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

	Three Months Ended September 30,	
	2016	2015
Net interest income as presented	$5,562,355	$5,307,265
Effect of tax-exempt income	175,151	143,748
Net interest income, tax equivalent	$5,737,506	$5,451,013

	Nine Months Ended September 30,	
	2016	2015
Net interest income as presented	$16,003,730	$15,525,431
Effect of tax-exempt income	485,399	425,732
Net interest income, tax equivalent	$16,489,129	$15,951,163

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

	Three Months Ended September 30,					
	2016			2015		
	Average Balance	Income/ Expense	Average Rate/ Yield	Average Balance	Income/ Expense	Average Rate/ Yield
Interest-Earning Assets						
Loans (1)	$476,137,513	$5,732,855	4.79%	$457,159,007	$5,503,166	4.78%
Taxable investment securities	27,393,741	128,767	1.87%	30,904,468	119,977	1.54%
Tax-exempt investment securities	55,195,067	515,150	3.71%	44,473,621	422,789	3.77%
Sweep and interest-earning accounts	2,591,082	3,048	0.47%	4,763,144	3,186	0.27%
Other investments (2)	3,176,788	49,429	6.19%	3,719,450	34,365	3.67%
Total	$564,494,191	$6,429,249	4.53%	$541,019,690	$6,083,483	4.46%
Interest-Bearing Liabilities						
Interest-bearing transaction accounts	$107,853,436	$51,580	0.19%	$108,843,456	$51,047	0.19%
Money market accounts	81,796,244	209,212	1.02%	87,144,276	208,754	0.95%
Savings deposits	88,078,948	27,216	0.12%	82,773,683	25,111	0.12%
Time deposits	105,959,177	216,162	0.81%	104,759,903	199,366	0.76%
Federal funds purchased and other borrowed funds	31,398,913	42,412	0.54%	24,389,727	16,285	0.26%
Repurchase agreements	25,387,081	18,820	0.29%	23,257,898	16,689	0.28%
Capital lease obligations	501,328	10,992	8.77%	586,362	11,944	8.15%
Junior subordinated debentures	12,887,000	115,349	3.56%	12,887,000	103,274	3.18%
Total	$453,862,127	$691,743	0.61%	$444,642,305	$632,470	0.56%
Net interest income		$5,737,506			$5,451,013	
Net interest spread (3)			3.92%			3.90%
Net interest margin (4)			4.04%			4.00%

(1) Included in gross loans are non-accrual loans with an average balance of $2,958,744 and $5,395,931 for the three months ended September 30, 2016 and 2015, respectively. Loans are stated before deduction of unearned discount and allowance for loan losses, less loans held-for-sale.

(2)

Included in other investments is the Company's FHLBB Stock with an average balance of $2,201,638 and $2,744,300
for the three months ended September 30, 2016 and 2015, respectively, and dividend payout rates of approximately
3.65% and 3.28%, respectively, per quarter.

(3) Net interest spread is the difference between the average yield on average interest-earning assets and the average rate paid on average interest-bearing liabilities.

(4) Net interest margin is net interest income divided by average earning assets.

	Nine Months Ended September 30,					
	2016			2015		
			Average			Average
	Average	Income/	Rate/	Average	Income/	Rate/
	Balance	Expense	Yield	Balance	Expense	Yield
Interest-Earning Assets						
Loans (1)	$465,314,118	$16,582,276	4.76%	$454,521,324	$16,314,191	4.80%
Taxable investment securities	29,210,491	384,413	1.76%	30,843,902	327,624	1.42%
Tax-exempt investment securities	50,577,436	1,427,645	3.77%	43,578,397	1,252,153	3.84%
Sweep and interest-earning accounts	5,225,968	18,654	0.48%	3,731,551	7,446	0.27%
Other investments (2)	2,766,541	108,141	5.22%	3,719,450	82,036	2.95%
Total	$553,094,554	$18,521,129	4.47%	$536,394,624	$17,983,450	4.48%
Interest-Bearing Liabilities						
Interest-bearing transaction accounts	$111,223,384	$155,413	0.19%	$112,745,577	$162,905	0.19%
Money market accounts	84,974,840	637,818	1.00%	88,802,752	655,299	0.99%
Savings deposits	85,668,159	79,225	0.12%	80,327,748	72,862	0.12%
Time deposits	107,919,364	657,009	0.81%	108,205,747	714,850	0.88%
Federal funds purchased and other borrowed funds	18,588,663	74,046	0.53%	14,849,578	29,456	0.27%
Repurchase agreements	25,393,136	56,125	0.30%	25,676,781	54,259	0.28%
Capital lease obligations	522,708	32,761	8.36%	606,362	37,049	8.15%
Junior subordinated debentures	12,887,000	339,603	3.52%	12,887,000	305,607	3.17%
Total	$447,177,254	$2,032,000	0.61%	$444,101,545	$2,032,287	0.61%
Net interest income		$16,489,129			$15,951,163	
Net interest spread (3)			3.86%			3.87%
Net interest margin (4)			3.98%			3.98%

(1) Included in gross loans are non-accrual loans with an average balance of $3,384,345 and $5,063,600 for the nine months ended September 30, 2016 and 2015, respectively. Loans are stated before deduction of unearned discount and allowance for loan losses.

(2) Included in other investments is the Company's FHLBB Stock with average balances of $1,791,391 and $2,744,300

respectively, and dividend payout rates of approximately 4.85% and 2.26%, respectively, for the first nine months of
2016 and 2015, respectively.

(3) Net interest spread is the difference between the average yield on average interest-earning assets and the average rate paid on average interest-bearing liabilities.

(4) Net interest margin is net interest income divided by average earning assets.

