COMMUNITY BANCORP /VT
Form 10-Q
May 13, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2016

OR

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

For the transition period from to

Commission File Number 000-16435

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

At May 6, 2016, there were 5,010,839 shares outstanding of the Corporation's common stock.

FORM 10-Q

Index

		Page
PART I FINANCIAL INFORMATION		
Item 1	Financial Statements	3
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3	Quantitative and Qualitative Disclosures About Market Risk	47
Item 4	Controls and Procedures	47
PART II OTHER INFORMATION		
Item 1	Legal Proceedings	48
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	48
Item 6	Exhibits	48
	Signatures	49

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (Unaudited)

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

Community Bancorp. and Subsidiary
Consolidated Balance Sheets

	March 31, 2016 (Unaudited)	December 31, 2015	March 31, 2015 (Unaudited)
Assets			
Cash and due from banks	$9,397,008	$9,479,353	$10,291,010
Federal funds sold and overnight deposits	16,055,662	19,372,537	7,041,426
Total cash and cash equivalents	25,452,670	28,851,890	17,332,436
Securities held-to-maturity (fair value $46,235,000 at 03/31/16, $44,143,000 at 12/31/15 and $43,182,000 at 03/31/15)	45,551,714	43,354,419	42,831,982
Securities available-for-sale	29,572,121	26,470,400	31,806,566
Restricted equity securities, at cost	1,891,250	2,441,650	3,332,450
Loans held-for-sale	525,200	1,199,400	1,325,657
Loans	455,048,185	458,119,429	452,573,594
Allowance for loan losses	(5,109,488)	(5,011,878)	(5,003,049)
Deferred net loan costs	315,050	316,491	303,949
Net loans	450,253,747	453,424,042	447,874,494
Bank premises and equipment, net	11,251,819	11,460,207	11,859,401
Accrued interest receivable	2,064,364	1,633,213	2,058,762
Bank owned life insurance (BOLI)	4,546,589	4,520,486	4,440,083
Core deposit intangible	477,211	545,386	749,906
Goodwill	11,574,269	11,574,269	11,574,269
Other real estate owned (OREO)	465,000	262,000	1,238,320
Other assets	9,783,374	10,397,347	9,164,138
Total assets	$593,409,328	$596,134,709	$585,588,464
Liabilities and Shareholders' Equity			
Liabilities			
Deposits:			
Demand, non-interest bearing	$91,019,639	$93,525,762	$82,409,999
Interest-bearing transaction accounts	117,208,113	130,735,094	113,984,797
Money market funds	86,652,637	81,930,888	89,983,921
Savings	85,327,489	81,731,290	80,299,343
Time deposits, $250,000 and over	13,306,128	9,431,437	10,354,149
Other time deposits	95,386,130	98,131,091	100,087,060
Total deposits	488,900,136	495,485,562	477,119,269
Federal funds purchased and other borrowed funds	10,350,000	10,000,000	15,000,000
Repurchase agreements	25,149,039	22,073,238	28,229,636
Capital lease obligations	537,028	558,365	619,858
Junior subordinated debentures	12,887,000	12,887,000	12,887,000
Accrued interest and other liabilities	3,382,769	3,715,888	2,065,288

Total liabilities	541,205,972	544,720,053	535,921,051
Shareholders' Equity			
Preferred stock, 1,000,000 shares authorized, 25 shares issued and outstanding ($100,000 liquidation value)	2,500,000	2,500,000	2,500,000
Common stock - $2.50 par value; 15,000,000 shares authorized, 5,220,419 shares issued at 03/31/16, 5,204,517 shares issued at 12/31/15 and 5,159,512 shares issued at 03/31/15	13,051,048	13,011,293	12,898,780
Additional paid-in capital	30,268,924	30,089,438	29,554,651
Retained earnings	8,830,533	8,482,096	7,210,220
Accumulated other comprehensive income (loss)	175,628	(45,394)	126,539
Less: treasury stock, at cost; 210,101 shares at 03/31/16, 12/31/15, and 03/31/15	(2,622,777)	(2,622,777)	(2,622,777)
Total shareholders' equity	52,203,356	51,414,656	49,667,413
Total liabilities and shareholders' equity	$593,409,328	$596,134,709	$585,588,464

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

Community Bancorp. and Subsidiary
Consolidated Statements of Income
(Unaudited)

	Three Months Ended March 31, 2016	2015
Interest income		
Interest and fees on loans	$5,370,424	$5,464,261
Interest on debt securities		
Taxable	122,637	105,039
Tax-exempt	284,909	271,126
Dividends	29,378	23,883
Interest on federal funds sold and overnight deposits	10,906	2,491
Total interest income	5,818,254	5,866,800
Interest expense		
Interest on deposits	516,594	592,457
Interest on federal funds purchased and other borrowed funds	19,158	14,741
Interest on repurchase agreements	17,991	19,638
Interest on junior subordinated debentures	109,519	100,678
Total interest expense	663,262	727,514
Net interest income	5,154,992	5,139,286
Provision for loan losses	100,000	150,000
Net interest income after provision for loan losses	5,054,992	4,989,286
Non-interest income		
Service fees	617,679	631,437
Income from sold loans	221,194	200,675
Other income from loans	195,888	134,200
Other income	203,090	246,475
Total non-interest income	1,237,851	1,212,787
Non-interest expense		
Salaries and wages	1,725,000	1,655,152
Employee benefits	685,082	664,153
Occupancy expenses, net	645,746	690,303
Other expenses	1,626,463	1,687,121
Total non-interest expense	4,682,291	4,696,729
Income before income taxes	1,610,552	1,505,344
Income tax expense	441,058	395,503
Net income	$1,169,494	$1,109,841
Earnings per common share	$0.23	$0.22
Weighted average number of common shares used in computing earnings per share	5,000,144	4,938,500
Dividends declared per common share	$0.16	$0.16

Book value per common share outstanding at March 31,	$9.92	$9.53

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

Community Bancorp. and Subsidiary
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Net income	$1,169,494	$1,109,841
Other comprehensive income, net of tax:		
Unrealized holding gain on available-for-sale securities arising during the period	334,883	203,004
Tax effect	(113,861)	(69,022)
Other comprehensive income, net of tax	221,022	133,982
Total comprehensive income	$1,390,516	$1,243,823

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

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

	Three Months Ended March 31, 2016	2015
Cash Flows from Operating Activities:		
Net income	$1,169,494	$1,109,841
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization, bank premises and equipment	251,627	242,300
Provision for loan losses	100,000	150,000
Deferred income tax	(29,227)	(68,564)
Gain on sale of loans	(101,510)	(73,031)
Gain on sale of OREO	0	(51)
Income from Trust LLC	(82,579)	(93,846)
Amortization of bond premium, net	33,267	41,349
Proceeds from sales of loans held for sale	4,753,088	4,455,158
Originations of loans held for sale	(3,977,378)	(5,681,534)
Increase in taxes payable	273,795	272,734
Increase in interest receivable	(431,151)	(360,314)
Decrease in mortgage servicing rights	14,097	5,497
Decrease (increase) in other assets	177,535	(292,098)
Increase in cash surrender value of BOLI	(26,103)	(26,509)
Amortization of core deposit intangible	68,175	68,175
Amortization of limited partnerships	146,490	141,333
Decrease (increase) in unamortized loan costs	1,441	(555)
Increase (decrease) in interest payable	8,675	(861)
Decrease in accrued expenses	(359,833)	(560,280)
Increase in other liabilities	17,125	472
Net cash provided by (used in) operating activities	2,007,028	(670,784)
Cash Flows from Investing Activities:		
Investments - held-to-maturity		
Maturities and pay downs	1,630,861	2,159,253
Purchases	(3,828,156)	(3,180,291)
Investments - available-for-sale		
Maturities, calls, pay downs and sales	1,406,742	1,301,984
Purchases	(4,206,847)	0
Proceeds from redemption of restricted equity securities	550,400	0
Decrease (increase) in loans, net	2,648,313	(4,915,561)
Capital expenditures of bank premises and equipment	(43,238)	(612,753)
Proceeds from sales of OREO	192,108	70,551
Recoveries of loans charged off	25,433	23,597
Net cash used in investing activities	(1,624,384)	(5,153,220)

	2016	2015
Cash Flows from Financing Activities:		
Net decrease in demand and interest-bearing transaction accounts	(16,033,104)	(17,752,545)
Net increase in money market and savings accounts	8,317,948	4,433,418
Net increase (decrease) in time deposits	1,129,730	(2,581,067)
Net increase (decrease) in repurchase agreements	3,075,801	(313,325)
Net increase in short-term borrowings	0	15,000,000
Proceeds from long-term borrowings	350,000	0
Decrease in capital lease obligations	(21,337)	(19,686)
Dividends paid on preferred stock	(21,875)	(20,313)
Dividends paid on common stock	(579,027)	(552,216)
Net cash used in financing activities	(3,781,864)	(1,805,734)
Net decrease in cash and cash equivalents	(3,399,220)	(7,629,738)
Cash and cash equivalents:		
Beginning	28,851,890	24,962,174
Ending	$25,452,670	$17,332,436
Supplemental Schedule of Cash Paid During the Period:		
Interest	$654,587	$728,375
Income taxes, net of refunds	$50,000	$50,000
Supplemental Schedule of Noncash Investing and Financing Activities:		
Change in unrealized gain on securities available-for-sale	$334,883	$203,004
Loans transferred to OREO	$395,108	$70,500
Common Shares Dividends Paid:		
Dividends declared	$799,182	$789,242
(Increase) decrease in dividends payable attributable to dividends declared	(914)	917
Dividends reinvested	(219,241)	(237,943)
	$579,027	$552,216

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

Notes to Consolidated Financial Statements

Note 1. Basis of Presentation and Consolidation

The interim consolidated financial statements of Community Bancorp. and Subsidiary are unaudited. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments necessary for the fair presentation of the financial condition and results of operations of the Company contained herein have been made. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2015 contained in the Company's Annual Report on Form 10-K. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full annual period ending December 31, 2016, or for any other interim period.

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

Note 2. Recent Accounting Developments

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

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

Note 3. Earnings per Common Share

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

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

	Three Months Ended March 31,	
	2016	2015
Net income, as reported	$1,169,494	$1,109,841

Less: dividends to preferred shareholders	21,875	20,313
Net income available to common shareholders	$1,147,619	$1,089,528
Weighted average number of common shares		
used in calculating earnings per share	5,000,144	4,938,500
Earnings per common share	$0.23	$0.22

Note 4. Investment Securities

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

Securities AFS	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2016				
U.S. Government sponsored enterprise (GSE) debt securities	$12,817,362	$115,533	$0	$12,932,895
Agency mortgage-backed securities (Agency MBS)	13,515,656	105,722	15,674	13,605,704
Other investments	2,973,000	60,522	0	3,033,522
	$29,306,018	$281,777	$15,674	$29,572,121
December 31, 2015				
U.S. GSE debt securities	$12,832,059	$22,523	$22,139	$12,832,443
Agency MBS	10,734,121	0	69,637	10,664,484
Other investments	2,973,000	5,046	4,573	2,973,473
	$26,539,180	$27,569	$96,349	$26,470,400
March 31, 2015				
U.S. GSE debt securities	$18,904,234	$102,297	$2,553	$19,003,978
U.S. Government securities	3,994,362	14,115	0	4,008,477
Agency MBS	8,716,244	77,867	0	8,794,111
	$31,614,840	$194,279	$2,553	$31,806,566

Securities HTM	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value*
March 31, 2016				
States and political subdivisions	$45,551,714	$683,286	$0	$46,235,000
December 31, 2015				
States and political subdivisions	$43,354,419	$788,581	$0	$44,143,000
March 31, 2015				
States and political subdivisions	$42,831,982	$350,018	$0	$43,182,000

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

U.S. GSE debt securities, Agency MBS securities and certificates of deposit (CDs) held for investment with a book value of $27,172,084 and a fair value of $27,450,798 collateralized repurchase agreements at March 31, 2016. These repurchase agreements mature daily.

The scheduled maturities of debt securities AFS were as follows:

	Amortized Cost	Fair Value
March 31, 2016		
Due in one year or less	$3,063,730	$3,071,337
Due from one to five years	12,481,632	12,650,080
Due from five to ten years	245,000	245,000
Agency MBS	13,515,656	13,605,704
	$29,306,018	$29,572,121
December 31, 2015		
Due in one year or less	$3,077,544	$3,086,317
Due from one to five years	12,482,515	12,474,599
Due from five to ten years	245,000	245,000
Agency MBS	10,734,121	10,664,484
	$26,539,180	$26,470,400
March 31, 2015		
Due in one year or less	$4,016,828	$4,021,755
Due from one to five years	18,881,768	18,990,700
Agency MBS	8,716,244	8,794,111
	$31,614,840	$31,806,566

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

The scheduled maturities of debt securities HTM were as follows:

	Amortized Cost	Fair Value*
March 31, 2016		
Due in one year or less	$30,042,445	$30,042,000
Due from one to five years	3,864,268	4,035,000
Due from five to ten years	3,235,317	3,407,000
Due after ten years	8,409,684	8,751,000
	$45,551,714	$46,235,000
December 31, 2015		
Due in one year or less	$27,731,133	$27,731,000
Due from one to five years	4,015,553	4,213,000
Due from five to ten years	3,149,531	3,347,000
Due after ten years	8,458,202	8,852,000
	$43,354,419	$44,143,000
March 31, 2015		
Due in one year or less	$29,485,512	$29,486,000
Due from one to five years	4,419,264	4,506,000

Due from five to ten years	2,246,370	2,334,000
Due after ten years	6,680,836	6,856,000
	$42,831,982	$43,182,000

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

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

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2016						
Agency MBS	$3,064,237	$15,674	$0	$0	$3,064,237	$15,674
December 31, 2015						
U.S. GSE debt securities	$6,243,373	$22,139	$0	$0	$6,243,373	$22,139
Agency MBS	10,664,484	69,637	0	0	10,664,484	69,637
Other investments	1,483,427	4,573	0	0	1,483,427	4,573
	$18,391,284	$96,349	$0	$0	$18,391,284	$96,349
March 31, 2015						
U.S. GSE debt securities	$0	$0	$997,447	$2,553	$997,447	$2,553

Debt securities in the table above consisted of five Agency MBS securities at March 31, 2016, six U.S. GSE debt securities, twelve Agency MBS and six certificates of deposit (CDs) held for investment at December 31, 2015, and one U.S. GSE debt security at March 31, 2015. The unrealized losses for all periods presented were principally attributable to changes in prevailing interest rates for similar types of securities and not deterioration in the creditworthiness of the issuer.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions, or adverse developments relating to the issuer, warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than the carrying value, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies or other adverse developments in the status of the securities have occurred, and the results of reviews of the issuer's financial condition. As of March 31, 2016, there were no declines in the fair value of any of the securities reflected in the table above that were deemed by management to be other than temporary.

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

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

	March 31, 2016	December 31, 2015	March 31, 2015
Commercial & industrial	$63,540,340	$65,191,124	$67,447,337
Commercial real estate	178,205,320	178,206,542	171,453,104
Residential real estate - 1st lien	162,594,375	162,760,273	161,594,311
Residential real estate - Jr lien	43,917,725	44,720,266	44,678,956
Consumer	6,790,425	7,241,224	7,399,886
	455,048,185	458,119,429	452,573,594

Deduct (add):			
Allowance for loan losses	5,109,488	5,011,878	5,003,049
Deferred net loan costs	(315,050)	(316,491)	(303,949)
	4,794,438	4,695,387	4,699,100
Net Loans	$450,253,747	$453,424,042	$447,874,494

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

March 31, 2016	30-89 Days	90 Days or More	Total Past Due	Current	Total Loans	Non-Accrual Loans	90 Days or More and Accruing
Commercial & industrial	$37,333	$204,354	$241,687	$63,298,653	$63,540,340	$ 256,456	$0
Commercial real estate	3,825,884	428,545	4,254,429	173,950,891	178,205,320	966,071	19,810
Residential real estate							
- 1st lien	3,950,062	991,614	4,941,676	157,652,699	162,594,375	1,467,171	764,031
- Jr lien	228,117	122,183	350,300	43,567,425	43,917,725	377,911	122,183
Consumer	152,546	0	152,546	6,637,879	6,790,425	0	0
Total	$8,193,942	$1,746,696	$9,940,638	$445,107,547	$455,048,185	$ 3,067,609	$906,024

December 31, 2015	30-89 Days	90 Days or More	Total Past Due	Current	Total Loans	Non-Accrual Loans	90 Days or More and Accruing
Commercial & industrial	$224,997	$168,244	$393,241	$64,797,883	$65,191,124	$ 441,103	$13,556
Commercial real estate	888,994	560,439	1,449,433	176,757,109	178,206,542	2,400,757	45,356
Residential real estate							
- 1st lien	2,875,768	1,408,551	4,284,319	158,475,954	162,760,273	2,009,079	801,241
- Jr lien	521,373	63,031	584,404	44,135,862	44,720,266	386,132	63,031
Consumer	83,343	0	83,343	7,157,881	7,241,224	0	0
Total	$4,594,475	$2,200,265	$6,794,740	$451,324,689	$458,119,429	$ 5,237,071	$923,184

March 31, 2015	30-89 Days	90 Days or More	Total Past Due	Current	Total Loans	Non-Accrual Loans	90 Days or More and Accruing
Commercial & industrial	$368,737	$385,212	$753,949	$66,693,388	$67,447,337	$ 945,226	$0
Commercial real estate	840,817	5,313	846,130	170,606,974	171,453,104	2,174,472	5,313
Residential real estate							
- 1st lien	4,663,341	681,381	5,344,722	156,249,589	161,594,311	1,420,371	316,165
- Jr lien	420,073	13,375	433,448	44,245,508	44,678,956	382,451	13,375
Consumer	72,479	7,580	80,059	7,319,827	7,399,886	0	7,580
Total	$6,365,447	$1,092,861	$7,458,308	$445,115,286	$452,573,594	$ 4,922,520	$342,433

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

As of March 31, 2016, there were five residential mortgage loans in process of foreclosure totaling $230,171, compared to five residential mortgage loans totaling $400,905 as of December 31, 2015, and four residential mortgages loans totaling $416,901 as of March 31, 2015.

Allowance for loan losses

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

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

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

General component

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

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

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

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

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

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

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

Specific component

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

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

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

Unallocated component

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

The tables below summarize changes in the allowance for loan losses and select loan information, by portfolio segment, for the periods indicated. The amounts shown below as of March 31, 2016 and December 31, 2015 and for the respective three and twelve month periods then ended reflect certain changes to the Company's reserve methodology adopted during the second quarter of 2015, which were described in the Company's 2015 Annual Report on Form 10-K.

As of or for the three months ended March 31, 2016

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	$712,902	$2,152,678	$1,368,028	$422,822	$75,689	$279,759	$5,011,878
Charge-offs	(10,836)	0	(312)	0	(16,675)	0	(27,823)
Recoveries	19,295	0	312	60	5,766	0	25,433
Provision (credit)	9,014	142,625	(29,101)	143	(6,324)	(16,357)	100,000
Ending balance	$730,375	$2,295,303	$1,338,927	$423,025	$58,456	$263,402	$5,109,488
Allowance for loan losses							
Evaluated for impairment							
Individually	$0	$0	$0	$117,700	$0	$0	$117,700
Collectively	730,375	2,295,303	1,338,927	305,325	58,456	263,402	4,991,788
Total	$730,375	$2,295,303	$1,338,927	$423,025	$58,456	$263,402	$5,109,488
Loans evaluated for impairment							
Individually	$204,354	$907,309	$717,673	$231,591	$0		$2,060,927
Collectively	63,335,986	177,298,011	161,876,702	43,686,134	6,790,425		452,987,258
Total	$63,540,340	$178,205,320	$162,594,375	$43,917,725	$6,790,425		$455,048,185

As of or for the year ended December 31, 2015

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	$646,719	$2,311,936	$1,270,766	$321,099	$118,819	$236,535	$4,905,874
Charge-offs	(200,900)	(14,783)	(150,947)	(66,104)	(69,632)	0	(502,366)
Recoveries	59,264	0	6,042	240	32,824	0	98,370
Provision (credit)	207,819	(144,475)	242,167	167,587	(6,322)	43,224	510,000
	$712,902	$2,152,678	$1,368,028	$422,822	$75,689	$279,759	$5,011,878

Ending balance							
Allowance for loan losses							
Evaluated for impairment							
Individually	$0	$0	$25,100	$114,600	$0	$0	$139,700
Collectively	712,902	2,152,678	1,342,928	308,222	75,689	279,759	4,872,178
Total	$712,902	$2,152,678	$1,368,028	$422,822	$75,689	$279,759	$5,011,878
Loans evaluated for impairment							
Individually	$286,436	$2,551,748	$1,419,808	$234,004	$0		$4,491,996
Collectively	64,904,688	175,654,794	161,340,465	44,486,262	7,241,224		453,627,433
Total	$65,191,124	$178,206,542	$162,760,273	$44,720,266	$7,241,224		$458,119,429

As of or for the three months ended March 31, 2015

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	$646,719	$2,311,936	$1,270,766	$321,099	$118,819	$236,535	$4,905,874
Charge-offs	(35,059)	0	(15,874)	(20,199)	(5,290)	0	(76,422)
Recoveries	5,607	0	6,042	60	11,888	0	23,597
Provision (credit)	133,224	13,175	61,083	20,447	(39,333)	(38,596)	150,000
Ending balance	$750,491	$2,325,111	$1,322,017	$321,407	$86,084	$197,939	$5,003,049
Allowance for loan losses							
Evaluated for impairment							
Individually	$70,200	$0	$59,100	$10,900	$0	$0	$140,200
Collectively	680,291	2,325,111	1,262,917	310,507	86,084	197,939	4,862,849
Total	$750,491	$2,325,111	$1,322,017	$321,407	$86,084	$197,939	$5,003,049
Loans evaluated for impairment							
Individually	$702,732	$2,107,787	$820,565	$308,036	$0		$3,939,120
Collectively	66,744,605	169,345,317	160,773,746	44,370,920	7,399,886		448,634,474
Total	$67,447,337	$171,453,104	$161,594,311	$44,678,956	$7,399,886		$452,573,594

Impaired loans, by portfolio segment, were as follows:

	As of March 31, 2016			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment(1)
With an allowance recorded				
Residential real estate - 1st lien	$0	$0	$0	$ 86,894
Residential real estate - Jr lien	231,591	284,287	117,700	232,798
	231,591	284,287	117,700	319,692
With no related allowance recorded				
Commercial & industrial	204,354	272,017		245,395
Commercial real estate	907,309	957,229		1,729,529
Residential real estate - 1st lien	717,673	803,505		981,847
	1,829,336	2,032,751		2,956,771

Total	$2,060,927	$2,317,038	$117,700	$ 3,276,463

(1) For the three months ended March 31, 2016

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

	As of March 31, 2015			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment(1)
With an allowance recorded				
Commercial & industrial	$94,855	$94,855	$70,200	$ 47,428
Commercial real estate	0	0	0	102,256
Residential real estate - 1st lien	355,885	383,523	59,100	235,497
Residential real estate - Jr lien	67,106	76,631	10,900	33,553
	$517,846	$555,009	$140,200	$ 418,734
With no related allowance recorded				
Commercial & industrial	$607,877	$657,443		$ 499,241
Commercial real estate	2,107,787	2,296,957		1,917,135
Residential real estate - 1st lien	464,680	531,386		535,407
Residential real estate - Jr lien	240,930	284,202		284,910
	$3,421,274	$3,769,988		$ 3,236,693
Total	$3,939,120	$4,324,997	$140,200	$ 3,655,427

(1) For the three months ended March 31, 2015

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

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

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

Credit Quality Grouping

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

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

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

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

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

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

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

As of March 31, 2016

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Total
Group A	$58,289,285	$165,816,389	$159,255,456	$43,197,130	$6,790,425	$433,348,685
Group B	4,448,662	4,638,741	593,394	184,734	0	9,865,531
Group C	802,393	7,750,190	2,745,525	535,861	0	11,833,969
Total	$63,540,340	$178,205,320	$162,594,375	$43,917,725	$6,790,425	$455,048,185

As of December 31, 2015

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

March 31, 2015

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Total
Group A	$63,693,155	$160,845,487	$158,579,882	$43,991,054	$7,392,306	$434,501,884
Group B	2,900,660	4,873,360	233,858	269,395	0	8,277,273
Group C	853,522	5,734,257	2,780,571	418,507	7,580	9,794,437
Total	$67,447,337	$171,453,104	$161,594,311	$44,678,956	$7,399,886	$452,573,594

Modifications of Loans and TDRs

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

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

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

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

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

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

	Three months ended March 31, 2016		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate - 1st lien	5	$ 395,236	$ 412,923
Residential real estate - Jr lien	1	10,261	10,340
Total	6	$ 405,497	$ 423,263

Year ended December 31, 2015		
Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment