>
Common Shares Dividends Paid:		
Dividends declared	<u>\$ 3,172,179</u>	<u>\$ 3,130,868</u>
Increase in dividends payable attributable to dividends declared	(24,847)	(55,980)
Dividends reinvested	<u>(885,243)</u>	<u>(906,412)</u>
	<u>\$ 2,262,089</u>	<u>\$ 2,168,476</u>

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

COMMUNITY BANCORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

The accounting policies of Community Bancorp. and Subsidiary ("Company") are in conformity, in all material respects, with accounting principles generally accepted in the United States of America ("US GAAP") and general practices within the banking industry. The following is a description of the Company's significant accounting policies.

Basis of presentation and consolidation

The consolidated financial statements include the accounts of Community Bancorp. and its wholly-owned subsidiary, Community National Bank ("Bank"). All significant intercompany accounts and transactions have been eliminated. The Company is considered a "smaller reporting company" under applicable disclosure rules of the Securities and Exchange Commission and accordingly, has elected to provide its audited statements of income, comprehensive income, cash flows and changes in shareholders' equity for a two year, rather than a three year, period.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810, "Consolidation", in part, addresses limited purpose trusts formed to issue trust preferred securities. It also establishes the criteria used to identify variable interest entities ("VIE") and to determine whether or not to consolidate a VIE. In general, ASC Topic 810 provides that the enterprise with the controlling financial interest, known as the primary beneficiary, consolidates the VIE. In 2007, the Company formed CMTV Statutory Trust I for the purposes of issuing trust preferred securities to unaffiliated parties and investing the proceeds from the issuance thereof and the common securities of the trust in junior subordinated debentures issued by the Company. The Company is not the primary beneficiary of CMTV Statutory Trust I; accordingly, the trust is not consolidated with the Company for financial reporting purposes. CMTV Statutory Trust I is considered an affiliate of the Company (see Note 10).

In December 2011, the Company formed a limited liability company ("LLC") to facilitate its purchase of federal New Markets Tax Credits ("NMTC") under an investment structure designed by a local community development entity. Management has evaluated the Company's interest in the LLC under the ASC guidance relating to VIEs in light of the overall structure and purpose of the NMTC financing transaction and has concluded that the LLC should not be consolidated in the Company's financial statements for financial reporting purposes, as the Company is not the primary beneficiary of the NMTC structure, does not exercise control within the overall structure and is not obligated to absorb a majority of any losses of the NMTC structure (see Note 7).

Nature of operations

The Company provides a variety of deposit and lending services to individuals, municipalities, and business customers through its branches, ATMs and telephone and internet banking capabilities in northern and central Vermont, which is primarily a small business and agricultural area. The Company's primary deposit products are checking and savings accounts and certificates of deposit. Its primary lending products are commercial, real estate, municipal and consumer loans.

Concentration of risk

The Company's operations are affected by various risk factors, including interest rate risk, credit risk, and risk from geographic concentration of its deposit taking and lending activities. Management attempts to manage interest rate risk through various asset/liability management techniques designed to match maturities and repricing of assets and liabilities. Loan policies and administration are designed to provide assurance that loans will only be granted to creditworthy borrowers, although credit losses are expected to occur because of subjective factors and factors beyond the control of the Company. While the Company has a diversified loan portfolio by loan type, most of its lending activities are conducted within the geographic area where its banking offices are located. As a result, the Company and its borrowers may be especially vulnerable to the consequences of changes in the local economy in northern and central Vermont. In addition, a substantial portion of the Company's loans are secured by real estate, which is susceptible to a decline in value, especially during times of adverse economic conditions.

Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions involve inherent uncertainties. Accordingly, actual results could differ from those estimates and those differences could be material.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of OREO. In connection with evaluating loans for impairment or assigning the carrying value of OREO, management generally obtains independent evaluations or appraisals for significant properties. While the allowance for loan losses and the carrying value of OREO are determined using management's best estimate of probable loan and OREO losses, respectively, as of the balance sheet date, the ultimate collectibility of a substantial portion of the Company's loan portfolio and the recovery of a substantial portion of the fair value of OREO are susceptible to uncertainties and changes in a number of factors, especially local real estate market conditions. The amount of the change that is reasonably possible cannot be estimated.

While management uses available information to recognize losses on loans and OREO, future additions to the allowance or write-downs of OREO may be necessary based on changes in local economic conditions or other relevant factors. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for losses on loans and the carrying value of OREO. Such agencies may require the Company to recognize additions to the allowance or write-downs of OREO based on their judgment about information available to them at the time of their examination.

Mortgage servicing rights associated with loans originated and sold in the secondary market, where servicing is retained, are capitalized and included in other assets in the consolidated balance sheets. Mortgage servicing rights are amortized against non-interest income in proportion to, and over the period of, estimated future net servicing income of the underlying loans. The value of capitalized servicing rights represents the present estimated value of the future servicing fees arising from the right to service loans for third parties. The carrying value of the mortgage servicing rights is periodically reviewed for impairment based on a determination of estimated fair value as compared to amortized cost, and impairment, if any, is recognized through a valuation allowance and is recorded as a write down. Critical accounting policies for mortgage servicing rights relate to the initial valuation and subsequent impairment tests. The methodology used to determine the valuation of mortgage servicing rights requires the development and use of a number of estimates, including anticipated principal amortization and prepayments. Events that may significantly affect the estimates used are changes in interest rates and the payment performance of the underlying loans. Management uses a third party consultant to assist in analyzing the fair value of the Company's mortgage servicing rights.

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to various factors, including the length of time and the extent to which the fair value has been less than cost; the nature of the issuer and its financial condition and near-term prospects; and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The evaluation of these factors is a subjective process and involves estimates and assumptions about matters that are inherently uncertain. Should actual factors and conditions differ materially from those used by management, the actual realization of gains or losses on investment securities could differ materially from the amounts recorded in the financial statements.

Management utilizes numerous techniques to estimate the carrying value of various other assets held by the Company, including, but not limited to, bank premises and equipment and deferred taxes. The assumptions considered in making these estimates are based on historical experience and on various other factors that are believed by management to be reasonable under the circumstances. Management acknowledges that the use of different estimates or assumptions could produce different estimates of carrying values.

Accounting for a business combination that was completed prior to 2009 requires the application of the purchase method of accounting. Under the purchase method, the Company was required to record the assets and liabilities acquired through the LyndonBank merger in 2007 at fair market value, with the excess of the purchase price over the fair value of the net assets recorded as goodwill and evaluated annually for impairment. Management uses various assumptions in evaluating goodwill for impairment.

Presentation of cash flows

For purposes of presentation in the consolidated statements of cash flows, cash and cash equivalents includes cash on hand, amounts due from banks (including cash items in process of clearing), federal funds sold (generally purchased and sold for one day periods) and overnight deposits.

Investment securities

Securities the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. Debt and equity securities not classified as held-to-maturity are classified as available-for-sale. Investments classified as available-for-sale are carried at fair value, with unrealized gains and losses, net of tax and reclassification adjustments, reflected as a net amount in the shareholders' equity section of the consolidated balance sheets and in the statements of changes in shareholders' equity. Investment securities transactions are accounted for on a trade date basis. The specific identification method is used to determine realized gains and losses on sales of securities available-for-sale. Premiums and discounts are recognized in interest income using the interest method over the period to maturity or call date. The Company does not hold any securities purchased for the purpose of selling in the near term and classified as trading.

Declines in the fair value of individual equity securities that are deemed to be other than temporary are reflected in earnings when identified. For individual debt securities where the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in the fair value of the debt security related to (1) credit loss is recognized in earnings and (2) other factors is recognized in other comprehensive income or loss. Credit loss is deemed to exist if the present value of expected future cash flows using the interest rates at acquisition is less than the amortized cost basis of the debt security. For individual debt securities where the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the security's cost basis and its fair value at the balance sheet date.

Other investments

In December 2011, the Company made an equity investment in a NMTC financing structure (see Note 7). The Company's investment in the NMTC is amortized using the effective yield method.

From time to time, the Company acquires partnership interests in limited partnerships for low income housing projects. New investments in limited partnerships are amortized using the proportional amortization method. All investments made before January 1, 2015 are amortized using the effective yield method.

The Company has a one-third ownership interest in Community Financial Services Group, LLC ("CFSG"), a non-depository trust company (see Note 7). The Company's investment in CFSG is accounted for under the equity method of accounting.

Restricted equity securities

Restricted equity securities comprise Federal Reserve Bank stock and Federal Home Loan Bank stock. These securities are carried at cost. As a member of the Federal Reserve Bank of Boston ("FRBB"), the Company is required to invest in FRBB stock in an amount equal to 6% of the Bank's capital stock and surplus.

As a member of the Federal Home Loan Bank of Boston ("FHLBB"), the Company is required to invest in \$100 par value stock of the FHLBB in an amount that approximates 1% of unpaid principal balances on qualifying loans, plus an additional amount to satisfy an activity based requirement. The stock is nonmarketable and redeemable at par value, subject to the FHLBB's right to temporarily suspend such redemptions. Members are subject to capital calls in some circumstances to ensure compliance with the FHLBB's capital plan.

Loans held-for-sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal balance, adjusted for any charge-offs, the allowance for loan losses, loan premiums or discounts for acquired loans and any unearned fees or costs on originated loans.

Loan interest income is accrued daily on the outstanding balances. 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 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 principal and interest payments are brought current and the customer has demonstrated the intent and ability to make future payments on a timely basis. Loans are written down or charged off when collection of principal is considered doubtful. Past due status is determined on a contractual basis.

Loan origination and commitment fees and certain direct loan origination costs are deferred and the net amount is amortized as an adjustment of the related loan's yield. The Company generally amortizes these amounts over the contractual life of the loans.

Loan premiums and discounts on loans acquired in the merger with LyndonBank are amortized as an adjustment to yield over the life of the loans.

Allowance for loan losses

The allowance for loan losses is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is probable. Subsequent recoveries, if any, are credited to the allowance.

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

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

General component

The general component of the allowance for loan losses is based on historical loss experience, adjusted for qualitative factors and stratified by the following loan segments: commercial and industrial, commercial real estate, residential real estate first ("1st") lien, residential real estate junior ("Jr") lien and consumer loans. The Company does not disaggregate its portfolio segments further into classes. Loss ratios are calculated by loan segment for one year, two year, three year, four year and five year look back periods. The highest loss ratio among these look-back periods is then applied against the respective segment. Management uses an average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels of and trends in delinquencies and non-performing loans, levels of and trends in loan risk groups, trends in volumes and terms of loans, effects of any changes in loan related policies, experience, ability and the depth of management, documentation and credit data exception levels, national and local economic trends, external factors such as competition and regulation and lastly, concentrations of credit risk in a variety of areas, including portfolio product mix, the level of loans to individual borrowers and their related interests, loans to industry segments, and the geographic distribution of commercial real estate loans. This evaluation is inherently subjective as it requires estimates that are susceptible to revision as more information becomes available.

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

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

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

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

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

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

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

Specific component

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

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

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

Unallocated component

An unallocated component of the allowance for loan losses is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component reflects management's estimate of the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. While unallocated reserves have increased, they are considered by management to be appropriate in light of the Company's continued growth strategy and shift in the portfolio from residential loans to commercial and commercial real estate loans and the risk associated with the relatively new, unseasoned loans in those portfolios.

Bank premises and equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets. The cost of assets sold or otherwise disposed of, and the related accumulated depreciation, are eliminated from the accounts and the resulting gains or losses are reflected in the consolidated statements of income. Maintenance and repairs are charged to current expense as incurred and the cost of major renewals and betterments is capitalized.

Other real estate owned

Real estate properties acquired through or in lieu of loan foreclosure or properties no longer used for bank operations are initially recorded at fair value less estimated selling cost at the date of acquisition, foreclosure or transfer. Such properties are carried at fair value, which is the market value less estimated cost of disposition, i.e. sales commissions and costs associated with the sale. Fair value is determined, as appropriate, either by obtaining a current appraisal or evaluation prepared by an independent, qualified appraiser, by obtaining a broker's market value analysis, and finally, if the Company has limited exposure and limited risk of loss, by the opinion of management as supported by an inspection of the property and its most recent tax valuation. During periods of declining market values, the Company will generally obtain a new appraisal or evaluation. Any write-down based on the asset's fair value at the date of acquisition or institution of foreclosure is charged to the allowance for loan losses. After acquisition through or in lieu of foreclosure, these assets are carried at their new cost basis. Costs of significant property improvements are capitalized, whereas costs relating to holding the property are expensed as incurred. Appraisals by an independent, qualified appraiser are performed periodically on properties that management deems significant, or evaluations may be performed by management or a qualified third party on properties in the portfolio that are deemed less significant or less vulnerable to market conditions. Subsequent write-downs are recorded as a charge to other expense. Gains or losses on the sale of such properties are included in income when the properties are sold.

Intangible assets

Intangible assets include the excess of the purchase price over the fair value of net assets acquired (goodwill) in the 2007 acquisition of LyndonBank, as well as a core deposit intangible related to the deposits acquired from LyndonBank (see Note 6). The core deposit intangible is amortized on an accelerated basis over 10 years to approximate the pattern of economic benefit to the Company. The Company evaluates the valuation and amortization of the core deposit intangible asset if events occur that could result in possible impairment. Goodwill is reviewed for impairment annually, or more frequently as events or circumstances warrant.

Income taxes

The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting bases and the tax bases of the Company's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. Adjustments to the Company's deferred tax assets are recognized as deferred income tax expense or benefit based on management's judgments relating to the realizability of such asset.

Mortgage servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or retained upon the sale of loans. Capitalized servicing rights are reported in other assets and initially recorded at fair value, and are amortized against non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. Servicing rights are periodically evaluated for impairment, based upon the estimated fair value of the rights as compared to amortized cost. Impairment is determined by stratifying the rights by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance and is recorded as amortization of other assets, to the extent that estimated fair value is less than the capitalized amount at the valuation date. Subsequent improvement, if any, in the estimated fair value of impaired mortgage servicing rights is reflected in a positive valuation adjustment and is recognized in other income up to (but not in excess of) the amount of the prior impairment.

Pension costs

Pension costs are charged to salaries and employee benefits expense and accrued over the active service period.

Advertising costs

The Company expenses advertising costs as incurred.

Comprehensive income

Accounting principles generally require recognized revenue, expenses, gains and losses to be included in net income. Certain changes in assets and liabilities, such as the after-tax effect of unrealized gains and losses on available-for-sale securities, are not reflected in the consolidated statement of income, but the cumulative effect of such items from period-to-period is reflected as a separate component of the shareholders' equity section of the consolidated balance sheet (accumulated other comprehensive income or loss). Other comprehensive income or loss, along with net income, comprises the Company's total comprehensive income.

Preferred stock

The Company has outstanding 25 shares of fixed-to-floating rate non-cumulative perpetual preferred stock, without par value and with a liquidation preference of \$100,000 per share, issued in December 2007. Under the terms of the preferred stock, the Company pays non-cumulative cash dividends quarterly, when, as and if declared by the Board of Directors. Dividends are payable at a variable dividend rate equal to the Wall Street Journal Prime Rate in effect on the first business day of each quarterly dividend period. A variable rate of 3.25% was in effect and remained unchanged throughout 2014 and 2015. The variable rate will increase by 25 basis points for the dividend payment due in the first quarter of 2016.

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, including Dividend Reinvestment Plan ("DRIP") shares issuable upon reinvestment of dividends (retroactively adjusted for stock splits and stock dividends, if any) and reduced for shares held in treasury.

The following table illustrates the calculation of earnings per common share for the periods presented, as adjusted for the cash dividend declared on the preferred stock:

Years Ended December 31,	2015	2014
Net income, as reported	\$ 4,825,591	\$ 5,124,908
Less: dividends to preferred shareholders	81,250	81,250
Net income available to common shareholders	\$ 4,744,341	\$ 5,043,658
Weighted average number of common shares used in calculating earnings per share	4,961,972	4,897,281
Earnings per common share	\$ 0.96	\$ 1.03

Off-balance-sheet financial instruments

In the ordinary course of business, the Company is a party to off-balance-sheet financial instruments consisting of commitments to extend credit, commercial and municipal letters of credit, standby letters of credit, and risk-sharing commitments on residential mortgage loans sold through the FHLBB's Mortgage Partnership Finance ("MPF") program. Such financial instruments are recorded in the consolidated financial statements when they are funded.

Transfers of financial assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Impact of recently issued accounting standards

In January 2016, the FASB issued Accounting Standards Update 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”). 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 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 ASU 2016-01 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.

Note 2. Investment Securities

Securities available-for-sale (AFS) and held-to-maturity (HTM) consist of the following:

Securities AFS	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
U.S. Government sponsored enterprise (GSE) debt securities	\$ 12,832,059	\$ 22,523	\$ 22,139	\$ 12,832,443
Agency mortgage-backed securities (Agency MBS)	10,734,121	0	69,637	10,664,484
Other investments	2,973,000	5,046	4,573	2,973,473
	<u>\$ 26,539,180</u>	<u>\$ 27,569</u>	<u>\$ 96,349</u>	<u>\$ 26,470,400</u>
December 31, 2014				
U.S. GSE debt securities	\$ 19,929,061	\$ 50,378	\$ 72,289	\$ 19,907,150
U.S. Government securities	3,997,451	3,486	0	4,000,937
Agency MBS	9,031,661	19,472	12,326	9,038,807
	<u>\$ 32,958,173</u>	<u>\$ 73,336</u>	<u>\$ 84,615</u>	<u>\$ 32,946,894</u>
Securities HTM	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value*
December 31, 2015				
States and political subdivisions	<u>\$ 43,354,419</u>	<u>\$ 788,581</u>	<u>\$ 0</u>	<u>\$ 44,143,000</u>
December 31, 2014				
States and political subdivisions	<u>\$ 41,810,945</u>	<u>\$ 423,055</u>	<u>\$ 0</u>	<u>\$ 42,234,000</u>

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

The entire balance under “Securities HTM - States and political subdivisions” consists of securities of local municipalities which are attributable to municipal financing transactions directly with the Company. The reported fair value of these securities is an estimate based on an analysis that takes into account future maturities and scheduled future repricing. The Company anticipates no losses on these securities and expects to hold them until their maturity.

Securities AFS with a book value of \$23,566,180 and \$32,958,173 and a fair value of \$23,496,927 and \$32,946,894 at December 31, 2015 and 2014, respectively, were pledged as collateral for larger dollar repurchase agreement accounts and for other purposes as required or permitted by law.

Proceeds from sales of securities AFS were \$7,019,450 in 2015 and \$10,677,626 in 2014 with gains of \$22,802 in 2015 compared to \$39,144 in 2014 and losses of \$5,300 and \$11,306 in 2015 and 2014, respectively.

The carrying amount and estimated fair value of securities by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may call or prepay obligations with or without call or prepayment penalties, pursuant to contractual terms. 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 AFS at December 31, 2015 were as follows:

	<u>Amortized Cost</u>	<u>Fair Value</u>
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
Mortgage-backed securities	10,734,121	10,664,484
	<u>\$ 26,539,180</u>	<u>\$ 26,470,400</u>

The scheduled maturities of debt securities HTM at December 31, 2015 were as follows:

	<u>Amortized Cost</u>	<u>Fair Value*</u>
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
	<u>\$ 43,354,419</u>	<u>\$ 44,143,000</u>

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

Debt securities AFS with unrealized losses as of the balance sheet dates are presented in the tables below.

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Totals</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
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
	<u>\$ 18,391,284</u>	<u>\$ 96,349</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,391,284</u>	<u>\$ 96,349</u>
December 31, 2014						
U.S. GSE debt securities	\$ 6,023,946	\$ 8,548	\$ 5,186,258	\$ 63,741	\$ 11,210,204	\$ 72,289
Agency MBS	3,206,389	12,326	0	0	3,206,389	12,326
	<u>\$ 9,230,335</u>	<u>\$ 20,874</u>	<u>\$ 5,186,258</u>	<u>\$ 63,741</u>	<u>\$ 14,416,593</u>	<u>\$ 84,615</u>

Debt securities in the table above consisted of six U.S. GSE debt securities, twelve Agency MBS and six certificates of deposit (CDs) held for investment at December 30, 2015 compared to ten U.S. GSE debt securities and four Agency MBS at December 31, 2014. The unrealized losses for all periods presented were principally attributable to changes in prevailing interest rates for similar types of securities and not deterioration in the creditworthiness of the issuer.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions, or adverse developments relating to the issuer, warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer 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 have occurred, and the results of reviews of the issuer's financial condition.

As the Company has the ability to hold its debt securities until maturity, or for the foreseeable future if classified as AFS, and it is more likely than not that the Company will not have to sell such securities before recovery of their cost basis, no declines in such securities were deemed to be other-than-temporary at December 31, 2015 and 2014.

The Bank is a member of the FHLBB. The FHLBB is a cooperatively owned wholesale bank for housing and finance in the six New England States. Its mission is to support the residential mortgage and community-development lending activities of its members, which include over 450 financial institutions across New England. As a requirement of membership in the FHLBB, the Bank must own a minimum required amount of FHLBB stock, calculated periodically based primarily on the Bank's level of borrowings from the FHLBB. The Company obtains much of its wholesale funding from the FHLBB. As of December 31, 2015 and 2014, the Company's investment in FHLBB stock was \$1,853,500 and \$2,744,300, respectively. As a member of the FHLBB, the Company is also subject to future capital calls by the FHLBB in order to maintain compliance with its capital plan. During 2015 and 2014, FHLBB exercised capital call options totaling \$890,800 and \$300,400, respectively, on the Company's portfolio of FHLBB stock.

The Company periodically evaluates its investment in FHLBB stock for impairment based on, among other factors, the capital adequacy of the FHLBB and its overall financial condition. No impairment losses have been recorded through December 31, 2015. The Bank will continue to monitor its investment in FHLBB stock.

Note 3. Loans, Allowance for Loan Losses and Credit Quality

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

	<u>2015</u>	<u>2014</u>
Commercial & industrial	\$ 65,191,124	\$ 64,390,220
Commercial real estate	178,206,542	166,611,830
Residential real estate - 1st lien	162,760,273	163,966,124
Residential real estate - Jr lien	44,720,266	44,801,483
Consumer	<u>7,241,224</u>	<u>8,035,298</u>
	<u>458,119,429</u>	<u>447,804,955</u>
Deduct (add):		
Allowance for loan losses	5,011,878	4,905,874
Deferred net loan costs	<u>(316,491)</u>	<u>(303,394)</u>
	<u>4,695,387</u>	<u>4,602,480</u>
Net Loans	<u>\$ 453,424,042</u>	<u>\$ 443,202,475</u>

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

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

December 31, 2014	30-89 Days	90 Days or More	Total Past Due	Current	Total Loans	Non-Accrual Loans	90 Days or More and Accruing
Commercial & industrial	\$ 439,151	\$ 299,095	\$ 738,246	\$ 63,651,974	\$ 64,390,220	\$ 552,386	\$ 23,579
Commercial real estate	988,924	5,313	994,237	165,617,593	166,611,830	1,934,096	5,313
Residential real estate							
- 1st lien	4,446,138	1,484,334	5,930,472	158,035,652	163,966,124	1,263,046	980,138
- Jr lien	637,917	179,920	817,837	43,983,646	44,801,483	404,061	115,852
Consumer	56,392	0	56,392	7,978,906	8,035,298	0	0
Total	\$ 6,568,522	\$ 1,968,662	\$ 8,537,184	\$ 439,267,771	\$ 447,804,955	\$ 4,153,589	\$ 1,124,882

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

As of December 31, 2015, there were five residential mortgage loans in process of foreclosure totaling \$400,905.

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

As of or for the year ended December 31, 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	(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 year ended December 31, 2014

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	\$ 516,382	\$ 2,143,398	\$ 1,452,184	\$ 366,471	\$ 105,279	\$ 271,201	\$ 4,854,915
Charge-offs	(153,329)	(167,841)	(58,904)	(51,389)	(112,376)	0	(543,839)
Recoveries	6,249	0	14,543	240	33,766	0	54,798
Provision (credit)	277,417	336,379	(137,057)	5,777	92,150	(34,666)	540,000
Ending balance	<u>\$ 646,719</u>	<u>\$ 2,311,936</u>	<u>\$ 1,270,766</u>	<u>\$ 321,099</u>	<u>\$ 118,819</u>	<u>\$ 236,535</u>	<u>\$ 4,905,874</u>

Allowance for loan losses							
Evaluated for impairment							
Individually	\$ 0	\$ 34,400	\$ 43,400	\$ 0	\$ 0	\$ 0	\$ 77,800
Collectively	646,719	2,277,536	1,227,366	321,099	118,819	236,535	4,828,074
Total	<u>\$ 646,719</u>	<u>\$ 2,311,936</u>	<u>\$ 1,270,766</u>	<u>\$ 321,099</u>	<u>\$ 118,819</u>	<u>\$ 236,535</u>	<u>\$ 4,905,874</u>

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

Impaired loans by portfolio segment were as follows:

	As of December 31, 2015			2015 Average Recorded Investment
	Recorded Investment	Unpaid Principal Balance	Related Allowance	
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
	<u>407,792</u>	<u>466,478</u>	<u>139,700</u>	<u>461,741</u>
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
	<u>4,084,204</u>	<u>4,603,518</u>		<u>3,686,066</u>
Total	<u>\$ 4,491,996</u>	<u>\$ 5,069,996</u>	<u>\$ 139,700</u>	<u>\$ 4,147,807</u>

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

Interest income recognized on impaired loans is 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 segments as of the balance sheet dates were as follows:

As of December 31, 2015

	<u>Commercial & Industrial</u>	<u>Commercial Real Estate</u>	<u>Residential Real Estate 1st Lien</u>	<u>Residential Real Estate Jr Lien</u>	<u>Consumer</u>	<u>Total</u>
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	<u>\$ 65,191,124</u>	<u>\$ 178,206,542</u>	<u>\$ 162,760,273</u>	<u>\$ 44,720,266</u>	<u>\$ 7,241,224</u>	<u>\$ 458,119,429</u>

As of December 31, 2014

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

Modifications of Loans and TDRs

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

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

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

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

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

TDRs by segment for the periods presented were as follows:

	Year ended December 31, 2015		
	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding 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
Residential real estate - Jr lien	2	117,746	121,672
Total	19	\$ 2,127,411	\$ 2,245,480

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

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

Year ended December 31, 2015

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

Year ended December 31, 2014

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

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 December 31, 2015, the specific allowance related to TDRs was approximately \$25,100. There was no specific allowance related to TDRs at December 31, 2014.

As of December 31, 2015, the Company was contractually committed to lend up to \$450,000 in additional funds to one debtor with an impaired SBA 75% guaranteed cap line of credit. This debtor's loan relationship is expected to strengthen as a result of a prior troubled debt restructuring. With this exception, as of the balance sheet dates, the Company was not contractually committed to lend additional funds to debtors with impaired, non-accrual or modified loans.

Note 4. Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were \$193,994,081 and \$195,860,406 at December 31, 2015 and 2014, respectively. Net gain realized on the sale of loans was \$424,240 and \$460,505 for the years ended December 31, 2015 and 2014, respectively.

The following table summarizes changes in mortgage servicing rights for the years ended December 31,

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 1,311,965	\$ 1,329,079
Mortgage servicing rights capitalized	230,818	209,713
Mortgage servicing rights amortized	(257,921)	(250,955)
Change in valuation allowance	8,217	24,128
Balance at end of year	<u>\$ 1,293,079</u>	<u>\$ 1,311,965</u>

Note 5. Bank Premises and Equipment

The major classes of bank premises and equipment and accumulated depreciation and amortization at December 31 were as follows:

	<u>2015</u>	<u>2014</u>
Buildings and improvements	\$ 11,176,189	\$ 10,927,643
Land and land improvements	2,377,703	2,408,921
Furniture and equipment	8,752,908	8,443,668
Leasehold improvements	1,048,409	1,319,591
Capital lease	976,907	976,907
Other prepaid assets	514,476	54,261
	<u>24,846,592</u>	<u>24,130,991</u>
Less accumulated depreciation and amortization	<u>(13,386,385)</u>	<u>(12,642,043)</u>
	<u>\$ 11,460,207</u>	<u>\$ 11,488,948</u>

The Company is obligated under non-cancelable operating leases for bank premises expiring in various years through 2020, with options to renew. Minimum future rental payments for these leases with original terms in excess of one year as of December 31, 2015 for each of the next five years and in aggregate are:

2016	\$ 183,396
2017	130,493
2018	132,612
2019	104,326
2020	76,351
	<u>\$ 627,178</u>

Total rental expense amounted to \$204,991 and \$237,524 for the years ended December 31, 2015 and 2014, respectively.

Capital lease obligations

The following is a schedule by years of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of December 31, 2015:

2016	\$ 129,755
2017	133,255
2018	138,155
2019	138,155
2020	107,155
Subsequent to 2020	37,190
Total minimum lease payments	683,665
Less amount representing interest	(125,300)
Present value of net minimum lease payments	<u>\$ 558,365</u>

Note 6. Goodwill and Other Intangible Asset

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 \$3,615,614 and \$3,342,919 as of December 31, 2015 and 2014, respectively.

The amortization expense related to the remaining core deposit intangible at December 31, 2015 is expected to be as follows:

2016	272,695
2017	272,691
Total remaining core deposit intangible expense	<u>\$ 545,386</u>

Management evaluated goodwill for impairment at December 31, 2015 and 2014 and concluded that no impairment existed as of such dates.

Note 7. Other Investments

In 2011, the Company established a single-member LLC to facilitate the purchase of federal NMTC through an investment structure designed by a local community development entity. The LLC does not conduct any business apart from its role in the NMTC financing structure. The NMTC equity investment generated tax credits of \$204,900 for the years ended December 31, 2015 and 2014, respectively, with an amortization expense of \$161,890 and \$147,290, respectively. The carrying value of the NMTC equity investment was \$374,510 and \$536,400 at December 31, 2015 and 2014, respectively, and is included in other assets in the consolidated balance sheets.

The Company purchases from time to time interests in various limited partnerships established to acquire, own and rent residential housing for low and moderate income Vermonters located in northeastern and central Vermont. The tax credits from these investments were \$431,715 and \$512,526 for the years ended December 31, 2015 and 2014, respectively. Expenses related to amortization of the investments in the limited partnerships are recognized as a component of income tax expense, and were \$403,445 and \$443,832 for 2015 and 2014, respectively. The carrying values of the limited partnership investments were \$2,462,932 and \$1,890,877 at December 31, 2015 and 2014, respectively, and are included in other assets.

The Bank has a one-third ownership interest in a non-depository trust company, CFSG, based in Newport, Vermont, which is held indirectly through Community Financial Services Partners, LLC ("CFSG Partners"), a Vermont LLC that owns 100% of the LLC equity interests of CFSG. The Bank accounts for its investment in CFSG Partners under the equity method of accounting. The Company's investment in CFSG Partners, included in other assets, amounted to \$1,587,777 and \$1,226,733 as of December 31, 2015 and 2014, respectively. The Company recognized income of \$361,044 and \$272,820 for 2015 and 2014, respectively, through CFSG Partners from the operations of CFSG.

Note 8. Deposits

The following is a maturity distribution of time deposits at December 31, 2015:

2016	\$ 67,812,011
2017	13,816,874
2018	7,017,296
2019	12,765,849
2020	6,150,498
Total time certificates of deposit	<u>\$ 107,562,528</u>

Total deposits in excess of the FDIC insurance level amounted to \$137,361,084 as of December 31, 2015.

Note 9. Borrowed Funds

Outstanding borrowings for the Company as of December 31, 2015 amounted to \$10,000,000, consisting of short-term borrowings from the FHLBB at a fixed rate of 0.48%, due on February 26, 2016, compared to no outstanding borrowings as of December 31, 2014.

Borrowings from the FHLBB are secured by a blanket lien on qualified collateral consisting primarily of loans with first mortgages secured by 1-4 family residential properties. Qualified collateral for these borrowings totaled \$100,361,793 and \$105,276,788 as of December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, the Company's gross potential borrowing capacity under this arrangement was \$72,091,633 and \$67,136,178, respectively, before reduction for outstanding advances and collateral pledges.

Under a separate agreement with the FHLBB, the Company has the authority to collateralize public unit deposits, up to its available borrowing capacity, with letters of credit issued by the FHLBB. At December 31, 2015, \$14,900,000 in FHLBB letters of credit was utilized as collateral for these deposits compared to \$34,500,000 at December 31, 2014. Total fees paid by the Company in connection with issuance of these letters of credit were \$29,535 for 2015 and \$35,863 for 2014. The Company also maintained a \$500,000 IDEAL Way Line of Credit with the FHLBB at December 31, 2015 and 2014, with no outstanding advances under this line at either year-end date. Interest on these borrowings is at a rate determined daily by the FHLBB and payable monthly.

The Company also has a line of credit with the FRBB, which is intended to be used as a contingency funding source. For this Borrower-in-Custody arrangement, the Company pledged eligible commercial and industrial loans, commercial real estate loans and home equity loans, resulting in an available line of \$72,345,479 and \$78,580,859 as of December 31, 2015 and 2014, respectively. Credit advances in the FRBB lending program are overnight advances with interest chargeable at the primary credit rate (generally referred to as the discount rate), which was 100 basis points as of December 31, 2015. As of December 31, 2015 and 2014, the Company had no outstanding advances against this line.

The Company has an unsecured line with two correspondent banks with available lines totaling \$7,500,000 at December 31, 2015 and 2014.

Note 10. Junior Subordinated Debentures

As of December 31, 2015 and 2014, the Company had outstanding \$12,887,000 principal amount of Junior Subordinated Debentures due in 2037 (the "Debentures"). The Debentures bear a floating rate equal to the 3-month London Interbank Offered Rate (LIBOR) plus 2.85%. During 2015, the floating rate approximated 3.13% per quarter compared to 3.08% for 2014. The Debentures mature on December 15, 2037 and are subordinated and junior in right of payment to all senior indebtedness of the Company, as defined in the Indenture dated as of October 31, 2007 between the Company and Wilmington Trust Company, as Trustee. The Debentures first became redeemable, in whole or in part, by the Company on December 15, 2012. Interest paid on the Debentures for 2015 and 2014 was \$409,432 and \$402,011, respectively, and is deductible for tax purposes.

The Debentures were issued and sold to CMTV Statutory Trust I (the "Trust"). The Trust is a special purpose trust funded by a capital contribution of \$387,000 from the Company, in exchange for 100% of the Trust's common equity. The Trust was formed for the purpose of issuing corporation-obligated mandatorily redeemable Capital Securities ("Capital Securities") in the principal amount of \$12.5 million to third-party investors and using the proceeds from the sale of such Capital Securities and the Company's initial capital contribution to purchase the Debentures. The Debentures are the sole asset of the Trust. Distributions on the Capital Securities issued by the Trust are payable quarterly at a rate per annum equal to the interest rate being earned by the Trust on the Debentures. The Capital Securities are subject to mandatory redemption, in whole or in part, upon repayment of the Debentures. The Company has entered into an agreement which, taken collectively, fully and unconditionally guarantees the payments on the Capital Securities, subject to the terms of the guarantee.

The Debentures are currently includable in the Company's Tier 1 capital up to 25% of core capital elements (see Note 20).

Note 11. Repurchase Agreements

Securities sold under agreements to repurchase amounted to \$22,073,238 and \$28,542,961 as of December 31, 2015 and 2014, respectively. These agreements were collateralized by U.S. GSE securities and Agency MBS securities with a book value of \$23,566,180 and a fair value of \$23,496,927 at December 31, 2015 and by U.S. GSE securities, U.S. Treasury notes and Agency MBS securities with a book value of \$32,958,173 and a fair value of \$32,946,894 at December 31, 2014.

The average daily balance of these repurchase agreements was \$24,332,366 and \$25,263,130 during 2015 and 2014, respectively. The maximum borrowings outstanding on these agreements at any month-end reporting period of the Company were \$28,229,636 and \$28,542,961 during 2015 and 2014, respectively. These repurchase agreements mature daily and carried a weighted average interest rate of 0.29% during 2015 and 0.25% during 2014.

Note 12. Income Taxes

The Company prepares its federal income tax return on a consolidated basis. Federal income taxes are allocated to members of the consolidated group based on taxable income.

Federal income tax expense for the years ended December 31 was as follows:

	<u>2015</u>	<u>2014</u>
Currently paid or payable	\$ 1,937,004	\$ 1,030,257
Deferred tax (benefit) expense	(172,374)	755,139
Total income tax expense	<u>\$ 1,764,630</u>	<u>\$ 1,785,396</u>

Total income tax expense differed from the amounts computed at the statutory federal income tax rate of 34 percent primarily due to the following for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Computed expense at statutory rates	\$ 2,048,461	\$ 2,148,522
Tax exempt interest & BOLI	(414,855)	(404,382)
Disallowed interest	11,523	13,306
Partnership tax credits	(566,949)	(647,760)
Low income housing investment amortization expense	403,445	443,832
NMTC amortization expense	161,890	147,290
Other	121,115	84,588
	<u>\$ 1,764,630</u>	<u>\$ 1,785,396</u>

The deferred income tax (benefit) expense consisted of the following items for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Depreciation	\$ (82,902)	\$ (5,039)
Mortgage servicing rights	(6,421)	(5,819)
Deferred compensation	(26,169)	45,324
Bad debts	(36,042)	(17,326)
Non-accrual loan interest	13,731	18,766
Limited partnership amortization	56,890	44,566
Investment in CFSG Partners	20,182	(7,189)
Core deposit intangible	(92,716)	(92,719)
Loan fair value	(9,951)	(7,953)
OREO write down	(10,370)	5,100
Tax credit carryovers	0	774,961
Other	1,394	2,467
Deferred tax (benefit) expense	<u>\$ (172,374)</u>	<u>\$ 755,139</u>

Listed below are the significant components of the net deferred tax asset at December 31:

	2015	2014
Components of the deferred tax asset:		
Bad debts	\$ 1,704,039	\$ 1,667,997
Non-accrual loan interest	0	13,731
Deferred compensation	243,972	217,803
Limited partnerships	0	12,646
Contingent liability - MPF program	45,042	45,042
OREO write down	20,400	10,030
Capital lease	69,567	73,141
Unrealized loss on securities available-for-sale	23,385	3,834
Other	28,733	26,553
Total deferred tax asset	<u>2,135,138</u>	<u>2,070,777</u>
Components of the deferred tax liability:		
Depreciation	154,546	237,448
Limited partnerships	44,244	0
Mortgage servicing rights	439,647	446,068
Investment in CFSG Partners	101,848	81,666
Core deposit intangible	185,431	278,147
Fair value adjustment on acquired loans	29,444	39,395
Total deferred tax liability	<u>955,160</u>	<u>1,082,724</u>
Net deferred tax asset	<u>\$ 1,179,978</u>	<u>\$ 988,053</u>

US GAAP provides for the recognition and measurement of deductible temporary differences (including general valuation allowances) to the extent that it is more likely than not that the deferred tax asset will be realized.

The net deferred tax asset is included in other assets in the consolidated balance sheets.

ASC Topic 740, "Income Taxes", defines the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. Topic 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the consolidated financial statements. The Company has adopted these provisions and there was no material effect on the consolidated financial statements. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2012 through 2014.

Note 13. 401(k) and Profit-Sharing Plan

The Company has a defined contribution plan covering all employees who meet certain age and service requirements. The pension expense was \$610,631 and \$566,732 for 2015 and 2014, respectively. These amounts represent discretionary matching contributions of a portion of the voluntary employee salary deferrals under the 401(k) plan and discretionary profit-sharing contributions under the plan.

Note 14. Deferred Compensation and Supplemental Employee Retirement Plans

The Company maintains a directors' deferred compensation plan and, prior to 2005, maintained a retirement plan for its directors. Participants are general unsecured creditors of the Company with respect to these benefits. The benefits accrued under these plans were \$141,857 and \$179,080 at December 31, 2015 and 2014, respectively. Expenses associated with these plans were \$779 and \$20,214 for the years ended December 31, 2015 and 2014, respectively. One of the participants retired in 2014 causing a substantial distribution from this plan, resulting in the decrease in expense from 2014 to 2015.

The Company also maintains a supplemental employee retirement plan ("SERP") for certain key employees of the Company. Benefits accrued under this plan were \$575,709 and \$461,519 at December 31, 2015 and 2014, respectively. The expense associated with this plan was \$114,190 and \$86,996 for the years ended December 31, 2015 and 2014, respectively.

Note 15. Financial Instruments with Off-Balance-Sheet Risk

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 and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees, commitments to sell loans 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 maximum extent of involvement the Company has in particular classes of financial instruments.

The Company's maximum exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual notional amount of those instruments. The Company applies the same credit policies and underwriting criteria in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The Company generally requires collateral or other security to support financial instruments with credit risk. At December 31, the following off-balance-sheet financial instruments representing credit risk were outstanding:

	Contract or Notional Amount	
	2015	2014
Unused portions of home equity lines of credit	\$ 25,074,972	\$ 23,519,696
Other commitments to extend credit	66,189,395	59,558,700
Residential construction lines of credit	3,658,037	2,308,167
Commercial real estate and other construction lines of credit	15,586,595	15,894,462
Standby letters of credit and commercial letters of credit	1,859,059	1,714,382
Recourse on sale of credit card portfolio	262,625	265,650
MPF credit enhancement obligation, net (see Note 16)	1,051,601	1,007,250

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future funding requirements. At December 31, 2015 and 2014, the Company had binding loan commitments to sell residential mortgages at fixed rates totaling \$3,655,547 and \$806,543, respectively (see Note 16). The recourse provision under the terms of the sale of the Company's credit card portfolio in 2007 is based on total lines, not balances outstanding. Based on historical losses, the Company does not expect any significant losses from this commitment.

The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit, or a commitment to extend credit, is based on management's credit evaluation of the counter-party. Collateral or other security held varies but may include real estate, accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The fair value of standby letters of credit has not been included in the balance sheets as the fair value is immaterial.

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, the Trust. The source of funds for payments by the Trust on its capital trust 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 consolidated balance sheet, in the gross amount of \$12,887,000 as of the dates presented, of which \$12,500,000 represents external financing through the issuance to investors of capital securities by the Trust (see Note 10).

Note 16. Contingent Liability

The Company sells first lien 1-4 family residential mortgage loans under the MPF program with the FHLBB. Under this program the Company shares in the credit risk of each mortgage loan, while receiving fee income in return. The Company is responsible for a Credit Enhancement Obligation (CEO) based on the credit quality of these loans. FHLBB funds a First Loss Account (FLA) based on the Company's outstanding MPF mortgage balances. This creates a laddered approach to sharing in any losses. In the event of default, homeowner's equity and private mortgage insurance, if any, are the first sources of repayment; the FHLBB's FLA funds are then utilized, followed by the participant's CEO, with the balance of losses absorbed by FHLBB. These loans must meet specific underwriting standards of the FHLBB. As of December 31, 2015 and 2014, the Company had \$50,374,657 and \$51,157,934, respectively, in loans sold through the MPF program and on which the Company had a CEO. As of December 31, 2015, the notional amount of the maximum CEO related to this program was \$1,171,787 compared to \$1,139,726 as of December 31, 2014. The Company had accrued a contingent liability for this CEO in the amount of \$120,186 and \$132,476 as of December 31, 2015 and 2014, respectively, which is calculated by management based on the methodology used in calculating the allowance for loan losses, adjusted to reflect the risk sharing arrangements with the FHLBB.

Note 17. Legal Proceedings

In the normal course of business, the Company is involved in various claims and legal proceedings. In the opinion of the Company's management, any liabilities resulting from such proceedings are not expected to be material to the Company's consolidated financial condition or results of operations.

Note 18. Transactions with Related Parties

Aggregate loan transactions of the Company with directors, principal officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties) as of December 31 were as follows:

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 8,593,273	\$ 7,529,947
Loans - New Directors	7,225,328	1,039,792
New loans to existing Officers/Directors	14,587,380	22,763,371
Retirement/Resignation of Director	(1,824,495)	0
Repayment*	(14,563,935)	(22,739,837)
Balance, end of year	<u>\$ 14,017,551</u>	<u>\$ 8,593,273</u>

*Includes loans sold to the secondary market.

Total funds of related parties on deposit with the Company were \$5,713,210 and \$6,873,907 at December 31, 2015 and 2014, respectively.

The Company leases 2,253 square feet of condominium space in the state office building on Main Street in Newport, Vermont to its trust company affiliate, CFSG, for its principal offices. CFSG also leases offices in the Company's Barre and Lyndonville branches. The amount of rental income received from CFSG for the years ended December 31, 2015 and 2014 was \$59,343 and \$40,418, respectively.

The Company utilizes the services of CFSG as an investment advisor for the Company's 401(k) plan. The Human Resources committee of the Board of Directors is the Trustee of the plan, and CFSG provides investment advice for the plan. CFSG also acts as custodian of the retirement funds and makes investments on behalf of the plan and its participants. In addition, CFSG serves as investment advisor and custodian of funds under the Company's SERP. The Company pays monthly management fees to CFSG for its services to the 401(k) plan and the SERP based on the market value of the total assets under management. The amount paid to CFSG for the years ended December 31, 2015 and 2014 was \$47,448 and \$42,556, respectively, for the 401(k) plan and \$2,665 and \$2,479, respectively, for the SERP.

Note 19. Restrictions on Cash and Due From Banks

In the ordinary course of business the Company may, from time to time, maintain amounts due from correspondent banks that exceed federally insured limits. However, no losses have occurred in these accounts and the Company believes it is not exposed to any significant risk with respect to such accounts. The Company was required to maintain contracted balances with other correspondent banks of \$462,500 at December 31, 2015 and 2014. Of the \$462,500 balance, \$262,500 was a separate agreed upon "impressed" balance to avoid monthly charges on the Company's current federal funds liquidity line.

Note 20. Regulatory Capital Requirements

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action capital requirements are applicable to banks, but not bank holding companies.

Beginning in 2015, the Company and the Bank are required to maintain minimum amounts and ratios (set forth in the table below) of Common equity tier 1, Tier 1 and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). The Company's non-cumulative Series A preferred stock (\$2.5 million liquidation preference) is includable without limitation in its Common equity tier 1 and Tier 1 capital. The Company is allowed to include in Common equity tier 1 and Tier 1 capital an amount of trust preferred securities equal to no more than 25% of the sum of all core capital elements, which is generally defined as shareholders' equity, less certain intangibles, including goodwill and the core deposit intangible, net of any related deferred income tax liability, with the balance includable in Tier 2 capital. Management believes that, as of December 31, 2015, the Company and the Bank met all capital adequacy requirements to which they are currently subject.

Rules adopted by the FRB and the Office of the Comptroller of the Currency ("OCC") to implement the Basel III regulatory capital framework revised minimum capital requirements and adjusted prompt corrective action thresholds, including changes to the regulatory capital elements, added a new common equity Tier 1 capital ratio, increased the minimum Tier 1 ratio requirements and implemented a new capital conservation buffer. The rules also permitted certain banking organizations to retain, through a one-time election, the existing regulatory capital treatment for accumulated other comprehensive income or loss. The Company and the Bank have made the election to retain the existing regulatory treatment for accumulated other comprehensive income or loss. The Basel III Capital rules took effect for the Company and the Bank on January 1, 2015, subject to a transition period for certain parts of the rules.

The table below includes the new 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 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 December 31, 2015, on a pro forma basis both the Company and the Bank would be compliant with the fully phased-in capital conservation buffer requirement.

As of December 31, 2015 the Bank was considered well capitalized under the regulatory capital framework for Prompt Corrective Action and the Company exceeded applicable consolidated regulatory capital guidelines.

The following table shows the regulatory capital ratios for the Company and the Bank as of December 31:

	Actual		Minimum For Capital Adequacy Purposes:		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2015						
Common equity tier 1 capital (to risk-weighted assets)						
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%
December 31, 2014:						
Tier 1 capital (to risk-weighted assets)						
Company	\$ 49,071	12.31%	\$ 15,949	4.00%	N/A	N/A
Bank	\$ 48,952	12.30%	\$ 15,924	4.00%	\$ 23,886	6.00%
Total capital (to risk-weighted assets)						
Company	\$ 54,447	13.66%	\$ 31,897	8.00%	N/A	N/A
Bank	\$ 53,902	13.54%	\$ 31,847	8.00%	\$ 39,809	10.00%
Tier 1 capital (to average assets)						
Company	\$ 49,071	8.62%	\$ 22,768	4.00%	N/A	N/A
Bank	\$ 48,952	8.61%	\$ 22,745	4.00%	\$ 28,431	5.00%

The Company's ability to pay dividends to its shareholders is largely dependent on the Bank's ability to pay dividends to the Company. The Bank is restricted by law as to the amount of dividends that can be paid. Dividends declared by national banks that exceed net income for the current and preceding two years must be approved by the Bank's primary banking regulator, the OCC. Regardless of formal regulatory restrictions, the Bank may not pay dividends that would result in its capital levels being reduced below the minimum requirements shown above.

Note 21. 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 FRBB stock and 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. 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. 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. 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. 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. The Company classifies these obligations as Level 2.

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

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

Assets 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:

	<u>Level 1</u>	<u>Level 2</u>
December 31, 2015		
Assets: (market approach)		
U.S. GSE debt securities	\$ 0	\$ 12,832,443
Agency MBS	0	10,664,484
Other investments	0	2,973,473
	<u>\$ 0</u>	<u>\$ 26,470,400</u>
December 30, 2014		
Assets: (market approach)		
U.S. GSE debt securities	\$ 0	\$ 19,907,150
U.S. Government securities	4,000,937	0
Agency MBS	0	9,038,807
	<u>\$ 4,000,937</u>	<u>\$ 28,945,957</u>

There were no transfers between Levels 1 and 2 during the periods presented. There were no Level 3 financial instruments as of the balance sheet dates presented.

Assets Recorded at Fair Value on a Non-Recurring Basis

The following table includes assets measured at fair value on a nonrecurring 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 3.

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

December 31, 2015

	Level 2
Assets: (market approach)	
Residential mortgage servicing rights	\$ 1,293,079
Impaired loans, net of related allowance	268,092
OREO	262,000

December 31, 2014

Assets: (market approach)	
Residential mortgage servicing rights	\$ 1,311,965
Impaired loans, net of related allowance	241,819
OREO	1,238,220

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

The carrying amounts and estimated fair values of the Company's financial instruments were as follows:

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

December 31, 2014

	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total
	(Dollars in Thousands)				
Financial assets:					
Cash and cash equivalents	\$ 24,962	\$ 24,962	\$ 0	\$ 0	\$ 24,962
Securities held-to-maturity	41,811	0	42,234	0	42,234
Securities available-for-sale	32,947	4,001	28,946	0	32,947
Restricted equity securities	3,332	0	3,332	0	3,332
Loans and loans held-for-sale					
Commercial & industrial	63,709	0	391	64,800	65,191
Commercial real estate	164,212	0	1,897	167,961	169,858
Residential real estate - 1st lien	162,635	0	678	166,171	166,849
Residential real estate - Jr lien	44,457	0	329	45,113	45,442
Consumer	7,912	0	0	8,315	8,315
Mortgage servicing rights	1,312	0	1,528	0	1,528
Accrued interest receivable	1,698	0	1,698	0	1,698
Financial liabilities:					
Deposits					
Other deposits	472,966	0	473,100	0	473,100
Brokered deposits	20,053	0	20,054	0	20,054
Repurchase agreements	28,543	0	28,543	0	28,543
Capital lease obligations	640	0	640	0	640
Subordinated debentures	12,887	0	12,867	0	12,867
Accrued interest payable	64	0	64	0	64

The estimated fair values of commitments to extend credit and letters of credit were immaterial at December 31, 2015 and 2014.

Note 22. Condensed Financial Information (Parent Company Only)

The following condensed financial statements are for Community Bancorp. (Parent Company Only), and should be read in conjunction with the consolidated financial statements of Community Bancorp. and Subsidiary.

Community Bancorp. (Parent Company Only)	December 31,	December 31,
Condensed Balance Sheets	2015	2014
Assets		
Cash	\$ 508,325	\$ 479,812
Investment in subsidiary - Community National Bank	63,747,517	61,337,172
Investment in Capital Trust	387,000	387,000
Income taxes receivable	239,394	233,952
Total assets	<u>\$ 64,882,236</u>	<u>\$ 62,437,936</u>
Liabilities and Shareholders' Equity		
Liabilities		
Junior subordinated debentures	\$ 12,887,000	\$ 12,887,000
Dividends payable	580,580	555,734
Total liabilities	<u>13,467,580</u>	<u>13,442,734</u>
Shareholders' Equity		
Preferred stock, 1,000,000 shares authorized, 25 shares issued and outstanding (\$100,000 liquidation value)	2,500,000	2,500,000
Common stock - \$2.50 par value; 15,000,000 shares authorized, and 5,204,517 and 5,142,475 shares issued at December 31, 2015 and 2014, respectively (including 15,430 and 16,642 shares issued February 1, 2016 and 2015, respectively)	13,011,293	12,856,188
Additional paid-in capital	30,089,438	29,359,300
Retained earnings	8,482,096	6,909,934
Accumulated other comprehensive loss	(45,394)	(7,443)
Less: treasury stock, at cost; 210,101 shares at December 31, 2015 and 2014	<u>(2,622,777)</u>	<u>(2,622,777)</u>
Total shareholders' equity	<u>51,414,656</u>	<u>48,995,202</u>
Total liabilities and shareholders' equity	<u>\$ 64,882,236</u>	<u>\$ 62,437,936</u>

The investment in the subsidiary bank is carried under the equity method of accounting. The investment and cash, which is on deposit with the Bank, have been eliminated in consolidation.

Community Bancorp. (Parent Company Only)**Condensed Statements of Income**

	Years Ended December 31,	
	2015	2014
Income		
Bank subsidiary distributions	\$ 2,842,000	\$ 2,772,000
Dividends on Capital Trust	12,295	12,072
Total income	<u>2,854,295</u>	<u>2,784,072</u>
Expense		
Interest on junior subordinated debentures	409,432	402,011
Administrative and other	<u>306,962</u>	<u>298,157</u>
Total expense	<u>716,394</u>	<u>700,168</u>
Income before applicable income tax benefit and equity in undistributed net income of subsidiary	2,137,901	2,083,904
Income tax benefit	<u>239,394</u>	<u>233,952</u>
Income before equity in undistributed net income of subsidiary	2,377,295	2,317,856
Equity in undistributed net income of subsidiary	<u>2,448,296</u>	<u>2,807,052</u>
Net income	<u>\$ 4,825,591</u>	<u>\$ 5,124,908</u>

Community Bancorp. (Parent Company Only)

Condensed Statements of Cash Flows

Years Ended December 31,

2015	2014
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Cash Flows from Operating Activities

Net income	\$ 4,825,591	\$ 5,124,908
Adjustments to reconcile net income to net cash provided by operating activities		
Equity in undistributed net income of subsidiary	(2,448,296)	(2,807,052)
(Increase) decrease in income taxes receivable	(5,443)	1,607
Net cash provided by operating activities	<u>2,371,852</u>	<u>2,319,463</u>

Cash Flows from Financing Activities

Dividends paid on preferred stock	(81,250)	(81,250)
Dividends paid on common stock	(2,262,089)	(2,168,476)
Net cash used in financing activities	<u>(2,343,339)</u>	<u>(2,249,726)</u>
Net increase in cash	28,513	69,737

Cash

Beginning	479,812	410,075
Ending	<u>\$ 508,325</u>	<u>\$ 479,812</u>

Cash Received for Income Taxes

\$ 233,952	\$ 235,559
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Cash Paid for Interest

\$ 409,432	\$ 402,011
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Dividends paid:

Dividends declared	\$ 3,172,179	\$ 3,130,868
Increase in dividends payable attributable to dividends declared	(24,847)	(55,980)
Dividends reinvested	(885,243)	(906,412)
	<u>\$ 2,262,089</u>	<u>\$ 2,168,476</u>

Note 23. Quarterly Financial Data (Unaudited)

A summary of financial data for the four quarters of 2015 and 2014 is presented below:

	Quarters in 2015 ended			
	March 31,	June 30,	Sept. 30,	Dec. 31,
Interest income	\$ 5,866,800	\$ 5,751,184	\$ 5,939,735	\$ 5,848,970
Interest expense	727,514	672,304	632,470	613,362
Provision for loan losses	150,000	150,000	75,000	135,000
Non-interest income	1,212,787	1,304,481	1,299,995	1,332,892
Non-interest expense	4,696,729	4,779,840	4,531,874	4,802,530
Net income	1,109,841	1,077,704	1,439,822	1,198,224
Earnings per common share	0.22	0.21	0.29	0.24

	Quarters in 2014 ended			
	March 31,	June 30,	Sept. 30,	Dec. 31,
Interest income	\$ 5,618,276	\$ 5,714,147	\$ 5,829,041	\$ 5,788,813
Interest expense	793,290	777,996	761,009	723,449
Provision for loan losses	135,000	135,000	135,000	135,000
Non-interest income	1,313,501	1,337,222	1,244,680	1,246,348
Non-interest expense	4,712,196	4,488,406	4,411,428	4,417,782
Net income	1,071,565	1,284,386	1,377,189	1,391,768
Earnings per common share	0.22	0.26	0.28	0.28

Note 24. Other Income and Other Expenses

The components of other income and other expenses which are in excess of one percent of total revenues in either of the two years disclosed are as follows:

	2015	2014
Income		
Income from investment in CFSG Partners	\$ 361,044	\$ 272,820
Expenses		
Outsourcing expense	\$ 516,197	\$ 420,355
Service contracts - administration	330,563	420,426
Marketing	307,841	275,915
State deposit tax	562,271	544,737
ATM fees	372,609	365,813
Telephone	312,043	326,473
FDIC Insurance	365,804	374,703

Note 25. Subsequent Events**Declaration of Cash Dividend**

On December 9, 2015, the Company declared a cash dividend of \$0.16 per share payable February 1, 2016 to shareholders of record as of January 15, 2016. On March 09, 2016, the Company declared a cash dividend of \$0.16 per share payable May 1, 2016 to shareholders of record as of April 15, 2016. These dividends have been recorded as of each declaration date, including shares issuable under the DRIP.

For purposes of accrual or disclosure in these financial statements, the Company has evaluated subsequent events through the date of issuance of these financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

For the Years Ended December 31, 2015 and 2014

The following discussion analyzes the consolidated financial condition of Community Bancorp. (the "Company") and its wholly-owned subsidiary, Community National Bank, as of December 31, 2015 and 2014, and its consolidated results of operations for the years then ended. The Company is considered a "smaller reporting company" under applicable regulations of the Securities and Exchange Commission ("SEC") and is therefore eligible for relief from certain disclosure requirements. In accordance with such provisions, the Company has elected to provide its audited consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for two, rather than three, years.

The following discussion should be read in conjunction with the Company's audited consolidated financial statements and related notes.

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 margins; (4) changes in laws or government rules, including the rules of the federal Consumer Financial Protection Bureau, or the way in which courts or government agencies interpret or implement those laws or rules, increase our costs of doing business, causing us to limit or change our product offerings or pricing, or otherwise adversely affect the Company's business; (5) changes in federal or state tax policy; (6) changes in the level of nonperforming assets and charge-offs; (7) changes in estimates of future reserve requirements based upon relevant regulatory and accounting requirements; (8) changes in consumer and business spending, borrowing and savings habits; (9) reductions in deposit levels, which necessitate increased borrowings to fund loans and investments; (10) the effect of changes to the calculation of the Company's regulatory capital ratios beginning in 2015 under the Basel III capital framework which, among other things, requires additional regulatory capital, and change the framework for risk-weighting of certain assets; (11) 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 (12) 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 year-end 2015 were \$596.1 million compared to \$586.7 million at year-end 2014, an increase of 1.6%. Total loans increased 2.3% to \$458.1 million, driven by an increase in commercial loans of \$12.4 million, to \$243.4 million year over year, while residential mortgage loans declined \$1.3 million to end the year at \$207.5 million. Funding for the increase in loans was provided by a \$2.5 million net increase in deposits, a decrease of \$5.8 million in the investment portfolio and \$10.0 million in short-term borrowings. Capital grew to \$51.4 million with a book value of \$9.79 per share on December 31, 2015, compared with \$49.0 million in capital and a book value of \$9.43 per share on December 31, 2014.

The Company's net income of \$4.8 million, or \$0.96 per share, for 2015 was down 5.8%, compared with net income of just over \$5.1 million, or \$1.03 per share in 2014. Interest rates have remained at historically low levels for several years, causing continued erosion of yields on earning assets as they continue to reprice downward to current market rates. Average earning assets increased \$9.1 million, or 1.7%, in 2015, and tax-equivalent interest income increased by \$474,008, or 2.0%, resulting in a slight increase in average yield on interest-earning assets of one basis point. Management was able to maintain the average yield on interest earning assets for 2015, with an increase of 1 basis point, due to the growth in the higher yielding commercial loan portfolio. Although average interest-bearing liabilities remained virtually unchanged during the year, up just \$7,456, the average rate paid on interest-bearing liabilities declined by 10 basis points, resulting in a decrease in interest expense of \$410,094. This decrease was largely due to the shift of customer funds out of higher yielding certificates of deposit (CDs) to lower yielding demand and savings accounts, combined with the well managed use of short term funding to meet seasonal cash flow needs. The combined effect of these changes resulted in an increase of \$884,102 in tax-equivalent net interest income, and improvement in net interest margin from 3.86% to 3.96% year over year.

Continued improvement in asset quality and lower levels of charge-off activity during 2015 allowed the Company to reduce the provision for loan losses by \$30,000 compared to 2014.

Non-interest income increased \$8,404, or 0.2%, with increases in fees related to loan activity and trust income, offset by decreases in service fees, mostly overdraft fees.

Non-interest income includes income from the sale of residential loans in the secondary market. Originations of residential mortgages totaled \$25.1 million in 2015, a 21.2% increase compared to originations of \$20.7 million in 2014, but a decline from originations of \$27.7 million in 2013. The Company reported net gains from the sales of these mortgages of \$424,240 in 2015, compared with \$460,504 in 2014 and \$778,203 in 2013. For several years, the Federal Reserve's efforts to stimulate the real estate market by keeping mortgage interest rates low provided for several refinancing cycles. Residential mortgage lending activity slowed during 2014, resulting in decreases in the Company's fee income from the sale of residential loans in the secondary market. In 2015, this trend turned and the pace of refinancing activity has remained steady with continued low mortgage rates; however the volume has been considerably lower than during the preceding period of falling rates.

All components of non-interest expense increased, year over year, for an aggregate increase of \$1.2 million, or 7.0%. Salary and benefits increased \$732,770 or 8.4% compared to the prior year, due in part to an increase in health insurance premiums of 19.6% and to the effect of an extra bi-weekly pay period in 2015. Investments in new security technology related to the new chip enhanced debit cards and the cost associated with the closing of two branches in July also contributed to the increase in non-interest expenses year over year. Please refer to the non-interest income and non-interest expense section of this report for more detail.

More locally, according to the State of Vermont Department of Labor, Vermont's unemployment rate for December, 2015 was 3.6%, compared to 4.2% in December, 2014, and remains well below the national average of 5.0%. However, certain industries, most notably construction, have yet to recover. In addition, regions outside the Northwestern part of the state have not mirrored the robust growth seen in and around the Burlington area. Of the Company's primary market areas, Orleans, Caledonia, and Essex Counties continue to have the highest unemployment rates in the state, while Washington and Franklin Counties are at or near the state average.

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.

The Company declared dividends of \$0.64 per common share in 2015 and 2014. As of December 31, 2015, the Company reported retained earnings of \$8.5 million compared to \$6.9 million as of December 31, 2014 and total shareholders' equity of \$51.4 million compared to \$49.0 million at year end 2014. The Company is committed to remaining a well-capitalized community bank, working to meet the needs of our customers while providing a fair return to our shareholders.

CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared according to US GAAP. The preparation of such financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities in the consolidated financial statements and related notes. The SEC has defined a company's critical accounting policies as those that are most important to the portrayal of the Company's financial condition and results of operations, and which require the Company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Because of the significance of these estimates and assumptions, there is a high likelihood that materially different amounts would be reported for the Company under different conditions or using different assumptions or estimates. Management evaluates on an ongoing basis its judgment as to which policies are considered to be critical.

Allowance for Loan Losses - Management believes that the calculation of the allowance for loan losses ("ALL") is a critical accounting policy that requires the most significant judgments and estimates used in the preparation of its consolidated financial statements. In estimating the ALL, management considers historical experience as well as other qualitative factors, including the effect of current economic indicators and their probable impact on borrowers and collateral, trends in delinquent and non-performing loans, trends in criticized and classified assets, levels of exceptions, the impact of competition in the market, 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. Management's estimates used in calculating the ALL may increase or decrease based on changes in these factors, which in turn will affect the amount of the Company's provision for loan losses charged against current period income. This evaluation is inherently subjective and actual results could differ significantly from these estimates under different assumptions, judgments or conditions.

Other Real Estate Owned ("OREO") – Real estate properties acquired through or in lieu of foreclosure or properties no longer used for bank operations, are initially recorded at fair value less estimated selling cost at the date of acquisition, foreclosure or transfer. Such properties are carried at fair value, which is the market value less estimated cost of disposition, i.e. sales commissions and costs associated with the sale. Fair value is determined, as appropriate, either by obtaining a current appraisal or evaluation prepared by an independent, qualified appraiser, by obtaining a broker's market value analysis, and finally, if the Company has limited exposure and limited risk of loss, by the opinion of management as supported by an inspection of the property and its most recent tax valuation. During periods of declining market values, the Company will generally obtain a new appraisal or evaluation. The amount, if any, by which the recorded amount of the loan exceeds the fair value, less estimated cost to sell, is a loss which is charged to the allowance for loan losses at the time of foreclosure or repossession. The recorded amount of the loan is the loan balance adjusted for any unamortized premium or discount and unamortized loan fees or costs, less any amount previously charged off, plus recorded accrued interest. After acquisition through or in lieu of foreclosure, these assets are carried at their new cost basis. Costs of significant property improvements are capitalized, whereas costs relating to holding the property are expensed as incurred. Appraisals by an independent, qualified appraiser are performed periodically on properties that management deems significant, or evaluations may be performed by management or a qualified third party on properties in the portfolio that are deemed less significant or less vulnerable to market conditions. Subsequent write-downs are recorded as a charge to other expense. Gains or losses on the sale of such properties are included in income when the properties are sold.

Investment Securities - Management performs quarterly reviews of individual debt and equity securities in the investment portfolio to determine whether a decline in the fair value of a security is other than temporary. A review of other-than-temporary impairment requires management to make certain judgments regarding the materiality of the decline and the probability, extent and timing of a valuation recovery, the Company's intent to continue to hold the security and, in the case of debt securities, the likelihood that the Company will not have to sell the security before recovery of its cost basis. Management assesses fair value declines to determine the extent to which such changes are attributable to fundamental factors specific to the issuer, such as financial condition and business prospects, or to market-related or other external factors, such as interest rates, and in the case of debt securities, the extent to which the impairment relates to credit losses of the issuer, as compared to other factors. Declines in the fair value of securities below their cost that are deemed to be other than temporary, and declines in fair value of debt securities below their cost that are related to credit losses, are recorded in earnings as realized losses, net of tax effect. The non-credit loss portion of an other than temporary decline in the fair value of debt securities below their cost basis (generally, the difference between the fair value and the estimated net present value of expected future cash flows from the debt security) is recognized in other comprehensive income as an unrealized loss, provided that the Company does not intend to sell the security and it is more likely than not that the Company will not have to sell the security before recovery of its reduced basis.

Mortgage Servicing Rights - Mortgage servicing rights associated with loans originated and sold, where servicing is retained, are required to be capitalized and initially recorded at fair value on the acquisition date and are subsequently accounted for using the "amortization method". Mortgage servicing rights are amortized against non-interest income in proportion to, and over the period of, estimated future net servicing income of the underlying financial assets. The value of capitalized servicing rights represents the estimated present value of the future servicing fees arising from the right to service loans for third parties. The carrying value of the mortgage servicing rights is periodically reviewed for impairment based on a determination of estimated fair value compared to amortized cost, and impairment, if any, is recognized through a valuation allowance and is recorded as a reduction of non-interest income. Subsequent improvement (if any) in the estimated fair value of impaired mortgage servicing rights is reflected in a positive valuation adjustment and is recognized in non-interest income up to (but not in excess of) the amount of the prior impairment. Critical accounting policies for mortgage servicing rights relate to the initial valuation and subsequent impairment tests. The methodology used to determine the valuation of mortgage servicing rights requires the development and use of a number of estimates, including anticipated principal amortization and prepayments. Factors that may significantly affect the estimates used are changes in interest rates and the payment performance of the underlying loans. The Company analyzes and accounts for the value of its servicing rights with the assistance of a third party consultant.

Goodwill - Goodwill from an acquisition accounted for under the purchase accounting method, such as the Company's 2007 acquisition of LyndonBank, is subject to ongoing periodic impairment evaluation, which includes an analysis of the ongoing assets, liabilities and revenues from the acquisition and an estimation of the impact of business conditions. This evaluation is inherently subjective.

Other - Management utilizes numerous techniques to estimate the carrying value of various assets held by the Company, including, but not limited to, bank premises and equipment and deferred taxes. The assumptions considered in making these estimates are based on historical experience and on various other factors that are believed by management to be reasonable under the circumstances. The use of different estimates or assumptions could produce different estimates of carrying values and those differences could be material in some circumstances.

RESULTS OF OPERATIONS

The Company's net income decreased \$299,317, or 5.8% from December 31, 2014 to December 31, 2015, resulting in earnings per common share of \$0.96 for 2015 and \$1.03 for 2014. Despite the decrease in net income, net interest income (core earnings) increased \$866,506, or 4.4%, for 2015 compared to 2014. This substantial increase in core earnings reflected the combined effect of an increase of \$456,412, or 2.0% in interest income and a decrease of \$410,094, or 13.4%, in interest expense, year over year. Non-interest income increased marginally by \$8,404, or 0.2%, while non-interest expense increased by \$1.2 million, or 7.0%, more than offsetting the increase in core earnings. Other income from loans, primarily commercial and residential documentation fees, enjoyed an increase of \$145,361, or 24.5%, while decreases were noted in service charges and fees, and gains on sale of mortgage loans. Increases were noted in all components of non-interest expense including increases of \$109,782, or 4.5%, in occupancy expense, and \$732,770, or 8.4%, in salaries and benefits. The closing of two branches during the year impacted both of these categories with expenses incurred for severance costs and other non-recurring expenses associated with the closings. The section below labeled "Non-Interest Income and Non-Interest Expense" provides a more detailed discussion on the significant components of non-interest expense.

Return on average assets ("ROA"), which is net income divided by average total assets, measures how effectively a corporation uses its assets to produce earnings. Return on average equity ("ROE"), 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, as well as other equity ratios, for each of the last three fiscal years:

	December 31,		
	2015	2014	2013
Return on Average Assets	0.82%	0.89%	0.90%
Return on Average Equity	9.60%	10.81%	11.43%
Dividend Payout Ratio (1)	66.67%	62.14%	54.37%
Average Equity to Average Assets Ratio	8.57%	8.22%	7.86%

(1) Dividends declared per common share divided by earnings per common share.

The following table summarizes the earnings performance and certain balance sheet and per share data of the Company during each of the last five fiscal years:

SELECTED FINANCIAL DATA

As of December 31,	2015	2014	2013	2012	2011
Balance Sheet Data					
Net loans	\$ 453,424,042	\$ 443,202,475	\$ 435,354,440	\$ 412,232,869	\$ 382,507,221
Total assets	596,134,709	586,711,044	573,667,404	575,738,245	552,905,517
Total deposits	495,485,562	493,019,463	481,552,569	475,496,859	454,393,309
Borrowed funds	10,000,000	0	0	6,000,000	18,010,000
Total liabilities	544,720,053	537,715,842	527,531,427	532,385,670	511,987,108
Total shareholders' equity	51,414,656	48,995,202	46,135,977	43,352,575	40,918,409
Years Ended December 31,					
Operating Data					
Total interest income	\$ 23,406,689	\$ 22,950,277	\$ 22,639,782	\$ 22,821,331	\$ 22,744,363
Total interest expense	2,645,650	3,055,744	3,442,134	4,882,319	5,595,628
Net interest income	20,761,039	19,894,533	19,197,648	17,939,012	17,148,735
Provision for loan losses	510,000	540,000	670,000	1,000,000	1,000,000
Net interest income after provision for loan losses	20,251,039	19,354,533	18,527,648	16,939,012	16,148,735
Non-interest income	5,150,155	5,141,751	5,982,568	6,188,960	5,202,169
Non-interest expense	18,810,973	17,585,980	17,818,632	17,691,593	16,917,218
Income before income taxes	6,590,221	6,910,304	6,691,584	5,436,379	4,433,686
Applicable income tax expense (1)	1,764,630	1,785,396	1,604,929	1,035,689	850,140
Net income	<u>\$ 4,825,591</u>	<u>\$ 5,124,908</u>	<u>\$ 5,086,655</u>	<u>\$ 4,400,690</u>	<u>\$ 3,583,546</u>
Per Share Data					
Earnings per common share (2)	\$ 0.96	\$ 1.03	\$ 1.01	\$ 0.88	\$ 0.73
Dividends declared per common share	\$ 0.64	\$ 0.64	\$ 0.56	\$ 0.56	\$ 0.56
Book value per common share outstanding	\$ 9.79	\$ 9.43	\$ 8.96	\$ 8.49	\$ 8.13
Weighted average number of common shares outstanding	4,961,972	4,897,281	4,838,185	4,769,645	4,674,806
Number of common shares outstanding, period end	4,994,416	4,932,374	4,868,606	4,812,925	4,728,161

(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 paid). 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 across years, 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.

Tax-exempt income is derived from municipal investments, which comprised the entire held-to-maturity portfolio of \$43.4 million, \$41.8 million and \$37.9 million, at December 31, 2015, 2014 and 2013, respectively.

The following table provides the reconciliation between net interest income presented in the consolidated statements of income and the non-GAAP tax equivalent net interest income presented in the table immediately following for each of the last three years.

Years Ended December 31,	2015	2014	2013
	(Dollars in Thousands)		
Net interest income as presented	\$ 20,761	\$ 19,895	\$ 19,198
Effect of tax-exempt income	573	555	529
Net interest income, tax equivalent	<u>\$ 21,334</u>	<u>\$ 20,450</u>	<u>\$ 19,727</u>

The following table presents average earning assets and average interest-bearing liabilities supporting earning assets for each of the last three fiscal years. 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.

	Years Ended December 31,								
	2015			2014			2013		
	Average Balance	Income/Expense	Average Rate/Yield	Average Balance	Income/Expense	Average Rate/Yield	Average Balance	Income/Expense	Average Rate/Yield
(Dollars in Thousands)									
Interest-Earning Assets									
Loans (1)	\$ 454,793	\$ 21,717	4.78%	\$ 447,133	\$ 21,423	4.79%	\$ 425,482	\$ 21,226	4.99%
Taxable investment securities	30,725	442	1.44%	30,990	344	1.11%	41,363	314	0.76%
Tax-exempt investment securities	44,516	1,687	3.79%	42,654	1,635	3.83%	40,043	1,556	3.89%
Sweep and interest-earning accounts	6,337	17	0.27%	5,079	13	0.26%	4,457	13	0.29%
Other investments (2)	3,495	117	3.35%	3,819	91	2.38%	4,093	60	1.47%
Total	\$ 539,866	\$ 23,980	4.44%	\$ 529,676	\$ 23,506	4.44%	\$ 515,439	\$ 23,169	4.50%
Interest-Bearing Liabilities									
Interest-bearing transaction accounts	\$ 117,867	\$ 229	0.19%	\$ 115,209	\$ 241	0.21%	\$ 117,395	\$ 289	0.25%
Money market accounts	87,390	826	0.95%	83,168	821	0.99%	87,983	898	1.02%
Savings deposits	80,530	98	0.12%	75,042	94	0.13%	69,063	97	0.14%
Time deposits	107,100	925	0.86%	123,209	1,360	1.10%	123,431	1,555	1.26%
Federal funds purchased and other borrowed funds	14,217	40	0.28%	9,440	21	0.22%	5,084	22	0.43%
Repurchase agreements	24,314	70	0.29%	25,263	62	0.25%	28,538	111	0.39%
Capital lease obligations	596	49	8.22%	674	55	8.17%	741	60	8.10%
Junior subordinated debentures	12,887	409	3.17%	12,887	402	3.12%	12,887	410	3.18%
Total	\$ 444,901	\$ 2,646	0.59%	\$ 444,893	\$ 3,056	0.69%	\$ 445,121	\$ 3,442	0.77%
Net interest income		<u>\$ 21,334</u>			<u>\$ 20,450</u>			<u>\$ 19,727</u>	
Net interest spread (3)			3.85%			3.75%			3.73%
Net interest margin (4)			3.95%			3.86%			3.83%

(1) Included in gross loans are non-accrual loans with an average balance of \$5.2 million, \$4.9 million and \$4.4 million for the years ended December 31, 2015, 2014 and 2013, respectively. Loans are stated before deduction of unearned discount and allowance for loan losses.

(2) Included in other investments is the Company's FHLBB Stock with an average balance of \$2.5 million, \$2.8 million and \$3.1 million, respectively, for 2015, 2014 and 2013 and a payout rate of approximately 2.75%, 1.53% and 0.39%, respectively.

(3) Net interest spread is the difference between the average yield on average 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.

Interest income from loans of \$21.7 million accounts for 90.6% of total tax-equivalent interest income for 2015 compared to \$21.4 million or 91.1% for 2014 and \$21.2 million, or 91.6% for 2013, with average yields of 4.78%, 4.79% and 4.99%, respectively. The average volume of loans increased \$7.7 million, or 1.7% from 2014 to 2015 and \$21.7 million, or 5.1% from 2013 to 2014, while the average rate earned on these assets decreased one basis point from 2014 to 2015 and 20 basis points from 2013 to 2014, reflecting the prevailing low interest rate environment throughout the comparison periods. The average volume of taxable investments decreased \$264,982, or 0.9% from 2014 to 2015 and \$10.4 million, or 25.1% from 2013 to 2014. Increases of 33 basis points and 35 basis points are noted for 2015 and 2014, respectively, in the average yield on these investments. As loan demand increases, the Company funds a portion of this increase through sales and maturities from its taxable investments. During the second quarter of 2014, the Company began purchasing Agency mortgage-backed securities (Agency MBS) to hold in its available-for-sale (AFS) portfolio. These investments typically carry a higher average yield than the rest of the investments in the AFS portfolio, accounting for the increase in the average yield in 2014 and 2015. FDIC insured brokered CDs were also added to the portfolio in 2015 based on the favorable yields compared to like term agency and treasury securities.

Interest expense on time deposits represents 35.0% of total interest expense for 2015, down from 44.5% for 2014, and 45.2% for 2013, with interest expense for those periods totaling \$925,447, \$1.4 million and \$1.6 million, respectively, and average rates paid of 0.86%, 1.10% and 1.26%, respectively. This decrease in interest paid on time deposits during 2015 was due to a combination of a decrease in average volume totaling \$16.1 million, or 13.1% and a decrease of 24 basis points in the rate paid on these accounts, while the decrease in interest expense during 2014 was mainly due to rate. Savings accounts represented the largest increase in average volume during 2015 totaling \$5.5 million, or 7.3% followed by federal funds purchased and other borrowed funds with an increase in average volume of \$4.8 million, or 50.6% and money market accounts with an increase of \$4.2 million, or 5.1% in average volume. Time deposits experienced the largest decrease in average volume in 2015 totaling \$16.1 million, or 13.1%. From 2013 to 2014, an increase of \$6.0 million, or 8.7% was noted in the average volume of savings deposits followed by federal funds purchased and other borrowed funds with an increase of \$4.4 million in the average volume, while money market accounts noted the largest decrease in average volume totaling \$4.8 million, or 5.5%.

Overall, during 2015, the average rate earned on interest-earning assets remained the same while the average rate paid on interest-bearing liabilities decreased 10 basis points, resulting in a net interest spread of 3.85% for 2015 compared to 3.75% for 2014. For the period from 2013 to 2014 a decrease of six basis points is noted in the average rate earned on interest-earning assets compared to an eight basis points decrease in the average rate paid on interest-bearing liabilities, resulting in a two basis point increase in the spread for 2014 from 3.73% for 2013.

The following table summarizes the variances in income for the years 2015, 2014 and 2013 resulting from volume changes in assets and liabilities and fluctuations in rates earned and paid compared to the prior year.

Changes in Interest Income and Interest Expense

	2015 vs. 2014			2014 vs. 2013		
	Variance Due to Rate (1)	Variance Due to Volume (1)	Total Variance	Variance Due to Rate (1)	Variance Due to Volume (1)	Total Variance
(Dollars in Thousands)						
Average Interest-Earning Assets						
Loans	\$ (73)	\$ 367	\$ 294	\$ (883)	\$ 1,080	\$ 197
Taxable investment securities	102	(4)	98	145	(115)	30
Tax-exempt investment securities	(19)	71	52	(23)	102	79
Sweep and interest-earning accounts	1	3	4	(2)	2	0
Other investments	37	(11)	26	38	(7)	31
Total	\$ 48	\$ 426	\$ 474	\$ (725)	\$ 1,062	\$ 337
Average Interest-Bearing Liabilities						
Interest-bearing transaction accounts	\$ (18)	\$ 6	\$ (12)	\$ (43)	\$ (5)	\$ (48)
Money market accounts	(37)	42	5	(29)	(48)	(77)
Savings deposits	(3)	7	4	(11)	8	(3)
Time deposits	(296)	(139)	(435)	(193)	(2)	(195)
Federal funds purchased and other borrowed funds	8	11	19	(20)	19	(1)
Repurchase agreements	11	(3)	8	(41)	(8)	(49)
Capital lease obligations	0	(6)	(6)	0	(5)	(5)
Junior subordinated debentures	7	0	7	(8)	0	(8)
Total	\$ (328)	\$ (82)	\$ (410)	\$ (345)	\$ (41)	\$ (386)
Changes in net interest income	\$ 376	\$ 508	\$ 884	\$ (380)	\$ 1,103	\$ 723

(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 annual periods presented are as follows:

	Years Ended December 31,		Change	
	2015	2014	\$	%
Service fees	\$ 2,565,079	\$ 2,624,792	\$ (59,713)	-2.27%
Income from sold loans	947,325	977,702	(30,377)	-3.11%
Other income from loans	738,454	593,093	145,361	24.51%
Net realized gain on sale of securities available-for-sale	17,502	27,838	(10,336)	-37.13%
Income from CFSG Partners	361,044	272,820	88,224	32.34%
Rental income on OREO properties	44,800	56,198	(11,398)	-20.28%
Currency exchange income	88,000	130,000	(42,000)	-32.31%
SERP fair value adjustment	(16,177)	52,423	(68,600)	-130.86%
Other income	404,128	406,885	(2,757)	-0.68%
Total non-interest income	\$ 5,150,155	\$ 5,141,751	\$ 8,404	0.16%

Total non-interest income increased slightly, by \$8,404 for the year ended December 31, 2015 compared to the same period 2014, with significant changes noted in the following:

- Service fees decreased \$59,713 year over year, due primarily to decreased overdraft fees of \$80,155, or 10.9%, compared with the prior year. Paper statement fees also declined by \$46,568, or 17.1%, as more customers choose electronic delivery.
- Other income from loans increased \$145,361, or 24.5% year over year due primarily to an increase in both residential and commercial loan documentation fees. Residential mortgage loan activity increased slightly in 2015, generating more income from the document fee process, resulting in an increase of \$92,055, or 66.7%, year over year in this category. Commercial loan documentation fee income increased \$31,289, or 10.7%, year over year consistent with the growth in the commercial loan portfolio compared with the prior year.
- Income from the Company's trust and investment management affiliate, Community Financial Services Partners, LLC (CFSG Partners), increased \$88,224, or 32.3% for the year due primarily to the increase in the client base and assets under management during the year. CFSG Partners is compensated chiefly through fees based on the assets under management from its clients.
- The Supplemental Employee Retirement Program (SERP) fair value adjustment for the year ended December 31, 2015 resulted in a decrease in value of \$16,177, compared with an increase of \$52,423 for 2014. This decline in value reflects the weaker overall performance of the equity markets in 2015 as compared with 2014, which saw stronger market performance.

Non-interest Expense

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

	Years Ended December 31,		Change	
	2015	2014	\$	%
Salaries and wages	\$ 6,888,352	\$ 6,475,000	\$ 413,352	6.38%
Employee benefits	2,576,772	2,257,354	319,418	14.15%
Occupancy expenses, net	2,576,496	2,466,714	109,782	4.45%
Other expenses				
Computer outsourcing	516,197	420,355	95,842	22.80%
Service contracts - administrative	330,563	420,426	(89,863)	-21.37%
Telephone expense	312,043	326,473	(14,430)	-4.42%
Collection & non-accruing loan expense	74,716	98,389	(23,673)	-24.06%
OREO expense	188,584	97,984	90,600	92.46%
ATM fees	372,609	365,813	6,796	1.86%
State deposit tax	562,271	544,737	17,534	3.22%
Other miscellaneous expenses	4,412,370	4,112,735	299,635	7.29%
Total non-interest expense	\$ 18,810,973	\$ 17,585,980	\$ 1,224,993	6.97%

Total non-interest expense increased \$1,224,993 for the full year 2015 compared to the same period in 2014, with significant changes noted in the following:

- Salaries and wages and employee benefits increased by \$732,770, or 8.3%. The increase in salaries is due in part to the timing of an additional bi-weekly pay period in 2015 in the amount of \$250,000 as well as normal annual salary increases. The increase in employee benefits reflects a 19.6% increase in health insurance premiums.
- Occupancy expenses increased \$109,782, or 4.5% year over year due in part to losses recognized through the closure of two branches in the Bank's Caledonia County servicing area and the sale of one of those branches. Capital loss on premises and equipment amounted to \$130,603 for 2015 compared to \$6,610 for 2014, an increase of \$123,993.
- Computer outsourcing increased \$95,842, or 22.8%, year over year. Outsourcing of the core processing function has provided the opportunity for the existing information technology staff to take on additional duties and roles in response to regulatory and industry changes.
- Service contracts – administrative decreased \$89,863, or 21.4%, year over year. Payments under our service contract with our core processor decreased upon implementation of the computer outsourcing accounting for the decreases in the comparison period.
- Collections & non-accruing loan expense decreased \$23,673, or 24.1% year over year due to recoveries of prior year expenses from the settlement of an insurance claim on a property in foreclosure in the amount of \$33,000.
- OREO expense for the year 2015 increased \$90,600, or 92.5%, compared with the same period in 2014, due primarily to write-downs on two OREO properties totaling \$75,820 in 2015 compared to a write-down on one property in 2014 totaling \$10,000. One of these properties was sold during the last quarter of 2015.
- Other miscellaneous expenses increased \$299,635, or 7.3% year over year. Costs totaling \$74,000 were associated with the distribution of new chip-enhanced debit cards to Bank customers during 2015 as well as charged off checks totaling \$57,841 in 2015 compared to \$6,814 in 2014. Marketing and contribution expenses increased in total \$57,298, or 12.0% year over year and reflect the Company's response to an increase in requests for support from the community organizations in our market areas. Consultant services increased \$45,978, or 40.0% in 2015 compared to 2014 due to a combination of hiring specialized consultants to assist in a telephone conversion project as well as a marketing firm to assist in some marketing initiatives.

APPLICABLE INCOME TAXES

The provision for income taxes decreased \$20,766, or 1.2%, from \$1,785,396 in 2014 to \$1,764,630 in 2015. Income before taxes decreased \$320,083, or 4.6% for 2015 compared to 2014. Tax credits from affordable housing investments decreased \$80,811, or 15.8% from \$512,526 in 2014 to \$431,715 in 2015, while New Market Tax Credits (NMTC) of \$135,234 were the same for both 2014 and 2015. This decrease in income, partially offset by the overall decrease in tax credits, accounts for the decrease in income tax expense in 2015.

Pursuant to Accounting Standards Update (ASU) No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects, amortization expense related to limited partnership investments, is included as a component of tax expense and amounted to \$403,445 and \$443,832 for 2015 and 2014, respectively. 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 NMTC investment are recorded as a separate component of tax expense and for 2015 and 2014 amounted to \$161,890 and \$147,290, respectively. The Company amortizes these investments under the effective yield method.

CHANGES IN FINANCIAL CONDITION

The following discussion refers to the volume of average assets, liabilities and shareholders' equity in the table labeled "Distribution of Assets, Liabilities and Shareholders' Equity" on the following page.

Average assets increased \$10.8 million, or 1.9%, from the year ended December 31, 2013 to the year ended December 31, 2014, and \$9.5 million, or 1.7%, from 2014 to 2015. The average volume of loans increased \$21.2 million, or 5.0%, from 2013 to 2014 and \$7.9 million, or 1.8%, from 2014 to 2015, due in part to strong commercial loan demand. The Company used maturities, sales and calls within the taxable investment portfolio and short-term borrowings to help fund loan growth during 2014 and 2015, accounting for the decrease of \$10.4 million, or 25.1%, in the average volume of that portfolio from 2013 to 2014. The average volume of the tax-exempt portfolio increased \$2.6 million, or 6.5%, from 2013 to 2014 and \$1.9 million, or 4.4% from 2014 to 2015 and is made up of local municipal obligations.

Average liabilities increased \$7.9 million or 1.5% from the year ended December 31, 2013 to the year ended December 31, 2014 and \$9.5 million, or 1.7%, from 2014 to 2015. The average volume of demand deposits increased \$8.1 million, or 10.9%, from 2013 to 2014 and \$6.4 million, or 7.8%, from 2014 to 2015. The increase was due primarily to a \$6.2 million increase in business checking accounts from 2013 to 2014, and increases in both business and consumer accounts during 2015. The average volume of interest-bearing transaction accounts decreased \$2.2 million, or 1.9%, from 2013 to 2014 and increased \$2.7 million, or 2.3% from 2014 to 2015. The average volume of money market accounts followed a similar pattern as the interest-bearing transaction accounts, decreasing \$4.8 million, or 5.5% from 2013 to 2014 and then increased \$4.2 million, or 5.1% from 2014 to 2015. The insured cash sweep account ("ICS") offered through Promontory Interfinancial Network, has worked very well as a means of attracting new customers and retaining current customers who are looking for alternatives to time deposits and to maximize FDIC insurance coverage. In 2015, the Company began offering an ICS interest-bearing demand deposit product which was well received with an average volume as of year-end 2015 of \$4.6 million. The average volume of the ICS money market accounts increased from \$15.9 million in 2013 to \$17.7 million in 2014 and then decreased to \$13.4 million in 2015. The average volume of savings accounts increased \$6.0 million, or 8.7%, from 2013 to 2014 and \$5.5 million, or 7.3%, from 2014 to 2015 due in part to a shift from time deposits. The average volume of total time deposits remained stable at \$123 million from 2013 to 2014 due to the use of one-way brokered time deposits as a supplemental source of funding during the year, but then a dramatic decrease of \$16.1 million, or 13.1%, is noted in the average volume from 2014 to 2015. Average retail time deposits decreased by \$3.7 million, or 3.1%, from 2013 to 2014 and \$11.3 million, or 10.1% from 2014 to 2015, which largely reflects a continued shift to savings or money market accounts, or customer rate shopping at other financial institutions. The Company strives to keep its core deposit customers but is not placing much emphasis on attracting rate shoppers as it has sufficient liquidity to meet reasonably foreseeable loan demand and other requirements. The average volume of federal funds purchased and other borrowed funds increased \$4.3 million, or 85.7%, from 2013 to 2014 and \$4.8 million, or 50.6% from 2014 to 2015, which was mostly attributable to the growth in loans outpacing deposit growth. The Company continues to utilize overnight funds and other short term borrowings to meet cash needs during the seasonal outflows of municipal deposits.

The following table provides a visual comparison of the breakdown of average assets and average liabilities as well as average shareholders' equity for the comparison periods.

Distribution of Assets, Liabilities and Shareholders' Equity

	Years Ended December 31,					
	2015		2014		2013	
	Balance	%	Balance	%	Balance	%
(Dollars in Thousands)						
Average Assets						
Cash and due from banks						
Non-interest bearing	\$ 9,868	1.68%	\$ 9,934	1.72%	\$ 9,747	1.72%
Federal funds sold and overnight deposits	6,337	1.08%	5,079	0.88%	4,457	0.79%
Taxable investment securities	30,725	5.24%	30,990	5.37%	41,363	7.31%
Tax-exempt investment securities	44,516	7.59%	42,654	7.40%	40,043	7.08%
Other securities	3,108	0.53%	3,432	0.60%	3,706	0.65%
Total investment securities	78,349	13.36%	77,076	13.37%	85,112	15.04%
Gross loans	455,571	77.71%	447,716	77.63%	426,482	75.36%
Reserve for loan losses and accrued fees	(4,737)	-0.81%	(4,609)	-0.80%	(4,375)	-0.77%
Premises and equipment	11,622	1.98%	11,635	2.02%	12,067	2.13%
Other real estate owned	1,127	0.19%	979	0.17%	1,258	0.22%
Investment in Capital Trust	387	0.07%	387	0.07%	387	0.07%
Bank owned life insurance	4,463	0.76%	4,354	0.75%	4,241	0.75%
Core deposit intangible	675	0.12%	948	0.16%	1,220	0.22%
Goodwill	11,574	1.98%	11,574	2.01%	11,574	2.04%
Other assets	11,013	1.88%	11,664	2.02%	13,733	2.43%
Total average assets	\$ 586,249	100%	\$ 576,737	100%	\$ 565,903	100%
Average Liabilities						
Demand deposits	\$ 88,225	15.05%	\$ 81,847	14.19%	\$ 73,765	13.04%
Interest-bearing transaction accounts	117,867	20.11%	115,209	19.98%	117,395	20.74%
Money market accounts	87,390	14.91%	83,168	14.42%	87,983	15.55%
Savings accounts	80,530	13.73%	75,042	13.01%	69,063	12.20%
Time deposits	107,100	18.27%	123,209	21.36%	123,431	21.81%
Total average deposits	481,112	82.07%	478,475	82.96%	471,637	83.34%
Federal funds purchased and other borrowed funds	14,217	2.42%	9,440	1.64%	5,084	0.90%
Repurchase agreements	24,314	4.15%	25,263	4.38%	28,538	5.04%
Junior subordinated debentures	12,887	2.20%	12,887	2.23%	12,887	2.28%
Other liabilities	3,449	0.59%	3,273	0.57%	3,272	0.58%
Total average liabilities	535,979	91.43%	529,338	91.78%	521,418	92.14%
Average Shareholders' Equity						
Preferred stock	2,500	0.42%	2,500	0.43%	2,500	0.44%
Common stock	12,943	2.21%	12,715	2.21%	12,596	2.23%
Additional paid-in capital	29,608	5.05%	28,853	5.00%	28,252	4.99%
Retained earnings	7,787	1.33%	5,963	1.03%	3,685	0.65%
Less: Treasury stock	(2,623)	-0.45%	(2,623)	-0.45%	(2,623)	-0.46%
Accumulated other comprehensive income	55	0.01%	(9)	0.00%	75	0.01%
Total average shareholders' equity	50,270	8.57%	47,399	8.22%	44,485	7.86%
Total average liabilities and shareholders' equity	\$ 586,249	100%	\$ 576,737	100%	\$ 565,903	100%

CERTAIN TIME DEPOSITS

Increments of maturity of time certificates of deposit of \$100,000 or more outstanding on December 31, 2015 are summarized as follows:

3 months or less	\$ 8,331,947
Over 3 through 6 months	8,854,943
Over 6 through 12 months	12,603,474
Over 12 months	18,035,467
Total	\$ 47,825,831

RISK MANAGEMENT

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

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

Under the Company's rate sensitivity modeling, in the current flat rate environment, NII levels are projected to be flat as the downward pressure on asset yields is projected to slow down as cash flow is replaced at equal yields. Funding costs are expected to provide slight relief as longer-term funding is retired and replaced at current rates. In a rising rate environment, NII is expected to trend upward as the short-term asset base (cash and adjustable rate loans) quickly cycle upward while the retail funding base (deposits) lags the market. If rates paid on deposits have to be increased more and/or more quickly than projected, the expected benefit to rising rates would be reduced. In a falling rate environment, NII is expected to trend in-line with the current rate environment scenario for the first year of the simulation as asset yield erosion is offset by decreasing funding costs. Thereafter, net interest income is projected to experience sustained downward pressure as funding costs reach their assumed floors and asset yields continue to reprice into the lower rate environment. The recent increase in the federal funds rate has had a minimal impact to the Company's NII, partly due to the fact that the long-term rates have not increased, creating compression in NII.

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 December 31, 2015:

One Year Horizon		Two Year Horizon	
Rate Change	Percent Change in NII	Rate Change	Percent Change in NII
Down 100 basis points	-1.70%	Down 100 basis points	-5.00%
Up 200 basis points	6.90%	Up 200 basis points	18.40%

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 in management emphasis to commercial lending. The severity and depth of the last recession and slow economic recovery saw the greatest degree of collection and foreclosure activity and losses in this segment of the portfolio. Delinquencies and losses, however, were not experienced to the extent of national peers as the Company maintains a mortgage loan portfolio of traditional mortgage products and has not engaged 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. While real estate values also declined in the Company's market area, the sound underwriting standards historically employed by the Company mitigated the trends in defaults and property surrenders experienced elsewhere. 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%.

Risk in the Company's commercial and commercial real estate loan portfolios is mitigated in part by government guarantees issued by federal agencies such as the U.S. Small Business Administration and USDA Rural Development. At December 31, 2015, the Company had \$21.8 million in guaranteed loans with guaranteed balances of \$16.9 million, compared to \$27.4 million in guaranteed loans with guaranteed balances of \$21.6 million at December 31, 2014.

The Company's strategy is to continue growing the commercial and commercial real estate portfolios. Consistent with the strategic focus on commercial lending, during 2015 the commercial real estate portfolio saw solid growth while solid commercial loan demand was tempered by several sizeable loan payoffs. Growth slowed in the residential mortgage first lien portfolio, including originations of mortgage loans held-for-sale, with interest rates increasing late in 2013 and the previously brisk refinancing activity falling off sharply during 2014. In 2015, residential mortgage demand picked up with more purchase activity in our market area and the portfolio's sharp decline tapered off.

The following table reflects the composition of the Company's loan portfolio as of December 31,

Composition of Loan Portfolio

	2015		2014		2013		2012		2011	
	Total Loans	% of Total								
(Dollars in Thousands)										
Real estate loans										
Construction & land development	\$ 21,445	4.68%	\$ 12,574	2.81%	\$ 19,098	4.34%	\$ 12,751	3.06%	\$ 12,589	3.26%
Farm land	12,570	2.74%	13,105	2.93%	10,453	2.38%	9,321	2.24%	10,223	2.65%
1-4 Family residential -										
1st lien	162,760	35.53%	163,966	36.62%	172,847	39.29%	169,613	40.74%	157,251	40.69%
Jr lien	44,720	9.76%	44,801	10.00%	45,687	10.39%	47,029	11.29%	45,887	11.88%
Commercial real estate	144,192	31.48%	140,934	31.47%	127,385	28.96%	117,736	28.28%	109,458	28.33%
Loans to finance agricultural										
production	2,508	0.55%	2,017	0.45%	1,720	0.39%	2,590	0.62%	1,282	0.33%
Commercial & industrial	62,683	13.68%	62,373	13.93%	53,900	12.25%	46,694	11.21%	38,232	9.89%
Consumer	7,241	1.58%	8,035	1.79%	8,819	2.00%	10,642	2.56%	11,465	2.97%
Gross loans	<u>458,119</u>	<u>100%</u>	<u>447,805</u>	<u>100%</u>	<u>439,909</u>	<u>100%</u>	<u>416,376</u>	<u>100%</u>	<u>386,387</u>	<u>100%</u>
Less:										
Allowance for loan losses										
and deferred net loan costs	(4,695)		(4,602)		(4,554)		(4,143)		(3,880)	
Net loans	<u>\$ 453,424</u>		<u>\$ 443,203</u>		<u>\$ 435,355</u>		<u>\$ 412,233</u>		<u>\$ 382,507</u>	

The following table shows the estimated maturity of the Company's commercial loan portfolio as of December 31, 2015.

	Fixed Rate Loans				Variable Rate Loans			
	Within 1 Year	2 - 5 Years	After 5 Years	Total	Within 1 Year	2 - 5 Years	After 5 Years	Total
(Dollars in Thousands)								
Real estate								
Construction & land development	\$ 12	\$ 44	\$ 3,309	\$ 3,365	\$ 3,169	\$ 81	\$ 14,830	\$ 18,080
Secured by farm land	0	14	405	419	1,155	247	10,749	12,151
Commercial real estate	270	1,795	7,240	9,305	6,013	2,691	126,183	134,887
Loans to finance agricultural								
production	15	458	0	473	1,215	341	479	2,035
Commercial & industrial	787	10,926	2,084	13,797	30,042	5,757	13,087	48,886
Total	<u>\$ 1,084</u>	<u>\$ 13,237</u>	<u>\$ 13,038</u>	<u>\$ 27,359</u>	<u>\$ 41,594</u>	<u>\$ 9,117</u>	<u>\$ 165,328</u>	<u>\$ 216,039</u>

The Company works actively with customers early in the delinquency process to help them to avoid default and foreclosure. Commercial and commercial real estate loans are generally placed on non-accrual status when there is deterioration in the financial position of the borrower, payment in full of principal and interest is not expected, and/or principal or interest has been in default for 90 days or more. However, such a loan need not be placed on non-accrual status if it is both well secured and in the process of collection. Residential mortgages and home equity loans are considered for non-accrual status at 90 days past due and are evaluated on a case-by-case basis. The Company obtains current property appraisals or market value analyses and considers the cost to 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. Prior to 2015, deferred taxes were calculated monthly, based on interest amounts that would have accrued through the normal accrual process. For prior years this interest amounted to \$40,384 for 2014, \$95,580 for 2013, \$214,897 for 2012, \$294,034 for 2011, and \$235,602 for 2010.

The Company's non-performing assets decreased \$94,536, or 1.5% for 2015 compared to 2014, decreased \$223,759, or 3.3% for 2014 compared to 2013, increased \$532,333, or 8.6% for 2013 compared to 2012, and decreased \$3.1 million, or 33.1% for 2012 compared to 2011. The large decrease from 2011 to 2012 was attributable to both improvement in economic conditions and the resolution of numerous problem loans. Those resolutions included completion of the foreclosure process, recognition of government loan guarantee claims receivable, borrower repayment, or in limited circumstances, the transition of loans to performing accrual status. The level of non-performing assets remained comparatively stable from 2012 through 2015.

Non-performing assets at the end of each of the last five fiscal years consisted of the following:

December 31,	Non-Performing Assets				
	2015	2014	2013	2012	2011
	(Dollars in Thousands)				
Accruing loans past due 90 days or more:					
Commercial & industrial	\$ 14	\$ 24	\$ 22	\$ 0	\$ 60
Commercial real estate	45	5	5	54	99
Residential real estate - 1st lien	801	980	817	282	969
Residential real estate - Jr lien	63	116	56	42	111
Consumer	0	0	8	1	1
Total past due 90 days or more	923	1,125	908	379	1,240
Non-accrual loans:					
Commercial & industrial	441	553	527	597	1,067
Commercial real estate	2,401	1,934	1,404	1,892	3,714
Residential real estate - 1st lien	2,009	1,263	2,203	1,928	2,704
Residential real estate - Jr lien	386	404	593	338	464
Total non-accrual loans	5,237	4,154	4,727	4,755	7,949
Total non-accrual and past due loans	6,160	5,279	5,635	5,134	9,189
Other real estate owned	262	1,238	1,106	1,075	90
Total non-performing assets	\$ 6,422	\$ 6,517	\$ 6,741	\$ 6,209	\$ 9,279
Percent of gross loans	1.40%	1.46%	1.53%	1.49%	2.40%
Reserve coverage of non-performing assets	78.04%	75.28%	72.03%	69.45%	41.89%

Non-performing loans as of December 31, 2015 consisted of, by dollar volume, approximately 38% residential first mortgages, 7% junior lien home equity loans, 46% commercial real estate and 9% in commercial loans not secured by real estate, compared to 30%, 10%, 47%, and 13%, respectively, at December 31, 2014.

The Company's troubled debt restructurings ("TDR") principally result from 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 rates. The Company has not forgiven principal or reduced accrued interest within the terms of original restructurings. The Company evaluates each TDR situation on its own merits and does not foreclose the granting of any particular type of concession. The Non-Performing Assets table above includes 21 TDRs totaling \$2.7 million that were past due 90 days or more or in non-accrual status as of December 31, 2015, compared to 12 TDRs totaling \$1.8 million as of December 31, 2014. The remainder of the Company's TDRs consisted of 22 residential mortgage loans and two commercial real estate loans totaling \$2.5 million at December 31, 2015 compared to 18 residential mortgage loans and one commercial real estate loan totaling \$1.7 million at December 31, 2014.

As of December 31, 2015, the Company is contractually committed to lend up to \$450,000 in additional funds to one debtor with an impaired SBA 75%-guaranteed cap line of credit. This debtor's loan relationship is expected to strengthen as a result of a prior troubled debt restructuring. With this exception, as of the balance sheet dates, the Company was not contractually committed to lend additional funds to debtors with impaired, non-accrual or modified loans.

The Company's OREO portfolio at December 31, 2014 consisted of seven properties acquired through the normal foreclosure process. During 2015, the Company moved one additional property into OREO totaling \$70,500, and sold that property and five of the properties held at December 31, 2014. With total sales, net of closing costs, of \$966,615 during 2015, and subsequent write-downs totaling \$75,820 on two properties, 2015 ended with an OREO balance of \$262,000, representing one commercial and one residential property.

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

When establishing the allowance each quarter the Company applies a combination of historical loss factors and qualitative factors to loan segments, including residential first and junior lien mortgages, commercial real estate, commercial & industrial, and consumer loan portfolios. The Company will shorten or lengthen its look back period for determining average portfolio historical loss rates as the economy either contracts or expands; during a period of economic contraction, a shortening of the look back period may more conservatively reflect the current economic climate. The highest loss rates experienced for the look back period are applied to the various segments in establishing the allowance.

The reserve methodology was modified during the quarter ended June 30, 2015 to eliminate using the higher of the 1999-2001 losses as compared to current losses, by eliminating use of the 1999-2001 period. The 1999-2001 information had become dated and the Bank's credit portfolio management had evolved since that period. The revised methodology now considers the highest annual loss rates for the most recent one to five year look back periods for each segment of the portfolio. This change resulted in a gross reduction to required reserves of \$529,234 at June 30, 2015, the effect of which was partially offset by increases due to adjustments in certain qualitative factors relating to commercial and commercial real estate loans, as described in the next paragraph.

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. During the second quarter of 2015, adjustments were made to the commercial and commercial real estate qualitative factors to adjust for the impact of the change in methodology, principally in the area of loan growth, loan policy, and delinquency factors. The commercial and commercial real estate factors were each increased a total of 10 basis points, amounting to increases in the allowance for loan losses of \$171,000 and \$70,000, respectively at June 30, 2015. While unallocated reserves have increased, they are considered by management to be appropriate in light of the Company's continued growth strategy and shift in the portfolio from residential loans to commercial and commercial real estate loans and the risk associated with the relatively new, unseasoned loans in those portfolios.

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

The following table summarizes the Company's loan loss experience for each of the last five years.

As of or Years Ended December 31,	2015	2014	2013	2012	2011
	(Dollars in Thousands)				
Loans outstanding, end of year	\$ 458,119	\$ 447,805	\$ 439,909	\$ 416,376	\$ 386,387
Average loans outstanding during year	\$ 454,793	\$ 447,133	\$ 425,482	\$ 402,023	\$ 389,611
Non-accruing loans, end of year	\$ 5,237	\$ 4,154	\$ 4,727	\$ 4,755	\$ 7,949
Non-accruing loans, net of government guarantees	\$ 4,551	\$ 3,378	\$ 4,368	\$ 3,537	\$ 5,385
Allowance, beginning of year	\$ 4,906	\$ 4,855	\$ 4,312	\$ 3,887	\$ 3,728
Loans charged off:					
Commercial & industrial	(201)	(153)	(83)	(159)	(22)
Commercial real estate	(15)	(168)	(125)	(58)	(197)
Residential real estate - 1st lien	(151)	(59)	(56)	(246)	(522)
Residential real estate - Jr lien	(66)	(52)	(57)	(136)	(97)
Consumer	(69)	(112)	(67)	(97)	(103)
Total	(502)	(544)	(388)	(696)	(941)
Recoveries:					
Commercial & industrial	59	6	3	29	13
Commercial real estate	0	0	186	52	8
Residential real estate - 1st lien	6	15	16	6	43
Residential real estate - Jr lien	0	0	21	2	0
Consumer	33	34	35	32	36
Total	98	55	261	121	100
Net loans charged off	(404)	(489)	(127)	(575)	(841)
Provision charged to income	510	540	670	1,000	1,000
Allowance, end of year	\$ 5,012	\$ 4,906	\$ 4,855	\$ 4,312	\$ 3,887
Net charge offs to average loans outstanding	0.09%	0.11%	0.03%	0.14%	0.21%
Provision charged to income as a percent of average loans	0.11%	0.12%	0.16%	0.25%	0.26%
Allowance to average loans outstanding	1.10%	1.10%	1.14%	1.07%	1.00%
Allowance to non-accruing loans	95.70%	118.10%	102.71%	90.68%	48.90%
Allowance to non-accruing loans net of government guarantees	110.13%	145.23%	111.15%	121.91%	72.18%

The level of the provision charged to income for 2011 and 2012 was directionally consistent with the trends and risk in the loan portfolio and with the growth of the loan portfolio. Improving loan portfolio trends throughout 2012 and 2013, and several recoveries resulted in a \$330,000 or 33.0% decrease to the provision for 2013; with a total 2013 provision of \$670,000, compared to a provision of \$1,000,000 in each of the two previous years. While the Company's allowance coverage of non-accruing loans increased during 2013, the coverage of non-accruing loans net of government guarantees decreased. The decrease was the result of new non-accruing loans that were not guaranteed, replacing one large government guaranteed loan that was fully liquidated during the second quarter of 2013. Both the increase in the reserve balance and lower levels of non-accruing loans during 2014 led to the strengthened reserve coverage of non-accruing loans at year-end 2014, including the coverage of non-accruing loans net of government guarantees. Despite lower net losses in 2015 than in 2014, the 2015 provision was maintained at a level consistent with portfolio growth and higher levels of non-performing 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 are loans to a borrower that in aggregate are greater than \$100,000 and that are in non-accrual status. A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due, including interest and principal, according to the contractual terms of the loan agreement. The Company will review all the facts and circumstances surrounding non-accrual loans and on a case-by-case basis may consider loans below the threshold as impaired when such treatment is material to the financial statements. See Note 3 to the accompanying audited 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 valuation 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.

The following table shows the allocation of the allowance for loan losses, as well as the percent of each loan category to the total loan portfolio for each of the last five years:

Allocation of Allowance for Loan Losses

December 31,	2015	%	2014	%	2013	%	2012	%	2011	%
	(Dollars in Thousands)									
Domestic										
Commercial & industrial	\$ 713	14%	\$ 647	14%	\$ 516	12%	\$ 428	12%	\$ 342	10%
Commercial real estate	2,152	39%	2,312	37%	2,144	36%	1,537	33%	1,386	34%
Residential real estate										
1st lien	1,368	35%	1,271	37%	1,453	39%	1,563	41%	1,578	41%
Jr lien	423	10%	321	10%	366	11%	333	11%	332	12%
Consumer	76	2%	119	2%	105	2%	139	3%	125	3%
Unallocated	280	0%	236	0%	271	0%	312	0%	124	0%
Total	\$ 5,012	100%	\$ 4,906	100%	\$ 4,855	100%	\$ 4,312	100%	\$ 3,887	100%

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 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.

INVESTMENT SECURITIES

The Company maintains an investment portfolio of various securities to diversify its revenue sources, as well as to provide interest rate risk and credit risk diversification and to provide for its liquidity and funding needs. The Company's portfolio of available-for-sale securities decreased \$6.5 million, or 6.4%, in 2015, from \$33.0 million at December 31, 2014 to \$26.5 million at December 31, 2015, as maturities were used to supplement short-term borrowings and deposits to fund loan growth. The Company's held-to-maturity portfolio consisted entirely of tax-exempt obligations of state and political subdivisions with a book value of \$43.4 million as of December 31, 2015 as compared to \$41.8 million at December 31, 2014. The increase in the held-to-maturity investment portfolio is due to a \$4.9 million increase in municipal term obligations compared with the prior year, while non-arbitrage and tax anticipation lending declined \$2.2 million, or 9.5%, and \$1.2 million, or 32.7%, respectively, from December 31, 2014. The non-arbitrage and tax anticipation loans to municipalities are issued annually on a competitive bid basis; as a result the portfolio can fluctuate considerably from year to year based on changes in competitive pressures.

Accounting standards require banks to recognize all appreciation or depreciation of investments classified as either trading securities or available-for-sale, either through the income statement or on the balance sheet even though a gain or loss has not been realized. Securities classified as trading securities are marked to market with any gain or loss net of tax effect, charged to income. The Company's investment policy does not permit the holding of trading securities. Securities classified as held-to-maturity are recorded at book value, subject to adjustment for other-than-temporary impairment. Securities classified as available-for-sale are marked to market with any gain or loss after taxes charged to shareholders' equity in the consolidated balance sheets. These adjustments in the available-for-sale portfolio resulted in an accumulated unrealized loss net of taxes of \$45,394 at December 31, 2015, compared to an unrealized loss net of taxes of \$7,443 at December 31, 2014. The fluctuation in unrealized gains and losses are due primarily to market interest rate changes, and are not based on any deterioration in credit quality of the underlying issuers. The Company added FNMA and FHLMC issued mortgage-backed securities (Agency MBS) as an approved asset class in 2014 in order to realize a more favorable yield in the portfolio and diversify the holdings. This strategy has performed well with the continued flattening of the yield curve. Although classified as available-for-sale, these securities are short term and we anticipate keeping them until maturity. The unrealized loss positions within the investment portfolio as of the balance sheet dates presented are considered by management to be temporary.

The restricted equity securities comprise the Company's membership stock in the Federal Reserve Bank of Boston (FRBB) and FHLBB. On December 31, 2015 and 2014, the Company held \$588,150 in FRBB stock and \$1.9 million and \$2.7 million, respectively, in FHLBB stock. Membership in the FRBB and FHLBB requires the purchase of their stock in specified amounts. The stock is typically held for an extended period of time and can only be sold back to the issuer, or in the case of FHLBB, a member institution. Restricted equity stock is sold and redeemed at par. Due to the unique nature of the restricted equity stock, including the non-investment purpose for owning it, the ownership structure and restrictions and the absence of a trading market for the stock, these securities are not marked to market, but carried at par.

Some of the Company's investment securities have a call feature, meaning that the issuer may call in the investment before maturity, at predetermined call dates and prices. In 2015, there were no call features exercised by the issuers, compared to four calls during 2014.

The Company's investment portfolios as of December 31 in each of the last three fiscal years were as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value(1)</u>
December 31, 2015				
Available-for-Sale				
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	<u>2,973,000</u>	<u>5,046</u>	<u>4,573</u>	<u>2,973,473</u>
	<u>\$ 26,539,180</u>	<u>\$ 27,569</u>	<u>\$ 96,349</u>	<u>\$ 26,470,400</u>
Held-to-Maturity				
States and political subdivisions	<u>\$ 43,354,419</u>	<u>\$ 788,581</u>	<u>\$ 0</u>	<u>\$ 44,143,000</u>
Restricted Equity Securities (2)	<u>\$ 2,441,650</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,441,650</u>
Total	<u>\$ 72,335,249</u>	<u>\$ 816,150</u>	<u>\$ 96,349</u>	<u>\$ 73,055,050</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value(1)
December 31, 2014				
Available-for-Sale				
U.S. GSE debt securities	\$ 19,929,061	\$ 50,378	\$ 72,289	\$ 19,907,150
U.S. Government securities	3,997,451	3,486	0	4,000,937
Agency MBS	9,031,661	19,472	12,326	9,038,807
	<u>\$ 32,958,173</u>	<u>\$ 73,336</u>	<u>\$ 84,615</u>	<u>\$ 32,946,894</u>
Held-to-Maturity				
States and political subdivisions	\$ 41,810,945	\$ 423,055	\$ 0	\$ 42,234,000
Restricted Equity Securities (2)	\$ 3,332,450	\$ 0	\$ 0	\$ 3,332,450
Total	<u>\$ 78,101,568</u>	<u>\$ 496,391</u>	<u>\$ 84,615</u>	<u>\$ 78,513,344</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value(1)
December 31, 2013				
Available-for-Sale				
U.S. GSE debt securities	\$ 29,220,333	\$ 114,102	\$ 195,521	\$ 29,138,914
U.S. Government securities	6,040,188	10,955	1,455	6,049,688
	<u>\$ 35,260,521</u>	<u>\$ 125,057</u>	<u>\$ 196,976</u>	<u>\$ 35,188,602</u>
Held-to-Maturity				
States and political subdivisions	\$ 37,936,911	\$ 433,089	\$ 0	\$ 38,370,000
Restricted Equity Securities (2)	\$ 3,632,850	\$ 0	\$ 0	\$ 3,632,850
Total	<u>\$ 76,830,282</u>	<u>\$ 558,146</u>	<u>\$ 196,976</u>	<u>\$ 77,191,452</u>

(1) Method used to determine fair value of held-to-maturity securities rounds values to the nearest thousand.

(2) Required equity purchases for membership in the Federal Reserve System and Federal Home Loan Bank System.

The Company does not have investments totaling more than 10% of Shareholders' Equity to any one issuer in the periods presented.

In 2015, there were realized gains of \$14,779 from the sale of investments in U.S. Government securities and realized gains of \$8,023 and realized losses of \$5,300 from the sale of investments in U.S. GSE debt securities, compared to realized gains of \$27,838 from the sale of investments in U.S. GSE debt securities in 2014.

The following is an analysis of the maturities and yields of the debt securities in the Company's investment portfolio for each of the last three fiscal years:

Maturities and Yields of Investment Portfolio

December 31,	2015		2014		2013	
	Fair Value(1)	Weighted Average Yield(2)	Fair Value(1)	Weighted Average Yield(2)	Fair Value(1)	Weighted Average Yield(2)
Available-for-Sale						
U.S. Treasury & Agency Obligations						
Due in one year or less	\$ 3,086,317	1.19%	\$ 5,034,248	0.59%	\$ 4,510,923	0.48%
Due from one to five years	12,474,599	1.09%	18,873,839	1.09%	30,677,679	0.87%
Due from five to ten years	245,000	2.50%	0	0.00%	0	0.00%
Total	\$ 15,805,916	1.13%	\$ 23,908,087	0.99%	\$ 35,188,602	0.75%
Agency MBS(3)	\$ 10,664,484	1.69%	\$ 9,038,807	2.13%	\$ 0	0.00%
FRBB Stock (4)	\$ 588,150	6.00%	\$ 588,150	6.00%	\$ 588,150	6.00%
FHLBB Stock (4)	\$ 1,853,500	3.74%	\$ 2,744,300	1.58%	\$ 3,044,700	0.40%
Held-to-Maturity						
Obligations of State & Political Subdivisions						
Due in one year or less	\$ 27,731,133	3.41%	\$ 28,158,718	3.70%	\$ 27,615,731	3.55%
Due from one to five years	4,015,553	2.81%	4,637,913	2.98%	3,939,950	3.40%
Due from five to ten years	3,022,188	4.34%	2,305,353	4.83%	2,592,045	5.02%
Due after ten years	8,585,545	4.57%	6,708,961	4.14%	3,789,185	5.52%
Total	\$ 43,354,419	3.65%	\$ 41,810,945	3.75%	\$ 37,936,911	3.83%

(1) Investments classified as available-for-sale are presented at fair value, and investments classified as held-to-maturity are presented at book value.

(2) The yield on obligations of state and political subdivisions is calculated on a tax equivalent basis assuming a 34 percent tax rate.

(3) 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 by contractual maturity date.

(4) Required equity purchases for membership in the Federal Reserve System and Federal Home Loan Bank System.

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 2015, the Company did not engage in any activity that created any additional types of off-balance-sheet risk.

The Company generally requires collateral or other security to support financial instruments with credit risk. The Company's financial instruments whose contract amount represents credit risk are disclosed in Note 15 to the consolidated financial statements.

EFFECTS OF INFLATION

Rates of inflation affect the reported financial condition and results of operations of all industries, including the banking industry. The effect of monetary inflation is generally magnified in bank financial and operating statements because most of a bank's assets and liabilities are monetary in nature and, as costs and prices rise, cash and credit demands of individuals and businesses increase, while the purchasing power of net monetary assets declines. During the economic downturn that began in 2008, the capital and credit markets experienced significant volatility and disruption, with the federal government taking unprecedented steps to deal with the economic situation. These measures have included significant deficit spending as well as quantitative easing of the money supply by the FRB, which could result in inflation in future periods.

The impact of inflation on the Company's financial results is affected by management's ability to react to changes in interest rates in order to reduce inflationary effect on performance. Interest rates do not necessarily move in conjunction with changes in the prices of other goods and services. As discussed above, management seeks to manage the relationship between interest-sensitive assets and liabilities in order to protect against significant interest rate fluctuations, including those resulting from inflation. Inflation remains below the Federal Reserve's implied target of 2% and is not believed to present any challenge in the near term. Possible deflation is now a concern given the recent severe decline in oil prices that is expected to impact the price of goods worldwide.

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 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 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"), maintained by the Promontory Interfinancial Network provide an alternative funding source when needed. Such deposits are generally considered a form of brokered deposits. The Company had \$4.2 million in one-way deposits at December 31, 2015, compared to no one-way deposits at December 31, 2014. In addition, two-way CDARS deposits allow the Company to provide FDIC deposit insurance to its customers in excess of account coverage limits by exchanging deposits with other CDARS members. At December 31, 2015 and 2014, the Company reported \$2.8 million and \$1.1 million, respectively, in CDARS deposits representing exchanged deposits with other CDARS participating banks.

At December 31, 2015 and 2014, gross borrowing capacity of approximately \$72.1 million and \$67.1 million, respectively, was available through the FHLBB secured by the Company's qualifying loan portfolio (generally, residential mortgages), reduced by outstanding advances and collateral pledges. The Company also has an unsecured Federal Funds line with the FHLBB with an available balance of \$500,000 and no advances against it at December 31, 2015 and 2014. Interest is chargeable at a rate determined daily approximately 25 basis points higher than the rate paid on federal funds sold.

Under a separate agreement with the FHLBB, the Company has the authority to collateralize public unit deposits up to its FHLBB borrowing capacity (\$72.1 million and \$67.1 million at December 31, 2015 and 2014, respectively, less outstanding advances and collateral pledges) with letters of credit issued by the FHLBB. The Company offers a Government Agency Account to its municipal customers collateralized with these FHLBB letters of credit. At December 31, 2015 and 2014, approximately \$14.9 million and \$34.5 million, respectively, of qualifying residential real estate loans were pledged as collateral to the FHLBB for these collateralized governmental unit deposits, which reduced dollar-for-dollar the available borrowing capacity under the FHLBB line of credit. Total fees paid by the Company to the FHLBB in connection with these letters of credit were \$29,535 for 2015 and \$35,863 for 2014.

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 line of \$72.3 million and \$78.6 million, respectively, at December 31, 2015 and 2014. Credit advances in the FRBB lending program are overnight advances with interest chargeable at the primary credit rate (generally referred to as the discount rate), which was 100 basis points at December 31, 2015. At December 31, 2015 and 2014, the Company had no outstanding advances against this line.

The Company has an unsecured line with two correspondent banks with available lines totaling \$7.5 million at December 31, 2015 and 2014. The Company had no outstanding advances against these lines for the periods presented.

Securities sold under agreements to repurchase amounted to \$22.1 million, \$28.5 million and \$29.6 million as of December 31, 2015, 2014 and 2013, respectively, with weighted average interest rates of 0.30%, 0.27% and 0.24% at December 31, 2015, 2014 and 2013, respectively. The average daily balance of these repurchase agreements was \$24.3 million, \$25.3 million and \$28.5 million during 2015, 2014, and 2013, respectively. The maximum borrowings outstanding on these agreements at any month-end reporting period of the Company were \$28.2 million, \$28.5 million and \$34.5 million during 2015, 2014 and 2013, respectively. These repurchase agreements mature daily and carried a weighted average interest rate of 0.29% during 2015, 0.25% during 2014 and 0.39% during 2013.

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

Balance at December 31, 2014 (book value \$9.43 per common share)	\$ 48,995,202
Net income	4,825,591
Issuance of stock through the Dividend Reinvestment Plan	885,243
Dividends declared on common stock	(3,172,179)
Dividends declared on preferred stock	(81,250)
Change in unrealized loss on available-for-sale securities, net of tax	(37,951)
Balance at December 31, 2015 (book value \$9.79 per common share)	<u>\$ 51,414,656</u>

In December, 2015, the Company declared a \$0.16 per common share cash dividend, payable February 1, 2016 to shareholders of record as of January 15, 2016, requiring the Company to accrue a liability of \$796,713 for this dividend in the fourth quarter of 2015.

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action capital requirements are applicable to banks, but not bank holding companies.

During 2013, the Federal Reserve Board adopted final rules implementing the Basel III capital standards, which significantly revised the regulatory capital requirements for U.S. financial institutions, including community banks. Among other things, the new capital rules revised the definition of various regulatory capital components and related calculation methods, added a new regulatory capital component (common equity tier 1 capital), increased the minimum required tier 1 capital, implemented a new capital conservation buffer and adopted restrictions on payment of dividends and certain discretionary bonuses when the buffer is not maintained. The final rules contain certain regulatory relief provisions for community banks and also permitted certain banking organizations to retain, through a one-time election, the regulatory treatment for accumulated other comprehensive income in effect prior to adoption of the Basel III capital rules. The Company and the Bank made the election, the effect of which is to continue to exclude unrealized gains and losses on AFS debt securities from the calculation of regulatory capital. The Basel III capital rules took effect for the Company and the Bank on January 1, 2015, subject to a transition period for certain parts of the rules.

On December 31, 2015, the Company's tier 1 leverage was 9.01%, common equity tier 1 and tier 1 risk-based capital ratios were both 12.38%, and total risk-based capital ratio was 13.57%. The Company's capital ratios exceeded all applicable regulatory requirements at December 31, 2015. On December 31, 2015, the Bank's tier 1 leverage was 8.93%, common equity tier 1 and tier 1 risk-based capital ratios were both 12.27%, and total risk-based capital ratio was 13.46%. Each of these ratios exceeds the current regulatory guidelines for a well-capitalized institution, the highest regulatory capital category. (See Note 20 to the consolidated financial statements.)

As of December 31, 2015, the Bank was considered well capitalized under the regulatory capital framework for Prompt Corrective Action.

Common Stock Performance by Quarter*

Trade Price	2015				2014			
	First	Second	Third	Fourth	First	Second	Third	Fourth
High	\$ 14.50	\$ 14.50	\$ 14.75	\$ 14.75	\$ 14.25	\$ 14.50	\$ 14.50	\$ 14.75
Low	\$ 14.00	\$ 14.00	\$ 14.15	\$ 13.60	\$ 13.01	\$ 13.75	\$ 14.00	\$ 13.84
Bid Price	First	Second	Third	Fourth	First	Second	Third	Fourth
High	\$ 14.40	\$ 14.40	\$ 14.50	\$ 14.25	\$ 12.25	\$ 13.90	\$ 12.80	\$ 13.65
Low	\$ 14.00	\$ 14.00	\$ 14.15	\$ 14.00	\$ 10.50	\$ 11.12	\$ 12.60	\$ 12.85
Cash Dividends Declared	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16

*The Company's common stock is not traded on any exchange. However, the Company is included in the OTCQX® marketplace tier maintained by the OTC Markets Group Inc. Trade and bid information for the stock appears in the OTC's interdealer quotation system, OTC Link ATS®. The trade price and bid information in the table above is based on information reported by participating FINRA-registered brokers in the OTC Link ATS® system and may not represent all trades or high and low bids during the relevant periods. Such price quotations reflect inter-dealer prices without retail mark-up, mark-down or commission and bid prices do not necessarily represent actual transactions. The OTC trading symbol for the Company's common stock is CMTV.

As of February 1, 2016, there were 4,994,888 shares of the Corporation's common stock (\$2.50 par value) outstanding, owned by 872 shareholders of record.

Form 10-K

A copy of the Form 10-K Report filed with the Securities and Exchange Commission may be obtained without charge upon written request to:

Stephen P. Marsh, CEO and Board Chair
Community Bancorp.
4811 US Route 5
Newport, Vermont 05855

Shareholder Services

For shareholder services or information contact:

Chris Bumps, Corporate Secretary
Community Bancorp.
4811 US Route 5
Newport, Vermont 05855
(802) 334-7915

Transfer Agent:

Computershare Investor Services
PO Box 43078
Providence, RI 02940-3078
www.computershare.com

Annual Shareholders' Meeting

The 2016 Annual Shareholders' Meeting will be held at 5:30 p.m., May 17, 2016, at the Elks Club in Derby. We hope to see many of our shareholders there.

Subsidiaries of the Company

The wholly-owned subsidiary of Community Bancorp. is Community National Bank, a national banking association incorporated under the Banking Laws of The United States. Community National Bank is considered to be a "significant subsidiary" of Community Bancorp., within the meaning of Rule 1-02(w) of SEC Regulation S-X.

The unconsolidated subsidiary of Community Bancorp. is CMTV Statutory Trust I, a Delaware statutory business trust.



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the inclusion in this Annual Report (Form 10-K) of Community Bancorp of our report dated March 25, 2016 with respect to the consolidated financial statements included in the 2015 Annual Report to Shareholders of Community Bancorp.

We also consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-160875) pertaining to the Community Bancorp Dividend Reinvestment Plan and in the Registration Statement (Form S-8 No. 333-133631) pertaining to the Community Bancorp Retirement Savings Plan of our report dated March 25, 2016, with respect to the consolidated financial statements incorporated therein by reference of Community Bancorp included in the Annual Report (Form 10-K) for the year ended December 31, 2015.

BerryDunn McNeil & Parker, LLC

Portland, Maine

March 25, 2016

Vermont Registration No. 92-0000278

CERTIFICATION

I, Stephen P. Marsh, Chief Executive Officer and Board Chair (Principal Executive Officer), certify that:

1. I have reviewed this annual report on Form 10-K of Community Bancorp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2016

/s/ Stephen P. Marsh
Chief Executive Officer and Board Chair
(Principal Executive Officer)

CERTIFICATION

I, Louise M. Bonvechio, Treasurer (Principal Financial Officer), certify that:

1. I have reviewed this annual report on Form 10-K of Community Bancorp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2016

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

CERTIFICATION PURSUANT TO 18 U. S. C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Community Bancorp. (the "Company") on Form 10-K for the period ended December 31, 2015, filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Principal Executive Officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that: 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

A signed original of this written statement required by Section 906 has been provided to Community Bancorp. and will be retained by Community Bancorp. and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Stephen P. Marsh
Stephen P. Marsh,
Chief Executive Officer and Board Chair
(Principal Executive Officer)

March 25, 2016

CERTIFICATION PURSUANT TO 18 U. S. C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Community Bancorp. (the "Company") on Form 10-K for the period ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Principal Financial Officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that: 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

A signed original of this written statement required by Section 906 has been provided to Community Bancorp. and will be retained by Community Bancorp. and furnished to the Securities and Exchange Commission or its staff upon request.

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

March 25, 2016