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The average volume of interest-earning assets for the three and nine month periods ended September 30, 2016 increased 3.1% and 4.3%, respectively, compared to the same periods last year. Average yield on interest-earning assets for the third quarter increased seven basis points, to 4.53%, compared to 4.46% for the same period last year, but decreased one basis point for the nine months ended September 30, 2016, to 4.47%, from 4.48% for the same period last year. Similarly, the average volume of loans increased over the three and nine month comparison periods of 2016 versus 2015, by 2.4% and 4.2%, respectively, while the average yield on loans increased one basis point for the third quarter, to 4.79%, compared to 4.78% for the third quarter of 2015, but decreased four basis points for the nine months ended September 30, 2016, to 4.76% from 4.80% for the same period last year. The decline in average yields for the first nine months of 2016 compared to 2015, as well as the calculation of the net interest spread and margin for the first nine months of 2015 noted below, reflect the boost to interest income during the first quarter of 2015 resulting from the recognition of approximately $170,000 in accrued interest when one large non-accruing residential mortgage loan was paid off and two other non-accruing loans were restored to accrual status. Interest earned on the loan portfolio as a percentage of total interest income remained fairly steady for the three and nine month periods ended September 30, 2016, comprising approximately 89.2% and 89.5%, respectively, of total interest income, versus 90.5% and 90.7%, respectively, for the same periods last year. The average volume of the taxable investment portfolio (classified as available for sale) decreased 11.4 % during the third quarter of 2016 and 5.3% year to date, compared to the same periods last year as maturities in 2016 were used to fund loan growth. Average yields on the taxable investment portfolio increased 33 basis points and 34 basis points, for the third quarter of 2016 and year to date, respectively, compared to the same periods last year. These increases are due primarily to the shift in the taxable investment portfolio to higher yielding mortgage-backed securities and certificates of deposit, both of which had very favorable spreads to similar term treasury and agency bonds, while exhibiting similar risk profiles. Compared to the third quarter of 2015, the average volume of the tax exempt portfolio (classified as held to maturity and consisting of municipal securities) increased 24.1% during the third quarter of 2016, due in part to the Company's $6.3 million participation in a local hospital bond financing, and increased 16.1% in the 2016 versus 2015 year to date comparison. The average tax-equivalent yield on the tax exempt portfolio decreased by six basis points and seven basis points, respectively, during the three and nine month periods ended September 30, 2016 compared to the same periods last year, reflecting the continued low rate environment as well competitive pressures for municipal investments. The average volume of sweep and interest-earning accounts, which consists primarily of an interest bearing account at the Federal Reserve Bank of Boston (FRBB), decreased during the three month period and increased during the nine month periods ended September 30, 2016 compared to the same periods last year, but the average balances of these funds have remained relatively low throughout 2016 as excess cash has been used to fund loan growth.

In comparison, the average volume of interest-bearing liabilities increased by 2.1%, for the third quarter of 2016 compared to the same period last year, and remained essentially flat year to date compared to the first nine months of 2015, increasing only 0.7%. The average rate paid on interest-bearing liabilities during the third quarter of 2016 increased slightly, by five basis points compared to the same period last year, while remaining unchanged during the first nine months of 2016 compared to the same period last year. The average volume of interest-bearing transaction accounts decreased by 0.9% and 1.4%, respectively, during the third quarter and first nine months of 2016, compared to the same periods last year, and the average rate paid on these accounts remained unchanged during the three and nine month comparison periods. The average volume of money market accounts decreased during both the three and nine month periods ended September 30, 2016, by 6.1% and 4.3%, respectively, compared to the same periods in 2015, while the average rate paid on these deposits increased seven basis points during the third quarter of 2016 versus the second quarter last year and one basis point in the year to date comparison periods. The decrease in money market accounts in 2016 is due primarily to the run off, as anticipated, of approximately $8,000,000 in construction-related escrow funds deposited during the fourth quarter of 2014. The average volume of savings accounts increased by 6.4% and 6.7%, respectively, for the three month and nine month comparison periods of 2016 versus 2015, due in part to the continued shift in product mix from retail time deposits to savings accounts as consumers anticipate higher rates in the near future. Compared to the same periods in 2015, the average volume of

retail time deposits decreased 4.9% during the second quarter, and 7.6% year to date 2016, while the average volume of wholesale time deposits increased during both the three and nine month comparison periods in 2016. Wholesale time deposits have been an increasingly beneficial source of funding in 2016 as they have provided large blocks of funding without the need to disrupt pricing in the Company's local markets. These funds can be obtained relatively quickly on an as-needed basis, making them a valuable alternative to traditional term borrowings from the FHLBB. The average volume of federal funds purchased and other borrowed funds increased 28.7% and 25.2%, respectively, for the three month and nine month comparison periods of 2016 versus 2015, and the average rate paid on these accounts increased 28 basis points and 26 basis points, respectively. The average volume of repurchase agreements increased 9.2% for three months ended September 30, 2016 but decreased 1.1% for the nine months ended September 30, 2016, compared to the same periods in 2015, while the average rate paid on repurchase agreements during the three and nine month comparison periods of 2016 versus 2015 increased by one basis point and two basis points, respectively.

After years of this low interest rate environment which put pressure on the Company's net interest spread and margin due to the Company's earning assets being both replaced with, and repricing to, lower interest rate instruments, and due to limited opportunity to reduce rates further on non-maturing interest-bearing deposits, the asset growth and changes to the mix of the balance sheet, combined with low cost of funds, is starting to have a positive effect on both the net interest spread and margin. In addition, the 25 basis point increase in the prime rate in December 2015 provided some benefit to the Company's variable rate loan portfolio, although the prospect for further rate increases is unclear due to the continued uncertainty in the global economy. For the three months ended September 30, 2016 and 2015, the average yield on interest-earning assets increased seven basis points, while the average rate paid on interest-bearing liabilities increased five basis points. For the nine months ended September 30, 2016 and 2015, the average yield on interest-earning assets decreased one basis point, while the average rate paid on interest-bearing liabilities remained flat. Net interest spread for the third quarter of 2016 was 3.92%, an increase of two basis points from 3.90% for the same period in 2015, and for the nine month comparison periods of 2016 and 2015, was 3.86% and 3.87%, respectively. Net interest margin increased four basis points during the third quarter of 2016 compared to the third quarter of 2015, and remained unchanged at 3.98% for the nine month comparison periods of 2016 and 2015.

The following table summarizes the variances in interest income and interest expense on a fully tax-equivalent basis for the periods presented for 2016 and 2015 resulting from volume changes in average assets and average liabilities and fluctuations in average rates earned and paid.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	Variance Due to Rate (1)	Variance Due to Volume (1)	Total Variance	Variance Due to Rate (1)	Variance Due to Volume (1)	Total Variance
Average Interest-Earning Assets						
Loans	$1,032	$228,657	$229,689	$(119,391)	$387,476	$268,085
Taxable investment securities	25,292	(16,502)	8,790	78,311	(21,522)	56,789
Tax-exempt investment securities	(9,519)	101,880	92,361	(25,528)	201,020	175,492
Sweep and interest-earning accounts	2,428	(2,566)	(138)	8,190	3,018	11,208
Other investments	23,508	(8,444)	15,064	63,343	(37,238)	26,105
Total	$42,741	$303,025	$345,766	$4,925	$532,754	$537,679
Average Interest-Bearing Liabilities						
Interest-bearing transaction accounts	$1,006	$(473)	$533	$(5,327)	$(2,165)	$(7,492)
Money market accounts	14,170	(13,712)	458	11,176	(28,657)	(17,481)
Savings deposits	500	1,605	2,105	1,570	4,793	6,363
Time deposits	14,499	2,297	16,796	(56,104)	(1,737)	(57,841)
Federal funds purchased and other borrowed funds	21,534	4,593	26,127	37,039	7,551	44,590

Repurchase agreements	628	1,503	2,131	2,503	(637)	1,866
Capital lease obligations	923	(1,875)	(952)	948	(5,236)	(4,288)
Junior subordinated debentures	12,075	0	12,075	33,996	0	33,996
Total	$65,335	$(6,062)	$59,273	$25,801	$(26,088)	$(287)
Changes in net interest income	$(22,594)	$309,087	$286,493	$(20,876)	$558,842	$537,966

(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

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NON-INTEREST INCOME AND NON-INTEREST EXPENSE

Non-interest Income

The components of non-interest income for the periods presented were as follows:

	Three Months Ended				Nine Months Ended			
	September 30,		Change		September 30,		Change	
	2016	2015	$	%	2016	2015	$	%
Service fees	$719,341	$657,949	$61,392	9.33%	$1,992,560	$1,932,367	$60,193	3.11%
Income from sold loans	230,623	239,724	(9,101)	-3.80%	683,114	687,964	(4,850)	-0.70%
Other income from loans	209,882	223,465	(13,583)	-6.08%	616,473	544,097	72,376	13.30%
Net realized gain (loss) on sale of securities available-for-sale	0	0	0	0.00%	0	2,723	(2,723)	-100.00%
Income from CFSG Partners	143,095	94,122	48,973	52.03%	326,676	269,313	57,363	21.30%
Rental income on OREO properties	0	6,893	(6,893)	-100.00%	0	43,414	(43,414)	-100.00%
Exchange income	27,000	23,000	4,000	17.39%	78,500	61,500	17,000	27.64%
SERP fair value adjustment	32,352	(44,522)	76,874	-172.67%	46,758	(43,993)	90,751	-206.29%
Other income	121,227	99,364	21,863	22.00%	295,989	319,876	(23,887)	-7.47%
Total non-interest income	$1,483,520	$1,299,995	$183,525	14.12%	$4,040,070	$3,817,261	$222,809	5.84%

Total non-interest income increased $183,525 for the third quarter of 2016, and $222,809 for the first nine months of 2016 versus the same periods in 2015, with significant changes noted in the following:

Service fees increased $61,392, or 9.3%, for the third quarter and $60,193, or 3.1%, year over year due to an increase in overdraft charges driven by a courtesy overdraft program put into place in the first quarter of 2016.

Other income from loans decreased $13,583, or 6.1%, for the third quarter while an increase of $72,376, or 13.3%, is noted year over year. A contributing factor to the decrease for the third quarter of 2016 compared to the same quarter of 2015 was a $29,476 impairment expense associated with mortgage servicing rights. The year over year increase was due primarily to an increase in commercial loan documentation fees.

Income from CFSG Partners increased $48,973, or 52.0%, for the third quarter and $57,363, or 21.3%, year over year. These increases were due to a one-time mark-to-market adjustment to CFSG Partners' investment portfolio based on their adoption of an accounting principle to eliminate the income statement impact of future changes to market values of their nonqualified tax deferred accounts to their income statement.

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

Currency exchange income increased $4,000, or 17.4%, for the third quarter and $17,000, or 27.6%, year over year due to the weakening Canadian dollar during 2016.

SERP fair value adjustment increased $76,874, or 172.7%, for the third quarter and $90,751, or 206.3%, year over year due to changes in the equity markets.

Other income increased $21,863, or 22.0%, for the third quarter and decreased $23,887, or 7.5%, year over year due to timing differences.

Non-interest Expense

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

	Three Months Ended				Nine Months Ended			
	September 30,		Change		September 30,		Change	
	2016	2015	$	%	2016	2015	$	%
Salaries and wages	$1,725,000	$1,650,000	$75,000	4.55%	$5,175,000	$4,988,352	$186,648	3.74%
Employee benefits	679,762	575,129	104,633	18.19%	2,049,926	1,911,809	138,117	7.22%
Occupancy expenses, net	605,378	676,559	(71,181)	-10.52%	1,857,482	1,976,226	(118,744)	-6.01%
Other expenses								
Computer outsourcing	128,910	151,291	(22,381)	-14.79%	376,885	394,160	(17,275)	-4.38%
Service contracts - administrative	106,747	89,790	16,957	18.89%	292,663	245,457	47,206	19.23%
Telephone expense	86,647	76,240	10,407	13.65%	240,764	235,953	4,811	2.04%
Collection & non-accruing loan expense	46,500	11,500	35,000	304.35%	84,500	64,505	19,995	31.00%
OREO expense	5,498	17,005	(11,507)	-67.67%	37,467	97,291	(59,824)	-61.49%
ATM fees	101,209	92,902	8,307	8.94%	284,520	275,680	8,840	3.21%
State deposit tax	139,476	130,491	8,985	6.89%	414,486	406,186	8,300	2.04%
Other miscellaneous expenses	1,165,376	1,060,967	104,409	9.84%	3,334,280	3,412,823	(78,543)	-2.30%
Total non-interest expense	$4,790,503	$4,531,874	$258,629	5.71%	$14,147,973	$14,008,442	$139,531	1.00%

Total non-interest expense increased $258,629, or 5.7%, for the third quarter and $139,531, or 1.0%, for the first nine months of 2016 compared to the same periods in 2015 with significant changes noted in the following:

Salaries increased $75,000, or 4.6%, for the third quarter and $186,648, or 3.7%, year over year, due to normal increases in salaries, as well as additional staff hired in the areas of commercial lending, technology and compliance.

Employee benefits increased $104,633, or 18.2%, for the third quarter and $138,117, or 7.2%, year over year, mostly due to an increase in health insurance premiums.

Occupancy expenses decreased $71,181, or 10.5%, for the third quarter and $118,744, or 6.0%, year over year, due in part to lower heating costs and maintenance costs associated with the winter months as the region experienced a fairly mild winter compared to the last few years. Also contributing to the decrease in occupancy expenses was the reduction in operating costs due to the closing of two branches in the third quarter of 2015.

Service contracts – administrative increased $16,957, or 18.9%, for the third quarter and $47,206, or 19.2%, year over year due mostly to a new service contract for our upgraded telephone system and other technology.

Collection & non-accruing loan expense increased $35,000, or 304.4%, for the third quarter and $19,995, or 31.0%, year over year mostly due to the increased length of time that properties are staying in the foreclosure process, particularly those involving bankruptcy, resulting in increased maintenance costs associated with properties in foreclosure.

OREO expense decreased $11,507, or 67.7%, for the third quarter and $59,824, or 61.5%, year over year. During the first quarter of 2016, the Company received approximately $15,000 in reimbursed condo fees associated with the OREO property that was sold in December of 2015.

Other miscellaneous expenses increased $104,409, or 9.8%, for the third quarter and decreased $78,543, or 2.3%, year over year. The third quarter increase is attributable to a $34,256 increase in marketing expenses and a $34,000 write-down on a receivable the Company expects to collect at $0.90/$1.00 before the end of 2016. During the first three months of 2015, the Company experienced a loss of approximately $45,000 on a fraudulent check, making up a portion of the decrease between periods. Additionally, during the second quarter of 2015 the Company incurred a cost of $110,850 in increased printing & supplies expense associated with the mandatory re-issuance of customer debit cards with enhanced security chip technology.

APPLICABLE INCOME TAXES

The provision for income taxes increased $28,908, or 5.2% to $589,472 for the third quarter of 2016 compared to $560,564 for the same period in 2015 and $183,350, or 13.8%, to $1,515,234 for the first nine months of 2016 compared to $1,331,884 for the same period in 2015. Income before taxes increased $104,986, or 5.3%, for the third quarter of 2016 compared to the same quarter of 2015, and $536,577, or 10.8%, for the first nine months of 2016 compared to the same period in 2015 accounting for most of the increase in the provision in both periods. A decrease in tax credits of $9,453 for the third quarter comparison period and $28,359 for the nine month comparison period makes up a small portion of the increase in income tax expense in both periods. Tax credits related to limited partnerships amounted to $98,475 and $107,928, respectively, for the third quarters of 2016 and 2015 and $295,425 and $323,784, respectively, for the first nine months of 2016 and 2015.

Amortization expense related to limited partnership investments is included as a component of income tax expense and amounted to $102,006 and $100,860, respectively, for the third quarters of 2016 and 2015, and $306,018 and $302,580, respectively, for the first nine months of 2016 and 2015. These investments provide tax benefits, including tax credits, and are designed to provide an effective yield between 8% and 10%.

Amortization expense relating to the Company’s New Market Tax Credit investment is also recorded as a separate component of income tax expense and for the third quarters of 2016 and 2015 amounted to $44,484 and $40,473, respectively, and for the first nine months of 2016 and 2015 amounted to $133,452 and $121,419, respectively.

The Company amortizes these investments under the effective yield method.

CHANGES IN FINANCIAL CONDITION

The following table reflects the composition of the Company's major categories of assets and liabilities as a percentage of total assets or liabilities and shareholders’ equity, as the case may be, as of the dates indicated:

	September 30, 2016		December 31, 2015		September 30, 2015	
Assets						
Loans	$470,186,895	77.62%	$458,119,429	76.85%	$455,418,132	77.33%
Securities available-for-sale	29,412,216	4.86%	26,470,400	4.44%	30,385,242	5.16%
Securities held-to-maturity	56,837,100	9.38%	43,354,419	7.27%	47,657,894	8.09%
Liabilities						
Demand deposits	101,259,470	16.72%	93,525,762	15.69%	91,124,547	15.47%
Interest-bearing transaction accounts	119,981,648	19.81%	130,735,094	21.93%	113,669,795	19.30%
Money market accounts	76,976,376	12.71%	81,930,888	13.74%	89,103,792	15.13%
Savings deposits	91,274,380	15.07%	81,731,290	13.71%	81,550,091	13.85%
Time deposits	114,315,032	18.87%	107,562,528	18.04%	103,560,266	17.58%
Federal funds purchased	5,245,000	0.87%	0	0.00%	0	0.00%
Short-term advances	0	0.00%	10,000,000	1.68%	20,000,000	3.40%
Long-term advances	550,000	0.09%	0	0.00%	0	0.00%

The Company's loan portfolio at September 30, 2016 increased $12,067,466, or 2.6%, from December 31, 2015 and $14,768,763, or 3.2%, year over year. Increases in both periods are the results of increases in commercial loans. These changes in the relative composition of the loan portfolio are consistent with the Company’s goal to increase its commercial loan portfolio, and reflect the efforts of a seasoned commercial lending team with a strong presence in the small business community. Most of the growth in the commercial loan portfolio has occurred in the Company’s Chittenden County and Washington County (Central Vermont) market. Securities available-for-sale increased $2,941,816, or 11.1%, year to date, but decreased $973,026, or 3.2%, year over year, with maturities used to fund loan demand. Securities held-to-maturity increased $13,482,681, or 31.1%, at September 30, 2016, compared to December 31, 2015, and increased $9,179,206, or 19.3%, compared to September 30, 2015. Held-to-maturity securities are made up of investments from the Company’s municipal customers in its service areas. While the Company has used maturing securities in the AFS portfolio to fund loan growth in recent periods, the liquidity provided by these investments is very important, and as such the portfolio is not expected to see further decline in balances.

Total deposits increased $8,321,344, or 1.7%, from December 31, 2015 to September 30, 2016, and $24,798,415, or 5.2%, year over year. Demand deposits increased $7,733,708, or 8.3%, year to date and $10,134,923, or 11.1%, year over year. Interest-bearing transaction accounts decreased $10,753,446, or 8.2%, year to date, but increased $6,311,853, or 5.6%, year over year. The year to date decrease was due primarily to the seasonal decrease in municipal deposits. Time deposits increased $6,752,504, or 6.3%, from December 31, 2015 to September 30, 2016 and $10,754,766, or 10.4%, year over year. Wholesale time deposits increased $6,271,670, or 90.3%, from December 31, 2015 to September 30, 2016 and $10,442,560, or 376.8%, year over year due to $10,000,000 of one-way deposits purchased through the Certificate of Deposit Account Registry Service (CDARS) of the Promontory Interfinancial Network (Promontory) at the end of the third quarter of 2016, as the Company utilized the additional liquidity to fund loan demand. Retail time deposits increased $480,834, or 0.5%, year to date, and $312,206, or 0.3%, year over year. Money market accounts decreased $4,954,512, or 6.1%, year to date and $12,127,416, or 13.6%, year over year, due primarily to the $8 million of construction escrow accounts that were released during 2016. Savings deposits increased in both comparison periods, by $9,543,090, or 11.7%, year to date, and $9,724,289, or 11.9%, year over year due to the timing of a large IOLTA deposit at quarter end, which cleared the bank shortly thereafter. Overnight federal funds purchases from FHLBB of $5,245,000 were reported at September 30, 2016 compared to short-term advances from the FHLBB totaling $10,000,000 at December 31, 2015 and $20,000,000 at September 30, 2015. In addition, there were outstanding long-term advances from the FHLBB of $550,000 at September 30, 2016, compared to no such advances at either December 31, 2015 or September 30, 2015.

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

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

Under the Company's rate sensitivity modeling, in the current flat rate environment, NII levels are projected to be flat as the downward pressure on asset yields is projected to slow down as cash flow is replaced at equal yields. Funding costs are expected to provide slight relief as longer-term time deposits mature and are replaced at current rates. In a rising rate environment, NII is expected to trend upward as the short-term asset base (cash and adjustable rate loans) quickly cycle upward while the retail funding base (deposits) lags the market. If rates paid on deposits have to be increased more and/or more quickly than projected, the expected benefit to rising rates would be reduced. In a falling rate environment, NII is expected to decrease slightly 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 September 30, 2016:

Rate Change	Percent Change in NII

Down 100 basis points	-1.40%
Up 200 basis points	4.50%

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 43% of the Company's loan balances; that level has been on a gradual decline in recent years, with a strategic shift to commercial lending. The Company maintains a mortgage loan portfolio of traditional mortgage products and does not engage in higher risk loans such as option adjustable rate mortgage products, high loan-to-value products, interest only mortgages, subprime loans and products with deeply discounted teaser rates. Residential mortgages with loan-to-values exceeding 80% are generally covered by private mortgage insurance (PMI). A 90% loan-to-value residential mortgage product without PMI is only available to borrowers with excellent credit and low debt-to-income ratios and has not been widely originated. Junior lien home equity products make up approximately 21% of the residential mortgage portfolio with maximum loan-to-value ratios (including prior liens) of 80%. The Company also originates some home equity loans greater than 80% under an insured loan program with stringent underwriting criteria.

The Company's strategy is to continue growing the commercial & industrial and commercial real estate portfolios. Consistent with the strategic focus on commercial lending, both segments saw solid growth during 2015, and continued strong commercial loan demand and originations in 2016, despite some significant loan payoffs during the first quarter of 2016. This growth has included balances being drawn on commercial construction loans and higher balances on commercial lines of credit. Commercial and commercial real estate loans together comprised 52.8% of the Company's loan portfolio at September 30, 2015, increasing slightly to 53.1% at December 31, 2015 and increasing again to 55.3% at September 30, 2016. The increase in the absolute and relative size of the commercial loan portfolio has also increased geographic diversification, with much of the growth in commercial loans occurring in central Vermont and Chittenden County.

The following table reflects the composition of the Company's loan portfolio, by portfolio segment, as a percentage of total loans as of the dates indicated:

	September 30, 2016		December 31, 2015		September 30, 2015	
Commercial & industrial	$69,791,331	14.84%	$65,191,124	14.23%	$68,970,374	15.14%
Commercial real estate	190,246,590	40.46%	178,206,542	38.90%	171,636,701	37.69%
1 - 4 family residential - 1st lien	161,277,406	34.30%	162,760,273	35.53%	161,763,468	35.52%
1 - 4 family residential - Jr lien	41,739,827	8.88%	44,720,266	9.76%	45,237,294	9.93%
Consumer	7,131,741	1.52%	7,241,224	1.58%	7,810,295	1.72%
Total loans	470,186,895	100.00%	458,119,429	100.00%	455,418,132	100.00%
Deduct (add):						
Allowance for loan losses	5,179,965		5,011,878		5,015,987	

Deferred net loan costs	(312,565)	(316,491)	(308,189)
Net loans	$465,319,495	$453,424,042	$450,710,334

Risk in the Company's commercial & industrial and commercial real estate loan portfolios is mitigated in part by government guarantees issued by federal agencies such as the SBA and U.S. Department of Agriculture (USDA) Rural Development. At September 30, 2016, the Company had $26,476,719 in guaranteed loans with guaranteed balances of $20,070,993, compared to $21,823,375 in guaranteed loans with guaranteed balances of $16,853,181 at December 31, 2015 and $21,583,643 in guaranteed loans with guaranteed balances of $16,824,894 at September 30, 2015.

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The Company works actively with customers early in the delinquency process to help them to avoid default and foreclosure. Commercial & industrial and commercial real estate loans are generally placed on non-accrual status when there is deterioration in the financial position of the borrower, payment in full of principal and interest is not expected, and/or principal or interest has been in default for 90 days or more. However, such a loan need not be placed on non-accrual status if it is both well secured and in the process of collection. Residential mortgages and home equity loans are considered for non-accrual status at 90 days past due and are evaluated on a case-by-case basis. The Company obtains current property appraisals or market value analyses and considers the cost to carry and sell collateral in order to assess the level of specific allocations required. Consumer loans are generally not placed in non-accrual but are charged off by the time they reach 120 days past due. When a loan is placed in non-accrual status, the Company's policy is to reverse the accrued interest against current period income and to discontinue the accrual of interest until the borrower clearly demonstrates the ability and intention to resume normal payments, typically demonstrated by regular timely payments for a period of not less than six months. Interest payments received on non-accrual or impaired loans are generally applied as a reduction of the loan principal balance.

The Company’s non-performing assets decreased $2,235,010, or 34.8%, to $4,187,245, during the first nine months of 2016. The improvement in non-performing loans resulted principally from a combination of two loans moving to OREO and several loan relationships moving from non-accrual to accrual status, with one of those relationships accounting for the majority of the improvement. Claims receivable on related government guarantees were $0 at September 30, 2016 compared to $200,377 at December 31, 2015 and $73,394 at September 30, 2015, with several USDA and SBA claims settled and paid throughout the year. Non-performing loans as of September 30, 2016 carried USDA or SBA guarantees totaling $168,861.

The following table reflects the composition of the Company's non-performing assets, by portfolio segment, as a percentage of total non-performing assets as of the dates indicated:

	September 30, 2016		December 31, 2015		September 30, 2015	
Loans past due 90 days or more and still accruing						
Commercial & industrial	$116,720	2.79%	$13,556	0.21%	$0	0.00%
Commercial real estate	227,302	5.43%	45,356	0.71%	0	0.00%
Residential real estate - 1st lien	744,379	17.78%	801,241	12.48%	348,353	4.92%
Residential real estate - Jr lien	91,420	2.18%	63,031	0.98%	67,811	0.96%
Consumer	0	0.00%	0	0.00%	1,791	0.02%
Total	1,179,821	28.18%	923,184	14.38%	417,955	5.90%
Non-accrual loans (1)						
Commercial & industrial	205,358	4.90%	441,103	6.87%	631,247	8.92%
Commercial real estate	759,332	18.13%	2,400,757	37.38%	2,377,232	33.59%
Residential real estate - 1st lien	1,289,968	30.81%	2,009,079	31.28%	2,240,524	31.66%
Residential real estate - Jr lien	343,766	8.21%	386,132	6.01%	351,805	4.97%

Total	2,598,424	62.05%	5,237,071	81.54%	5,600,808	79.14%
Other real estate owned	409,000	9.77%	262,000	4.08%	1,058,475	14.96%
Total	$4,187,245	100.00%	$6,422,255	100.00%	$7,077,238	100.00%

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

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

The Company's Troubled Debt Restructurings (TDRs) are principally a result of extending loan repayment terms to relieve cash flow difficulties. The Company has only infrequently reduced interest rates for borrowers below the current market rate. The Company has not forgiven principal or reduced accrued interest within the terms of original restructurings. Management evaluates each TDR situation on its own merits and does not foreclose the granting of any particular type of concession.

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

	September 30, 2016		December 31, 2015		September 30, 2015	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
Commercial	2	$188,528	4	$298,115	7	$260,980
Commercial real estate	2	363,873	5	1,414,380	4	1,192,581
Residential real estate - 1st lien	7	393,441	11	967,324	11	1,106,660
Residential real estate - Jr lien	1	51,308	1	55,633	1	44,816
Total	12	$997,151	21	$2,735,452	23	$2,605,037

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

	September 30, 2016		December 31, 2015		September 30, 2015	
	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
Commercial	0	$0	0	$0	1	$4,614
Commercial real estate	5	1,368,531	2	429,170	2	432,977
Residential real estate - 1st lien	30	2,874,030	21	1,958,699	20	1,797,337
Residential real estate - Jr lien	3	132,590	1	69,828	1	69,828
Total	38	$4,375,150	24	$2,457,697	24	$2,304,756

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

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

$147,000 in its OREO portfolio, to end the first nine months of 2016 at $409,000.

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

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

The Company applies numerous qualitative factors to each segment of the loan portfolio. Those factors include the levels of and trends in delinquencies and non-accrual loans, criticized and classified assets, volumes and terms of loans, and the impact of any loan policy changes. Experience, ability and depth of lending personnel, levels of policy and documentation exceptions, national and local economic trends, the competitive environment, and concentrations of credit are also factors considered. While unallocated reserves have decreased, they are considered by management to be appropriate in light of the Company’s continued growth strategy and shift in the portfolio from residential loans to commercial and commercial real estate loans and the risk associated with the relatively new, unseasoned loans in those portfolios.

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

The following table summarizes the Company's loan loss experience for the periods presented:

	As of or Nine Months Ended September 30,	
	2016	2015
Loans outstanding, end of period	$470,186,895	$455,418,132
Average loans outstanding during period	$465,314,118	$454,521,324
Non-accruing loans, end of period	$2,598,424	$5,600,808
Non-accruing loans, net of government guarantees	$2,429,563	$4,793,621
Allowance, beginning of period	$5,011,878	$4,905,874
Loans charged off:		
Commercial & industrial	(12,194)	(105,059)
Commercial real estate	0	(14,783)
Residential real estate - 1st lien	(234,549)	(112,047)
Residential real estate - Jr lien	0	(55,393)
Consumer loans	(38,412)	(53,440)
Total loans charged off	(285,155)	(340,722)
Recoveries:		
Commercial & industrial	22,650	43,909
Residential real estate - 1st lien	9,660	6,042
Residential real estate - Jr lien	180	180
Consumer loans	20,752	25,704
Total recoveries	53,242	75,835
Net loans charged off	(231,913)	(264,887)
Provision charged to income	400,000	375,000
Allowance, end of period	$5,179,965	$5,015,987
Net charge offs to average loans outstanding	0.050%	0.058%
Provision charged to income as a percent of average loans	0.086%	0.083%
Allowance to average loans outstanding	1.113%	1.104%
Allowance to non-accruing loans	199.350%	89.558%
Allowance to non-accruing loans net of government guarantees	213.206%	104.639%

The Company decreased its provision during the first three months of 2016, while staying on budget for the second and third quarters of 2016, resulting in a provision of $400,000 for the nine months ended September 30, 2016 compared to $375,000 for the same period in 2015, an increase of $25,000 or 6.7%. The increase in the provision is principally related to growth in the loan portfolio in 2016. The marked increase in the Company’s allowance coverage

of non-accruing loans as of the end of the first nine months of 2016 reflects the combined effect of an increase in the allowance for loan losses and a decrease in non-accruing loans. The Company has an experienced collections department that continues to work actively with borrowers to resolve problem loans and manage the OREO portfolio, and management continues to monitor the loan portfolio closely.

Specific allocations to the allowance are made for certain impaired loans. Impaired loans include loans to a borrower that in aggregate are greater than $100,000 and that are in non-accrual status or are troubled debt restructurings. A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due, including interest and principal, according to the contractual terms of the loan agreement. The Company will review all the facts and circumstances surrounding non-accrual loans and on a case-by-case basis may consider loans below the threshold as impaired when such treatment is material to the financial statements. See Note 5 to the accompanying unaudited interim consolidated financial statements for information on the recorded investment in impaired loans and their related allocations.

The portion of the allowance termed "unallocated" is established to absorb inherent losses that exist as of the measurement date although not specifically identified through management's process for estimating credit losses. While the allowance is described as consisting of separate allocated portions, the entire allowance is available to support loan losses, regardless of category.

Certain Related Party Loans

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

As previously reported, the Bank had two loans outstanding to related commercial enterprises in which one of the Company’s Directors is a 35% non-controlling equity owner. The loans consisting of a commercial line of credit and a commercial real estate loan, went into default during the third quarter of 2016. The Director subsequently purchased the defaulted commercial line of credit from the Bank at par plus unpaid interest. As of September 30, 2016, the real estate-secured term loan had an outstanding principal balance of $2,556,666 plus accrued interest of $7,121. The Bank believes that the value of the collateral exceeds the aggregate amount of the indebtedness and does not expect to incur a loss on the loan, with liquidation of the real estate collateral required within two years under the terms of a forbearance agreement with the borrower.

Market Risk - In addition to credit risk in the Company’s loan portfolio and liquidity risk in its loan and deposit-taking operations, the Company’s business activities also generate market risk. Market risk is the risk of loss in a financial instrument arising from adverse changes in market prices and rates, foreign currency exchange rates, commodity prices and equity prices. Declining capital markets can result in fair value adjustments necessary to record decreases in the value of the investment portfolio for other-than-temporary-impairment. The Company does not have any market risk sensitive instruments acquired for trading purposes. The Company’s market risk arises primarily from interest rate risk inherent in its lending and deposit taking activities. During times of recessionary periods, a declining housing market can result in an increase in loan loss reserves or ultimately an increase in foreclosures. Interest rate risk is directly related to the different maturities and repricing characteristics of interest-bearing assets and liabilities, as well as to loan prepayment risks, early withdrawal of time deposits, and the fact that the speed and magnitude of responses to interest rate changes vary by product. The prolonged weak economy and disruption in the financial markets in recent years may heighten the Company’s market risk. As discussed above under "Interest Rate Risk and Asset and Liability Management", the Company actively monitors and manages its interest rate risk through the ALCO process.

COMMITMENTS, CONTINGENCIES AND OFF-BALANCE-SHEET ARRANGEMENTS

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and risk-sharing commitments on certain sold loans. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. During the first nine months of 2016, the Company did not engage in any activity that created any additional types of off-balance sheet risk.

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

	Contract or Notional Amount	
	September 30, 2016	December 31, 2015
Unused portions of home equity lines of credit	$26,682,212	$25,074,972
Residential construction lines of credit	2,326,503	3,658,037
Commercial real estate and other construction lines of credit	27,854,708	15,586,595
Commercial and industrial commitments	31,949,333	46,197,882
Other commitments to extend credit	44,482,327	19,991,513
Standby letters of credit and commercial letters of credit	1,764,788	1,859,059
Recourse on sale of credit card portfolio	263,175	262,625
MPF credit enhancement obligation, net of liability recorded	740,207	1,051,601

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

In connection with its 2007 trust preferred securities financing, the Company guaranteed the payment obligations under the $12,500,000 of capital securities of its subsidiary, CMTV Statutory Trust I. The source of funds for payments by the Trust on its capital securities is payments made by the Company on its debentures issued to the Trust. The Company's obligation under those debentures is fully reflected in the Company's balance sheet, in the gross amount of $12,887,000 for each of the comparison periods, of which $12,500,000 represents external financing through the issuance to investors of capital securities by CMTV Statutory Trust I.

LIQUIDITY AND CAPITAL RESOURCES

Managing liquidity risk is essential to maintaining both depositor confidence and stability in earnings. Liquidity management refers to the ability of the Company to adequately cover fluctuations in assets and liabilities. Meeting loan demand (assets) and covering the withdrawal of deposit funds (liabilities) are two key components of the liquidity management process. The Company’s principal sources of funds are deposits, amortization and prepayment of loans and securities, maturities of investment securities, sales of loans available-for-sale, and earnings and funds provided from operations. Maintaining a relatively stable funding base, which is achieved by diversifying funding sources, competitively pricing deposit products, and extending the contractual maturity of liabilities, reduces the Company’s exposure to roll over risk on deposits and limits reliance on volatile short-term borrowed funds. Short-term funding needs arise from declines in deposits or other funding sources and from funding requirements for loan commitments. The Company’s strategy is to fund assets to the maximum extent possible with core deposits that provide a sizable source of relatively stable and low-cost funds.

The Company recognizes that, at times, when loan demand exceeds deposit growth or the Company has other liquidity demands, it may be desirable to utilize alternative sources of deposit funding to augment retail deposits and borrowings. One-way deposits purchased through the CDARS provide an alternative funding source when needed.

Such deposits are generally considered a form of brokered deposits. At September 30, 2016, the Company had $10,000,000 in one way CDARS deposits outstanding, which it utilized to fund increased loan demand, compared to $4,164,471 at December 31, 2015 and $0 at September 30, 2015. In addition, two-way CDARS deposits allow the Company to provide Federal Deposit Insurance Corporation (FDIC) deposit insurance to its customers in excess of account coverage limits by exchanging deposits with other CDARS members. At September 30, 2016, the Company reported $3,213,916 in two-way CDARS deposits representing exchanged deposits with other CDARS participating banks, compared to $2,777,775 at December 31, 2015 and $2,771,356 at September 30, 2015. Promontory also sponsors a deposit-exchange for participating banks to offer their customers full insured cash sweep (ICS) money market accounts and ICS demand deposit accounts. The balance in ICS reciprocal money market deposits was $11,559,412 at September 30, 2016, compared to $12,054,406 at December 31, 2015 and $11,787,181 at September 30, 2015, and the balance in ICS reciprocal demand deposits as of such dates was $7,205,672, $8,637,935 and $5,775,864, respectively.

At September 30, 2016, December 31, 2015 and September 30, 2015, borrowing capacity of approximately $67,359,726, $72,091,633 and $73,898,951, respectively, was available through the FHLBB, secured by the Company's qualifying loan portfolio (generally, residential mortgage loans), reduced by outstanding advances and by collateral pledges securing FHLBB letters of credit collateralizing public unit deposits. The Company also has an unsecured Federal Funds credit line with the FHLBB with an available balance of $500,000 and no outstanding advances during any of the respective comparison periods. Interest on the credit line is chargeable at a rate determined daily, approximately 25 basis points higher than the rate paid on federal funds sold.

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

	September 30, 2016	December 31, 2015	September 30, 2015
Long-Term Advances(1)			
FHLBB term advance, 0.00%, due February 26, 2021	$350,000	$0	$0
FHLBB term advance, 0.00%, due September 22, 2023	200,000	0	0
	550,000	0	0
Short-Term Advances			
FHLBB term advances, 0.48% and 0.32% fixed rate, due February 26, 2016 and November 20, 2015, respectively	0	10,000,000	10,000,000
FHLBB term advance 0.32% fixed rate, due November 25, 2015	0	0	10,000,000
	0	10,000,000	20,000,000
Overnight Borrowings			
Federal funds purchased (FHLBB), 0.51%	5,245,000	0	0
Total Advances and Overnight Borrowings	$5,795,000	$10,000,000	$20,000,000

(1)
The Company has borrowed a total of $550,000 under the FHLBB's Jobs for New England (JNE) program, a program dedicated to supporting job growth and economic development throughout New England. The FHLBB is providing a subsidy, funded by the FHLBB's earnings, to write down interest rates to zero percent on JNE advances that finance qualifying loans to small businesses. JNE advances must support lending to small businesses in New England that create and/or retain jobs, or otherwise contribute to overall economic development activities.

The Company has a Borrower-in-Custody arrangement with the FRBB secured by eligible commercial loans, commercial real estate loans and home equity loans, resulting in an available credit line of $71,326,693, $72,345,479, and $76,725,365, respectively, at September 30, 2016, December 31, 2015 and September 30, 2015. Credit advances under this FRBB lending program are overnight advances with interest chargeable at the primary credit rate (generally referred to as the discount rate), currently 100 basis points. The Company had no outstanding advances against this credit line during any of the periods presented.

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

Securities sold under agreements to repurchase provide another funding source for the Company. At September 30, 2016, December 31, 2015 and September 30, 2015, the Company had outstanding repurchase agreement balances of $25,834,249, $22,073,238 and $21,977,315, respectively, as of such dates. These repurchase agreements mature and

are repriced daily.

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

Balance at December 31, 2015 (book value $9.79 per common share)	$51,414,656
Net income	3,980,593
Issuance of stock through the Dividend Reinvestment Plan	671,262
Dividends declared on common stock	(2,405,222)
Dividends declared on preferred stock	(65,625)
Unrealized gain on available-for-sale securities during the period, net of tax	247,970
Balance at September 30, 2016 (book value $10.18 per common share)	$53,843,634

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

As described in more detail in the Company's 2015 Annual Report on Form 10-K in Note 20 to the audited consolidated financial statements contained therein and under the caption "LIQUIDITY AND CAPITAL RESOURCES" in the Management's Discussion and Analysis section of such report, the Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies pursuant to which they must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items. Capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

As of September 30, 2016, the Bank was considered well capitalized under the regulatory capital framework for Prompt Corrective Action and the Company exceeded all applicable consolidated regulatory capital guidelines.

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

	Actual		Minimum For Capital Adequacy Purposes:		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions(1):	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
September 30, 2016						
Common equity tier 1 capital						
(to risk-weighted assets)						
Company	$54,682	12.44%	$19,787	4.50%	N/A	N/A

Bank	$54,053	12.31%	$19,761	4.50%	$28,544	6.50%
Tier 1 capital (to risk-weighted assets)						
Company	$54,682	12.44%	$26,383	6.00%	N/A	N/A
Bank	$54,053	12.31%	$26,348	6.00%	$35,131	8.00%
Total capital (to risk-weighted assets)						
Company	$59,906	13.62%	$35,178	8.00%	N/A	N/A
Bank	$59,277	13.50%	$35,131	8.00%	$43,914	10.00%
Tier 1 capital (to average assets)						
Company	$54,682	9.13%	$23,953	4.00%	N/A	N/A
Bank	$54,053	9.03%	$23,932	4.00%	$29,915	5.00%
December 31, 2015:						
Common equity tier 1 capital (to risk-weighted assets)						
Company	$52,555	12.38%	$19,100	4.50%	N/A	N/A
Bank	$52,000	12.27%	$19,072	4.50%	$27,549	6.50%
Tier 1 capital (to risk-weighted assets)						
Company	$52,555	12.38%	$25,467	6.00%	N/A	N/A
Bank	$52,000	12.27%	$25,430	6.00%	$33,906	8.00%
Total capital (to risk-weighted assets)						
Company	$57,610	13.57%	$33,956	8.00%	N/A	N/A
Bank	$57,056	13.46%	$33,906	8.00%	$42,383	10.00%
Tier 1 capital (to average assets)						
Company	$52,555	9.01%	$23,324	4.00%	N/A	N/A
Bank	$52,000	8.93%	$23,301	4.00%	$29,126	5.00%

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

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

The Company's ability to pay dividends to its shareholders is largely dependent on the Bank's ability to pay dividends to the Company. In general, a national bank may not pay dividends that exceed net income for the current and preceding two years, and regardless of statutory restrictions, as a matter of regulatory policy, banks and bank holding companies should pay dividends only out of current earnings and only if, after paying such dividends, they remain adequately capitalized.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's management of the credit, liquidity and market risk inherent in its business operations is discussed in Part 1, Item 2 of this report under the captions "CHANGES IN FINANCIAL CONDITION", “COMMITMENTS, CONTINGENCIES AND OFF-BALANCE-SHEET ARRANGEMENTS” and “LIQUIDITY & CAPITAL RESOURCES”, which are incorporated herein by reference. Management does not believe that there have been any material changes in the nature or categories of the Company's risk exposures from those disclosed in the Company’s 2015 Annual Report on Form 10-K.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act). As of September 30, 2016, an evaluation was performed under the supervision and with the participation of management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures. Based on that evaluation, management concluded that its disclosure controls and procedures as of September 30, 2016 were effective in ensuring that material information required to be disclosed in the reports it files with the Commission under the Exchange Act was recorded, processed, summarized, and reported on a timely basis.

For this purpose, the term “disclosure controls and procedures” means controls and other procedures of the Company that are designed to ensure that information required to be disclosed by it in the reports that it files or submits under the Exchange Act (15 U.S.C. 78a et seq.) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company’s internal control over financial reporting that occurred during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

In the normal course of business, the Company and its subsidiary are involved in litigation that is considered incidental to their business. Management does not expect that any such litigation will be material to the Company's consolidated financial condition or results of operations.

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

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

For the period:	Total Number of Shares Purchased(1)(2)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period
July 1 - July 31	5,700	$14.24	N/A	N/A
August 1 - August 31	1,400	14.11	N/A	N/A
September 1 - September 30	1,700	14.40	N/A	N/A
Total	8,800	$14.25	N/A	N/A

(1) All 8,800 shares were purchased for the account of participants invested in the Company Stock Fund under the Company’s Retirement Savings Plan by or on behalf of the Plan Trustee, the Human Resources Committee of Community National Bank. Such share purchases were facilitated through CFSG, which provides certain investment advisory services to the Plan. Both the Plan Trustee and CFSG may be considered affiliates of the Company under Rule 10b-18.

(2) Shares purchased during the period do not include fractional shares repurchased from time to time in connection with the participant's election to discontinue participation in the Company's Dividend Reinvestment Plan.

ITEM 6. Exhibits

The following exhibits are filed with this report:

Exhibit 31.1 - Certification from the Chief Executive Officer (Principal Executive Officer) of the Company pursuant to section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 - Certification from the Corporate Secretary and Treasurer (Principal Financial Officer) of the Company pursuant to section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1 - Certification from the Chief Executive Officer (Principal Executive Officer) of the Company pursuant to 18 U.S.C., Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002*
Exhibit 32.2 - Certification from the Corporate Secretary and Treasurer (Principal Financial Officer) of the Company pursuant to 18 U.S.C., Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002*

Exhibit 101--The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 formatted in eXtensible Business Reporting Language (XBRL): (i) the unaudited consolidated balance sheets, (ii) the unaudited consolidated statements of income for the three and nine month interim periods ended September 30, 2016 and 2015, (iii) the unaudited consolidated statements of comprehensive income, (iv) the unaudited consolidated statements of cash flows and (v) related notes.

* This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMUNITY BANCORP.

DATED: November 10, 2016 /s/ Stephen P. Marsh
Stephen P. Marsh, Board Chair
& Chief Executive Officer
(Principal Executive Officer)

DATED: November 10, 2016 /s/ Louise M. Bonvechio
Louise M. Bonvechio, Corporate
Secretary and Treasurer
(Principal Financial Officer)