SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Community Bancorp /VT

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from_______ to _______

Commission File No. 000-16435

Community Bancorp.

COMMUNITY BANCORP.

Vermont	03-0284070
(State of Incorporation)	(IRS Employer Identification Number)

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

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

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

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock - $2.50 par value per share

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
YES ( ) NO(X)

As of June 30, 2003, the aggregate market value of the voting stock held by non-affiliates of the registrant was $53,165,488, based on a per share price of $16.00, as reported on the OTC Bulleting Board® on June 25, 2003 (the date of the last reported sale prior to July 1, 2003). For purposes of the calculation, all directors and executive officers were deemed to be affiliates of the registrant. However, such assumption is not intended as an admission of affiliate status as to any such individual.

There were 3,801,998 shares outstanding of the issuer's class of common stock as of the close of business on March 30, 2004.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for 2003 are incorporated by reference to Part II. Items 5, 6, 7, 7A, and 8
Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held May 4, 2004
are incorporated by reference to Part III, Items 10, 11, 12, 13 and 14

Total Number of Pages: 25

Exhibit Index Begins on Page 13

FORM 10-K ANNUAL REPORT

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PART I

Item 1. The Business

Organization and Operation

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

Community National Bank was organized in 1851 as the Peoples Bank, and was subsequently reorganized as the National Bank of Derby Line in 1865. In 1975, after 110 continuous years of operation as the National Bank of Derby Line, the Bank acquired the Island Pond National Bank and changed its name to "Community National Bank." The Bank celebrated its 150th anniversary in 2001, with a host of activities throughout the year.

Community National Bank provides a complete range of retail banking services to the residents and businesses in northeastern Vermont. These services include checking, savings and time deposit accounts, mortgage, consumer and commercial loans, safe deposit and night deposit services, wire transfer services, automatic teller machine (ATM) facilities, credit card services, 24 hour telephone banking, and internet banking. Additionally, the Bank maintains cash machines in eight different businesses located in the counties of Orleans, Washington and Caledonia.

Prior to April 1, 2002, the Bank operated a trust department through which it offered a full line of personal fiduciary services. On that date, the Bank transferred its trust operations to a newly formed Vermont-chartered nondepository trust and investment management affiliate, Community Financial Services Group, LLC, based in Newport, Vermont ("CFSG"). The Bank's ownership interest in CFSG is held indirectly, through Community Financial Services Partners, LLC, a Vermont limited liability company ("CFSP"), which owns 100% of the limited liability company equity interests of CFSG. Immediately following transfer of its trust operations to CFSG, the Bank sold a two-thirds interest in CFSP, equally to the National Bank of Middlebury, headquartered in Middlebury, Vermont and Guaranty Bancorp Inc., the bank holding company parent of Woodsville Guaranty Savings Bank, headquartered in Woodsville, New Hampshire.

Competition

The Bank has five offices located in Orleans County, one office in Essex County, one office in Caledonia County, and two offices in Washington County. