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 THESECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THESECURITIES EXCHANGE ACT OF 1934

For the transition period from_______ to _______

Commission File No. 000-16435

Community Bancorp.

Vermont	03-0284070
(State of Incorporation)	(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 ❑ (Do not check if a smaller reporting company)	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, 2014 the aggregate market value of the voting stock held by non-affiliates of the registrant was $65,068,290, based on a per share trade price on June 30, 2014 of $14.25, 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 4,932,765 shares outstanding of the issuer's class of common stock as of the close of business on March 11, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the year ended December 31, 2014 are incorporated by reference to Part I of this Report.

Portions of the Annual Report to Shareholders for the year ended December 31, 2014 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 12, 2015 are incorporated by reference to Part III of this report.

FORM 10-K ANNUAL 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**"). 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 added three office locations in Caledonia County and one office location in each of Orleans, Lamoille and Franklin Counties.

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 provides a range of banking services to corporations and other business clients. Credit products are available for a wide 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 wide 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 Company's first lien residential mortgage loans originated 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 Annual Report to Shareholders for 2014 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, four 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, 2014, the Company did not have any employees at the holding company level. However, as of such date, the Bank employed 130 full-time employees and 14 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 2014, 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 during 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.

While significant elements of the Dodd-Frank Act have been implemented through agency rulemakings, additional rulemakings and further studies are required for implementation of other provisions of the Act (See "Qualified Mortgage Rules" below). The Company will continue to monitor the impact of 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 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. The Company and the Bank are required under federal law to maintain certain capital levels. The federal banking agencies have issued substantially similar risk-based and leverage capital requirements applicable to banking organizations they supervise. Under the requirements applicable during 2014 and prior periods, (which, for community banking organizations such as the Company, are replaced by new rules, described below, beginning January 1, 2015), the Company and the Bank are required to maintain certain capital standards based on ratios of capital to assets and capital to risk-weighted assets. The requirements define an institution's total qualifying capital as having two components: Tier 1 capital, which must be at least 50% of total qualifying capital and mainly comprises common equity, retained earnings, qualifying preferred stock and (for community banking organizations) qualifying trust preferred securities, less certain intangibles; and Tier 2 capital, which may include the allowance for loan losses up to a maximum of 1.25% of risk weighted assets, qualifying subordinated debt, qualifying preferred stock, hybrid capital instruments and up to 45% of net unrealized gains on available-for-sale equity securities. The requirements also define the weights assigned to assets and off-balance sheet items to determine the risk weighted asset components of the risk-based capital rules.

Under the foregoing requirements, the minimum capital standards that must be met by any bank holding company or bank include a Tier 1 capital ratio of at least 4%, a total risk-based capital ratio of at least 8% and a leverage capital ratio of at least 4% (except for those institutions with the highest regulatory ratings and not experiencing significant growth or expansion). Risks such as concentration of credit risks and the risk arising from non-traditional activities, as well as the institution's exposure to a decline in the economic value of its capital due to changes in interest rates, and an institutions ability to manage those risks, are important factors that are to be taken into account by the federal banking agencies in assessing an institution's overall capital adequacy.

The Dodd-Frank Act contained a number of restrictions designed to strengthen capital for bank holding companies, including a requirement that the Federal Reserve establish minimum leverage and risk-based capital levels that are at least as stringent as that currently in effect for banks. The Act also required that the Federal Reserve issue capital rules that are countercyclical so that the amount of capital required to be maintained by a banking organization would increase in times of economic expansion and decrease in times of economic contractions, consistent with the organization's safety and soundness. In addition, the international oversight body of the Basel Committee on Banking Supervision reached agreement through what is known as the Basel III Capital Framework to increase the minimum common equity capital requirement for banking organizations.

Pursuant to the various directives, the federal banking agencies have issued revised capital rules that change the leverage and risk-based capital requirements (including the prompt corrective action framework), which become effective for community banking organizations such as the Company as of January 1, 2015. Under these final rules, the definition of the regulatory capital components and minimum capital requirements will materially change. Among the most important of these changes is the addition of a new common equity Tier 1 risk-based capital ratio of 4.5%, and the increase in the overall Tier 1 risk-based capital ratio to 6%. Certain deductions from common equity will be expanded and others, including mortgage servicing assets and deferred tax assets subject to temporary timing differences, will be subject to threshold deductions. In addition, the federal banking agencies are requiring a capital conservation buffer of up to 2.5% above each of the capital ratio requirements (common equity tier 1, tier 1, and total risk-based capital) which must be met for a bank to be able to pay dividends, engage in share buybacks or make discretionary bonus payments to executive management without restriction. When the Basel III capital rules are fully phased in on January 1, 2019, a banking organization would need to maintain a common equity Tier 1 capital ratio greater than 7.0%, a Tier 1 capital ratio greater than 8.5% and a total risk-based capital ratio greater than 10.5%, otherwise, it will be subject to restrictions on capital distributions and discretionary bonus payments to its executive management. The agency rulemakings also change the risk-weighting of certain assets, including "high volatility" commercial real estate, past due assets, structured securities and equity holdings.

The Company's tier 1 leverage, tier 1 risk-based and total risk-based capital ratios were 8.62%, 12.31% and 13.66%, respectively, at December 31, 2014. The Company's capital ratios exceeded all applicable regulatory requirements at December 31, 2014. The Bank's tier 1 leverage, tier 1 risk-based and total risk-based capital ratios were 8.61%, 12.30% and 13.54%, respectively, at December 31, 2014. As of such date, each of these ratios exceeded the applicable regulatory guidelines for a well-capitalized institution, the highest regulatory capital category. In addition, management has modeled the potential impact of the Basel III capital rules on the Company and believes that, as of December 31, 2014, 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 were currently in effect.

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

USA Patriot Act. In response to the terrorist events of September 11, 2001, Congress enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act" or the "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 impact of the USA Patriot Act on financial institutions is significant and wide ranging. The Act contains sweeping anti-money laundering and financial transparency laws and imposes various regulations, 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 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.

Sarbanes-Oxley Act. The Sarbanes-Oxley Act of 2002 (the "**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 is the most far-reaching U.S. securities legislation enacted in decades, and generally applies to companies that file or are required to file periodic reports with the SEC under the Securities Exchange Act of 1934 ("**Exchange Act**"). The SEC has engaged in extensive rulemaking to implement the provisions of SOX.

SOX includes 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.

In response to SOX, the Board of Directors of the Company approved a series of actions to strengthen and improve its already strong corporate governance practices. Among other measures, the Board adopted a Code of Ethics for Senior Financial Officers and the Principal Executive Officer, adopted an Insider Trading Policy, adopted amendments to the Audit Committee Charter, appointed a Compensation Committee and a Corporate Governance/Nominating Committee and adopted charters for those committees.

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 2013 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.

More 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, 2014). 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.

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 various federal bank regulatory agencies have adopted substantially similar regulations that define the five capital categories identified by FDICIA. Such regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Under the regulations in effect during 2014 and prior periods, a "well capitalized" institution must have a Tier 1 capital ratio to risk weighted assets of at least 6%, a total capital ratio to risk weighted assets of at least 10% and a leverage ratio of at least 5% and not be subject to a capital directive order. An "adequately capitalized" institution must have a Tier 1 capital ratio to risk weighted assets of at least 4%, a total capital ratio to risk weighted assets of at least 8% and a leverage ratio of at least 4%, or 3% in some cases.

Effective January 1, 2015, the Basel III capital standards also revised the FDIC's current Prompt Corrective Action regulations by (i) introducing a common equity Tier 1 ratio requirement at each level (other than critically undercapitalized), with the required common equity Tier 1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category (other than critically undercapitalized), with the minimum Tier 1 capital ratio for well-capitalized status being 8.0% (as compared to the current 6.0%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The Basel III capital standards do not change the total risk-based capital requirement for any prompt corrective action category.

As noted above, the Dodd-Frank Act mandates similar capital requirements for bank and thrift holding companies on a consolidated basis to those applicable to insured depository institutions under the Prompt Corrective Action provisions of FDICIA.

As of December 31, 2014, the Bank was considered "well capitalized" under FDICIA's regulatory capital requirements.

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.

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 2014 was $374,703.

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. CDARS are considered brokered deposits for certain purposes under the Federal Deposit Insurance Act and FDIC regulations. As of December 31, 2014 the Company had $1,109,167 in CDARS deposits, all of which were exchanged deposits. The Company's Asset, Liability and Funds Management Policy limits the use of brokered deposits to 5% of total assets.

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 has adopted certain 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. The amendments generally require creditors to make a reasonable, good faith determination of a consumer's ability to repay a mortgage (the "ability-to-repay requirement"). The amendments provide that mortgages deemed to be so-called qualified mortgages ("**QMs**") that are "higher priced" are entitled to a rebuttable presumption that the creditor making the loan satisfied the ability-to-repay requirements and those mortgages deemed to be QMs that are not "higher priced" are entitled to a safe harbor from the ability-to-repay requirements.

Pursuant to the ability-to-repay requirement, creditors must consider eight minimum underwriting factors related to the terms of the mortgage and the income, employment, debt and credit history of the borrower. To be deemed a qualified mortgage, a mortgage cannot include certain features, such as a term exceeding 30 years, negative amortization, an interest-only period, or a balloon payment and must have been originated in compliance with certain underwriting criteria, in particular, a 43% debt-to-income cap. A QM cannot have points and fees that exceed 3% of the total loan amount, with different caps for mortgages under $100,000.

The amendments also provide for a temporary category of qualified mortgage that will phase out over time. The underwriting requirements for such mortgages have more flexible underwriting requirements – in particular, they are not required to meet the 43% debt-to-income cap so long as they satisfy the general product feature requirements for a qualified mortgage and also satisfy the underwriting requirements of, and are therefore, eligible to be purchased, guaranteed or insured by, Fannie Mae or Freddie Mac while they operate under Federal conservatorship or receivership, the Department of Housing and Urban Development (i.e., the Federal Housing Administration), the Department of Veteran Affairs, the Department of Agriculture or Rural Housing Services.

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, including but not necessarily limited to the sum of all finance charges and fees paid by the borrower. The borrower's claim also could impair the lender's ability to enforce the loan terms or foreclose on the real estate collateral. Because of these potential risks, a QM might have more value in the secondary mortgage market and might be easier for a lender to sell into the secondary mortgage market than a mortgage that is not a QM.

Although management of the Bank believes the majority of the Bank's mortgage originations will be QMs, 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 creates substantial 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 requirement will increase the Bank's compliance costs, and will potentially adversely affect the profitability of 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.

Other Consumer Protection and Community Reinvestment Laws The Bank is subject to a variety of federal and state laws intended to protect borrowers, depositors and other Bank customers and to promote lending to various sectors of the economy and population. These laws include, but are not limited to, the Federal Real Estate Settlement Procedures Act, the Federal Truth In Lending Act, the Federal and Vermont Equal Credit Opportunity Acts, the Federal Right to Financial Privacy Act, the Federal Truth in Savings Act, the Federal Electronic Funds Transfer Act, and the Federal Community Reinvestment Act ("**CRA**").

The 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. 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.

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, 2014 of approximately $2.7 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.

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 maintains thirteen branch offices in five Vermont counties:

Branch Location	Owned	Leased	CFSG Office[1]
Caledonia County			
St. Johnsbury (Railroad Street)	X		
St. Johnsbury (Route 5)		X[2]	
Lyndon (Memorial Drive)		X[3]	X
Lyndonville (Broad Street)	X		
Franklin County			
Enosburg Falls (Sampsonville Road)	X		
Lamoille County			
Morrisville (Route 15 West)		X	
Orleans County			
Barton (Church Street)	X[4]		
Derby Line (Main Street)	X		
Island Pond (Route 105)		X	
Newport (Main Street)	X		X
Troy (Route 101)	X		
Washington County			
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] 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 director of the Company and the Bank.

[3]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.

[4]This branch was leased prior to being purchased on March 19, 2015.

In addition to ATMs at the main office and all branch locations, the Company maintains ATMs or cash machines at ten 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 Annual Report to Shareholders for 2014 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, 2014, there were no purchases of the Company’s common stock by the Company or by any affiliated purchaser (as defined in SEC Rule 10b-18)

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 Annual Report to Shareholders for 2014 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 Annual Report to Shareholders for 2014, 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 Annual Report to Shareholders for 2014, 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, 2014, an evaluation was performed under the supervision and with the participation of management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures. Based on that evaluation, management concluded that its disclosure controls and procedures as of December 31, 2014 were effective in ensuring that material information required to be disclosed in the reports it files with the Commission under the Exchange Act was recorded, processed, summarized, and reported on a timely basis.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal controls over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. As of December 31, 2014, an evaluation was performed under the supervision and with the participation of management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's internal controls over financial reporting. Management assessed the Company's system of internal control over financial reporting as of December 31, 2014, 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, 2014, 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, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

<u>Item 9B. Other Information</u>

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 Annual Meeting of Shareholders to be held on May 12, 2015.

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 2014.

Item 11. Executive Compensation

The following is incorporated by reference to the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 12, 2015:

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 Annual Meeting of Shareholders to be held on May 12, 2015:

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 Annual Meeting of Shareholders to be held on May 12, 2015:

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 Annual Meeting of Shareholders to be held on May 12, 2015 under the caption "PROPOSAL 2 - 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 2-01of 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 Annual Report to Shareholders 2014, filed as Exhibit 13 to this report:

Consolidated Balance Sheets at December 31, 2014 and 2013
Consolidated Statements of Income for the years ended December 31, 2014 and 2013
Consolidated Statements of Comprehensive Income for the years ended December 31, 2014 and 2013
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2014 and 2013
Consolidated Statements of Cash Flows for the years ended December 31, 2014 and 2013
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 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 Annual Report to Shareholders of Community Bancorp. for 2014, 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 of the Company pursuant to section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31(ii) - Certification from the Chief 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 of the Company pursuant to section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32(ii) - Certification from the Chief 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, 2014

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, 2014 and 2013.

* 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.

Date: March 24, 2015

By: /s/ Stephen P. Marsh
Stephen P. Marsh, Chairman, President
and Chief Executive Officer

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

BY: /s/ Stephen P. Marsh
Stephen P. Marsh, Chairman,
President
and Chief Executive Officer
Date: March 24, 2015

BY: /s/ Louise M. Bonvechio
Louise M. Bonvechio, Treasurer
(Principal Financial Officer)
Date: March 24, 2015

BY: /s/ Candace A. Patenaude
Candace A. Patenaude
(Principal Accounting Officer)
Date: March 24, 2015

COMMUNITY BANCORP. DIRECTORS

/s/ Thomas E. Adams
Thomas E. Adams
Date: March 24, 2015

/s/ Kathryn M. Austin
Kathryn M. Austin
Date: March 24, 2015

/s/ David M. Bouffard
David M. Bouffard
Date: March 24, 2015

/s/ Charles W. Bucknam, Jr.
Charles W. Buckman, Jr.
Date: March 24, 2015

/s/ Aminta K. Conant
Aminta K. Conant
Date: March 24, 2015

/s/ Jacques R. Couture
Jacques R. Couture
Date: March 24, 2015

/s/ Rosemary M. Lalime
Rosemary M. Lalime
Date: March 24, 2015

/s/ Stephen P. Marsh
Stephen P. Marsh
Date: March 24, 2015

/s/ Dorothy R. Mitchell
Dorothy R. Mitchell
Date: March 24, 2015

/s/ Peter J. Murphy
Peter J. Murphy
Date: March 24, 2015

/s/ Frederic Oeschger
Date: March 24, 2015

Frederic Oeschger

/s/James G. Wheeler, Jr. Date: March 24, 2015
James G. Wheeler, Jr.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2014 and 2013 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, 2014 and 2013, 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.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
March 24, 2015
Vermont Registration No. 92-0000278

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

Community Bancorp. and Subsidiary
Consolidated Balance Sheets

	December 31, 2014	December 31, 2013
Assets		
Cash and due from banks	$ 11,935,993	$ 11,841,161
Federal funds sold and overnight deposits	13,026,181	6,488,828
Total cash and cash equivalents	24,962,174	18,329,989
Securities held-to-maturity (fair value $42,234,000 at December 31, 2014 and $38,370,000 at December 31, 2013)	41,810,945	37,936,911
Securities available-for-sale	32,946,894	35,188,602
Restricted equity securities, at cost	3,332,450	3,632,850
Loans held-for-sale	26,250	209,500
Loans	447,804,955	439,908,926
Allowance for loan losses	(4,905,874)	(4,854,915)
Deferred net loan costs	303,394	300,429
Net loans	443,202,475	435,354,440
Bank premises and equipment, net	11,488,948	11,723,468
Accrued interest receivable	1,698,448	1,778,305
Bank owned life insurance (BOLI)	4,413,574	4,303,307
Core deposit intangible	818,081	1,090,781
Goodwill	11,574,269	11,574,269
Other real estate owned (OREO)	1,238,320	1,105,525
Other assets	9,198,216	11,439,457
Total assets	$586,711,044	$573,667,404
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Demand, non-interest bearing	$ 88,758,469	$ 82,156,154
Interest-bearing transaction accounts	125,388,872	126,578,052
Money market funds	88,820,124	81,960,677
Savings	77,029,722	69,906,147
Time deposits, $100,000 and over	45,284,645	46,928,443
Other time deposits	67,737,631	74,023,096
Total deposits	493,019,463	481,552,569
Repurchase agreements	28,542,961	29,644,615
Capital lease obligations	639,544	711,042
Junior subordinated debentures	12,887,000	12,887,000
Accrued interest and other liabilities	2,626,874	2,736,201
Total liabilities	537,715,842	527,531,427
Shareholders' Equity		
Preferred stock, 1,000,000 shares authorized, 25 shares issuedand outstanding ($100,000 liquidation value)	2,500,000	2,500,000
Common stock - $2.50 par value; 15,000,000 shares authorized, and 5,142,475 and5,078,707 shares issued at December 31, 2014 and 2013, respectively (including 16,642 and 13,448 shares issued February 1, 2015 and 2014, respectively)	12,856,188	12,696,768
Additional paid-in capital	29,359,300	28,612,308
Retained earnings	6,909,934	4,997,144
Accumulated other comprehensive loss	(7,443)	(47,466)
Less: treasury stock, at cost; 210,101 shares at December 31, 2014 and 2013	(2,622,777)	(2,622,777)
Total shareholders' equity	48,995,202	46,135,977
Total liabilities and shareholders' equity	$586,711,044	$573,667,404

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

Community Bancorp. and Subsidiary
Consolidated Statements of Income

	Years Ended December 31, 2014	2013
Interest income		
Interest and fees on loans	$ 21,423,462	$ 21,226,505
Interest on debt securities		
Taxable	343,554	313,755
Tax-exempt	1,079,093	1,027,054
Dividends	90,784	59,823
Interest on federal funds sold and overnight deposits	13,384	12,645
Total interest income	22,950,277	22,639,782
Interest expense		
Interest on deposits	2,515,078	2,839,036
Interest on federal funds purchased and other borrowed funds	76,250	81,723
Interest on repurchase agreements	62,405	111,437
Interest on junior subordinated debentures	402,011	409,938
Total interest expense	3,055,744	3,442,134
Net interest income	19,894,533	19,197,648
Provision for loan losses	540,000	670,000
Net interest income after provision for loan losses	19,354,533	18,527,648
Non-interest income		
Service fees	2,624,792	2,572,031
Income from sold loans	977,702	1,624,880
Other income from loans	593,093	725,922
Net realized gain (loss) on sale of securities available-for-sale	27,838	(5,521)
Other income	918,326	1,065,256
Total non-interest income	5,141,751	5,982,568
Non-interest expense		
Salaries and wages	6,475,000	6,395,042
Employee benefits	2,257,354	2,320,280
Occupancy expenses, net	2,466,714	2,438,965
Other expenses	6,830,744	7,138,187
Total non-interest expense	18,029,812	18,292,474
Income before income taxes	6,466,472	6,217,742
Income tax expense	1,341,564	1,131,087
Net income	$ 5,124,908	$ 5,086,655
Earnings per common share	$ 1.03	$ 1.03
Weighted average number of common shares used in computing earnings per share	4,897,281	4,838,185
Dividends declared per common share	$ 0.64	$ 0.56
Book value per common share outstanding at December 31	$ 9.43	$ 8.96

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,	
	2014	2013
Net income	$ 5,124,908	$ 5,086,655
Other comprehensive income (loss), net of tax:		
Unrealized holding gain (loss) on available-for-sale securities arising during the period	88,478	(337,678)
Reclassification adjustment for (gain) loss realized in income	(27,838)	5,521
Net change in unrealized gain (loss)	60,640	(332,157)
Tax effect	(20,617)	112,933
Other comprehensive income (loss), net of tax	40,023	(219,224)
Total comprehensive income	$ 5,164,931	$ 4,867,431

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, 2014 and 2013

	Common stock		Preferred stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total shareholders' equity
	Shares	Amount	Shares	Amount					
Balances, December 31, 2012	4,812,925	$12,557,565	25	$2,500,000	$28,047,829	$ 2,698,200	$ 171,758	$(2,622,777)	$43,352,575
Comprehensive income									
Net income	0	0	0	0	0	5,086,655	0	0	5,086,655
Other comprehensive loss	0	0	0	0	0	0	(219,224)	0	(219,224)
Total comprehensive income									4,867,431
Cash dividends declared - common stock	0	0	0	0	0	(2,706,461)	0	0	(2,706,461)
Cash dividends declared - preferred stock	0	0	0	0	0	(81,250)	0	0	(81,250)
Issuance of common stock	55,681	139,203	0	0	564,479	0	0	0	703,682
Balances, December 31, 2013	4,868,606	12,696,768	25	2,500,000	28,612,308	4,997,144	(47,466)	(2,622,777)	46,135,977
Comprehensive income									
Net income	0	0	0	0	0	5,124,908	0	0	5,124,908
Other comprehensive income	0	0	0	0	0	0	40,023	0	40,023
Total comprehensive income									5,164,931
Cash dividends declared - common stock	0	0	0	0	0	(3,130,868)	0	0	(3,130,868)
Cash dividends declared - preferred stock	0	0	0	0	0	(81,250)	0	0	(81,250)
Issuance of common stock	63,768	159,420	0	0	746,992	0	0	0	906,412
Balances, December 31, 2014	4,932,374	$12,856,188	25	$2,500,000	$29,359,300	$ 6,909,934	$ (7,443)	$(2,622,777)	$48,995,202

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

Community Bancorp. and Subsidiary
Consolidated Statements of Cash Flows

	Years Ended December 31, 2014	2013
Cash Flows from Operating Activities:		
Net income	$ 5,124,908	$ 5,086,655
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, bank premises and equipment	969,691	1,018,806
Provision for loan losses	540,000	670,000
Deferred income tax	755,139	(402,748)
(Gain) loss on sale of securities available-for-sale	(27,838)	5,521
Gain on sale of loans	(460,505)	(778,203)
Loss (gain) on sale of bank premises and equipment	6,610	(12,077)
Loss (gain) on sale of OREO	1,840	(9,990)
Gain on Trust LLC	(272,821)	(287,251)
Amortization of bond premium, net	239,580	427,496
Write down of OREO	10,000	44,500
Proceeds from sales of loans held for sale	21,346,042	29,755,130
Originations of loans held for sale	(20,702,287)	(27,684,721)
Increase in taxes payable	784,222	1,432,445
Decrease (increase) in interest receivable	79,857	(27,220)
Amortization of FDIC insurance assessment	0	775,595
Decrease (increase) in mortgage servicing rights	17,114	(319,456)
Decrease in other assets	345,847	54,026
Increase in cash surrender value of BOLI	(110,267)	(115,663)
Amortization of core deposit intangible	272,700	272,695
Amortization of limited partnerships	591,122	575,232
Increase in deferred net loan costs	(2,965)	(130,928)
Decrease in interest payable	(11,632)	(17,193)
(Decrease) increase in accrued expenses	(36,802)	107,476
(Decrease) increase in other liabilities	(116,873)	66,951
Net cash provided by operating activities	9,342,682	10,507,078
Cash Flows from Investing Activities:		
Investments - held-to-maturity		
Maturities and pay downs	41,212,607	41,971,398
Purchases	(45,086,640)	(38,042,754)
Investments - available-for-sale		
Maturities, calls, pay downs and sales	19,177,627	15,185,380
Purchases	(17,745,980)	(10,253,097)
Decrease Pass Through Securities	658,959	0
Proceeds from redemption of restricted equity securities	300,400	388,500
Decrease in limited partnership contributions payable	0	(527,000)
Increase in loans, net	(8,873,368)	(25,583,827)
Capital expenditures net of proceeds from sales of bank premisesand equipment	(741,781)	(486,877)
Proceeds from sales of OREO	288,865	1,596,590
Recoveries of loans charged off	54,798	261,264
Net cash used in investing activities	(10,754,513)	(15,490,423)

	2014	2013
Cash Flows from Financing Activities:		
Net increase in demand and interest-bearing transaction accounts	5,413,135	6,953,944
Net increase (decrease) in money market and savings accounts	13,983,022	(323,709)
Net decrease in time deposits	(7,929,263)	(574,525)
Net decrease in repurchase agreements	(1,101,654)	(4,504,993)
Proceeds from long-term borrowings	6,000,000	0
Repayments on long-term borrowings	(6,000,000)	(6,000,000)
Decrease in capital lease obligations	(71,498)	(63,659)
Dividends paid on preferred stock	(81,250)	(81,250)
Dividends paid on common stock	(2,168,476)	(1,974,314)
Net cash provided by (used in) financing activities	8,044,016	(6,568,506)
Net increase (decrease) in cash and cash equivalents	6,632,185	(11,551,851)
Cash and cash equivalents:		
Beginning	18,329,989	29,881,840
Ending	$ 24,962,174	$ 18,329,989
Supplemental Schedule of Cash Paid (Received) During the Period:		
Interest	$ 3,067,376	$ 3,459,327
Income tax refund	$ (345,087)	$ 0
Supplemental Schedule of Noncash Investing and Financing Activities:		
Change in unrealized gain (loss) on securities available-for-sale	$ 60,640	$ (332,157)
Loans transferred to OREO	$ 433,500	$ 1,661,920
Common Shares Dividends Paid:		
Dividends declared	$ 3,130,868	$ 2,706,461
Increase in dividends payable attributable to dividends declared	(55,980)	(28,465)
Dividends reinvested	(906,412)	(703,682)
	$ 2,168,476	$ 1,974,314

The accompanying notes are an integral part of these 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 writedowns 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 writedowns 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 market value of the net assets recorded as goodwill and evaluated annually for impairment. The determination of the fair value of the acquired LyndonBank assets and liabilities requires the use of numerous assumptions, including discount rates, changes in which could significantly affect fair values.

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. The investments in limited partnerships 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 and five year look back periods. The highest loss ratio among these look-back periods is then applied against the respective segment. Management uses an average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels of and trends in delinquencies and non-performing loans, levels of and trends in loan risk groups, trends in volumes and terms of loans, effects of any changes in loan related policies, experience, ability and the depth of management, documentation and credit data exception levels, national and local economic trends, external factors such as competition and regulation and lastly, concentrations of credit risk in a variety of areas, including portfolio product mix, the level of loans to individual borrowers and their related interests, loans to industry segments, and the geographic distribution of commercial real estate loans. This evaluation is inherently subjective as it requires estimates that are susceptible to revision as more information becomes available.

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

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

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

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

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

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

<u>Specific component</u>

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.

<u>Unallocated component</u>

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.

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. Under recent and current market conditions, and 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 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 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 were payable at a fixed rate of 7.50% per annum for the first five years, and beginning in December 2012, are now 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. The first dividend using the variable rate calculation was payable on March 31, 2013 with a variable rate of 3.25% and that rate remained unchanged throughout 2013 and 2014.

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 any stock dividends declared) and reduced for shares held in treasury.

The following table illustrates the calculation for the years ended December 31, as adjusted for the cash dividend declared on the preferred stock:

Years Ended December 31,	2014	2013
Net income, as reported	$ 5,124,908	$ 5,086,655
Less: dividends to preferred shareholders	81,250	81,250
Net income available to common shareholders	$ 5,043,658	$ 5,005,405
Weighted average number of common shares used in calculating earnings per share	4,897,281	4,838,185
Earnings per common share	$ 1.03	$ 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.

Reclassification

Certain amounts in the 2013 financial statements have been reclassified to conform to the current year presentation.

Impact of recently issued accounting standards

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

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

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The ASU was issued to clarify the principles for recognizing revenue and to develop a common revenue standard. The ASU is effective for annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2016. The Company is currently evaluating the potential impact of the ASU on its consolidated financial statements.

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

In August 2014, the FASB issued ASU No. 2014-14, *Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*. The ASU was issued to provide specific guidance on how to classify or measure foreclosed mortgage loans that are government guaranteed. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The ASU is not expected to have a material effect on the Company's 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, 2014				
U.S. Government sponsored enterprise (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 mortgage-backed securities (Agency MBS)	9,031,661	19,472	12,326	9,038,807
	$ 32,958,173	$ 73,336	$ 84,615	$ 32,946,894
December 31, 2013				
U.S. GSE debt securities	$ 29,220,333	$ 114,102	$ 195,521	$ 29,138,914
U.S. Government securities	6,040,188	10,955	1,455	6,049,688
	$ 35,260,521	$ 125,057	$ 196,976	$ 35,188,602

Securities HTM	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value*
December 31, 2014				
States and political subdivisions	$ 41,810,945	$ 423,055	$ 0	$ 42,234,000
December 31, 2013				
States and political subdivisions	$ 37,936,911	$ 433,089	$ 0	$ 38,370,000

*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 $32,958,173 and $33,275,039 and a fair value of $32,946,894 and $33,235,708 at December 31, 2014 and 2013, 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 $10,978,026 in 2014 and $9,095,380 in 2013 with gains of $39,144 in 2014 compared to $2,566 in 2013 and losses of $11,306 and $8,087 in 2014 and 2013, 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, 2014 were as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 5,027,864	$ 5,034,248
Due from one to five years	18,898,648	18,873,839
Agency MBS	9,031,661	9,038,807
	$ 32,958,173	$ 32,946,894

The scheduled maturities of debt securities HTM at December 31, 2014 were as follows:

	Amortized Cost	Fair Value*
Due in one year or less	$ 28,158,718	$ 28,159,000
Due from one to five years	4,637,913	4,744,000
Due from five to ten years	2,305,353	2,411,000
Due after ten years	6,708,961	6,920,000
	$ 41,810,945	$ 42,234,000

*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.

	Less than 12 months		12 months or more		Totals	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2014						
U.S. GSE debt securities	$ 6,023,946	$ 8,548	$ 5,186,258	$ 63,741	$ 11,210,204	$ 72,289
Agency MBS	3,206,389	12,326	0	0	3,206,389	12,326
	$ 9,230,335	$ 20,874	$ 5,186,258	$ 63,741	$ 14,416,593	$ 84,615
December 31, 2013						
U.S. GSE debt securities	$ 11,094,830	$ 194,188	$ 1,004,235	$ 1,333	$ 12,099,065	$ 195,521
U.S. Government securities	1,034,336	1,455	0	0	1,034,336	1,455
	$ 12,129,166	$ 195,643	$ 1,004,235	$ 1,333	$ 13,133,401	$ 196,976

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

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions, or adverse developments relating to the issuer, warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than 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, 2014 and 2013.

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, 2014 and 2013, the Company's investment in FHLBB stock was $2,744,300 and $3,044,700, 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.

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, 2014. 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:

	2014	2013
Commercial & industrial	$ 64,390,220	$ 55,619,285
Commercial real estate	166,611,830	156,935,803
Residential real estate - 1st lien	163,966,124	172,847,074
Residential real estate - Jr lien	44,801,483	45,687,405
Consumer	8,035,298	8,819,359
	447,804,955	439,908,926
Deduct (add):		
Allowance for loan losses	4,905,874	4,854,915
Deferred net loan costs	(303,394)	(300,429)
	4,602,480	4,554,486
Net Loans	$443,202,475	$435,354,440

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

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

December 31, 2013	30-89 Days	90 Days or More	Total Past Due	Current	Total Loans	Non-Accrual Loans	90 Days or More and Accruing
Commercial & industrial	$ 1,060,971	$ 310,669	$ 1,371,640	$ 54,247,645	$ 55,619,285	$ 527,105	$ 21,902
Commercial real estate	713,160	215,507	928,667	156,007,136	156,935,803	1,403,541	5,313
Residential real estate -1st lien	5,184,457	1,655,950	6,840,407	166,006,667	172,847,074	2,203,106	817,109
Residential real estate - Jr lien	533,134	289,169	822,303	44,865,102	45,687,405	593,125	56,040
Consumer	136,922	7,784	144,706	8,674,653	8,819,359	0	7,784
Total	$ 7,628,644	$ 2,479,079	$ 10,107,723	$429,801,203	$439,908,926	$ 4,726,877	$ 908,148

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

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

Year ended December 31, 2014

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	$ 516,382	$ 2,143,398	$ 1,452,184	$ 366,471	$ 105,279	$ 271,201	$ 4,854,915
Charge-offs	(153,329)	(167,841)	(58,904)	(51,389)	(112,376)	0	(543,839)
Recoveries	6,249	0	14,543	240	33,766	0	54,798
Provision (credit)	277,417	336,379	(137,057)	5,777	92,150	(34,666)	540,000
Ending balance	$ 646,719	$ 2,311,936	$ 1,270,766	$ 321,099	$ 118,819	$ 236,535	$ 4,905,874
Allowance for loan losses							
Evaluated for impairment							
Individually	$ 0	$ 34,400	$ 43,400	$ 0	$ 0	$ 0	$ 77,800
Collectively	646,719	2,277,536	1,227,366	321,099	118,819	236,535	4,828,074
Total	$ 646,719	$ 2,311,936	$ 1,270,766	$ 321,099	$ 118,819	$ 236,535	$ 4,905,874
Loans evaluated for impairment							
Individually	$ 390,605	$ 1,930,993	$ 721,241	$ 328,889	$ 0		$ 3,371,728
Collectively	63,999,615	164,680,837	163,244,883	44,472,594	8,035,298		444,433,227
Total	$ 64,390,220	$166,611,830	$163,966,124	$ 44,801,483	$ 8,035,298		$447,804,955

Year ended December 31, 2013

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

Impaired loans by portfolio segment were as follows:

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

	As of December 31, 2013			2013
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded				
Commercial & industrial	$ 314,510	$ 363,618	$ 0	$ 339,519
Commercial real estate	944,845	1,021,143	0	1,325,504
Residential real estate - 1st lien	1,354,432	1,654,023	0	1,088,631
Residential real estate - Jr lien	164,137	228,134	0	64,606
	$ 2,777,924	$ 3,266,918	$ 0	$ 2,818,260
With an allowance recorded				
Commercial & industrial	$ 59,186	$ 59,186	$ 27,500	$ 11,837
Commercial real estate	441,632	446,963	147,700	272,174
Residential real estate - 1st lien	434,361	474,496	99,700	515,685
Residential real estate - Jr lien	395,113	429,167	76,500	380,855
	$ 1,330,292	$ 1,409,812	$ 351,400	$ 1,180,551
Total	$ 4,108,216	$ 4,676,730	$ 351,400	$ 3,998,811

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

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

<u>Credit Quality Grouping</u>

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, 2014

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

As of December 31, 2013

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

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. The 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, 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

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

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

Year ended December 31, 2014

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

Year ended December 31, 2013

	Number of Contracts	Recorded Investment
Residential real estate - 1st lien	2	$ 213,342

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, 2013, the specific allowance related to TDRs was approximately $5,800. There was no specific allowance related to TDRs at December 31, 2014.

At December 31, 2014, the Company did not have any commitments to lend additional funds to borrowers with loans classified as TDRs.

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 $195,860,406 and $193,751,501 at December 31, 2014 and 2013, respectively. Net gain realized on the sale of loans was $460,505 and $778,203 for the years ended December 31, 2014 and 2013, respectively.

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

	2014	2013
Balance at beginning of year	$ 1,329,079	$ 1,009,623
Mortgage servicing rights capitalized	209,713	274,253
Mortgage servicing rights amortized	(250,955)	(317,865)
Change in valuation allowance	24,128	363,068
Balance at end of year	$ 1,311,965	$ 1,329,079

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:

	2014	2013
Buildings and improvements	$ 10,927,643	$ 10,896,563
Land and land improvements	2,408,921	2,408,921
Furniture and equipment	8,443,668	7,797,907
Leasehold improvements	1,319,591	1,316,386
Capital lease	976,907	976,907
Other prepaid assets	54,261	28,661
	24,130,991	23,425,345
Less accumulated depreciation and amortization	(12,642,043)	(11,701,877)
	$ 11,488,948	$ 11,723,468

The Company is obligated under non-cancelable operating leases for bank premises expiring in various years through 2018, with options to renew. Minimum future rental payments for these leases with original terms in excess of one year as of December 31, 2014 for each of the next four years and in aggregate are:

2015	$ 129,845
2016	61,817
2017	6,817
2018	6,817
	$ 205,296

Total rental expense amounted to $237,524 and $231,575 for the years ended December 31, 2014 and 2013, 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, 2014:

2015	$ 129,755
2016	129,755
2017	133,255
2018	138,155
2019	138,155
Subsequent to 2019	144,345
Total minimum lease payments	813,420
Less amount representing interest	(173,876)
Present value of net minimum lease payments	$ 639,544

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 $3,342,919 and $3,070,219 as of December 31, 2014 and 2013, respectively.

The amortization expense related to the remaining core deposit intangible at December 31, 2014 is expected to be as follows:

2015	$ 272,695
2016	272,695
2017	272,691
Total remaining core deposit intangible expense	$ 818,081

Management evaluated goodwill for impairment at December 31, 2014 and 2013 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 and $170,750 for the years ended December 31, 2014 and 2013, respectively, with an amortization expense of $147,290 and $101,390, respectively. The carrying value of the NMTC equity investment was $536,400 and $683,690 at December 31, 2014 and 2013, 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 $512,526 and $531,973 for the years ended December 31, 2014 and 2013, respectively. Expenses related to amortization of the investments in the limited partnerships are recognized as a component of other expenses, and were $443,832 and $473,842 for 2014 and 2013, respectively. The carrying values of the limited partnership investments were $1,890,877 and $2,334,709 at December 31, 2014 and 2013, 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 $1,226,733 as of December 31, 2014 and $953,912 as of December 31, 2013. The Company recognized income of $272,821 for 2014 and income of $287,251 for 2013 through CFSG Partners from the operations of CFSG.

Note 8. Deposits

The following is a maturity distribution of time deposits at December 31, 2014:

2015	$ 73,044,129
2016	18,486,712
2017	10,367,425
2018	4,315,534
2019	6,808,476
Total time certificates of deposit	$113,022,276

Total deposits in excess of the FDIC insurance level amounted to $147,941,773 as of December 31, 2014.

Note 9. Borrowed Funds

There were no outstanding borrowings for the Company as of December 31, 2014 and 2013.

The Company maintained a $500,000 IDEAL Way Line of Credit with the FHLBB at December 31, 2014 and 2013, 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.

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 $105,276,788 and $114,886,791 as of December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the Company's potential borrowing capacity under this arrangement was $67,136,178 and $72,556,030, respectively, reduced by 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, 2014, $34,500,000 in FHLBB letters of credit was utilized as collateral for these deposits compared to $20,800,000 at December 31, 2013. Total fees paid by the Company in connection with issuance of these letters of credit were $35,863 for 2014 and $43,654 for 2013.

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 $78,580,859 and $74,929,216 as of December 31, 2014 and 2013, 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 75 basis points as of December 31, 2014. As of December 31, 2014 and 2013, 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, 2014, compared to an available line with one correspondent bank totaling $3,500,000 at December 31, 2013.

Note 10. Junior Subordinated Debentures

As of December 31, 2014 and 2013, the Company had outstanding $12,887,000 principal amount of Junior Subordinated Debentures due in 2037 (the “Debentures”). The Debentures bore a fixed annual interest rate of 7.56% through December 15, 2012, and thereafter a floating rate equal to the 3-month London Interbank Offered Rate (LIBOR) plus 2.85%. During 2014, the floating rate approximated 3.08% per quarter compared to 3.13% for 2013. 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 2014 and 2013 was $402,011 and $409,938, 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 $28,542,961 and $29,644,615 as of December 31, 2014 and 2013, respectively. These agreements were collateralized by U.S. GSE securities and U.S. Treasury notes with a book value of $32,958,173 and $33,275,039 and a fair value of $32,946,894 and $33,235,708 at December 31, 2014 and 2013, respectively.

The average daily balance of these repurchase agreements was $25,263,130 and $28,537,504 during 2014 and 2013, respectively. The maximum borrowings outstanding on these agreements at any month-end reporting period of the Company were $28,542,961 and $34,539,586 during 2014 and 2013, respectively. These repurchase agreements mature daily and carried a weighted average interest rate of 0.25% during 2014 and 0.39% during 2013.

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:

	2014	2013
Currently paid or payable	$ 586,425	$ 1,533,835
Deferred tax expense (benefit)	755,139	(402,748)
Total income tax expense	$ 1,341,564	$ 1,131,087

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:

	2014	2013
Computed expense at statutory rates	$ 2,148,522	$ 2,079,560
Tax exempt interest & BOLI	(404,382)	(388,524)
Disallowed interest	13,306	14,661
Partnership tax credits	(647,760)	(644,668)
New markets tax credit amortization expense	147,290	101,390
Other	84,588	(31,332)
	$ 1,341,564	$ 1,131,087

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

	2014	2013
Depreciation	$ (5,039)	$ (18,120)
Mortgage servicing rights	(5,819)	108,616
Deferred compensation	45,324	(18,090)
Bad debts	(17,326)	(254,234)
Non-accrual loan interest	18,766	(5,590)
Limited partnership amortization	44,566	27,529
Investment in Partners	(7,189)	43,864
Core deposit intangible	(92,719)	(92,716)
Loan fair value	(7,953)	(7,165)
OREO write down	5,100	(15,130)
Tax credit carryovers	774,961	(170,865)
Other	2,467	(847)
Deferred tax expense (benefit)	$ 755,139	$ (402,748)

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

	2014	2013
Components of the deferred tax asset:		
Bad debts	$ 1,667,997	$ 1,650,671
Non-accrual loan interest	13,731	32,497
Deferred compensation	217,803	263,127
Limited partnerships	12,646	57,212
Contingent liability - MPF program	45,042	45,042
OREO write down	10,030	15,130
Capital lease	73,141	73,424
Tax and rehab credit carryforwards	0	774,961
Unrealized loss on securities available-for-sale	3,834	24,452
Other	26,553	28,737
Total deferred tax asset	2,070,777	2,965,253
Components of the deferred tax liability:		
Depreciation	237,448	242,487
Mortgage servicing rights	446,068	451,887
Investment in Partners	81,666	88,855
Core deposit intangible	278,147	370,866
Fair value adjustment on acquired loans	39,395	47,348
Total deferred tax liability	1,082,724	1,201,443
Net deferred tax asset	$ 988,053	$ 1,763,810

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, 2011 through 2013.

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 $566,732 and $551,577 for 2014 and 2013, 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 creditors of the Company with respect to these benefits. The benefits accrued under these plans were $179,080 and $399,379 at December 31, 2014 and 2013, respectively. Expenses associated with these plans were $20,214 and $26,996 for the years ended December 31, 2014 and 2013, respectively. One of the participants retired in 2014 causing a substantial distribution from this plan, resulting in the decrease in accrued benefits from 2013 to 2014.

The Company also maintains a supplemental employee retirement plan ("SERP") for certain key employees of the Company. Benefits accrued under this plan were $461,519 and $374,523 at December 31, 2014 and 2013, respectively. The expense associated with this plan was $86,996 and $67,708 for the years ended December 31, 2014 and 2013, respectively.

The expense associated with this plan was $86,996 and $67,708 for the years ended December 31, 2014 and 2013, 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	
	2014	**2013**
Unused portions of home equity lines of credit	$ 23,519,696	$ 21,961,527
Other commitments to extend credit	59,558,700	41,230,202
Residential construction lines of credit	2,308,167	2,010,417
Commercial real estate and other construction lines of credit	15,894,462	15,592,702
Standby letters of credit and commercial letters of credit	1,714,382	1,655,469
Recourse on sale of credit card portfolio	265,650	276,650
MPF credit enhancement obligation, net (see Note 16)	1,007,250	1,543,211

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, 2014 and 2013, the Company had binding loan commitments to sell residential mortgages at fixed rates totaling $806,543 and $373,500, 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 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 trust preferred securities financing completed on October 31, 2007, the Company guaranteed the payment obligations under the capital securities of its subsidiary, CMTV Statutory Trust I. 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 amount of $12,887,000 at December 31, 2014 and 2013. Of this amount, $12,500,000 represents external financing through the issuance to investors of Capital Securities by CMTV Statutory Trust I (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, 2014 and 2013, the Company had $51,157,934 and $50,925,686, respectively, in loans sold through the MPF program and on which the Company had a CEO. As of December 31, 2014, the notional amount of the maximum CEO related to this program was $1,139,726 compared to $1,675,687 as of December 31, 2013. The Company had accrued a contingent liability for this CEO in the amount of $132,476 as of December 31, 2014 and 2013, 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

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties), all of which have been, in the opinion of management, made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others and which do not represent more than the normal risk of collectibility, or present other unfavorable features.

Aggregate loan transactions with related parties as of December 31 were as follows:

	2014	2013
Balance, beginning of year	$ 7,529,947	$ 7,063,713
Loans - New Principal Officers/Directors	1,039,792	0
New loans to existing Officers/Directors	22,763,371	7,619,387
Repayment*	(22,739,837)	(7,153,153)
Balance, end of year	$ 8,593,273	$ 7,529,947

*Includes loans sold to the secondary market.

Total deposits with related parties were $6,873,907 and $5,382,564 at December 31, 2014 and 2013, 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, 2014 and 2013 was $40,418 and $37,062, 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, 2014 and 2013 was $42,556 and $43,292, respectively, for the 401(k) plan and $2,479 and $2,600, respectively, for the SERP.

Note 19. Restrictions on Cash and Due From Banks

Due to a change in FRBB policies that took effect in 2012, the Company was not required to maintain reserve balances in cash at the FRBB due to its vault cash balances at December 31, 2014 and 2013.

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, 2014 and 2013. 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.

Under current regulations, the Company and the Bank are required to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 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 Tier 1 capital. The Company is allowed to include in 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, 2014, the Company and the Bank met all capital adequacy requirements to which they are currently subject.

As of December 31, 2014 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**
			(Dollars in Thousands)			
December 31, 2014						
Total capital (to risk-weighted assets)						
Company	$ 54,447	13.66%	$ 31,897	8.00%	N/A	N/A
Bank	$ 53,902	13.54%	$ 31,847	8.00%	$ 39,809	10.00%
Tier I capital (to 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%
Tier I capital (to average assets)						
Company	$ 49,071	8.62%	$ 22,768	4.00%	N/A	N/A
Bank	$ 48,952	8.61%	$ 22,745	4.00%	$ 28,431	5.00%
December 31, 2013:						
Total capital (to risk-weighted assets)						
Company	$ 51,304	13.09%	$ 31,365	8.00%	N/A	N/A
Bank	$ 50,765	12.97%	$ 31,314	8.00%	$ 39,143	10.00%
Tier I capital (to risk-weighted assets)						
Company	$ 45,027	11.48%	$ 15,682	4.00%	N/A	N/A
Bank	$ 45,873	11.72%	$ 15,657	4.00%	$ 23,486	6.00%
Tier I capital (to average assets)						
Company	$ 45,027	8.04%	$ 22,409	4.00%	N/A	N/A
Bank	$ 45,873	8.20%	$ 22,386	4.00%	$ 27,983	5.00%

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 Office of the Comptroller of the Currency (“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 nonrecurring 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, and impaired loans, are recorded at fair value on a nonrecurring 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 and agency mortgage-backed 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. As such the Company classifies these securities as Level 2.

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

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

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

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

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

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

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

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

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

FASB 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:

December 31, 2014	**Level 1**	**Level 2**
Assets: (market approach)		
U.S. GSE debt securities	$ 0	$ 19,907,150
U.S. Government securities	4,000,937	0
Agency MBS	0	9,038,807
	$ 4,000,937	$ 28,945,957
December 31, 2013		
Assets: (market approach)		
U.S. GSE debt securities	$ 0	$ 29,138,914
U.S. Government securities	6,049,688	0
	$ 6,049,688	$ 29,138,914

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 balance sheet at the dates presented, segregated by fair value hierarchy, are summarized below:

	Level 2
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
December 31, 2013	
Assets: (market approach)	
Residential mortgage servicing rights	$ 1,329,079
Impaired loans, net of related allowance	978,892
OREO	1,105,525

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, 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

December 31, 2013	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total
			(Dollars in Thousands)		
Financial assets:					
Cash and cash equivalents	$ 18,330	$ 18,330	$ 0	$ 0	$ 18,330
Securities held-to-maturity	37,937	0	38,370	0	38,370
Securities available-for-sale	35,189	6,050	29,139	0	35,189
Restricted equity securities	3,633	0	3,633	0	3,633
Loans and loans held-for-sale					
Commercial & industrial	55,069	0	346	56,035	56,381
Commercial real estate	154,696	0	1,239	157,843	159,082
Residential real estate - 1st lien	171,498	0	1,689	174,776	176,465
Residential real estate - Jr lien	45,292	0	483	45,785	46,268
Consumer	8,708	0	0	9,130	9,130
Mortgage servicing rights	1,329	0	1,608	0	1,608
Accrued interest receivable	1,778	0	1,778	0	1,778
Financial liabilities:					
Deposits					
Other deposits	463,160	0	464,220	0	464,220
Brokered deposits	18,393	0	18,401	0	18,401
Repurchase agreements	29,645	0	29,645	0	29,645
Capital lease obligations	711	0	711	0	711
Subordinated debentures	12,887	0	12,880	0	12,880
Accrued interest payable	75	0	75	0	75

The estimated fair values of commitments to extend credit and letters of credit were immaterial at December 31, 2014 and 2013.

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) **Condensed Balance Sheets**	**December 31, 2014**	**December 31, 2013**
Assets		
Cash	$ 479,812	$ 410,075
Investment in subsidiary - Community National Bank	61,337,172	58,490,098
Investment in Capital Trust	387,000	387,000
Income taxes receivable	233,952	235,559
Total assets	$ 62,437,936	$ 59,522,732
Liabilities and Shareholders' Equity		
Liabilities		
Junior subordinated debentures	$ 12,887,000	$ 12,887,000
Dividends payable	555,734	499,755
Total liabilities	13,442,734	13,386,755
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 5,142,475 and5,078,707 shares issued at December 31, 2014 and 2013, respectively (including 16,642 and 13,448 shares issued February 1, 2015 and 2014, respectively)	12,856,188	12,696,768
Additional paid-in capital	29,359,300	28,612,308
Retained earnings	6,909,934	4,997,144
Accumulated other comprehensive loss	(7,443)	(47,466)
Less: treasury stock, at cost; 210,101 shares at December 31, 2014 and 2013	(2,622,777)	(2,622,777)
Total shareholders' equity	48,995,202	46,135,977
Total liabilities and shareholders' equity	$ 62,437,936	$ 59,522,732

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, 2014**	**2013**
Income		
Bank subsidiary distributions	$ 2,772,000	$ 2,485,000
Dividends on Capital Trust	12,072	12,310
Total income	2,784,072	2,497,310
Expense		
Interest on junior subordinated debentures	402,011	409,938
Administrative and other	298,157	295,191
Total expense	700,168	705,129
Income before applicable income tax benefit and equity in undistributed net income of subsidiary	2,083,904	1,792,181
Income tax benefit	233,952	235,559

Income before equity in undistributed net income of subsidiary	2,317,856	2,027,740
Equity in undistributed net income of subsidiary	2,807,052	3,058,915
Net income	$ 5,124,908	$ 5,086,655

Community Bancorp. (Parent Company Only)
Condensed Statements of Cash Flows

	Years Ended December 31, 2014	2013
Cash Flows from Operating Activities		
Net income	$ 5,124,908	$ 5,086,655
Adjustments to reconcile net income to net cash provided by operating activities		
Equity in undistributed net income of subsidiary	(2,807,052)	(3,058,915)
Decrease in income taxes receivable	1,607	201,385
Net cash provided by operating activities	2,319,463	2,229,125
Cash Flows from Financing Activities		
Dividends paid on preferred stock	(81,250)	(81,250)
Dividends paid on common stock	(2,168,476)	(1,974,314)
Net cash used in financing activities	(2,249,726)	(2,055,564)
Net increase in cash	69,737	173,561
Cash		
Beginning	410,075	236,514
Ending	$ 479,812	$ 410,075
Cash Received for Income Taxes	$ 235,559	$ 436,944
Cash Paid for Interest	$ 402,011	$ 409,938
Dividends paid:		
Dividends declared	$ 3,130,868	$ 2,706,461
Increase in dividends payable attributable to dividends declared	(55,980)	(28,465)
Dividends reinvested	(906,412)	(703,682)
	$ 2,168,476	$ 1,974,314

Note 23. Quarterly Financial Data (Unaudited)

A summary of financial data for the four quarters of 2014 and 2013 is presented below:

	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
	Quarters in 2013 ended			
	March 31,	June 30,	Sept. 30,	Dec. 31,
Interest income	$ 5,562,049	$ 5,804,849	$ 5,607,136	$ 5,665,748
Interest expense	934,797	892,403	819,426	795,508
Provision for loan losses	206,250	120,000	137,500	206,250
Non-interest income	1,368,192	1,520,858	1,540,425	1,553,093
Non-interest expense	4,589,290	4,818,263	4,471,596	4,413,325
Net income	1,041,778	1,238,344	1,354,933	1,451,600
Earnings per common share	0.21	0.25	0.28	0.29

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:

	2014	2013
Income		
Income from investment in Partners	$ 272,820	$ 287,252
Expenses		
Outsourcing expense	$ 420,355	$ 166,159
Service contracts - administration	420,426	557,137
Marketing	275,915	321,586
State deposit tax	544,737	532,592
Amortization of tax credit investments	443,832	473,842
ATM fees	365,813	401,147
Telephone	326,473	358,801
FDIC Insurance	374,703	376,022

Note 25. Subsequent Events

Declaration of Cash Dividend

On December 9, 2014, the Company declared a cash dividend of $0.16 per share payable February 1, 2015 to shareholders of record as of January 15, 2015. On March 10, 2015, the Company declared a cash dividend of $0.16 per share payable May 1, 2015 to shareholders of record as of April 15, 2015. These dividends have been recorded as of each declaration date, including shares issuable under the DRIP plan.

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, 2014 and 2013

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, 2014 and 2013, 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, two non-GAAP financial measures commonly used by financial institutions, namely tax-equivalent net interest income and tax-equivalent net interest margin (as presented in the tables in the section labeled Interest Income Versus

Interest Expense (Net Interest Income), have not been specifically exempted by the SEC, and may therefore constitute non-GAAP financial measures under Regulation G. We are unable to state with certainty whether the SEC would regard those measures as subject to Regulation G.

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

OVERVIEW

The Company's consolidated assets at year-end 2014 were $586.7 million compared to $573.7 million at year-end 2013, an increase of 2.3%. Total loans increased 1.8% to $447.8 million, driven by an increase in commercial loans of $18.5 million, to $231.0 million year over year, while residential mortgage loans declined $9.8 million to end the year at $208.8 million. Funding for the increase in loans was provided by an $11.5 million net increase in deposits and a decrease of $2.5 million in the available-for-sale securities portfolio. Capital grew to $49.0 million with a book value of $9.43 per share on December 31, 2014 compared with $46.1 million in capital and a book value of $8.96 per share on December 31, 2013.

The Company's net income of just over $5.1 million, or $1.03 per share, was up 0.8% compared with just under $5.1 million or $1.03 per share in 2013. Despite solid growth in the commercial loan portfolio during the year, the slowdown of the residential mortgage market caused a decrease in mortgage related fee income of $780,006, or 33.8% compared with 2013. Interest rates have remained at historically low levels for several years, causing erosion of yields on earning assets as they continue to reprice to current market rates. While average earning assets increased $14.2 million, or 2.8%, in 2014, tax-equivalent interest income increased by only $337,303, or 1.46%, reflecting a decrease in average yield of six basis points. This reduction in average yield was less than the prior year, however, when the average yield dropped nine basis points. Management was able to limit the decrease in the average yield on interest earning assets to six basis points due to the growth in the higher yielding commercial loan portfolio, as well as a shift to higher yielding assets in the investment portfolio. During the year, average interest-bearing liabilities remained virtually unchanged, down just $228,639; however, the average rate paid on liabilities declined by eight basis points, resulting in a decrease in interest expense of $386,390. This decrease was largely due to the shift of customer funds out of higher yielding 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 effects of these changes resulted in an increase of $723,693 in tax-equivalent net interest income, and improvement in net interest margin from 3.83% to 3.86% year over year.

Continued Improvement in asset quality and lower levels of charge off activity during 2014 allowed the Company to reduce the provision for loan losses by $130,000 compared to 2013. In addition, non-interest expenses decreased by $262,662 year over year, due in part to a $136,711 decline in administrative service contracts and a $84,778 decline in ATM and Debit card losses. Salary and benefits saw little change, increasing just $17,032 or 0.2% compared to the prior year. The decrease in non-interest income was mainly due to a reduction in income from sold loans in the secondary market of $647,178, or 39.8%.

The Federal Reserve's continued accommodative economic policy has kept mortgage interest rates low, providing several refinancing cycles through 2013, however the benefit of refinancing has declined with rates starting to come off the bottom in 2014, resulting in originations of $20.7 million in 2014 compared to $27.7 million in 2013. The Company reported net gains from the sales of these mortgages of $460,504 in 2014, compared with $778,203 in 2013, and $1.4 million in 2012, contributing to a decrease in non-interest income year over year.

More locally, according to the State of Vermont Department of Labor, Vermont's unemployment rate for December, 2014 was 4.2%, which is equal to the December, 2013 figure, and remains well below the national average of 5.6%. 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 County are at or near the state average.

The regulatory environment continues to increase operating costs and place extensive burden 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 2014, up from $0.56 in 2013. The Company reported retained earnings of $6.9 million compared to $5.0 million as of December 31, 2013 and total shareholders' equity of $49.0 million and $46.1 million for the same respective comparison periods. 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. Under recent and current market conditions, and 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 - Management utilizes numerous techniques to estimate the value of various assets held by the Company, including methods to determine the appropriate carrying value of 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 increased $38,253 or 0.8% from December 31, 2013 to December 31, 2014, resulting in earnings per common share of $1.03 for both periods. An increase of $696,885 or 3.6% is noted in net interest income for 2014 compared to 2013. Interest income increased $310,495 or 1.4% in 2014, while a decrease of $386,390 or 11.2% was noted in interest expense, accounting for the moderate increase in net interest income. Non-interest income decreased $840,817 or 14.1%, and non-interest expense decreased $262,662 or 1.4%. Income from sold loans decreased $647,178 or 39.8%, accounting for most of the decrease in non-interest income. Other expenses decreased $307,443 or 4.3% year over year due in part to a decrease of $136,711 or 24.5% in administrative service contracts as well as a decrease of $104,279 or 51.6% in OREO expenses. The section below labeled "Non-Interest Income and Non-Interest Expense" provides a more detailed discussion on the significant components of these two items.

Return on average assets ("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,		
	2014	2013	2012
Return on Average Assets	0.89%	0.90%	0.79%
Return on Average Equity	10.81%	11.43%	10.44%
Dividend Payout Ratio (1)	62.14%	54.37%	63.64%
Average Equity to Average Assets Ratio	8.22%	7.86%	7.53%

(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,	2014	2013	2012	2011	2010
Balance Sheet Data					
Net loans	$443,202,475	$435,354,440	$412,232,869	$382,507,221	$385,266,573
Total assets	586,711,044	573,667,404	575,738,245	552,905,517	545,932,649
Total deposits	493,019,463	481,552,569	475,496,859	454,393,309	438,192,263
Borrowed funds	0	0	6,000,000	18,010,000	33,010,000
Total liabilities	537,715,842	527,531,427	532,385,670	511,987,108	506,804,980
Total shareholders' equity	48,995,202	46,135,977	43,352,575	40,918,409	39,127,669
Years Ended December 31,					
Operating Data					
Total interest income	$ 22,950,277	$ 22,639,782	$ 22,821,331	$ 22,744,363	$ 23,686,983
Total interest expense	3,055,744	3,442,134	4,882,319	5,595,628	6,527,737
Net interest income	19,894,533	19,197,648	17,939,012	17,148,735	17,159,246
Provision for loan losses	540,000	670,000	1,000,000	1,000,000	1,016,668
Net interest income after provision for loan losses	19,354,533	18,527,648	16,939,012	16,148,735	16,142,578
Non-interest income	5,141,751	5,982,568	6,188,960	5,202,169	5,641,302
Non-interest expense	18,029,812	18,292,474	18,866,770	17,533,082	17,282,150
Income before income taxes	6,466,472	6,217,742	4,261,202	3,817,822	4,501,730
Applicable income tax expense (benefit)(1)	1,341,564	1,131,087	(139,488)	234,276	555,722
Net income	$ 5,124,908	$ 5,086,655	$ 4,400,690	$ 3,583,546	$ 3,946,008
Per Share Data					
Earnings per common share (2)	$ 1.03	$ 1.03	$ 0.88	$ 0.73	$ 0.82
Dividends declared per common share	$ 0.64	$ 0.56	$ 0.56	$ 0.56	$ 0.48
Book value per common share outstanding	$ 9.43	$ 8.96	$ 8.49	$ 8.13	$ 7.92
Weighted average number of common shares outstanding	4,897,281	4,838,185	4,769,645	4,674,806	4,584,145
Number of common shares outstanding, period end	4,932,374	4,868,606	4,812,925	4,728,161	4,624,514

(1) Applicable income tax expense (benefit) 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 $41.8 million, $37.9 million and $41.9 million, at December 31, 2014, 2013 and 2012, 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,	**2014**	**2013**	**2012**
	(Dollars in Thousands)		
Net interest income as presented	$ 19,895	$ 19,198	$ 17,939
Effect of tax-exempt income	555	529	511
Net interest income, tax equivalent	$ 20,450	$ 19,727	$ 18,450

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,								
	2014			2013			2012		
	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)	$447,133	$21,423	4.79%	$425,482	$21,226	4.99%	$402,023	$21,203	5.27%
Taxable investment securities	30,990	344	1.11%	41,363	314	0.76%	57,571	533	0.93%
Tax-exempt investment securities	42,654	1,635	3.83%	40,043	1,556	3.89%	40,058	1,504	3.75%
Sweep and interest-earning accounts	5,079	13	0.26%	4,457	13	0.29%	3,881	10	0.26%
Other investments (2)	3,819	91	2.38%	4,093	60	1.47%	4,464	82	1.84%
Total	$529,676	$23,506	4.44%	$515,439	$23,169	4.50%	$507,997	$23,332	4.59%
Interest-Bearing Liabilities									
Interest-bearing transaction accounts	$115,209	$ 241	0.21%	$117,395	$ 289	0.25%	$110,752	$ 348	0.31%
Money market accounts	83,168	821	0.99%	87,983	898	1.02%	79,659	788	0.99%
Savings deposits	75,042	94	0.13%	69,063	97	0.14%	64,908	103	0.16%
Time deposits	123,209	1,360	1.10%	123,431	1,555	1.26%	132,571	2,170	1.64%
Federal funds purchased and other borrowed funds	9,440	21	0.22%	5,084	22	0.43%	20,245	290	1.43%
Repurchase agreements	25,263	62	0.25%	28,538	111	0.39%	26,383	144	0.55%
Capital lease obligations	674	55	8.17%	741	60	8.10%	802	65	8.11%
Junior subordinated debentures	12,887	402	3.12%	12,887	410	3.18%	12,887	974	7.56%
Total	$444,893	$ 3,056	0.69%	$445,121	$ 3,442	0.77%	$448,207	$ 4,882	1.09%
Net interest income		$20,450			$19,727			$18,450	
Net interest spread (3)			3.75%			3.73%			3.50%
Net interest margin (4)			3.86%			3.83%			3.63%

(1) Included in gross loans are non-accrual loans with an average balance of $4.9 million, $4.4 million and $6.3 million for the years ended

(2) Included in other investments is the Company's FHLBB Stock with an average balance of $2.8 million, $3.1 million and $3.1 million, respectively, for 2014, 2013 and 2012 and a payout rate of approximately 1.49% in 2014, 0.37% in 2013 and 0.48% in 2012.

(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 $21.4 million accounts for 91.1% of total tax-equivalent income for 2014 compared to $21.2 million or 91.6% for 2013 and $21.2 million or 90.9% for 2012, with average yields of 4.79%, 4.99% and 5.27%, respectively. The average volume of loans increased $21.7 million or 5.1% from 2013 to 2014 and $23.5 million, or 5.8% from 2012 to 2013, while the average rate earned on these assets decreased 20 basis points from 2013 to 2014 and 28 basis points from 2012 to 2013, reflecting the prevailing low interest rate environment throughout both comparison periods. The average volume of taxable investments decreased $10.4 million or 25.1% from 2013 to 2014 and $16.2 million or 28.2% from 2012 to 2013. An increase of 35 basis points for 2014 and a decline of 17 basis points for 2013 are noted in the average yield on these investments. As loan demand increased beginning in 2012 and throughout the comparison periods, the Company funded 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.

Interest expense on time deposits represents 44.5% of total interest expense for 2014, compared to 45.2% for 2013, and 44.4% for 2012, with interest expense totaling $1.4 million, $1.6 million and $2.2 million, respectively, and average rates paid of 1.10%, 1.26% and 1.64%, respectively. Savings deposit accounts for the biggest increase in 2014 in average volume totaling just under $6.0 million or 8.7% and money market accounts noted the biggest decrease in 2014 in average volume totaling $4.8 million or 5.5%. From 2012 to 2013, a decrease of $15.2 million or 74.9% was noted in the average volume of federal funds purchased and other borrowed funds along with a decrease of 100 basis points in the average rate paid and time deposits decreased $9.1 million or 6.9% in average volume with a decrease of 38 basis points in the average rate paid. Minimal change is noted in the average yields of the other components of interest-bearing liabilities with the exception of the 438 basis point decrease in the average rate paid on junior subordinated debentures from 2012 to 2013 due to a contractual interest rate adjustment.

Overall, during 2014, the average rate earned on interest-earning assets decreased slightly less than the average rate paid on interest-bearing liabilities, resulting in a net interest spread of 3.75% for 2014 and 3.73% for 2013. A similar but more dramatic pattern is noted for the period from 2012 to 2013 with a decrease of nine basis points in the average rate earned on interest-earning assets compared to a 32 basis points decrease in the average rate paid on interest-bearing liabilities, causing the 23 basis point increase in the spread for 2013 from 3.50% for 2012.

The following table summarizes the variances in income for the years 2014, 2013 and 2012 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

	2014 vs. 2013			2013 vs. 2012		
	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	$ (883)	$ 1,080	$ 197	$ (1,213)	$ 1,236	$ 23
Taxable investment securities	145	(115)	30	(96)	(123)	(219)
Tax-exempt investment securities	(23)	102	79	53	(1)	52
Sweep and interest-earning accounts	(2)	2	0	2	1	3
Other investments	38	(7)	31	(17)	(5)	(22)
Total	$ (725)	$ 1,062	$ 337	$ (1,271)	$ 1,108	$ (163)
Average Interest-Bearing Liabilities						
Interest-bearing transaction accounts	$ (43)	$ (5)	$ (48)	$ (80)	$ 21	$ (59)
Money market accounts	(29)	(48)	(77)	28	82	110
Savings deposits	(11)	8	(3)	(13)	7	(6)
Time deposits	(193)	(2)	(195)	(500)	(115)	(615)
Federal funds purchased and other borrowed funds	(20)	19	(1)	(203)	(65)	(268)
Repurchase agreements	(41)	(8)	(49)	(45)	12	(33)
Capital lease obligations	0	(5)	(5)	0	(5)	(5)
Junior subordinated debentures	(8)	0	(8)	(564)	0	(564)
Total	$ (345)	$ (41)	$ (386)	$ (1,377)	$ (63)	$ (1,440)
Changes in net interest income	$ (380)	$ 1,103	$ 723	$ 106	$ 1,171	$ 1,277

(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, 2014	Years Ended December 31, 2013	Change $	Change %
Service fees	$ 2,624,792	$ 2,572,031	$ 52,761	2.05%
Income from sold loans	977,702	1,624,880	(647,178)	-39.83%
Other income from loans	593,093	725,922	(132,829)	-18.30%
Net realized gain (loss) on sale of securities available-for-sale	27,838	(5,521)	33,359	-604.22%
Income from CFSG Partners	272,820	287,251	(14,431)	-5.02%
Rental income on OREO properties	56,198	43,958	12,240	27.84%
Exchange income	130,000	130,000	0	0.00%
SERP fair value adjustment	52,423	162,356	(109,933)	-67.71%
Other income	406,885	441,691	(34,806)	-7.88%
Total non-interest income	$ 5,141,751	$ 5,982,568	$ (840,817)	-14.05%

Total non-interest income decreased $840,817 for the year ended December 31, 2014 compared to the same period 2013, with significant changes noted in the following:

- Service fees increased $52,761 year over year, due primarily to higher paper statement fees of $41,587, which were not introduced until June 2013. Paper statement fees have declined on a monthly basis since inception as more customers shift to online banking; however this also results in lower account maintenance and postage costs incurred by the Company.

- Income from sold loans decreased $647,178 year over year, which is attributable to a decrease in secondary market sales, as the pace of refinancing continued to slow throughout 2014. Proceeds from sale of loans held-for-sale amounted to $21.3 million for the year ended December 31, 2014 compared to $29.8 million for the same period 2013.

- Other income from loans decreased $132,829 year over year due primarily to a decrease in residential loan documentation fees. Residential mortgage loan activity slowed considerably in 2014, generating less income from the document fee process and resulting in a decrease of $102,945, or 43.9%, year over year. Commercial loan documentation fee income decreased $15,918, or 5.2%, year over year as the overall rate of growth in commercial lending has slowed compared with the prior year.

- Income from the Company's trust and investment management affiliate, Community Financial Services Group (CFSG Partners), decreased $14,431 for the year due in part to an increase in the client base and assets under management during the year which generated increased incentive payments for employees accrued in the fourth quarter. 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, 2014 resulted in an increase in value of $52,423, down 67.7% from the $162,356 increase reported for the same period in 2013. This smaller increase in value reflects the overall performance of the equity markets in 2014 as compared with 2013.

Non-interest Expense

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

	Years Ended December 31, 2014	Years Ended December 31, 2013	Change $	Change %
Salaries and wages	$ 6,475,000	$ 6,395,042	$ 79,958	1.25%
Employee benefits	2,257,354	2,320,280	(62,926)	-2.71%
Occupancy expenses, net	2,466,714	2,438,965	27,749	1.14%
Other expenses				
Computer outsourcing	420,355	166,159	254,196	152.98%
Service contracts - administrative	420,426	557,137	(136,711)	-24.54%
Telephone expense	326,473	358,801	(32,328)	-9.01%
Loss on limited partnerships	443,832	473,842	(30,010)	-6.33%
Collection & non-accruing loan expense	98,389	131,988	(33,599)	-25.46%
OREO expense	97,984	202,263	(104,279)	-51.56%
Debit cards/ATM cards losses	30,411	115,189	(84,778)	-73.60%
ATM fees	365,813	401,147	(35,334)	-8.81%
State deposit tax	544,737	532,592	12,145	2.28%
Other miscellaneous expenses	4,082,324	4,199,069	(116,745)	-2.78%
Total non-interest expense	$ 18,029,812	$ 18,292,474	$ (262,662)	-1.44%

Total non-interest expense decreased $262,662 for the full year 2014 compared to the same period in 2013, with significant changes noted in the following:

- Computer outsourcing increased $254,196, or 153.0%, year over year. The Company began outsourcing its data processing operations at the end of the fourth quarter of 2012, but due to incentive credits received for various functions, the Company did not incur data processing expenses until late in the third quarter of 2013. Outsourcing of the core processing function has provided the opportunity for the existing information technology staff to take on additional duties and roles in response to regulatory and industry changes.

- Service contracts – administrative decreased $136,711, or 24.5%, year over year. Payments under our service contract with our core processor decreased upon implementation of the computer outsourcing accounting for the decreases in the comparison period.

- Collections & non-accruing loan expense decreased $33,599 or 25.5% year over year with improvement in asset quality and recoveries during the year.

- OREO expense for the year 2014 was down $81,609, or 48.7%, compared with the same period in 2013, as the bank held fewer properties in OREO that required significant carrying costs.

- Debit Cards/ATM losses for the year 2014 remained well under 2013 levels. The decrease is generally attributable to a new processor that utilizes sophisticated fraud detection tools to minimize fraudulent transactions from being approved.

- Other miscellaneous expenses decrease of $116,745 was due in part to a decrease of $45,672, or 14.2% in marketing expenses, which was directly related to the expenses incurred in 2013 through the redesign of the Bank's website, as well as a decrease of $43,599, or 23.0% in postage expenses, which was primarily due to customers switching to online statements.

related to limited partnership investments are included in other miscellaneous expenses in the table above and amounted to $110,958 and $117,627 for the fourth quarters of 2014 and 2013, respectively and $443,832 and $473,842 for the years ended December 31, 2014 and 2013, respectively. These investments provide tax benefits, including tax credits, and are designed to provide an effective yield between 8% and 10%.

APPLICABLE INCOME TAXES

The provision for income taxes increased $210,477 or 18.6%, from $1.1 million in 2013 to $1.3 million in 2014. Income before taxes increased $248,730 or 4.0% for 2014 compared to 2013. This increase in income, along with the decrease in tax credits relating to the Company's affordable housing investments, accounts for the increase in income tax expense in 2014.

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. The average volume of loans increased $21.2 million or 5.0%, due in part to strong commercial loan demand. The Company used maturities, sales and calls within the taxable investment portfolio to help fund loan growth during 2014, accounting for the decrease of $10.3 million or 25.1% in the average volume of that portfolio between periods. The average volume of the tax-exempt portfolio increased $2.6 million or 6.5%, year over year and is made up of local municipal accounts.

Average liabilities increased $7.9 million or 1.5% from the year ended December 31, 2013 to the year ended December 31, 2014. The average volume of federal funds purchased and other borrowed funds increased $4.3 million or 85.7%, 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 average volume of total time deposits remained stable at $123 million due to the use of one-way brokered time deposits as a supplemental source of funding during the year. Average retail time deposits decreased by $3.7 million or 3.1% from 2013 to 2014 which largely reflects a continued shift to savings or money market accounts, or customer rate shopping at other financial institutions. The average volume of demand deposits increased $8.1 million, or 10.9%, due primarily to a $6.2 million increase in business checking accounts. The average volume of savings accounts increased $6.0 million or 8.7% due to the aforementioned shift from time deposits, while interest-bearing transaction accounts decreased $2.2 million or 1.9%. The insured cash sweep account ("ICS") offered through Promontory Interfinancial Network, which the Company started offering in 2010, 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. The average volume of ICS accounts increased from $15.9 million in 2013 to $17.7 million in 2014. The Company strives to keep its core 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 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,					
	2014		2013		2012	
Average Assets	Balance	%	Balance	%	Balance	%
	(Dollars in Thousands)					
Cash and due from banks						
Non-interest bearing	$ 9,934	1.72%	$ 9,747	1.72%	$ 9,660	1.72%
Federal funds sold and overnight deposits	5,079	0.88%	4,457	0.79%	3,881	0.69%
Taxable investment securities	30,990	5.37%	41,363	7.31%	57,662	10.29%
Tax-exempt investment securities	42,654	7.40%	40,043	7.08%	40,058	7.15%
Other securities	3,432	0.60%	3,706	0.65%	4,077	0.73%
Total investment securities	77,076	13.37%	85,112	15.04%	101,797	18.17%
Gross loans	447,716	77.63%	426,482	75.36%	403,681	72.06%
Reserve for loan losses and accrued fees	(4,609)	-0.80%	(4,375)	-0.77%	(4,000)	-0.71%
Premises and equipment	11,635	2.02%	12,067	2.13%	12,501	2.23%
Other real estate owned	979	0.17%	1,258	0.22%	665	0.12%
Investment in Capital Trust	387	0.07%	387	0.07%	387	0.07%
Bank owned life insurance	4,354	0.75%	4,241	0.75%	4,121	0.74%
Core deposit intangible	948	0.16%	1,220	0.22%	1,529	0.27%
Goodwill	11,574	2.01%	11,574	2.04%	11,574	2.07%
Other assets	11,664	2.02%	13,733	2.43%	14,396	2.57%
Total average assets	$ 576,737	100%	$ 565,903	100%	$ 560,192	100%
Average Liabilities						
Demand deposits	$ 81,847	14.19%	$ 73,765	13.04%	$ 66,242	11.82%
Interest-bearing transaction accounts	115,209	19.98%	117,395	20.74%	110,752	19.77%
Money market funds	83,168	14.42%	87,983	15.55%	79,659	14.22%
Savings accounts	75,042	13.01%	69,063	12.20%	64,908	11.59%
Time deposits	123,209	21.36%	123,431	21.81%	132,571	23.67%
Total average deposits	478,475	82.96%	471,637	83.34%	454,132	81.07%
Federal funds purchased and other borrowed funds	9,440	1.64%	5,084	0.90%	20,245	3.61%
Repurchase agreements	25,263	4.38%	28,538	5.04%	26,383	4.71%
Junior subordinated debentures	12,887	2.23%	12,887	2.28%	12,887	2.30%
Other liabilities	3,273	0.57%	3,272	0.58%	4,376	0.78%
Total average liabilities	529,338	91.78%	521,418	92.14%	518,023	92.47%
Average Shareholders' Equity						
Preferred stock	2,500	0.43%	2,500	0.44%	2,500	0.45%
Common stock	12,715	2.21%	12,596	2.23%	12,399	2.21%
Additional paid-in capital	28,853	5.00%	28,252	4.99%	27,634	4.93%
Retained earnings	5,963	1.03%	3,685	0.65%	1,986	0.36%
Less: Treasury stock	(2,623)	-0.45%	(2,623)	-0.46%	(2,623)	-0.47%
Accumulated other comprehensive income(1)	(9)	0.00%	75	0.01%	273	0.05%
Total average shareholders' equity	47,399	8.22%	44,485	7.86%	42,169	7.53%
Total average liabilities and shareholders' equity	$ 576,737	100%	$ 565,903	100%	$ 560,192	100%

CERTAIN TIME DEPOSITS

Increments of maturity of time certificates of deposit of $100,000 or more outstanding on December 31, 2014 are summarized as follows:

3 months or less	$ 9,094,836
Over 3 through 6 months	12,172,975
Over 6 through 12 months	8,154,829
Over 12 months	15,862,005
Total	$ 45,284,645

RISK MANAGEMENT

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

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

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

The following table summarizes the estimated impact on the Company's NII over a twelve month period, assuming a gradual parallel shift of the yield curve beginning December 31, 2014:

One Year Horizon		Two Year Horizon	
Rate Change	**Percent Change in NII**	**Rate Change**	**Percent Change in NII**
Down 100 basis points	-0.70%	Down 100 basis points	-2.70%
Up 200 basis points	6.70%	Up 200 basis points	19.00%

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 recent 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%. The residential mortgage portfolio has had satisfactory performance in light of the depth of the recent recession and the slow recovery; portfolio performance improved through 2012 and 2013 and was stable through 2014.

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, 2014, the Company had $27.4 million in guaranteed loans with guaranteed balances of $21.6 million, compared to $25.2 million in guaranteed loans with guaranteed balances of $20.0 million at December 31, 2013.

The Company's strategy is to continue growing the commercial and commercial real estate portfolios. Consistent with the strategic focus on commercial lending, both segments have seen solid growth during 2014. 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.

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

Composition of Loan Portfolio

	2014		2013		2012		2011		2010	
	Total Loans	% of Total	Total Loans	% of Total	Total Loans	% of Total	Total Loans	% of Total	Total Loans	% of Total
	(Dollars in Thousands)									
Real estate loans										
Construction & land development	$ 12,574	2.81%	$ 19,098	4.34%	$ 12,751	3.06%	$ 12,589	3.26%	$ 19,126	4.92%
Farm land	13,105	2.93%	10,453	2.38%	9,321	2.24%	10,223	2.65%	10,556	2.71%
1-4 Family residential -										
1st lien	163,966	36.62%	172,847	39.29%	169,613	40.74%	157,251	40.69%	164,111	42.18%
Jr lien	44,801	10.00%	45,687	10.39%	47,029	11.29%	45,887	11.88%	47,360	12.17%
Commercial real estate	140,934	31.47%	127,385	28.96%	117,736	28.28%	109,458	28.33%	103,813	26.68%
Loans to finance agricultural production	2,017	0.45%	1,720	0.39%	2,590	0.62%	1,282	0.33%	1,158	0.30%
Commercial & industrial	62,373	13.93%	53,900	12.25%	46,694	11.21%	38,232	9.89%	29,887	7.68%
Consumer	8,035	1.79%	8,819	2.00%	10,642	2.56%	11,465	2.97%	13,058	3.36%
Gross loans	447,805	100%	439,909	100%	416,376	100%	386,387	100%	389,069	100%
Less:										
Allowance for loan losses and deferred net loan costs	(4,602)		(4,554)		(4,143)		(3,880)		(3,802)	
Net loans	$443,203		$435,355		$412,233		$382,507		$385,267	

The following table shows the estimated maturity of the Company's commercial loan portfolio as of December 31, 2014.

	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	$ 5	$ 49	$ 2,944	$ 2,998	$ 3,718	$ 795	$ 5,063	$ 9,576
Secured by farm land	21	46	473	540	896	336	11,333	12,565
Commercial real estate	181	1,555	8,271	10,007	6,068	2,820	122,039	130,927
Loans to finance agricultural production	70	458	77	605	332	510	570	1,412
Commercial & industrial	915	10,976	3,868	15,759	27,526	6,746	12,342	46,614
Total	$ 1,192	$ 13,084	$ 15,633	$ 29,909	$ 38,540	$ 11,207	$ 151,347	$ 201,094

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. Deferred taxes are calculated monthly, based on interest amounts that would have accrued through the normal accrual process. As of December 31, 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 $223,759 or 3.3% for 2014 compared to 2013, while an increase of $532,333 or 8.6% is noted for 2013 compared to 2012, a decrease of $3.1 million or 33.1% is noted for 2012 compared to 2011, and an increase of $2.3 million or 32.7% for 2011 compared to 2010. The notable non-performing loan increase for 2011 was attributable in large part to an increase in non-accrual commercial real estate loans, including two commercial real estate loans to one borrower totaling just over $1.0 million that moved into non-accrual as a result of diminished cash flow due to the devastation caused by Tropical Storm Irene, and four other commercial real estate loan relationships moved into non-performing status as a result of the inability to weather the economic recession. The 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 in 2013 and 2014.

Non-performing assets consisted of the following:

Non-Performing Assets

December 31,	2014	2013	2012	2011	2010
			(Dollars in Thousands)		
Accruing loans past due 90 days or more:					
Commercial & industrial	$ 24	$ 22	$ 0	$ 60	$ 29
Commercial real estate	5	5	54	99	95
Residential real estate - 1st lien	980	817	282	969	1,055
Residential real estate - Jr lien	116	56	42	111	140
Consumer	0	8	1	1	38
Total past due 90 days or more	1,125	908	379	1,240	1,357
Non-accrual loans:					
Commercial & industrial	553	527	597	1,067	61
Commercial real estate	1,934	1,404	1,892	3,714	1,146
Residential real estate - 1st lien	1,263	2,203	1,928	2,704	2,831
Residential real estate - Jr lien	404	593	338	464	388
Consumer	0	0	0	0	0
Total non-accrual loans	4,154	4,727	4,755	7,949	4,426
Total non-accrual and past due loans	5,279	5,635	5,134	9,189	5,783
Other real estate owned	1,238	1,106	1,075	90	1,210
Total non-performing assets	$ 6,517	$ 6,741	$ 6,209	$ 9,279	$ 6,993
Percent of gross loans	1.46%	1.53%	1.49%	2.40%	1.80%
Reserve coverage of non-performing assets	75.28%	72.03%	69.45%	41.89%	53.31%

Non-performing loans as of December 31, 2014 represented, by dollar volume, approximately 30% residential first mortgages, 10% junior lien home equity loans, 47% commercial real estate and 13% in commercial loans not secured by real estate, compared to 47%, 12%, 30%, and 11%, respectively, at December 31, 2013.

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 include 12 TDRs totaling just under $1.8 million that were past due 90 days or more or in non-accrual status as of December 31, 2014, compared to 12 TDRs totaling just over $1.8 million as of December 31, 2013. The remainder of the Company's TDRs consisted of 18 residential mortgage loans and one commercial real estate loan totaling $1.7 million at December 31, 2014 compared to 10 residential mortgage loans, two commercial real estate loans and three commercial & industrial loans totaling $1.3 million at December 31, 2013.

The Company is not contractually committed to lend additional funds to debtors with impaired, non-accrual or modified loans.

The Company's OREO portfolio at December 31, 2013 consisted of three properties acquired through the normal foreclosure process, one acquisition by deed-in-lieu of foreclosure and one control of vacant property pending acquisition of title. During 2014, the Company moved five additional properties into OREO totaling $433,500, selling one of those properties and two of the properties held at December 31, 2013. With total sales, net of closing costs, of $288,865 during 2014, and subsequent write-downs totaling $10,000 on one property, 2014 ended with an OREO balance of $1.2 million, representing one commercial and six residential properties.

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 (See Critical Accounting Policies). Although the Company, in establishing the allowance, considers the inherent losses in individual loans and pools of loans, the allowance is a general reserve available to absorb all credit losses in the loan portfolio. No part of the allowance is segregated to absorb losses from any particular loan or segment of loans.

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

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

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

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

Summary of Loan Loss Experience

December 31,	2014	2013	2012	2011	2010
			(Dollars in Thousands)		
Loans outstanding, end of year	$ 447,805	$ 439,909	$ 416,376	$ 386,387	$ 389,069
Average loans outstanding during year	$ 447,133	$ 425,482	$ 402,023	$ 389,611	$ 386,016
Non-accruing loans, end of year	$ 4,154	$ 4,727	$ 4,755	$ 7,949	$ 4,426
Non-accruing loans, net of government guarantees	$ 3,378	$ 4,368	$ 3,537	$ 5,385	$ 3,382
Allowance, beginning of year	$ 4,855	$ 4,312	$ 3,887	$ 3,728	$ 3,451
Loans charged off:					
Commercial & industrial	(153)	(83)	(159)	(22)	(32)
Commercial real estate	(168)	(125)	(58)	(197)	(149)
Residential real estate - 1st lien	(59)	(56)	(246)	(522)	(512)
Residential real estate - Jr lien	(52)	(57)	(136)	(97)	(54)
Consumer	(112)	(67)	(97)	(103)	(106)
Total	(544)	(388)	(696)	(941)	(853)
Recoveries:					
Commercial & industrial	6	3	29	13	42
Commercial real estate	0	186	52	8	8
Residential real estate - 1st lien	15	16	6	43	28
Residential real estate - Jr lien	0	21	2	0	2
Consumer	34	35	32	36	33
Total	55	261	121	100	113
Net loans charged off	(489)	(127)	(575)	(841)	(740)
Provision charged to income	540	670	1,000	1,000	1,017
Allowance, end of year	$ 4,906	$ 4,855	$ 4,312	$ 3,887	$ 3,728
Net charge offs to average loans outstanding	0.11%	0.03%	0.14%	0.21%	0.19%
Provision charged to income as a percent of average loans	0.12%	0.16%	0.25%	0.26%	0.26%
Allowance to average loans outstanding	1.10%	1.14%	1.07%	1.00%	0.96%
Allowance to non-accruing loans	118.10%	102.71%	90.68%	48.90%	84.23%
Allowance to non-accruing loans net of government guarantees	145.23%	111.15%	121.91%	72.18%	110.23%

The level of the provision charged to income for 2010 through 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. 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 is the result of new non-accruing loans that are 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. 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,	2014	%	2013	%	2012	%	2011	%	2010	%
					(Dollars in Thousands)					
Domestic										
Commercial & industrial	$ 647	14%	$ 516	12%	$ 428	12%	$ 342	10%	$ 302	8%
Commercial real estate	2,312	37%	2,144	36%	1,537	33%	1,386	34%	1,392	34%
Residential real estate	1,592	47%	1,819	50%	1,896	52%	1,910	53%	1,831	55%
Consumer	119	2%	105	2%	139	3%	125	3%	152	3%
Unallocated	236	0%	271	0%	312	0%	124	0%	51	0%
Total	$ 4,906	100%	$ 4,855	100%	$ 4,312	100%	$ 3,887	100%	$ 3,728	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 $2.2 million or 6.4% in 2014, from $35.2 million at December 31, 2013 to $33.0 million at December 31, 2014. The Company's held-to-maturity portfolio consisted entirely of tax-exempt obligations of state and political subdivisions with a book value of $41.8 million as of December 31, 2014 as compared to $37.9 million at December 31, 2013. The increase in the held-to-maturity investment portfolio is due to a higher level of tax anticipation loans than the previous year. These 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 $7,443 at December 31, 2014, compared to an unrealized loss net of taxes of $47,466 at December 31, 2013. 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 December 31, 2014 and 2013 are considered by management to be temporary.

The restricted equity securities comprise the Company's membership stock in the FRBB and FHLBB. On December 31, 2014 and 2013, the Company held $588,150 in FRBB stock and $2.7 million and $3.0 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 2014, call features on four investments were exercised by the issuers, compared to two calls during 2013.

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

	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
	$ 32,958,173	$ 73,336	$ 84,615	$ 32,946,894
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	$ 78,101,568	$ 496,391	$ 84,615	$ 78,513,344
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
	$ 35,260,521	$ 125,057	$ 196,976	$ 35,188,602
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	$ 76,830,282	$ 558,146	$ 196,976	$ 77,191,452

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value(1)
Available-for-Sale				
U.S. GSE debt securities	$ 33,552,376	$ 247,029	$ 13,936	$ 33,785,469
U.S. Government securities	7,073,445	28,217	1,072	7,100,590
	$ 40,625,821	$ 275,246	$ 15,008	$ 40,886,059
Held-to-Maturity				
States and political subdivisions	$ 41,865,555	$ 425,445	$ 0	$ 42,291,000
Restricted Equity Securities (2)	$ 4,021,350	$ 0	$ 0	$ 4,021,350
Total	$ 86,512,726	$ 700,691	$ 15,008	$ 87,198,409

(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 2014, there were realized gains of $27,838 from the sale of investments in U.S. GSE debt securities, compared to realized losses of $5,521 in 2013.

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,	**2014**		**2013**		**2012**	
	Carrying Value(1)	**Weighted Average Yield(2)**	**Carrying Value(1)**	**Weighted Average Yield(2)**	**Carrying Value(1)**	**Weighted Average Yield(2)**
Available-for-Sale						
U.S. Treasury & Agency Obligations						
Due in one year or less	$ 5,034,248	0.59%	$ 4,510,923	0.48%	$ 4,104,324	0.86%
Due from one to five years	18,873,839	1.09%	30,677,679	0.87%	36,781,735	0.74%
Total	$ 23,908,087	0.99%	$ 35,188,602	0.75%	$ 40,886,059	0.75%
Agency MBS (3)	$ 9,038,807	2.13%	$ 0	0.00%	$ 0	0.00%
FRBB Stock (4)	$ 588,150	6.00%	$ 588,150	6.00%	$ 588,150	6.00%
FHLBB Stock (4)	$ 2,744,300	1.58%	$ 3,044,700	0.40%	$ 3,433,200	0.52%
Held-to-Maturity						
Obligations of State & Political Subdivisions						
Due in one year or less	$ 28,158,718	3.70%	$ 27,615,731	3.55%	$ 32,741,241	3.07%
Due from one to five years	4,637,913	2.98%	3,939,950	3.40%	3,849,709	3.87%
Due from five to ten years	2,305,353	4.83%	2,592,045	5.02%	1,916,266	5.49%
Due after ten years	6,708,961	4.14%	3,789,185	5.52%	3,358,339	5.76%
Total	$ 41,810,945	3.75%	$ 37,936,911	3.83%	$ 41,865,555	3.47%

(1) Investments classified as available-for-sale are presented at fair value, and investments classified as held-to-maturityare presented at book value.
(2) The yield on obligations of state and political subdivisions is calculated on a tax equivalent basis assuming a 34percent tax rate.
(3) Because the actual maturities of Agency MBS usually differ from their contractual maturities due to the right ofborrowers 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 2014, the Company did not engage in any activity that created any additional types of off-balance-sheet risk.

The Company generally requires collateral or other security to support financial instruments with credit risk. The Company's financial instruments whose contract amount represents credit risk as of December 31 were as follows:

	Contract or Notional Amount	
	2014	2013
Unused portions of home equity lines of credit	$ 23,519,696	$ 21,961,527
Other commitments to extend credit	59,558,700	41,230,202
Residential construction lines of credit	2,308,167	2,010,417
Commercial real estate and other construction lines of credit	15,894,462	15,592,702
Standby letters of credit and commercial letters of credit	1,714,382	1,655,469
Recourse on sale of credit card portfolio	265,650	276,650
MPF credit enhancement obligation, net (see Note 16)	1,007,250	1,543,211

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

In connection with its 2007 trust preferred securities financing, the Company guaranteed the payment obligations under the $12.5 million of capital securities of its subsidiary, CMTV Statutory Trust I. The source of funds for payments by the Trust on its capital securities is payments made by the Company on its debentures issued to the Trust. The Company's obligation under those debentures is fully reflected in the Company's balance sheet, in the gross amount of $12.9 million at December 31, 2014 and 2013, of which $12.5 million represents external financing through the issuance to investors of capital securities by CMTV Statutory Trust I.

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.

Currently, the Company is not offering above market rates or rate "specials" to attract or retain "rate chasers". The Company however, 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 no one-way deposits at December 31, 2014 and 2013. In addition, two-way CDARS deposits allow the Company to provide FDIC deposit insurance to its customers in excess of account coverage limits by exchanging deposits with other CDARS members. At December 31, 2014 and 2013, the Company reported approximately $1.1 million in CDARS deposits representing exchanged deposits with other CDARS participating banks.

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 $78.6 million and $74.9 million, respectively, at December 31, 2014 and 2013. 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 75 basis points at December 31, 2014. At December 31, 2014 and 2013, the Company had no outstanding advances against this line.

At December 31, 2014 and 2013, additional borrowing capacity of approximately $67.1 million and $72.6 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 at December 31, 2014 and 2013. 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 ($67.1 million and $72.6 million, 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, 2014 and 2013, approximately $34.5 million and $20.8 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 $35,863 for 2014 and $43,654 for 2013.

The Company has an unsecured line with two correspondent banks with available lines totaling $7.5 million at December 31, 2014, compared to an available line with one correspondent bank totaling $3.5 million at December 31, 2013. The Company had no outstanding advances against these lines for the periods ended December 31, 2014 and 2013.

Securities sold under agreements to repurchase amounted to $28.5 million, $29.6 million and $34.1 million as of December 31, 2014, 2013 and 2012, respectively with weighted average interest rates of 0.27%, 0.24% and 0.57% at December 31, 2014, 2013 and 2012, respectively. The average daily balance of these repurchase agreements was $25.3 million, $28.5 million and $26.4 million during 2014, 2013, and 2012, respectively. The maximum borrowings outstanding on these agreements at any month-end reporting period of the Company were $28.5 million, $34.5 million and $34.1 million during 2014, 2013 and 2012, respectively. These repurchase agreements mature daily and carried a weighted average interest rate of 0.25% during 2014, 0.39% during 2013 and 0.55% during 2012.

Total cash dividends of $0.64 and $0.56 per common share were declared during 2014 and 2013, respectively. In December, 2014, the Company declared a $0.16 per common share cash dividend, payable February 1, 2015 to shareholders of record as of January 15, 2015, requiring the Company to accrue a liability of $786,580 for this dividend in the fourth quarter of 2014.

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

Balance at December 31, 2013 (book value $8.96 per common share)	$ 46,135,977
Net income	5,124,908
Issuance of stock through the Dividend Reinvestment Plan	906,412
Dividends declared on common stock	(3,130,868)
Dividends declared on preferred stock	(81,250)
Change in unrealized loss on available-for-sale securities, net of tax	40,023
Balance at December 31, 2014 (book value $9.43 per common share)	$ 48,995,202

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

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.

The Company and the Bank are subject to regulatory capital requirements. The Company's tier 1 leverage, tier 1 risk-based and total risk-based capital ratios were 8.62%, 12.31%, and 13.66%, respectively, at December 31, 2014. The Company's capital ratios exceeded all applicable regulatory requirements at December 31, 2014. The Bank's tier 1 leverage, tier 1 risk-based and total risk-based capital ratios were 8.61%, 12.30%, and 13.54%, respectively, at December 31, 2014. 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, 2014 the Bank was considered well capitalized under the regulatory capital framework for Prompt Corrective Action.

In July 2013, the Federal Reserve Board adopted final rules implementing the Basel III capital standards, which significantly revise the regulatory capital requirements for U.S. financial institutions, including community banks. Among other things, the new capital rules revise the definition of various regulatory capital components and related calculation methods, add a new regulatory capital component (common equity tier 1 capital), increase the minimum required tier 1 capital, implement a new capital conservation buffer and restrict dividends and certain discretionary bonus payments when the buffer is not maintained. The final rules, which contain certain regulatory relief provisions for community banks, take effect for community banks on January 1, 2015, and are phased in over a four year period ending on January 1, 2019. Management is evaluating the potential impact of the new capital rules on the Company and believes that, as of December 31, 2014, the Company and the Bank would meet all capital adequacy requirements under the Basel III capital standards on a fully-phased in basis as if such requirements were currently in effect.

Common Stock Performance by Quarter*

Trade Price	2014 First	2014 Second	2014 Third	2014 Fourth	2013 First	2013 Second	2013 Third	2013 Fourth
High	$ 14.25	$ 14.50	$ 14.50	$ 14.75	$ 15.75	$ 14.50	$ 13.00	$ 13.75
Low	$ 13.01	$ 13.75	$ 14.00	$ 13.84	$ 10.65	$ 11.11	$ 12.65	$ 12.80
Bid Price	**2014 First**	**2014 Second**	**2014 Third**	**2014 Fourth**	**2013 First**	**2013 Second**	**2013 Third**	**2013 Fourth**
High	$ 12.25	$ 13.90	$ 12.80	$ 13.65	$ 12.25	$ 13.90	$ 12.80	$ 13.65
Low	$ 10.50	$ 11.12	$ 12.60	$ 12.85	$ 10.50	$ 11.12	$ 12.60	$ 12.85
Cash Dividends Declared	$ 0.16	$ 0.16	$ 0.16	$ 0.16	$ 0.14	$ 0.14	$ 0.14	$ 0.14

*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. and previously was included in the OTCQB® marketplace tier. 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, 2015, there were 4,916,123 shares of the Corporation's common stock ($2.50 par value) outstanding, owned by approximately 890 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:

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www.computershare.com

Annual Shareholders' Meeting

The 2015 Annual Shareholders' Meeting will be held at 5:30 p.m., May 12, 2015, at the Elks Club in Derby. We hope to see many of our shareholders there.

Exhibit 21

<u>Subsidiaries of the Company</u>

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.

Exhibit 23.1

BerryDunn

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 24, 2015 with respect to the consolidated financial statements included in the 2014 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 24, 2015, 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, 2014.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
March 24, 2015
Vermont Registration No. 92-0000278

Exhibit 31.1

CERTIFICATION

I, Stephen P. Marsh, Chairman, President and Chief 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 24, 2015

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

Exhibit 31.2

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 24, 2015

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

Exhibit 32.1

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, 2014, 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,
Chairman, President & Chief Executive Officer

March 24, 2015

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, 2014 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 24, 2015