COMMUNITY BANCORP /VT
Form 10-Q
November 12, 2013

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 September 30, 2013

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 November 7, 2013, there were 4,854,509 shares outstanding of the Corporation's common stock.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (Unaudited)

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

Community Bancorp. and Subsidiary
Consolidated Balance Sheets

	September 30, 2013 (Unaudited)	December 31, 2012	September 30, 2012 (Unaudited)
Assets			
Cash and due from banks	$13,106,861	$11,273,575	$9,519,193
Federal funds sold and overnight deposits	275,130	18,608,265	5,000
Total cash and cash equivalents	13,381,991	29,881,840	9,524,193
Securities held-to-maturity (fair value $39,610,000 at 09/30/13			
$42,291,000 at 12/31/12 and $50,631,000 at 09/30/12)	39,218,785	41,865,555	50,065,653
Securities available-for-sale	35,452,071	40,886,059	47,008,818
Restricted equity securities, at cost	3,632,850	4,021,350	4,021,350
Loans held-for-sale	1,229,490	1,501,706	1,483,940
Loans	431,981,787	416,375,448	407,610,705
Allowance for loan losses	(4,799,431)	(4,312,080)	(4,115,230)
Deferred net loan costs	281,747	169,501	101,742
Net loans	427,464,103	412,232,869	403,597,217
Bank premises and equipment, net	11,913,170	12,243,320	12,351,925
Accrued interest receivable	1,632,971	1,751,085	1,810,063
Bank owned life insurance	4,274,307	4,187,644	4,156,201
Core deposit intangible	1,158,951	1,363,476	1,448,694
Goodwill	11,574,269	11,574,269	11,574,269
Other real estate owned (OREO)	1,125,105	1,074,705	1,150,198
Prepaid expense - Federal Deposit Insurance Corporation (FDIC)	0	775,595	855,513
Other assets	12,036,436	12,378,772	12,613,921
Total assets	$564,094,499	$575,738,245	$561,661,955
Liabilities and Shareholders' Equity			
Liabilities			
Deposits:			
Demand, non-interest bearing	$80,465,454	$72,956,097	$68,580,510
NOW	113,732,525	128,824,165	109,271,808
Money market funds	83,547,315	86,973,835	84,057,492
Savings	70,668,274	65,216,698	66,204,831
Time deposits, $100,000 and over	46,573,680	44,229,470	49,474,950
Other time deposits	75,562,336	77,296,594	79,511,981
Total deposits	470,549,584	475,496,859	457,101,572
Federal funds purchased and other borrowed funds	8,325,000	6,000,000	16,850,000
Repurchase agreements	23,685,762	34,149,608	28,076,308
Capital lease obligations	727,437	774,701	789,836

Junior subordinated debentures	12,887,000	12,887,000	12,887,000
Accrued interest and other liabilities	2,666,402	3,077,502	3,078,347
Total liabilities	518,841,185	532,385,670	518,783,063
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; 10,000,000 shares authorized, 5,064,718 shares issued at 09/30/13, 5,023,026 shares issued at 12/31/12, and 5,007,099 shares issued at 09/30/12	12,661,795	12,557,565	12,517,748
Additional paid-in capital	28,467,277	28,047,829	27,911,150
Retained earnings	4,245,488	2,698,200	2,268,901
Accumulated other comprehensive income	1,531	171,758	303,870
Less: treasury stock, at cost; 210,101 shares at 09/30/13, 12/31/12 and 09/30/12	(2,622,777)	(2,622,777)	(2,622,777)
Total shareholders' equity	45,253,314	43,352,575	42,878,892
Total liabilities and shareholders' equity	$564,094,499	$575,738,245	$561,661,955

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

Community Bancorp. and Subsidiary
Consolidated Statements of Income
(Unaudited)
For The Quarters Ended September 30,

	2013	2012
Interest income		
Interest and fees on loans	$5,264,044	$5,356,710
Interest on debt securities		
Taxable	80,025	119,586
Tax-exempt	248,241	285,099
Dividends	14,762	20,575
Interest on federal funds sold and overnight deposits	64	111
Total interest income	5,607,136	5,782,081
Interest expense		
Interest on deposits	668,327	866,591
Interest on federal funds purchased and other borrowed funds	23,003	94,636
Interest on repurchase agreements	26,355	33,600
Interest on junior subordinated debentures	101,741	243,564
Total interest expense	819,426	1,238,391
Net interest income	4,787,710	4,543,690
Provision for loan losses	137,500	249,999
Net interest income after provision for loan losses	4,650,210	4,293,691
Non-interest income		
Service fees	702,671	597,567
Income from sold loans	396,770	418,594
Other income from loans	203,941	246,566
Net realized (loss) gain on sale of securities available-for-sale	(5,521)	99,676
Other income	242,564	167,814
Total non-interest income	1,540,425	1,530,217
Non-interest expense		
Salaries and wages	1,610,697	1,547,284
Employee benefits	487,384	486,103
Occupancy expenses, net	752,019	796,029
FDIC insurance	92,964	92,343
Amortization of core deposit intangible	68,175	85,217
Other expenses	1,460,357	1,546,047
Total non-interest expense	4,471,596	4,553,023
Income before income taxes	1,719,039	1,270,885
Income tax expense	364,106	3,534
Net income	$1,354,933	$1,267,351
Earnings per common share	$0.28	$0.26

Weighted average number of common shares		
used in computing earnings per share	4,845,044	4,781,877
Dividends declared per common share	$0.14	$0.14
Book value per share on common shares outstanding at September 30,	$8.81	$8.42

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

Community Bancorp. and Subsidiary
Consolidated Statements of Income
(Unaudited)
For The Nine Months Ended September 30,

	2013	2012
Interest income		
Interest and fees on loans	$15,916,025	$15,786,521
Interest on debt securities		
Taxable	242,528	439,642
Tax-exempt	762,424	713,081
Dividends	45,123	62,162
Interest on federal funds sold and overnight deposits	7,933	3,434
Total interest income	16,974,033	17,004,840
Interest expense		
Interest on deposits	2,175,469	2,636,745
Interest on federal funds purchased and other borrowed funds	66,939	280,788
Interest on repurchase agreements	95,408	100,249
Interest on junior subordinated debentures	308,810	730,693
Total interest expense	2,646,626	3,748,475
Net interest income	14,327,407	13,256,365
Provision for loan losses	463,750	750,001
Net interest income after provision for loan losses	13,863,657	12,506,364
Non-interest income		
Service fees	1,889,603	1,751,912
Income from sold loans	1,236,295	1,256,763
Other income from loans	537,630	667,633
Net realized (loss) gain on sale of securities available-for-sale	(5,521)	140,971
Other income	771,468	600,947
Total non-interest income	4,429,475	4,418,226
Non-interest expense		
Salaries and wages	4,877,483	4,523,882
Employee benefits	1,719,128	1,673,327
Occupancy expenses, net	2,458,083	2,481,921
FDIC insurance	290,021	301,925
Amortization of core deposit intangible	204,525	255,652
Other expenses	4,329,908	4,584,461
Total non-interest expense	13,879,148	13,821,168
Income before income taxes	4,413,984	3,103,422
Income tax expense (benefit)	778,929	(149,970)
Net income	$3,635,055	$3,253,392
Earnings per common share	$0.74	$0.65

Weighted average number of common shares		
used in computing earnings per share	4,831,084	4,759,383
Dividends declared per common share	$0.42	$0.42
Book value per share on common shares outstanding at September 30,	$8.81	$8.42

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

Community Bancorp. and Subsidiary
Consolidated Statements of Comprehensive Income
(Unaudited)
For The Quarters Ended September 30,

	2013	2012
Net income	$1,354,933	$1,267,351
Other comprehensive income (loss), net of tax:		
Unrealized holding gain on available-for-sale securities		
arising during the period	54,595	75,262
Reclassification adjustment for loss (gain) realized in income	5,521	(99,676)
Net change in unrealized gain (loss)	60,116	(24,414)
Tax effect	(20,439)	8,301
Other comprehensive income (loss), net of tax	39,677	(16,113)
Total comprehensive income	$1,394,610	$1,251,238

Community Bancorp. and Subsidiary
Consolidated Statements of Comprehensive Income
(Unaudited)
For The Nine Months Ended September 30,

	2013	2012
Net income	$3,635,055	$3,253,392
Other comprehensive (loss) income, net of tax:		
Unrealized holding (loss) gain on available-for-sale securities		
arising during the period	(263,440)	398,758
Reclassification adjustment for loss (gain) realized in income	5,521	(140,971)
Net change in unrealized (loss) gain	(257,919)	257,787
Tax effect	87,692	(87,648)
Other comprehensive (loss) income, net of tax	(170,227)	170,139
Total comprehensive income	$3,464,828	$3,423,531

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

Community Bancorp. and Subsidiary
Consolidated Statements of Cash Flows
(Unaudited)
For The Nine Months Ended September 30,

	2013	2012
Cash Flows from Operating Activities:		
Net income	$3,635,055	$3,253,392
Adjustments to reconcile net income to net cash provided by		
operating activities:		
Depreciation and amortization, bank premises and equipment	767,837	837,551
Provision for loan losses	463,750	750,001
Deferred income tax	407,080	(789,852)
Net loss (gain) on sale of securities available-for-sale	5,521	(140,971)
Net gain on sale of loans	(625,171)	(949,833)
Gain on sale of OREO	(9,728)	(3,740)
Gain on Trust LLC	(196,216)	(111,573)
Amortization of bond premium, net	342,865	408,330
Write down of OREO	19,500	0
Proceeds from sales of loans held-for-sale	15,524,143	37,158,591
Originations of loans held-for-sale	(14,626,756)	(35,407,131)
Increase in taxes payable	295,808	60,128
Decrease (increase) in interest receivable	118,114	(109,463)
Decrease in prepaid FDIC insurance assessment	775,595	276,348
(Increase) decrease in mortgage servicing rights	(218,167)	92,105
Increase in other assets	(290,733)	(1,095,473)
Increase in cash surrender value of bank owned life insurance	(86,663)	(92,955)
Amortization of core deposit intangible	204,525	255,652
Amortization of limited partnerships	432,256	915,705
Decrease in unamortized loan fees	(112,246)	(94,491)
Decrease in interest payable	(19,501)	(28,727)
Increase in accrued expenses	98,794	5,900
Increase (decrease) in other liabilities	9,991	(56,152)
Net cash provided by operating activities	6,915,653	5,133,342
Cash Flows from Investing Activities:		
Investments - held-to-maturity		
Maturities and pay downs	34,247,653	18,065,787
Purchases	(31,600,883)	(38,429,281)
Investments - available-for-sale		
Maturities, calls, pay downs and sales	13,095,380	30,171,833
Purchases	(8,267,697)	(11,091,306)
Proceeds from redemption of restricted equity securities	388,500	287,200
Decrease in limited partnership contributions payable	(527,000)	(1,084,000)
Investments in limited partnerships	0	(213,830)
Increase in loans, net	(17,228,066)	(22,935,389)
Capital expenditures net of proceeds from sales of bank premises and equipment	(437,687)	(474,250)
Proceeds from sales of OREO	1,331,428	58,740

Recoveries of loans charged off	253,728	74,685
Net cash used in investing activities	(8,744,644)	(25,569,811)

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	2013	2012
Cash Flows from Financing Activities:		
Net decrease in demand and NOW accounts	(7,582,283)	(8,386,939)
Net increase in money market and savings accounts	2,025,056	19,569,623
Net increase (decrease) in time deposits	609,952	(8,474,421)
Net (decrease) increase in repurchase agreements	(10,463,846)	6,430,862
Net increase in short-term borrowings	8,325,000	4,840,000
Repayments on long-term borrowings	(6,000,000)	(6,000,000)
Decrease in capital lease obligations	(47,264)	(43,631)
Dividends paid on preferred stock	(60,938)	(140,625)
Dividends paid on common stock	(1,476,535)	(1,298,983)
Net cash (used in) provided by financing activities	(14,670,858)	6,495,886
Net decrease in cash and cash equivalents	(16,499,849)	(13,940,583)
Cash and cash equivalents:		
Beginning	29,881,840	23,464,776
Ending	$13,381,991	$9,524,193
Supplemental Schedule of Cash Paid During the Period		
Interest	$2,666,127	$3,777,202
Income taxes	$0	$550,000
Supplemental Schedule of Noncash Investing and Financing Activities:		
Change in unrealized (loss) gain on securities available-for-sale	$(257,919)	$257,787
Loans transferred to OREO	$1,391,600	$1,115,198
Investments in limited partnerships		
Investments in limited partnerships	$0	$(213,830)
Decrease in limited partnership contributions payable	(527,000)	(1,084,000)
	$(527,000)	$(1,297,830)
Common Shares Dividends Paid		
Dividends declared	$2,026,829	$1,995,617
Increase in dividends payable attributable to dividends declared	(26,616)	(23,440)
Dividends reinvested	(523,678)	(673,194)
	$1,476,535	$1,298,983

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, 2012 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, 2013, or for any other interim period.

Note 2. Recent Accounting Developments

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-11, “Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities,” amending Topic 210. The amendments require an entity to disclose both gross and net information about both instruments and transactions that are eligible for offset on the balance sheet and instruments and transactions that are subject to an agreement similar to a master netting arrangement. This guidance is effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods, with retrospective disclosure for all comparative periods presented. Adoption of ASU 2011-11 did not have a material impact on the Company’s consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, “Intangibles-Goodwill and Other (Topic 35): Testing Indefinite-Lived Intangible Assets for Impairment,” amending Topic 350. The guidance allows entities to first perform an optional qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired in order to determine whether the asset should be further evaluated under quantitative impairment testing. The guidance does not revise the requirement that indefinite-lived intangible assets be tested for impairment at least annually, or more frequently if circumstances warrant, although it does revise the examples of events and circumstances that an entity should consider during interim periods. The ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Adoption of ASU 2012-02 did not have a material impact on the Company’s consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, “Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income.” This ASU improves the reporting of reclassifications out of accumulated other comprehensive income. The amendments in the ASU seek to attain that objective by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under US GAAP to be reclassified in its entirety to net income. For other amounts that are not required under US GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under US GAAP that provide additional detail about those amounts. This guidance is effective for reporting periods beginning after December 15, 2012. Adoption of ASU 2013-02 did not have a material impact on the Company’s 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), including Dividend Reinvestment

Plan shares issuable upon reinvestment of dividends declared, and reduced for shares held in treasury.

The following tables illustrate the calculation for the periods ended September 30, as adjusted for the cash dividends declared on the preferred stock:

For The Quarters Ended September 30,	2013	2012
Net income, as reported	$1,354,933	$1,267,351
Less: dividends to preferred shareholders (1)	20,313	46,875
Net income available to common shareholders	$1,334,620	$1,220,476
Weighted average number of common shares used in calculating earnings per share	4,845,044	4,781,877
Earnings per common share	$0.28	$0.26

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For The Nine Months Ended September 30,	2013	2012
Net income, as reported	$3,635,055	$3,253,392
Less: dividends to preferred shareholders (1)	60,938	140,625
Net income available to common shareholders	$3,574,117	$3,112,767
Weighted average number of common shares		
used in calculating earnings per share	4,831,084	4,759,383
Earnings per common share	$0.74	$0.65

(1) Reflects a reduction in the dividend rate paid on the preferred stock, effective January 1, 2013, from a fixed rate of 7.50% to a quarterly adjustable rate equal to the Wall Street Journal Prime Rate in effect on the first business day of the quarter.

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
September 30, 2013				
U.S. Government sponsored enterprise (GSE) debt securities	$28,400,765	$137,888	$149,042	$28,389,611
U.S. Government securities	7,048,987	14,875	1,402	7,062,460
	$35,449,752	$152,763	$150,444	$35,452,071
December 31, 2012				
U.S. GSE debt securities	$33,552,376	$247,029	$13,936	$33,785,469
U.S. Government securities	7,073,445	28,217	1,072	7,100,590
	$40,625,821	$275,246	$15,008	$40,886,059
September 30, 2012				
U.S. GSE debt securities	$39,423,142	$419,253	$2,610	$39,839,785
U.S. Government securities	7,082,906	35,050	300	7,117,656
U.S. GSE preferred stock	42,360	9,017	0	51,377
	$46,548,408	$463,320	$2,910	$47,008,818

Securities HTM	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value*
September 30, 2013				
States and political subdivisions	$39,218,785	$391,215	$0	$39,610,000
December 31, 2012				
States and political subdivisions	$41,865,555	$425,445	$0	$42,291,000

September 30, 2012				
States and political subdivisions	$50,065,653	$565,347	$0	$50,631,000

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The scheduled maturities of debt securities AFS were as follows:

	Amortized Cost	Fair Value
September 30, 2013		
Due in one year or less	$6,611,216	$6,621,105
Due from one to five years	28,838,536	28,830,966
	$35,449,752	$35,452,071
December 31, 2012		
Due in one year or less	$4,088,947	$4,104,324
Due from one to five years	36,536,874	36,781,735
	$40,625,821	$40,886,059
September 30, 2012		
Due in one year or less	$3,003,306	$3,013,511
Due from one to five years	43,502,742	43,943,930
	$46,506,048	$46,957,441

The scheduled maturities of debt securities HTM were as follows:

	Amortized Cost	Fair Value*
September 30, 2013		
Due in one year or less	$29,860,867	$29,861,000
Due from one to five years	3,649,393	3,747,000
Due from five to ten years	2,441,097	2,539,000
Due after ten years	3,267,428	3,463,000
	$39,218,785	$39,610,000
December 31, 2012		
Due in one year or less	$32,741,241	$32,741,000
Due from one to five years	3,849,709	3,956,000
Due from five to ten years	1,916,266	2,023,000
Due after ten years	3,358,339	3,571,000
	$41,865,555	$42,291,000
September 30, 2012		
Due in one year or less	$40,302,625	$40,303,000
Due from one to five years	4,041,285	4,183,000
Due from five to ten years	2,286,741	2,428,000
Due after ten years	3,435,002	3,717,000
	$50,065,653	$50,631,000

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

There were no debt securities HTM in an unrealized loss position as of the balance sheet date. 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
September 30, 2013						
U.S. GSE debt securities	$9,167,719	$149,042	$0	$0	$9,167,719	$149,042
U.S. Government securities	1,038,906	1,402	0	0	1,038,906	1,402
	$10,206,625	$150,444	$0	$0	$10,206,625	$150,444
December 31, 2012						
U.S. GSE debt securities	$8,715,492	$13,936	$0	$0	$8,715,492	$13,936
U.S. Government securities	1,052,639	1,072	0	0	1,052,639	1,072
	$9,768,131	$15,008	$0	$0	$9,768,131	$15,008
September 30, 2012						
U.S. GSE debt securities	$0	$0	$1,512,667	$2,610	$1,512,667	$2,610
U.S. Government securities	1,057,928	300	0	0	1,057,928	300
	$1,057,928	$300	$1,512,667	$2,610	$2,570,595	$2,910

Debt securities in the table above consisted of nine U.S. GSE debt securities and one U.S. Government security at September 30, 2013, eight U.S. GSE debt securities and one U.S. Government security at December 31, 2012, and one U.S. GSE debt security and one U.S. Government security at September 30, 2012. 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 September 30, 2013, 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 follows:

	September 30, 2013	December 31, 2012	September 30, 2012
Commercial & industrial	$55,500,735	$49,283,948	$47,484,639
Commercial real estate	147,280,787	139,807,517	136,016,554
Residential real estate - 1st lien	175,737,499	171,114,515	168,541,410

Residential real estate - Jr lien	45,279,400	47,029,023	46,029,238
Consumer	9,412,856	10,642,151	11,022,804
	433,211,277	417,877,154	409,094,645
Deduct (add):			
Allowance for loan losses	4,799,431	4,312,080	4,115,230
Deferred net loan costs	(281,747)	(169,501)	(101,742)
Loans held-for-sale	1,229,490	1,501,706	1,483,940
	5,747,174	5,644,285	5,497,428
Net Loans	$427,464,103	$412,232,869	$403,597,217

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

September 30, 2013	30-89 Days	90 Days or More	Total Past Due	Current	Total Loans	Non-Accrual Loans	90 Days or More and Accruing
Commercial & industrial	$75,101	$269,744	$344,845	$55,155,890	$55,500,735	$ 493,272	$0
Commercial real estate	982,378	546,252	1,528,630	145,752,157	147,280,787	1,740,350	50,965
Residential real estate - 1st lien	1,270,029	1,071,400	2,341,429	172,166,580	174,508,009	1,999,274	344,193
Residential real estate - Jr lien	539,828	223,200	763,028	44,516,372	45,279,400	669,292	62,359
Consumer	95,907	8,755	104,662	9,308,194	9,412,856	0	8,755
Total	$2,963,243	$2,119,351	$5,082,594	$426,899,193	$431,981,787	$ 4,902,188	$466,272

December 31, 2012	30-89 Days	90 Days or More	Total Past Due	Current	Total Loans	Non-Accrual Loans	90 Days or More and Accruing
Commercial & industrial	$782,937	$377,145	$1,160,082	$48,123,866	$49,283,948	$ 596,777	$0
Commercial real estate	785,890	888,179	1,674,069	138,133,448	139,807,517	1,892,195	53,937
Residential real estate - 1st lien	4,654,077	844,803	5,498,880	164,113,929	169,612,809	1,928,097	281,845
Residential real estate - Jr lien	379,363	57,128	436,491	46,592,532	47,029,023	338,383	41,434
Consumer	132,624	844	133,468	10,508,683	10,642,151	0	844
Total	$6,734,891	$2,168,099	$8,902,990	$407,472,458	$416,375,448	$ 4,755,452	$378,060

September 30, 2012	30-89 Days	90 Days or More	Total Past Due	Current	Total Loans	Non-Accrual Loans	90 Days or More and Accruing
Commercial & industrial	$254,847	$326,693	$581,540	$46,903,099	$47,484,639	$ 613,817	$75,042
Commercial real estate	426,428	1,331,505	1,757,933	134,258,621	136,016,554	2,321,320	53,936
Residential real estate - 1st lien	749,535	1,102,424	1,851,959	165,205,511	167,057,470	1,441,659	825,843
Residential real estate - Jr lien	456,984	109,222	566,206	45,463,032	46,029,238	326,882	109,222
Consumer	123,197	14,077	137,274	10,885,530	11,022,804	4,841	9,236
Total	$2,010,991	$2,883,921	$4,894,912	$402,715,793	$407,610,705	$ 4,708,519	$1,073,279

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

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. No changes in the Company's policies or methodology pertaining to the allowance for loan losses were made during the first nine months of 2013.

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 cost to sell. Value of the collateral is determined in accordance with the Company's appraisal policy. The unsecured portion of an impaired real estate secured loan is charged off by the end of the month in which the loan becomes 180 days past due.

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

General component

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

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

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

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

Residential Real Estate - 1st Lien – All loans in this segment are collateralized by first mortgages on 1 – 4 family owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower.

The overall health of the economy, including unemployment rates and housing prices, has an impact on the credit quality of this segment.

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

Consumer – Loans in this segment are made to individuals for consumer and household purposes. This segment includes both loans secured by automobiles and other consumer goods, as well as loans that are unsecured. This segment also includes overdrafts, which are extensions of credit made to both individuals and businesses to cover temporary shortages in their deposit accounts and are generally unsecured. The Company maintains policies restricting the size and length 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 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.

The following summarizes changes in the allowance for loan losses and select loan information, by portfolio segment (excluding loans held-for-sale).

For the Quarter Ended September 30, 2013

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	$ 515,244	$ 1,698,040	$ 1,527,962	$ 414,161	$ 116,248	$ 250,524	$ 4,522,179
Charge-offs	(42,327)	(16,913)	(3,957)	0	(10,647)	0	(73,844)
Recoveries	1,126	185,791	3,128	21,110	2,441	0	213,596
	4,891	72,698	(14,415)	81,589	22,894	(30,157)	137,500

Provision (credit)							
Ending balance	$478,934	$1,939,616	$1,512,718	$516,860	$130,936	$220,367	$4,799,431

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For the Nine Months Ended September 30, 2013

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	$428,381	$1,536,440	$1,563,576	$332,556	$138,699	$312,428	$4,312,080
Charge-offs	(61,614)	(124,849)	(7,009)	0	(36,655)	0	(230,127)
Recoveries	2,117	185,791	11,764	21,230	32,826	0	253,728
Provision (credit)	110,050	342,234	(55,613)	163,074	(3,934)	(92,061)	463,750
Ending balance	$478,934	$1,939,616	$1,512,718	$516,860	$130,936	$220,367	$4,799,431
Allowance for loan losses							
Evaluated for impairment							
Individually	$ 0	$115,700	$110,500	$185,700	$0	$0	$411,900
Collectively	478,934	1,823,916	1,402,218	331,160	130,936	220,367	4,387,531
Total	$478,934	$1,939,616	$1,512,718	$516,860	$130,936	$220,367	$4,799,431
Loans evaluated for impairment							
Individually	$319,010	$ 1,716,870	$1,734,139	$669,292	$0		$4,439,311
Collectively	55,181,725	145,563,917	172,773,870	44,610,108	9,412,856		427,542,476
Total	$55,500,735	$147,280,787	$174,508,009	$45,279,400	$9,412,856		$431,981,787

For the year ended December 31, 2012

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	$342,314	$1,385,939	$1,578,493	$331,684	$124,779	$123,293	$3,886,502
Charge-offs	(159,309)	(57,923)	(246,237)	(135,622)	(96,491)	0	(695,582)
Recoveries	29,769	51,863	5,538	1,538	32,452	0	121,160
Provision	215,607	156,561	225,782	134,956	77,959	189,135	1,000,000
Ending balance	$428,381	$1,536,440	$1,563,576	$332,556	$138,699	$312,428	$4,312,080
Allowance for loan losses							
Evaluated for impairment							
Individually	$0	$0	$134,800	$39,200	$0	$0	$174,000
Collectively	428,381	1,536,440	1,428,776	293,356	138,699	312,428	4,138,080
Total	$428,381	$1,536,440	$1,563,576	$332,556	$138,699	$312,428	$4,312,080
Loans evaluated for impairment							

Individually	$435,165	$1,762,615	$1,641,960	$309,606	$0		$4,149,346
Collectively	48,848,783	138,044,902	167,970,849	46,719,417	10,642,151		412,226,102
Total	$49,283,948	$139,807,517	$169,612,809	$47,029,023	$10,642,151		$416,375,448

For the quarter ended September 30, 2012

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	$383,523	$1,386,183	$1,473,661	$368,939	$126,914	$186,899	$3,926,119
Charge-offs	(34,375)	(2,821)	(56,126)	(9,447)	(9,065)	0	(111,834)
Recoveries	17,978	24,587	1,426	60	6,895	0	50,946
Provisions	51,298	36,941	85,324	38,815	5,965	31,656	249,999
Ending balance	$418,424	$1,444,890	$1,504,285	$398,367	$130,709	$218,555	$4,115,230

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For the nine months ended September 30, 2012

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	$342,314	$1,385,939	$1,578,493	$331,684	$124,779	$123,293	$3,886,502
Charge-offs	(159,309)	(57,878)	(239,600)	(69,734)	(69,437)	0	(595,958)
Recoveries	20,498	25,450	3,248	1,479	24,010	0	74,685
Provisions	214,921	91,379	162,144	134,938	51,357	95,262	750,001
Ending balance	$418,424	$1,444,890	$1,504,285	$398,367	$130,709	$218,555	$4,115,230
Allowance for loan losses							
Evaluated for impairment							
Individually	$0	$8,900	$110,700	$46,400	$0	$0	$166,000
Collectively	418,424	1,435,990	1,393,585	351,967	130,709	218,555	3,949,230
Total	$418,424	$1,444,890	$1,504,285	$398,367	$130,709	$218,555	$4,115,230
Loans evaluated for impairment							
Individually	$446,484	$2,187,060	$1,261,272	$297,898	$0		$4,192,714
Collectively	47,038,155	133,829,494	165,796,198	45,731,340	11,022,804		403,417,991
Total	$47,484,639	$136,016,554	$167,057,470	$46,029,238	$11,022,804		$407,610,705

Impaired loans by segments were as follows:

	As of September 30, 2013				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment (1)	Average Recorded Investment (2)
With no related allowance recorded					
Commercial & industrial	$319,010	$366,022	$0	$312,218	$345,772
Commercial real estate	1,199,398	1,269,979	0	1,085,322	1,420,668
Residential real estate - 1st lien	1,156,159	1,390,485	0	1,026,675	1,022,181
Residential real estate - Jr lien	102,913	110,997	0	63,752	39,723
With an allowance recorded					
Commercial & industrial	0	0	0	0	0
Commercial real estate	517,472	517,472	115,700	307,194	229,809
Residential real estate - 1st lien	577,980	657,154	110,500	523,738	536,016
Residential real estate - Jr lien	566,379	595,494	185,700	445,302	377,291
Total					
Commercial & industrial	$319,010	$366,022	$0	$312,218	$345,772
Commercial real estate	$1,716,870	$1,787,451	$115,700	$1,392,516	$1,650,477
Residential real estate - 1st lien	$1,734,139	$2,047,639	$110,500	$1,550,413	$1,558,197

Residential real estate - Jr lien	$669,292	$706,491	$185,700	$509,054	$417,014
Total	$4,439,311	$4,907,603	$411,900	$3,764,201	$3,971,460

(1) For the Quarter Ended September 30, 2013

(2) For the Nine Months Ended September 30, 2013

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As of December 31, 2012

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded				
Commercial & industrial	$435,165	$473,664	$0	$536,973
Commercial real estate	1,762,615	2,123,371	0	2,019,449
Residential real estate - 1st lien	1,024,598	1,250,224	0	893,629
Residential real estate - Jr lien	15,694	76,680	0	34,602
With an allowance recorded				
Commercial & industrial	0	0	0	232,743
Commercial real estate	0	0	0	920,842
Residential real estate - 1st lien	617,362	669,288	134,800	892,339
Residential real estate - Jr lien	293,912	319,020	39,200	295,372
Total				
Commercial & industrial	$435,165	$473,664	$0	$769,716
Commercial real estate	$1,762,615	$2,123,371	$0	$2,940,291
Residential real estate - 1st lien	$1,641,960	$1,919,512	$134,800	$1,785,968
Residential real estate - Jr lien	$309,606	$395,700	$39,200	$329,974
Total	$4,149,346	$4,912,247	$174,000	$5,825,949

As of September 30, 2012

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment (1)	Average Recorded Investment (2)
With no related allowance recorded					
Commercial & industrial	$446,484	$478,798	$0	$715,917	$562,425
Commercial real estate	1,996,452	2,426,167	0	2,152,006	2,083,657
Residential real estate - 1st lien	900,217	1,149,862	0	800,820	860,886
Residential real estate - Jr lien	0	0	0	15,766	39,329
With an allowance recorded					
Commercial & industrial	0	0	0	0	290,929
Commercial real estate	190,608	192,108	8,900	671,132	1,151,053
Residential real estate - 1st lien	361,055	402,647	110,700	502,679	961,084
Residential real estate - Jr lien	297,898	319,472	46,400	284,081	295,737
Total					
Commercial & industrial	$446,484	$478,798	$ 0	$715,917	$853,354
Commercial real estate	$2,187,060	$2,618,275	$ 8,900	$2,823,138	$3,234,710
Residential real estate - 1st lien	$1,261,272	$1,552,509	$110,700	$1,303,499	$1,821,970

Residential real estate - Jr lien	$297,898	$319,472	$46,400	$299,847	$335,066
Total	$4,192,714	$4,969,054	$166,000	$5,142,401	$6,245,100

(1) For the Quarter Ended September 30, 2012

(2) For the Nine Months Ended September 30, 2012

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

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

As of September 30, 2013

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Total
Group A	$51,937,275	$139,168,914	$171,694,502	$44,144,667	$9,404,101	$416,349,459
Group B	2,412,663	3,572,369	175,081	497,992	0	6,658,105
Group C	1,150,797	4,539,504	2,638,426	636,741	8,755	8,974,223
Total	$55,500,735	$147,280,787	$174,508,009	$45,279,400	$9,412,856	$431,981,787

As of December 31, 2012

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Total
Group A	$47,689,238	$131,643,756	$166,374,493	$46,162,420	$10,632,404	$402,502,311
Group B	593,838	4,139,367	404,752	318,248	0	5,456,205
Group C	1,000,872	4,024,394	2,833,564	548,355	9,747	8,416,932
Total	$49,283,948	$139,807,517	$169,612,809	$47,029,023	$10,642,151	$416,375,448

As of September 30, 2012

	Commercial & Industrial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Total
Group A	$45,649,737	$127,984,841	$162,990,115	$45,373,633	$11,005,770	$393,004,096
Group B	590,534	3,787,365	408,051	318,848	0	5,104,798
Group C	1,244,368	4,244,348	3,659,304	336,757	17,034	9,501,811
Total	$47,484,639	$136,016,554	$167,057,470	$46,029,238	$11,022,804	$407,610,705

Modifications of Loans and TDRs

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

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

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

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

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

There were no TDR's for the quarter ended September 30, 2013. TDR's by segment for the periods presented were as follows:

For the nine months ended September 30, 2013

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate - Jr lien	1	$ 23,425	$ 23,425

For the year ended December 31, 2012

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate	2	$ 1,030,645	$ 1,030,645
Residential real estate - 1st lien	3	200,241	205,588
Total	5	$ 1,230,886	$ 1,236,233

For the quarter ended September 30, 2012

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential real estate - 1st lien	1	$ 52,940	$ 53,369

For the nine months ended September 30, 2012

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate	2	$ 1,030,645	$ 1,030,645
Residential real estate - 1st lien	3	200,241	205,588
Total	5	$ 1,230,886	$ 1,236,233

There were no TDRs for which there was a payment default under the restructured terms during the twelve month period ended September 30, 2013. The TDR's for which there was a payment default during the twelve month period ended September 30, 2012 were as follows:

	Number of Contracts	Recorded Investment
Commercial & industrial	1	$ 158,076

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TDRs are treated as other impaired loans and carry individual specific reserves with respect to the calculation of the allowance for loan losses. These loans are categorized as non-performing, may be past due, and are generally adversely risk rated. The TDRs that have defaulted under their restructured terms are generally in collection status and their reserve is typically calculated using the fair value of collateral method. At September 30, 2013, December 31, 2012, and September 30, 2012, the allowance related to TDRs was approximately $0, $23,000 and $29,000, respectively.

At September 30, 2013, the Company did not have any commitments to lend additional funds to borrowers with loans classified as TDRs.

Note 6. Goodwill and Other Intangible Assets

As a result of the merger with LyndonBank on December 31, 2007, the Company recorded goodwill amounting to $11,574,269. The goodwill is not amortizable and is not deductible for tax purposes.

The Company also recorded $4,161,000 of acquired identified intangible assets representing the core deposit intangible which is subject to amortization as a non-interest expense over a ten year period. The accumulated amortization expense was $3,002,049 and $2,712,306 as of September 30, 2013 and 2012, respectively.

Amortization expense for the core deposit intangible for the first nine months of 2013 was $204,525. As of September 30, 2013, the remaining annual amortization expense related to the core deposit intangible, absent any future impairment, is expected to be as follows:

2013	$68,170
2014	272,695
2015	272,695
2016	272,695
2017	272,696
Total remaining core deposit intangible	$1,158,951

Management evaluates goodwill for impairment annually and the core deposit intangible for impairment if conditions warrant. As of the date of the most recent evaluation (December 31, 2012), management concluded that no impairment existed in either category.

Note 7. Fair Value

Certain assets and liabilities are recorded at fair value to provide additional insight into the Company's quality of earnings. The fair values of some of these assets and liabilities are measured on a recurring basis while others are measured on a nonrecurring basis, with the determination based upon applicable existing accounting pronouncements. For example, securities available-for-sale are recorded at fair value on a recurring basis. Other assets, such as mortgage servicing rights, loans held-for-sale, and impaired loans, are recorded at fair value on a nonrecurring basis using the lower of cost or market methodology to determine impairment of individual assets. The Company groups assets and liabilities which are recorded at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement (with Level 1 considered highest and Level 3 considered lowest). A brief description of each level follows.

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes mortgage servicing rights, impaired loans and OREO.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The following methods and assumptions were used by the Company in estimating its fair value measurements and disclosures:

Cash and cash equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate their fair values. As such, the Company classifies these financial instruments as Level 1.

Securities Available-for-Sale and Held-to-Maturity: Fair value measurement is based upon quoted prices for similar assets, if available. If quoted prices are not available, fair values are measured using matrix pricing models, or other model-based valuation techniques requiring observable inputs other than quoted prices such as yield curves, prepayment speeds and default rates. Level 1 securities would include U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Level 2 securities include federal agency securities and securities of local municipalities.

Restricted equity securities: Restricted equity securities are comprised of Federal Reserve Bank of Boston (FRBB) stock and Federal Home Loan Bank of Boston (FHLBB) stock. These securities are carried at cost, which is believed to approximate fair value, based on the redemption provisions of the FRBB and the FHLBB. The stock is nonmarketable, and redeemable at par value, subject to certain conditions.

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

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

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

OREO. Real estate acquired through foreclosure is initially recorded at market value. The fair value of other real estate owned is based on property appraisals and an analysis of similar properties currently available. As such, the Company records other real estate owned as nonrecurring Level 2.

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

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

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

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

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

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

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

September 30, 2013	Level 1	Level 2	Total
Assets: (market approach)			
U.S. GSE debt securities	$0	$28,389,611	$28,389,611
U.S. Government securities	7,062,460	0	7,062,460
December 31, 2012			
Assets: (market approach)			
U.S. GSE debt securities	$0	$33,785,469	$33,785,469
U.S. Government securities	7,100,590	0	7,100,590
September 30, 2012			
Assets: (market approach)			
U.S. GSE debt securities	$0	$39,839,785	$39,839,785
U.S. Government securities	7,117,656	0	7,117,656
U.S. GSE preferred stock	51,377	0	51,377

There were no transfers between Levels 1 and 2 for the periods presented. There were no Level 3 assets or liabilities measured on a recurring basis as of the balance sheet dates presented.

Assets and Liabilities Recorded at Fair Value on a Non-Recurring Basis

The following table includes assets measured at fair value on a nonrecurring basis that have had a fair value adjustment since their initial recognition. Impaired loans measured at fair value only include impaired loans with a related specific allowance for loan losses and are presented net of specific allowances as disclosed in Note 5.

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

September 30, 2013	Level 2
Assets: (market approach)	
Residential mortgage servicing rights	$ 1,227,790
Impaired loans, net of related allowance	1,249,931
OREO	1,125,105

December 31, 2012	Level 2
Assets: (market approach)	
Residential mortgage servicing rights	$ 1,009,623
Impaired loans, net of related allowance	737,274
OREO	1,074,705

September 30, 2012	Level 2
Assets: (market approach)	
Residential mortgage servicing rights	$ 1,005,337
Impaired loans, net of related allowance	683,561
OREO	1,150,198

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

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

September 30, 2013

	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total
			(Dollars in Thousands)		
Financial assets:					
Cash and cash equivalents	$ 13,382	$ 13,382	$ 0	$ 0	$ 13,382
Securities held-to-maturity	39,219	0	39,610	0	39,610
Securities available-for-sale	35,452	7,062	28,390	0	35,452
Restricted equity securities	3,633	0	3,633	0	3,633
Loans and loans held-for-sale					
Commercial & industrial	54,994	0	319	56,038	56,357
Commercial real estate	145,266	0	1,601	148,401	150,002
Residential real estate - 1st lien	174,135	0	1,624	177,800	179,424
Residential real estate - Jr lien	44,739	0	483	45,272	45,755
Consumer	9,278	0	0	9,742	9,742
Mortgage servicing rights	1,228	0	1,228	0	1,228
Accrued interest receivable	1,633	0	1,633	0	1,633
Financial liabilities:					
Deposits					
Other deposits	454,521	0	455,772	0	455,772
Brokered deposits	16,029	0	16,038	0	16,038
Federal funds purchased and short-term borrowings	8,325	0	8,325	0	8,325
Repurchase agreements	23,686	0	23,686	0	23,686
Capital lease obligations	727	0	727	0	727
Subordinated debentures	12,887	0	12,872	0	12,872
Accrued interest payable	73	0	73	0	73

December 31, 2012

	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total
			(Dollars in Thousands)		
Financial assets:					
Cash and cash equivalents	$29,882	$29,882	$0	$0	$29,882
Securities held-to-maturity	41,866	0	42,291	0	42,291
Securities available-for-sale	40,886	7,101	33,785	0	40,886
Restricted equity securities	4,021	0	4,021	0	4,021
Loans and loans held-for-sale					
Commercial & industrial	48,819	0	435	49,441	49,876
Commercial real estate	138,166	0	1,763	139,175	140,938
Residential real estate - 1st lien	169,424	0	1,507	175,559	177,066
Residential real estate - Jr lien	46,661	0	271	47,484	47,755
Consumer	10,495	0	0	11,079	11,079
Mortgage servicing rights	1,010	0	1,010	0	1,010
Accrued interest receivable	1,751	0	1,751	0	1,751
Financial liabilities:					
Deposits					
Other deposits	460,939	0	463,168	0	463,168
Brokered deposits	14,558	0	14,559	0	14,559
Long-term borrowings	6,000	0	6,004	0	6,004
Repurchase agreements	34,150	0	34,150	0	34,150
Capital lease obligations	775	0	775	0	775
Subordinated debentures	12,887	0	13,158	0	13,158
Accrued interest payable	93	0	93	0	93

September 30, 2012

	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Fair Value Total
			(Dollars in Thousands)		
Financial assets:					
Cash and cash equivalents	$9,524	$9,524	$0	$0	$9,524
Securities held-to-maturity	50,066	0	50,631	0	50,631
Securities available-for-sale	47,009	7,169	39,840	0	47,009
Restricted equity securities	4,021	0	4,021	0	4,021
Loans and loans held-for-sale					
Commercial & industrial	47,041	0	446	47,741	48,187
Commercial real estate	134,499	0	2,178	135,566	137,744
Residential real estate - 1st lien	166,947	0	1,150	174,547	175,697
Residential real estate - Jr lien	45,606	0	252	46,656	46,908
Consumer	10,886	0	0	11,465	11,465
Mortgage servicing rights	1,005	0	1,005	0	1,005
Accrued interest receivable	1,810	0	1,810	0	1,810

Financial liabilities:					
Deposits					
Other deposits	443,008	0	445,472	0	445,472
Brokered deposits	14,094	0	14,101	0	14,101
Federal funds purchased and short-term borrowings	4,840	0	4,840	0	4,840
Long-term borrowings	12,010	0	12,327	0	12,327
Repurchase agreements	28,076	0	28,076	0	28,076
Capital lease obligations	790	0	790	0	790
Subordinated debentures	12,887	0	13,621	0	13,621
Accrued interest payable	121	0	121	0	121

Note 8. Loan Servicing

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

	September 30, 2013	December 31, 2012	September 30, 2012
Balance at beginning of year	$1,009,623	$1,097,442	$1,097,442
Mortgage servicing rights capitalized	215,196	406,807	313,082
Mortgage servicing rights amortized	(259,697)	(409,584)	(314,100)
Change in valuation allowance	262,668	(85,042)	(91,087)
Balance at end of period	$1,227,790	$1,009,623	$1,005,337

Note 9. Legal Proceedings

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

Note 10. Subsequent Event

The Company has evaluated events and transactions through the date that the financial statements were issued for potential recognition or disclosure in these financial statements, as required by GAAP. On September 24, 2013, the Company declared a cash dividend of $0.14 per common share payable November 1, 2013 to shareholders of record as of October 15, 2013. This dividend, amounting to $677,658, was accrued at September 30, 2013.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
for the Period Ended September 30, 2013

The following discussion analyzes the consolidated financial condition of Community Bancorp. (the "Company") and its wholly-owned subsidiary, Community National Bank (the "Bank"), as of September 30, 2013, December 31, 2012 and September 30, 2012, and its consolidated results of operations for the two interim periods presented. The Company is considered a "smaller reporting company" under applicable regulations of the Securities and Exchange Commission ("SEC") and is therefore eligible for relief from certain disclosure requirements. In accordance with such provisions, the Company has elected to provide its interim consolidated statements of income, comprehensive income, and cash flows for two, rather than three, years.

The following discussion should be read in conjunction with the Company's audited consolidated financial statements and related notes contained in its 2012 Annual Report on form 10-K filed with the SEC.

FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains certain forward-looking statements about the results of operations, financial condition and business of the Company and its subsidiary. Words used in the discussion below such as "believes," "expects," "anticipates," "intends," "estimates," "plans," "predicts," or similar expressions, indicate that management of the Company is making forward-looking statements.

Forward-looking statements are not guarantees of future performance. They necessarily involve risks, uncertainties and assumptions. Future results of the Company may differ materially from those expressed in these forward-looking statements. Examples of forward looking statements included in this discussion include, but are not limited to, estimated contingent liability related to assumptions made within the asset/liability management process, management's expectations as to the future interest rate environment and the Company's related liquidity level, credit risk expectations relating to the Company's loan portfolio and its participation in the Federal Home Loan Bank of Boston ("FHLBB") Mortgage Partnership Finance ("MPF") program, and management's general outlook for the future performance of the Company or the local or national economy. Although forward-looking statements are based on management's current expectations and estimates, many of the factors that could influence or determine actual results are unpredictable and not within the Company's control. Readers are cautioned not to place undue reliance on such statements as they speak only as of the date they are made. The Company does not undertake, and disclaims any obligation, to revise or update any forward-looking statements to reflect the occurrence or anticipated occurrence of events or circumstances after the date of this Report, except as required by applicable law. The Company claims the protection of the safe harbor for forward-looking statements provided in the Private Securities Litigation Reform Act of 1995.

Factors that may cause actual results to differ materially from those contemplated by these forward-looking statements include, among others, the following possibilities: (1) general economic conditions, either nationally, regionally or locally continue to deteriorate, resulting in a decline in credit quality or a diminished demand for the Company's products and services; (2) competitive pressures increase among financial service providers in the Company's northern New England market area or in the financial services industry generally, including competitive pressures from non-bank financial service providers, from increasing consolidation and integration of financial service providers, and from changes in technology and delivery systems; (3) interest rates change in such a way as to reduce the Company's margins; (4) changes in laws or government rules, including the rules of the federal Consumer Financial Protection

Bureau, or the way in which courts or government agencies interpret or implement those laws or rules, increase our costs of doing business causing us to limit or change our product offerings or pricing, or otherwise adversely affect the Company's business; (5) changes in federal or state tax policy; (6) changes in the level of nonperforming assets and charge-offs; (7) changes in estimates of future reserve requirements based upon relevant regulatory and accounting requirements; (8) changes in consumer and business spending, borrowing and savings habits; (9) the effect of changes to the calculation of the Company's regulatory capital ratios under the recently adopted Basel III capital framework which, among other things, will require additional regulatory capital, and change the framework for risk-weighting of certain assets; and (10) the effect of and changes in the United States monetary and fiscal policies, including the interest rate policies of the Federal Reserve Board ("FRB") and its regulation of the money supply; and (11) adverse changes in the credit rating of U.S. government debt.

NON-GAAP FINANCIAL MEASURES

Under SEC Regulation G, public companies making disclosures containing financial measures that are not in accordance with generally accepted accounting principles in the United States ("US GAAP" or "GAAP") must also disclose, along with each non-GAAP financial measure, certain additional information, including a reconciliation of the non-GAAP financial measure to the closest comparable GAAP financial measure, as well as a statement of the company's reasons for utilizing the non-GAAP financial measure. The SEC has exempted from the definition of non-GAAP financial measures certain commonly used financial measures that are not based on GAAP. However, two non-GAAP financial measures commonly used by financial institutions, namely tax-equivalent net interest income and tax-equivalent net interest margin (as presented in the tables in the section labeled Interest Income Versus Interest Expense (Net Interest Income), have not been specifically exempted by the SEC, and may therefore constitute non-GAAP financial measures under Regulation G. We are unable to state with certainty whether the SEC would regard those measures as subject to Regulation G.

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

OVERVIEW

The Company's consolidated assets on September 30, 2013 were $564,094,499, a decrease of $11,643,746, or 2.02% from December 31, 2012, and an increase of $2,082,544, or 0.37% from September 30, 2012. Loans increased by $15,334,123 from December 31, 2012 and $24,116,632 since September 30, 2012, funded by a combination of a decrease in cash of $16,499,849 since year end, a decrease in available-for-sale securities of $11,556,747 and an increase in deposits of $13,448,012 since September 30, 2012. The Company's goal has been to shift lower-yielding assets to loans in an effort to minimize further margin compression in this prolonged low interest rate cycle. Along with growth in commercial loans, the Company has retained in the loan portfolio some 10 and 15 year fixed rate mortgages to help maintain the relative level of the 1-4 family loans in the overall portfolio. Demand for commercial loans increased in the third quarter of 2013 and remains steady while demand for 1-4 family residential loans has moderated. Deposit balances at September 30, 2013 were $470,549,584, an increase of $13,448,012, or 2.94% from September 30, 2012 and a decrease of $4,947,275, or 1.04% from December 31, 2012. The increase in deposit balances, year-over-year, reflects the combined effect of increases in business and retail checking accounts and savings accounts, partially offset by decreases in time deposits. The increase in business checking accounts is somewhat related to the increase in commercial loans since the Company focuses on building a total relationship with the commercial customer whenever possible. A decrease in a deposit account with the Company's affiliate, Community Financial Services Group (CFSG) in the amount of $4,727,436 from December 31, 2012 to September 30, 2013 and the cyclical fluctuations in the balances of municipal customer accounts contributed to the fluctuations in NOW and money market accounts, with a decrease in government agency accounts (NOW accounts) from December 31, 2012 to September 30, 2013 of $7,517,128, and a decrease in the non-arbitrage deposit accounts (money market accounts) of $6,582,059 from December 31, 2012 to September 30, 2013 and $4,852,373 from September 30, 2012 to September 30, 2013. While an increase is noted in core money market and savings accounts, management believes, to a certain extent that this increase may be related to the $6,850,915 or 5.3% decrease in time deposits year over year as customers shift funds from maturing time deposits to non-maturing deposit accounts due to the low interest rate environment.

Net income for the third quarter of 2013 was $1,354,933 or $0.28 per common share compared to $1,267,351 or $0.26 per common share for the third quarter of 2012. While interest income decreased in the third quarter of 2013 compared to the third quarter of 2012, that decrease was more than offset by a larger decrease in interest expense. The lower interest expense was attributed to a combination of the decrease in interest paid on deposits and a decrease in interest paid on borrowings, including the Company's junior subordinated debentures. The decrease in interest paid on the debentures is due to a scheduled rate adjustment, which resulted in a decrease of $141,823 for the third quarter of 2013 and $421,883 year over year. The decrease in interest paid on deposits is attributable to a decrease in the average rate paid on interest bearing liabilities as customer funds shift out of CDs at higher rates to lower interest-bearing demand and savings accounts. The combined effects of these changes resulted in an increase of $1,096,461 in tax-equivalent net interest income, year over year.

Total non-interest income increased slightly during the third quarter of 2013 compared to the third quarter 2012. One of the components of non-interest income is income generated from selling loans in the secondary market. For several years, the Federal Reserve's efforts to stimulate the real estate market by keeping mortgage interest rates low provided for several refinancing cycles which continued through 2012. The momentum of this cycle has slowed and mortgage business declined during the first nine months of 2013, causing a decrease in fee income from the sale of residential loans in the secondary market. During the third quarter of 2013 mortgage activity resulted in originations of

$6,356,815 compared to $12,744,975 for the third quarter of 2012, resulting in points and premiums from the sales of these mortgages of $147,696 compared to $322,637 for the same period last year. These decreases were offset by an improvement in the balance of the impairment of the mortgage servicing rights for the third quarter of 2013 of $102,660 versus a negative adjustment of $44,251 for the third quarter of 2012, resulting in net gains from the sales of mortgages of $396,770 for the third quarter of 2013 compared to $418,594 for the third quarter of 2012. Operating expenses for the quarter decreased by $81,427 when compared to the third quarter of 2012, mostly due to a decrease in amortization of low income housing tax credits associated with the Company's limited partnerships of $177,548, quarter over quarter. Please refer to the Non-interest Income and Expense sections for more information.

On September 25, 2013, the Company's Board of Directors declared a quarterly cash dividend of $0.14 per common share, payable on November 1, 2013 to shareholders of record on October 15, 2013. The Company is focused on increasing the profitability of the balance sheet, improving expense efficiency, and prudently managing risk, particularly credit risk, in order to remain a well-capitalized bank in this challenging economic environment.

National economic data for the third quarter indicates that the economy has continued to expand at a moderate pace, although somewhat more slowly than earlier anticipated. Improvements in the housing sector appear slow, possibly due to the rise in mortgage rates since spring. Most of the housing activity is in the sales of existing homes, while new home sales declined. Although employment has continued to expand at a moderate pace, the national unemployment rate remains elevated. The comments from the latest meeting of the FOMC retracted any movement toward a quantitative easing exit plan due to the fact that the outlook has not improved significantly enough and that tighter financial conditions are a concern. Furthermore, uncertainty about the course of federal fiscal policy over the coming months, including the effects of the recent government shutdown or strains related to the debt ceiling debate, pose downside risks to the economic outlook.

More locally, according to the State of Vermont Department of Labor, the Vermont seasonally adjusted unemployment rate for August was 4.6%. This compares favorably to the annual 2012 rate of 5.0% and is well below the national average of 7.3%. As of the prior month's initial data, Vermont's unemployment rate was tied for the fifth lowest in the country. On a statewide basis job growth has been centered in the trade, transportation, utility and government sectors. Vermont's construction sector is ranked one of the lowest for job growth, and with post-tropical storm Irene projects now complete, forecasts for construction jobs are less than optimistic. Federal spending cuts, i.e. sequestrations, are hampering the New England economy as a whole, but economists say that continued strength in the "Vermont" brand has helped recovery in the manufacturing sector. The Vermont housing market has continued to strengthen, and the tide is beginning to shift from a buyer's market to a more level playing field. The entire state experienced record early summer rain that made it tough on weather-dependent businesses, however early travel and tourism data indicates that the 2013 summer activity is slightly ahead of 2012. In Central Vermont, the Company's growth market, ongoing downtown revitalization and improvement projects are bringing energy and economic growth to the area. Several workforce anchors in the region continue to provide stable operations and employment to the area including Green Mountain Coffee Roasters which employs an estimated 500 employees throughout Washington and Chittenden Counties and which has entered into a minimum five year agreement with Starbucks Coffee Company to manufacture, market, distribute and sell Starbuck's single serve Keurig packs. Technology, financial services and light manufacturing, particularly of specialty artisan foods, continue to be the economic leaders throughout Central Vermont.

A positive addition to Northern Vermont is a multi-phase expansion project of an Orleans County ski area, where construction of three hotels, a hockey arena, an indoor water park and a golf clubhouse has transformed the ski resort and golf course to a year-round indoor and outdoor recreation and wedding destination resort. This project has injected hundreds of millions of dollars of construction funding into the local economy over the last two years utilizing Federal EB5 program capital from foreign investors. A second project upgraded snowmaking and will soon begin construction of new hotels at another local ski resort in Caledonia County. It was recently announced that further investments of EB5 capital are intended to be utilized for several projects in the region including a bio-tech manufacturing and research facility, a water-front hotel and conference center, and a major revitalization project for downtown Newport with construction scheduled to begin in the spring of 2014. Separate from the EB5 projects, it was announced recently that a Vermont developer has committed to bringing a Wal-Mart Super Store to Orleans County. Furthermore, the area recently received status as a foreign trade zone, propelling a major renovation project at the local airport, including an aviation flight school and small plane manufacturing plant in Newport. The projects that are underway have created jobs and boosted economic activity in the area.

The regulatory environment continues to increase operating costs and place extensive burden on personnel resources to comply with a myriad of legal requirements, including those under the Dodd-Frank Act of 2010, the Sarbanes-Oxley Act of 2002, the USA Patriot Act, the Bank Secrecy Act, the Real Estate Settlement Procedures Act and the Truth in Lending Act, and the new Basel III capital framework. It is unlikely that these administrative costs and burdens will moderate in the future.

CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies, which are described in Note 1 (Significant Accounting Policies) to the Company's consolidated financial statements in the December 31, 2012 Annual Report on Form 10-K, are fundamental to understanding the Company's results of operations and financial condition because they require management to use estimates and assumptions that may affect the value of the Company's assets or liabilities and financial results. These policies are considered by management to be critical because they require subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. The critical accounting policies govern:

- the allowance for loan losses;
- other real estate owned (OREO);
- valuation of residential mortgage servicing rights (MSRs);
- other than temporary impairment of investment securities; and
- the carrying value of goodwill.

These policies are described further in the Company's December 31, 2012 Annual Report on Form 10-K in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies" and in Note 1 (Significant Accounting Policies) to the consolidated financial statements. There have been no material changes in the critical accounting policies described in the 2012 Annual Report on Form 10-K.

RESULTS OF OPERATIONS

The Company's net income for the third quarter of 2013 was $1,354,933, representing an increase of $87,582 or 6.9% over net income of $1,267,351 for the third quarter of 2012. This resulted in earnings per common share of $0.28 and $0.26, respectively. Net income for the first nine months of 2013 increased $381,663 or 11.7% to $3,635,055 compared to $3,253,392 for the same period in 2012. Core earnings (net interest income) for the third quarter of 2013 increased $244,020 or 5.4%, compared to the third quarter of 2012, and the nine months figures show an increase of $1,071,042 or 8.1% for 2013 compared to 2012. Despite continued pressure on the net interest margin and spread in this persistently low interest rate environment, the Company was pleased with these increases. To help offset this pressure, the Company shifted assets from lower yielding taxable investments to loans. Interest income decreased $174,945 or 3.0% for the third quarter of 2013 compared to 2012 and $30,807 or 0.2% for the first nine months of 2013 compared to 2012. Although total deposits increased $13,448,012 or 2.9% year over year, interest expense on deposits, the major component of total interest expense, decreased $198,264 or 22.9% between quarterly periods and $461,276 or 17.5% for the nine month comparison periods, which are both attributable to a decrease in the rates paid on interest-bearing deposit accounts. The rate change on the Company's junior subordinated debentures also had a significant, favorable impact on the Company's interest expense in both the third quarter and nine month comparison periods. The rate paid on these debentures repriced from a fixed rate of 7.56% through December 15, 2012, to a quarterly adjustable floating rate equal to the 3-month London Interbank Offered Rate (LIBOR) plus 2.85%, or 3.130% for the third quarter of 2013. This rate change decreased interest expense by $141,823 or 58.2% for the third quarter of 2013, compared to the third quarter of 2012, and $421,883 or 57.7% year over year. The Company recorded a provision for loan losses of $137,500 for the third quarter of 2013 and $463,750 for the first nine months of 2013 compared to $249,999 for the third quarter of 2012 and $750,001 for the first nine months of 2012, resulting in decreases of $112,499 or 45.0% and $286,251 or 38.2%, respectively. Non-interest income reported modest increases in both periods with $10,208 or 0.7% for the third quarter of 2013 compared to the third quarter of 2012, and $11,249 or 0.3% year over year. Non-interest expense decreased $81,427 or 1.8% for the third quarter in 2013 compared to the same quarter in 2012, with figures of $4,471,596 and $4,553,023, respectively. However, non-interest expense increased $57,980 or 0.4% for the nine month comparison periods with figures of $13,879,148 for 2013 and $13,821,168 for 2012. The section below labeled Non-Interest Income and Non-Interest Expense provides a more detailed discussion on the significant components of these two items.

Return on average assets, which is net income divided by average total assets, measures how effectively a corporation uses its assets to produce earnings. Return on average equity, which is net income divided by average shareholders' equity, measures how effectively a corporation uses its equity capital to produce earnings.

The following table shows these ratios annualized for the comparison periods.

For The Quarters Ended September 30,	2013		2012	
Return on Average Assets	0.96	%	0.90	%
Return on Average Equity	12.00	%	11.85	%

For The Nine Months Ended September 30,	2013		2012	
Return on Average Assets	0.86	%	0.78	%
Return on Average Equity	11.00	%	10.35	%

The following table summarizes the earnings performance and certain balance sheet data of the Company for the 2013 and 2012 comparison periods.

SELECTED FINANCIAL DATA (Unaudited)

Balance Sheet Data	September 30, 2013	December 31, 2012
Net loans*	$428,693,593	$413,734,575
Total assets	564,094,499	575,738,245
Total deposits	470,549,584	475,496,859
Borrowed funds	8,325,000	6,000,000
Total liabilities	518,841,185	532,385,670
Total shareholders' equity	45,253,314	43,352,575
*includes loans held-for-sale		
Nine Months Ended September 30,	2013	2012
Operating Data		
Total interest income	$16,974,033	$17,004,840
Total interest expense	2,646,626	3,748,475
Net interest income	14,327,407	13,256,365
Provision for loan losses	463,750	750,001
Net interest income after provision for loan losses	13,863,657	12,506,364
Non-interest income	4,429,475	4,418,226
Non-interest expense	13,879,148	13,821,168
Income before income taxes	4,413,984	3,103,422
Applicable income tax expense (benefit)(1)	778,929	(149,970)
Net Income	$3,635,055	$3,253,392
Per Common Share Data		
Earnings per common share	$0.74	$0.65
Dividends declared per common share	$0.42	$0.42
Book value per common shares outstanding	$8.81	$8.42
Weighted average number of common shares outstanding	4,831,084	4,759,383
Number of common shares outstanding	4,854,617	4,796,998

(1) Applicable income tax expense (benefit) includes the income tax effect, assuming a 34% tax rate, on securities (losses) gains which totaled ($5,521) and $140,971, for the nine months ended September 30, 2013 and 2012, respectively.

INTEREST INCOME VERSUS INTEREST EXPENSE (NET INTEREST INCOME)

The largest component of the Company’s operating income is net interest income, which is the difference between interest earned on loans and investments versus the interest paid on deposits and other sources of funds (i.e. other borrowings). The Company’s level of net interest income can fluctuate over time due to changes in the level and mix of earning assets, and sources of funds (volume) and from changes in the yield earned and costs of funds (rate). A portion of the Company’s income from municipal investments is not subject to income taxes. Because the proportion of tax-exempt items in the Company's portfolio varies from year-to-year, to improve comparability of information, the non-taxable income shown in the tables below has been converted to a tax equivalent basis. Because the Company’s corporate tax rate is 34%, to equalize tax-free and taxable income in the comparison, we divide the tax-free income by 66%, with the result that every tax-free dollar is equivalent to $1.52 in taxable income.

The Company’s tax-exempt interest income is entirely derived from its municipal investments, which comprised the entire held-to-maturity portfolio of $39,218,785 at September 30, 2013, and $50,065,653 at September 30, 2012.

The following table shows the reconciliation between reported net interest income and tax equivalent, net interest income for the nine month comparison periods of 2013 and 2012.

For the Nine Months Ended September 30,	2013	2012
Net interest income as presented	$14,327,407	$13,256,365
Effect of tax-exempt income	392,764	367,345
Net interest income, tax equivalent	$14,720,171	$13,623,710

The following table presents 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 2013 and 2012 comparison periods.

	For the Nine Months Ended September 30, 2013				2012			
	Average Balance	Income/ Expense	Average Rate/ Yield		Average Balance	Income/ Expense	Average Rate/ Yield	
Interest-Earning Assets								
Loans (1)	$422,756,037	$15,916,025	5.03	%	$399,953,037	$15,786,521	5.27	%
Taxable investment securities	43,265,845	242,528	0.75	%	62,357,637	439,642	0.94	%
Tax-exempt investment securities	40,210,592	1,155,188	3.84	%	37,882,741	1,080,426	3.81	%
Sweep and interest earning accounts	3,477,139	7,933	0.31	%	6,184,367	3,434	0.07	%
Other investments (2)	4,118,042	45,123	1.46	%	4,482,770	62,162	1.85	%
Total	$513,827,655	$17,366,797	4.52	%	$510,860,552	$17,372,185	4.54	%
Interest-Bearing Liabilities								
NOW	$113,210,431	$213,361	0.25	%	$105,668,556	$245,440	0.31	%
Money market accounts	89,770,981	706,045	1.05	%	78,214,169	577,481	0.99	%
Savings deposits	68,720,917	74,530	0.15	%	64,471,836	76,915	0.16	%
Time deposits	124,344,086	1,181,533	1.27	%	135,606,637	1,736,909	1.71	%
Federal funds purchased and other borrowed funds	6,720,817	21,386	0.43	%	23,461,496	231,603	1.32	%
Repurchase agreements	29,122,873	95,408	0.44	%	24,690,402	100,249	0.54	%
Capital lease obligations	748,696	45,553	8.11	%	809,263	49,185	8.10	%
Junior subordinated debentures	12,887,000	308,810	3.20	%	12,887,000	730,693	7.57	%
Total	$445,525,801	$2,646,626	0.79	%	$445,809,359	$3,748,475	1.12	%
Net interest income		$14,720,171				$13,623,710		
Net interest spread (3)			3.73	%			3.42	%
Net interest margin (4)			3.83	%			3.56	%

(1) Included in gross loans are non-accrual loans with an average balance of $4,298,002 and $6,804,857 for the nine months ended September 30, 2013 and 2012, respectively. Loans are stated before deduction of unearned discount and allowance for loans losses and include loans held-for-sale.

(2) Included in other investments is the Company's FHLBB Stock with an average balance of $3,142,892 and $3,507,620, respectively, for the first nine months of 2013 and 2012, and dividend payout rates of approximately 0.38% and 0.52%, respectively, per quarter.

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

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

The average volume of earning assets for the first nine months of 2013 increased $2,967,103 or 0.6% compared to the same period of 2012, while the average yield decreased two basis points. The average volume of loans increased $22,803,000 or 5.7%, while the average yield decreased 24 basis points. Interest earned on the loan portfolio equaled 91.7% of total interest income for the first nine months of 2013 and 90.9% for the 2012 comparison period. The average volume of the taxable investment portfolio (classified as available-for-sale) decreased $19,091,792 or 30.6% for the same period, and the average yield decreased 19 basis points. The Company sold a portion of its taxable investment portfolio to help fund loan growth throughout 2012 and into 2013 and to pay off a portion of its borrowings, accounting for the decrease in these funds. The average volume of the tax-exempt investment portfolio (classified as held-to-maturity) increased $2,327,851 or 6.1% between periods, and the average tax equivalent yield increased three basis points. Interest earned on tax-exempt investments (which is presented in the table on a tax equivalent basis) comprised 6.7% of total interest income for the first nine months of 2013 compared to 6.2% for the same period in 2012.

In comparison, the average volume of interest-bearing liabilities for the first nine months of 2013 decreased $283,558 or 0.1% over the 2012 comparison period, and the average rate paid on these liabilities decreased 33 basis points. The average volume of NOW accounts increased $7,541,875 or 7.1% and money market funds increased $11,556,812 or 14.8%, while the average rate paid decreased six basis points on NOW accounts and increased six basis points on money market funds. The average volume carried in the Company’s money market product, an insured cash sweep account (ICS) offered through Promontory Interfinancial Network, increased $3,634,939 year over year from $12,312,186 in 2012 to $15,947,125 in 2013. Although this product has brought in some new funds, most of the interest has come from the Company’s Certificate of Deposit Account Registry Service (CDARS) of Promontory Interfinancial Network customers looking for alternatives to placing their money in time deposit accounts that are not as liquid. The average volume of time deposits decreased $11,262,551 or 8.3%, and the average rate paid on time deposits decreased 44 basis points. Interest paid on time deposits comprised 44.6% and 46.3%, respectively, of total interest expense for the first nine months of 2013 and 2012. The average volume of federal funds purchased and other borrowed funds decreased $16,740,679 or 71.4% and the average rate paid decreased 89 basis points for the first nine months of 2013 compared to the same period in 2012. The decrease in average volume was attributable to matured advances as well as prepayment on a borrowing scheduled to mature in 2015.

The prolonged low interest rate environment has resulted in continued pressure on the Company’s net interest spread and margin. The Company’s earning assets are being replaced and repricing to lower interest rates, while the opportunity to reduce rates further on non-maturing interest-bearing deposits is more limited, given the already low rates paid on deposits. Between the nine month comparison periods of 2013 and 2012, the average yield on interest earning assets decreased two basis points, while the average rate paid on interest bearing liabilities decreased 33 basis points. The decrease in interest expense was attributable in large part to the decrease in both volume and rate paid on time deposits. The repricing of the junior subordinated debentures, which is discussed in the Results of Operations, was another significant contributing factor to the decrease in interest expense and in the average rate paid on interest-bearing liabilities. The cumulative results of all these changes were increases of 31 basis points in the net interest spread and 27 basis points in net interest margin.

The following table summarizes the variances in interest income and interest expense on a fully tax-equivalent basis for the first nine months of 2013 and 2012 resulting from volume changes in average assets and average liabilities and fluctuations in average rates earned and paid.

Changes in Interest Income and Interest Expense

	Variance Due to Rate (1)	Variance Due to Volume (1)	Total Variance
Average Interest-Earning Assets			
Loans	$(770,143)	$899,647	$129,504
Taxable investment securities	(90,017)	(107,097)	(197,114)
Tax-exempt investment securities	8,365	66,397	74,762
Sweep and interest earning accounts	10,776	(6,277)	4,499
Other investments	(13,056)	(3,983)	(17,039)
Total	$(854,075)	$848,687	$(5,388)
Average Interest-Bearing Liabilities			
NOW	$(49,582)	$17,503	$(32,079)
Money market accounts	42,911	85,653	128,564
Savings deposits	(7,475)	5,090	(2,385)
Time deposits	(448,394)	(106,982)	(555,376)
Federal funds purchased and other borrowed funds	(156,376)	(53,841)	(210,217)
Repurchase agreements	(22,760)	17,919	(4,841)
Capital lease obligations	42	(3,674)	(3,632)
Junior subordinated debentures	(421,883)	0	(421,883)
Total	$(1,063,517)	$(38,332)	$(1,101,849)
Changes in net interest income	$209,442	$887,019	$1,096,461

(1) Items which have shown a year-to-year increase in volume have variances allocated as follows:
Variance due to rate = Change in rate x new volume
Variance due to volume = Change in volume x old rate
Items which have shown a year-to-year decrease in volume have variances allocated as follows:
Variance due to rate = Change in rate x old volume
Variances due to volume = Change in volume x new rate

NON-INTEREST INCOME AND NON-INTEREST EXPENSE

Non-interest Income: Non-interest income increased slightly for the third quarter comparison periods and the nine month comparison periods with the significant changes noted in the following. Service fees increased $105,104 or 17.6% for the third quarter of 2013 compared to the same quarter in 2012 and $137,691 or 7.9% for the nine month comparison periods for 2013 and 2012. During the first half of 2013, the Company changed the structure of various demand deposit accounts, including implementation of a different service fee, accounting for the increase in service fees. These increases were offset by decreases of $105,197 and $146,492, respectively, for the third quarter and nine month periods in gains on sales of securities, reflecting gains of $99,676 for the third quarter of 2012 and $140,971 for the nine months period, compared to a loss of $5,521 for both periods in 2013. Other income from loans decreased $42,625 or 17.3% for the third quarter of 2013 compared to the same period in 2012 and $130,003 or 19.5% for the first nine months of 2013 compared to the first nine months of 2012 due primarily to a decrease in residential real estate loan activity, including a decrease in secondary market sales. Income generated through documentation fees on residential real estate loans for the third quarter of 2013 was $53,353 compared to $95,423 for the third quarter of 2012 and $185,974 for the first nine months of 2013 compared to $283,297 for the same period in 2012. Other Income increased in both comparison periods with an increase of $74,750 or 44.5% for the third quarter of 2013 compared to the third quarter of 2012 and $170,521 or 28.4% year over year. Increases of $29,114 for the third quarter of 2013 compared to the same quarter in 2012 and $84,643 year over year from the Company's trust and investment management affiliate, CFSG, together with $40,878 in rental income on OREO for the first nine months of 2013 helped to offset decreases in various components of other income in each of the comparison periods. While rental of OREO properties is not a normal practice for the Company, it was deemed appropriate on a condominium unit in Stowe, Vermont to help offset expenses associated with this property while it is on the market for sale.

Non-interest Expense: Non-interest expense noted larger changes in the quarterly and nine month comparison periods with a decrease of $81,427 or 1.8% for the third quarter of 2013 compared to the third quarter of 2012, while an increase of $57,980 or 0.4% is noted year over year. The most significant increase was in salaries and wages with an increase of $63,413 or 4.1% for the third quarter of 2013 compared to the same quarter in 2012 and $353,601 or 7.8% for the first nine months of 2013 compared to the same period in 2012. These increases were due in part to salary increases as well as additional staff in some areas such as commercial lending. Employee benefits increased accordingly with increases totaling $1,281 or 0.3% and $45,801 or 2.7% for the respective third quarter and nine months comparison periods. The amortization of the core deposit intangible associated with the LyndonBank acquisition decreased $17,042 or 20% for the third quarter of 2013 compared to the third quarter of 2012 with figures of $68,175 and $85,217, respectively. For the nine month comparison period the amortization expense decreased $51,127 or 20% with figures of $204,525 for 2013 compared to $255,652 for 2012.

Other expenses decreased in both periods with decreases of $85,690 or 5.5% for the third quarter of 2013 compared to the third quarter of 2012, and $254,553 or 5.6% year over year. The Company began outsourcing its data processing operations late in the fourth quarter of 2012, with related expenses amounting to $75,443 for the third quarter of 2013 and $99,824 for the first nine months of 2013. Outsourcing of the core processing provided the opportunity for the existing information technology staff to take on additional duties and roles prescribed from regulatory and industry changes. Expenses associated with the Company’s OREO properties increased $32,017 quarter over quarter and $91,839 year over year. While these expenses remain higher in 2013, the Company is experiencing a decrease in collection and non-accrual loan expenses with decreases of $46,648 or 57.2% for the third quarter of 2013 compared to the same quarter of 2012, and $104,808 or 53.4% for the nine month comparison periods. These increases were offset by a decrease in amortization associated with the Company’s limited partnerships. Amortization expense decreased $177,548 or 60.1% for the third quarter of 2013 compared to the third quarter of 2012 and $529,736 or 59.8% for the first nine months of 2013 compared to the same period in 2012. This decrease between periods is attributable to the amortization in 2012 of two significant historic tax credits with no similar credits available during 2013.

Losses relating to various limited partnership investments for affordable housing in our market area constitute the largest portion of other expenses. These losses for the third quarter of 2013 and 2012 amounted to $117,769 and $295,317, respectively and for the first nine months of 2013 and 2012 amounted to $356,215 and $885,951, respectively. These investments provide tax benefits, including tax credits, and are designed to provide an effective yield between 8% and 10%. Losses relating to the Company’s New Market Tax Credit (NMTC) investment for the third quarter of 2013 were recorded as $25,347 compared to $9,918 for the third quarter of 2012 and $76,041 for the first nine months of 2013 compared to $29,754 for the same period in 2012, with tax credits amounting to $28,174 for both quarters and $84,521 for both year to date periods. The Company amortizes these investments under the effective yield method.

APPLICABLE INCOME TAXES

The provision for income taxes increased in both comparison periods for reasons discussed throughout this narrative including the non-interest income and non-interest expense section with expenses of $364,106 for the third quarter of 2013 compared to $3,534 for the third quarter of 2012, and $778,929 for the first nine months of 2013 compared to a benefit of $149,970 for the first nine months of 2012. The increase in expense is due in part to an increase in net income before taxes of $448,154 for the third quarter and $1,310,562 for the first nine months of 2013, as well as the decrease in tax credits totaling $209,167 for the third quarter and $534,865 year over year.

CHANGES IN FINANCIAL CONDITION

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

	September 30, 2013			December 31, 2012			September 30, 2012		
Assets									
Loans (gross)*	$433,211,277	76.80	%	$417,877,154	72.58	%	$409,094,645	72.79	%
Securities available-for-sale	35,452,071	6.28	%	40,886,059	7.10	%	47,008,818	8.36	%
Securities held-to-maturity	39,218,785	6.95	%	41,865,555	7.27	%	50,065,653	8.91	%

*includes loans held-for-sale

	September 30, 2013			December 31, 2012			September 30, 2012		
Liabilities									
Time deposits	$122,136,016	21.65	%	$121,526,064	21.11	%	$128,986,931	22.95	%
Savings deposits	70,668,274	12.53	%	65,216,698	11.33	%	66,204,831	11.78	%
Demand deposits	80,465,454	14.26	%	72,956,097	12.67	%	68,580,510	12.20	%
NOW	113,732,525	20.16	%	128,824,165	22.38	%	109,271,808	19.44	%
Money market accounts	83,547,315	14.81	%	86,973,835	15.11	%	84,057,492	14.96	%
Federal funds purchased	8,325,000	1.48	%	0	0.00	%	4,840,000	0.86	%
Long-term borrowings	0	0.00	%	6,000,000	1.04	%	12,010,000	2.14	%

The Company's loan portfolio increased throughout the comparison periods with increases of $15,334,123 or 3.7%, from December 31, 2012 to September 30, 2013, and $24,116,632 or 5.9%, year over year. This increase is due in part to strong commercial loan growth during 2012 and into the first nine months of 2013 as well as the Company's decision to continue to hold some 10-15 year fixed rate residential mortgages in-house, rather than selling them into the secondary market, to further shift funds into loan assets in order to relieve pressure on the interest spread and margin. Securities available-for-sale decreased $5,433,988 or 13.3% from December 31, 2012 to September 30, 2013, and $11,556,747 or 24.6% year over year. During the second and third quarters of 2012 as loan demand increased, securities available-for-sale were sold to help fund loan growth. Additionally, during the third quarter of 2013, the Company sold more investments from the same portfolio, contributing to the decrease in both periods. Securities held-to-maturity decreased $2,646,770 or 6.3% during the first nine months of 2013, and $10,846,868 or 21.7% year over year. Held-to-maturity securities are made up of investments from the Company's municipal customers in its servicing areas. The Company is currently not pricing as aggressively as in the past for these investments, so as a result, the portfolio has decreased over the past year.

Total deposits decreased $4,947,275 or 1.0% from December 31, 2012 to September 30, 2013 but increased $13,448,012 or 2.9% year over year. Time deposits increased $609,952 or 0.5% from December 31, 2012 to September 30, 2013 due to a one-way CDARS balance, but decreased $6,850,915 or 5.3% year to year. Management believes this decrease in time deposits is partially attributable to the low rate environment as customers place their funds in non-maturing deposit accounts while searching for higher paying investments. Savings deposits increased throughout the comparison period with increases of $5,451,576 or 8.4% year to date and $4,463,443 or 6.7% year to year. Demand deposits increased $7,509,357 or 10.3% during the first nine months of 2013, and $11,884,944 or 17.3% year to year. NOW accounts decreased $15,091,640 or 11.7% during the first nine months of 2013, but increased $4,460,717 or 4.1% year to year. The Company believes at least a portion of the increase in demand deposits is attributable to customers holding on to more of their cash and waiting to see what happens with interest rates and the economy in the coming months. A decrease in government agency accounts in the amount of $7,517,128 or 22.8% and a decrease of $4,727,437 or 19.4% in the account held by the Company's affiliate, CFSG, accounted for most of the decrease in NOW accounts during the first nine months of 2013. Money market accounts decreased $3,426,520 or 3.9% for the first nine months of 2013 and $510,177 or 0.6% is noted from September 30, 2012 to September 30, 2013. The municipal accounts decreased $6,582,059 or 24.6% for the first nine months of 2013 which is related to the decrease in municipal investments classified as held-to-maturity securities. Regular money market accounts increased $1,757,804 or 3.8% for the first nine months of 2013, helping to offset a portion of the decrease in the municipal accounts. Beginning late in the first quarter of 2013, the Company has borrowed overnight funds to help fund loan growth during the first nine months of 2013 and to cover the temporary cyclical decrease in the municipal deposit accounts which has now rebounded resulting in a balance of $8,325,000 as of September 30, 2013. The Company paid off a $6,000,000 long-term FHLBB borrowing in January of 2013 accounting for the $0 balance in long-term borrowings at September 30, 2013.

RISK MANAGEMENT

Interest Rate Risk and Asset and Liability Management - Management actively monitors and manages the Company's interest rate risk exposure and attempts to structure the balance sheet to maximize net interest income while controlling its exposure to interest rate risk. The Company's Asset/Liability Management Committee (ALCO) is made up of the Executive Officers and all the Vice Presidents of the Bank. The ALCO formulates strategies to manage interest rate risk by evaluating the impact on earnings and capital of such factors as current interest rate forecasts and economic indicators, potential changes in such forecasts and indicators, liquidity and various business strategies. The ALCO meets monthly 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.

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. The ALCO utilizes the results of this 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. Furthermore, the model 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 a flattening yield curve as well. This sensitivity analysis is 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. The analysis also provides a summary of the Company's liquidity position. Furthermore, the analysis provides testing of the assumptions used in previous simulation models by comparing the projected NII with actual NII. The asset/liability simulation model provides management with an important tool for making sound economic decisions regarding the balance sheet.

The Company's Asset/Liability Policy has been enhanced with a contingency funding plan to help management prepare for unforeseen liquidity restrictions to include hypothetical severe liquidity crises.

While assumptions are developed based upon current economic and local market 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 in order to assure accuracy of the Company's internal risk ratings and compliance with various internal policies and procedures and regulatory guidance.

The residential mortgage portfolio continues to be the largest segment of the loan portfolio. The severity and depth of the latest recession and slow economic recovery saw the greatest degree of collection and foreclosure activity and losses in this segment of the portfolio. Delinquencies and losses, however, were not experienced to the extent of national peers as the Company maintains a mortgage loan portfolio of traditional mortgage products and had not engaged in higher risk loans such as option adjustable rate mortgage products, high loan-to-value products, interest only mortgages, subprime loans and products with deeply discounted teaser rates. While real estate values had declined in the Company's market area, the sound underwriting standards historically employed by the Company mitigated the trends in defaults and property surrenders experienced elsewhere. Residential mortgages with loan-to-values exceeding 80% are generally covered by private mortgage insurance ("PMI"). A 90% loan-to-value residential mortgage product without PMI is only available to borrowers with excellent credit and low debt-to-income ratios and has not been widely originated. Junior lien home equity products make up approximately 20% of the residential mortgage portfolio with maximum loan-to-value ratios (including prior liens) of 80%. The residential mortgage portfolio has had satisfactory performance in light of the depth of the latest recession and the slow recovery;

portfolio performance improved through 2012 and into 2013.

Risk in the Company's commercial and commercial real estate loan portfolios is mitigated in part by government guarantees issued by federal agencies such as the U.S. Small Business Administration and USDA Rural Development. At September 30, 2013, the Company had $26,299,484 in guaranteed loans with guaranteed balances of 20,898,326, compared to $24,676,611 in guaranteed loans with guaranteed balances of $19,787,843 at December 31, 2012 and $26,929,217 in guaranteed loans with guaranteed balances of $21,510,648 at September 30, 2012.

The Company's strategy is to continue growing the commercial and commercial real estate portfolios. Consistent with the strategic focus on commercial lending, both segments have seen solid growth during 2013. Growth continued in the residential mortgage first lien portfolio with the Company continuing to hold rather than selling some of its 10 and 15 year fixed rate residential mortgage originations.

The following table reflects the composition of the Company's loan portfolio as of the dates indicated:

	September 30, 2013			December 31, 2012			September 30, 2012		
	Total Loans	% of Total		Total Loans	% of Total		Total Loans	% of Total	
Commercial & industrial	$55,500,735	12.81	%	$49,283,948	11.79	%	$47,484,639	11.61	%
Commercial real estate	147,280,787	34.00	%	139,807,517	33.46	%	136,016,554	33.25	%
1 - 4 family residential - 1st lien	175,737,499	40.57	%	171,114,515	40.95	%	168,541,410	41.20	%
1 - 4 family residential - Jr lien	45,279,400	10.45	%	47,029,023	11.25	%	46,029,238	11.25	%
Consumer	9,412,856	2.17	%	10,642,151	2.55	%	11,022,804	2.69	%
Total gross loans	433,211,277	100.00	%	417,877,154	100.00	%	409,094,645	100.00	%
Deduct (add):									
Allowance for loan losses	4,799,431			4,312,080			4,115,230		
Unearned loan fees	(281,747)			(169,501)			(101,742)		
Loans held-for-sale	1,229,490			1,501,706			1,483,940		
	5,747,174			5,644,285			5,497,428		
Net loans	$427,464,103			$412,232,869			$403,597,217		

The Company works actively with customers early in the delinquency process to help them to avoid default and foreclosure. With the economic recovery continuing, the levels of both Group B (Management Involved) and Group C (Unacceptable Risk) loans (as defined in Note 5 to the Company’s unaudited interim consolidated financial statements) showed gradual improvement through 2012 and thus the loan loss reserve factors for trends in delinquency and non-accrual loans and criticized and classified were gradually decreased. Alternatively, qualitative factors have been increased to account for growth in the loan portfolio. During 2013, lower loan losses have been offset by strong commercial loan volume, the deterioration of several commercial real estate loans and the migration of some past due residential loans to later stage delinquency, resulting in increases in the associated loan loss reserve qualitative factors.

Commercial and commercial real estate loans are generally placed on non-accrual status when there is deterioration in the financial position of the borrower, payment in full of principal and interest is not expected, and/or principal or interest has been in default for 90 days or more. However, such a loan need not be placed on non-accrual status if it is both well secured and in the process of collection. Residential mortgages and home equity loans are considered for non-accrual status at 90 days past due and are evaluated on a case-by-case basis. The Company obtains current property appraisals or market value analyses and considers the cost to 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. Deferred taxes are calculated monthly, based on interest amounts that would have accrued through the normal accrual process.

The Company’s non-performing assets decreased $944,776 or 15.2% during the first nine months of 2013. The improvement in non-performing loans is principally due to resolution of loans through foreclosure actions and collateral liquidations. Claims receivable on related government guarantees were $313,905 at September 30, 2013 as compared to $334,483 at June 30, 2013.

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As of the consolidated balance sheet dates, non-performing assets were made up of the following:

	September 30, 2013		December 31, 2012	
	Balance	Percent of Total	Balance	Percent of Total
Loans past due 90 days or more and still accruing (1)				
Commercial real estate	$50,965	0.78 %	$53,937	0.87 %
Residential real estate - 1st lien	344,193	5.30 %	281,845	4.54 %
Residential real estate - Jr lien	62,359	0.96 %	41,434	0.67 %
Consumer	8,755	0.13 %	844	0.01 %
Total	466,272	7.17 %	378,060	6.09 %
Non-accrual loans (1)				
Commercial & industrial	493,272	7.60 %	596,777	9.61 %
Commercial real estate	1,740,350	26.80 %	1,892,195	30.48 %
Residential real estate - 1st lien	1,999,274	30.79 %	1,928,097	31.06 %
Residential real estate - Jr lien	669,292	10.31 %	338,383	5.45 %
Total	4,902,188	75.50 %	4,755,452	76.60 %
Other real estate owned	1,125,105	17.33 %	1,074,705	17.31 %
Total	$6,493,565	100.00 %	$6,208,217	100.00 %

(1) No commercial & industrial loans were past due 90 days or more and still accruing and no consumer loans were in non-accrual status as of the consolidated balance sheet dates.

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

The Company's OREO portfolio at September 30, 2013 consisted of six properties acquired through the normal foreclosure process. One residential property and one commercial property were sold during the first quarter of 2013. During the second quarter of 2013, the OREO balance reached $2.2 million as the Company took possession of three commercial real estate properties and one residential property. During the third quarter the Company sold one commercial property and one residential property, and took possession of a parcel of raw land, resulting in a net decrease of $1,118,300 for the third quarter of 2013. Immediately following third quarter end, the Company closed on the sale of two more commercial real estate properties further reducing the OREO portfolio to $885,205.

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

When establishing the allowance each quarter the Company applies a combination of historical loss factors and qualitative factors to loan classes including residential first and junior lien mortgages, commercial real estate, commercial and industrial, and consumer loan portfolios. No changes were made to the allowance methodology during the first nine months of 2013. The Company will shorten or lengthen its look back period for determining average portfolio historical loss rates as the economy either contracts or expands; during a period of economic contraction a shortening of the look back period may more conservatively reflect the current economic climate. The highest loss rates experienced for the look back period are applied to the various segments in establishing the allowance.

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

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

The following table summarizes the Company's loan loss experience for the nine months ended September 30,

	2013	2012
Loans outstanding, end of period*	$433,211,277	$409,094,645
Average loans outstanding during period*	$422,756,037	$399,953,037
Non-accruing loans, end of period	$4,902,188	$4,708,519
Non-accruing loans, net of government guarantees	$4,319,917	$3,118,286
Allowance, beginning of period	$4,312,080	$3,886,502
Loans charged off:		
Commercial & industrial	(61,614)	(159,309)
Commercial real estate	(124,849)	(57,878)
Residential real estate - 1st lien	(7,009)	(239,600)
Residential real estate - Jr lien	0	(69,734)
Consumer loans	(36,655)	(69,437)
Total loans charged off	(230,127)	(595,958)
Recoveries:		
Commercial & industrial	2,117	20,498
Commercial real estate	185,791	25,450
Residential real estate - 1st lien	11,764	3,248
Residential real estate - Jr lien	21,230	1,479
Consumer loans	32,826	24,010
Total recoveries	253,728	74,685
Net loans charged off	23,601	(521,273)
Provision charged to income	463,750	750,001
Allowance, end of period	$4,799,431	$4,115,230
Net charge offs to average loans outstanding	-0.006 %	0.130 %
Provision charged to income as a percent of average loans	0.110 %	0.188 %
Allowance to average loans outstanding	1.135 %	1.029 %
Allowance to non-accruing loans	97.904 %	87.400 %
Allowance to non-accruing loans net of government guarantees	111.100 %	131.971 %

*Includes loans held-for-sale

Net charge-offs increased from 2007 through 2011, peaking at $841,000 in 2011. Given the trend in losses, depth of the latest recession and the sluggish recovery, management increased its provisions for loan losses to $1.0 million in each of the years 2010 through 2012, compared to $625,004 for 2009. This increase was directionally consistent with the risk trends and growth of the loan portfolio. Improving loan portfolio trends through 2012 and into 2013, and several recoveries have resulted in a $286,251 or 38.2% decrease to the provision for the first nine months of 2013; with total provisions year to date of $463,750 compared to $750,001 for the same period in 2012. While the Company’s allowance coverage of non-accruing loans has increased during 2013, the coverage of non-accruing loans net of government guarantees decreased. The decrease is the result of new non-accruing loans that are not guaranteed, replacing one large government guaranteed loan that was fully liquidated during the second quarter of 2013. The Company has an experienced collections department that continues to work actively with borrowers to resolve problem loans and manage the OREO portfolio, and management continues to monitor the loan portfolio closely.

Specific allocations to the allowance are made for certain impaired loans. Impaired loans are loans to a borrower that in aggregate are greater than $100,000 and that are in non-accrual status. A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due, including interest and principal, according to the contractual terms of the loan agreement. The Company will review all the facts and circumstances surrounding non-accrual loans and on a case-by-case basis may consider loans below the threshold as impaired when such treatment is material to the financial statements. See Note 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 valuation date although not specifically identified through management's process for estimating credit losses. While the allowance is described as consisting of separate allocated portions, the entire allowance is available to support loan losses, regardless of category.

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 2013, 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, 2013	December 31, 2012
Unused portions of home equity lines of credit	$23,360,209	$21,120,077
Other commitments to extend credit	47,221,934	45,551,282
Residential construction lines of credit	2,597,864	1,138,872
Commercial real estate and other construction lines of credit	12,599,285	1,762,424
Standby letters of credit and commercial letters of credit	1,111,941	1,193,480
Recourse on sale of credit card portfolio	280,500	352,000
MPF credit enhancement obligation, net of liability recorded	1,546,211	2,035,858

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

In connection with its trust preferred securities financing completed on October 31, 2007, 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.

LIQUIDITY AND CAPITAL RESOURCES

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

Currently, the Company is not offering competitive rates to attract or retain "rate chasers". The Company however, 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. The Company had one-way deposits totaling $0 at September 30, 2013 and December 31, 2012 and $2,061,461 at September 30, 2012. In addition, two-way CDARS deposits allow the Company to provide FDIC deposit insurance to its customers in excess of account coverage limits by exchanging deposits with other CDARS members. At September 30, 2013, the Company reported $1,101,465 in CDARS deposits representing exchanged deposits with other CDARS participating banks, compared to $1,028,152 at December 31, 2012 and $1,021,906 at September 30, 2012. The balance in ICS deposits discussed above under "Changes in Financial Condition" was $14,927,159 at September 30, 2013, compared to $13,529,424 at December 31, 2012 and $11,010,252 at September 30, 2012.

The Company has a Borrower-in-Custody arrangement with the FRBB secured by eligible commercial loans, commercial real estate loans and home equity loans, resulting in an available line of $76,626,565, $71,345,734, and $70,635,875, respectively, at September 30, 2013, December 31, 2012 and September 30, 2012. Credit advances in this FRBB lending program are overnight advances with interest chargeable at the primary credit rate (generally referred to as the discount rate), currently 75 basis points. The Company had no outstanding advances against this line during any of the respective comparison periods.

The Company has an unsecured Federal Funds line with the FHLBB with an available balance of $500,000 at September 30, 2013, December 31, 2012 and September 30 2012. Interest is chargeable at a rate determined daily approximately 25 basis points higher than the rate paid on federal funds sold. In addition, at September 30, 2013, December 31, 2012 and September 30, 2012, additional borrowing capacity of approximately $74,008,675, $72,591,692 and $69,862,201, respectively, was available through the FHLBB secured by the Company's qualifying loan portfolio (generally, residential mortgages).

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

	September 30, 2013	December 31, 2012	September 30, 2012
Long-Term Advances			
FHLBB Community Investment Program advance, 7.67% fixed rate, due November 16, 2012	$0	$0	$10,000
FHLBB term advance, 1.71% fixed rate, due January 28, 2013	0	6,000,000	6,000,000
FHLBB term advance, 2.72% fixed rate, due January 27, 2015	0	0	6,000,000
	$0	$6,000,000	$12,010,000
Overnight Borrowings			
Federal funds purchased (FHLBB), 0.3125%, 0.00% and 0.3125%	8,325,000	0	4,840,000
Total Borrowings	$8,325,000	$6,000,000	$16,850,000

The following table illustrates the changes in shareholders' equity from December 31, 2012 to September 30, 2013:

Balance at December 31, 2012 (book value $8.13 per common share)	$43,352,575
Net income	3,635,055

Issuance of stock through the Dividend Reinvestment Plan	523,678
Dividends declared on common stock	(2,026,829)
Dividends declared on preferred stock	(60,938)
Change in unrealized gain on available-for-sale securities, net of tax	(170,227)
Balance at September 30, 2013 (book value $8.81 per common share)	$45,253,314

The primary source of funds for the Company's payment of dividends to its shareholders is dividends paid to the Company by the Bank. The Bank, as a national bank, is subject to the dividend restrictions set forth by the Comptroller of the Currency ("OCC"). Under such restrictions, the Bank may not, without the prior approval of the OCC, declare dividends in excess of the sum of the current year's earnings (as defined) plus the retained earnings (as defined) from the prior two years.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). The Company’s non-cumulative Series A preferred stock ($2.5 million liquidation preference) is includable without limitation in its Tier 1 capital. In accordance with changes in the regulatory requirements for calculating capital ratios, beginning with the quarter ended March 31, 2011, the Company deducts the amount of goodwill, for purposes of calculating the amount of trust preferred junior subordinated debentures includable in Tier 1 capital. Management believes, as of September 30, 2013, the Company and the Bank met all capital adequacy requirements to which they are subject.

As of September 30, 2013 the Bank was considered well capitalized under the regulatory capital framework for Prompt Corrective Action and the Company exceeded applicable consolidated regulatory capital guidelines.

The regulatory capital ratios of the Company and its subsidiary as of September 30, 2013 and December 31, 2012 exceeded current regulatory guidelines and are presented in the following table.

	Actual			Minimum For Capital Adequacy Purposes:			Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions:		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
				(Dollars in Thousands)					
September 30, 2013									
Total capital (to risk-weighted assets)									
Company	$50,110	12.98	%	$30,896	8.00	%	N/A	N/A	
Bank	$49,390	12.81	%	$30,850	8.00	%	$38,562	10.00	%
Tier I capital (to risk-weighted assets)									
Company	$43,611	11.29	%	$15,448	4.00	%	N/A	N/A	
Bank	$44,570	11.56	%	$15,425	4.00	%	$23,137	6.00	%
Tier I capital (to average assets)									
Company	$43,611	7.98	%	$21,870	4.00	%	N/A	N/A	
Bank	$44,570	8.16	%	$21,849	4.00	%	$27,311	5.00	%
December 31, 2012:									
Total capital (to risk-weighted assets)									
Company	$47,385	12.57	%	$30,164	8.00	%	N/A	N/A	

Bank	$	46,796	12.44	%	$	30,099	8.00	%	$	37,623	10.00	%
Tier I capital (to risk-weighted assets)												
Company	$	40,724	10.80	%	$	15,082	4.00	%		N/A	N/A	
Bank	$	42,440	11.28	%	$	15,049	4.00	%	$	22,574	6.00	%
Tier I capital (to average assets)												
Company	$	40,724	7.27	%	$	22,416	4.00	%		N/A	N/A	
Bank	$	42,440	7.58	%	$	22,387	4.00	%	$	27,984	5.00	%

The Company intends to continue the past policy of maintaining a strong capital resource position to support its asset size and level of operations. Consistent with that policy, management will continue to anticipate the Company's future capital needs and will adjust its dividend payment practices consistent with those needs.

From time to time the Company may make contributions to the capital of Community National Bank. At present, regulatory authorities have made no demand on the Company to make additional capital contributions.

In July 2013, the Federal Reserve Board adopted new rules implementing the Basel III capital standards, which significantly revise the regulatory capital standards for U.S. financial institutions, including community banks. Among other things, the new capital rules, which take effect during a five year phase in period beginning in January 2014, revise the definition of various regulatory capital components and related calculation methods, add a new regulatory capital component (common equity tier 1 capital), increase the minimum required tier 1 capital, implement a new capital conservation buffer and restrict dividends and certain discretionary bonus payments when the buffer is not maintained. The final rules as adopted did not include several proposals that were particularly troubling to the Company and other community banks, including proposed changes to risk-weighting of mortgage loan assets, the proposed mandatory inclusion of unrealized gains and losses on available-for-sale securities in regulatory capital and the proposed phase out of trust preferred securities from regulatory capital. Management is evaluating the potential impact of the new capital rules on the Company and monitoring related regulatory developments.

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 "RISK MANAGEMENT" and “COMMITMENTS, CONTINGENCIES AND OFF-BALANCE-SHEET ARRANGEMENTS”, 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 2012 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, 2013, 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, 2013 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, 2013 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 purchases of the Company’s common stock during the quarter ended September 30, 2013, by the Company and 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	0	$0.00	N/A	N/A
August 1 - August 31	4,600	12.95	N/A	N/A
September 1 - September 30	0	0.00	N/A	N/A
Total	4,600	$12.95	N/A	N/A

(1) All 4,600 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 of the Company pursuant to section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2 - Certification from the Chief 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 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 Chief 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, 2013 formatted in eXtensible Business Reporting Language (XBRL): (i) the unaudited consolidated balance sheets, (ii) the unaudited consolidated statements of income for the interim periods ended September 30, 2013 and 2012, (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.

** As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of 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 12, 2013	/s/ Stephen P. Marsh Stephen P. Marsh, Chairman, President & Chief Executive Officer
DATED: November 12, 2013	/s/ Louise M. Bonvechio Louise M. Bonvechio, Treasurer (Principal Financial Officer)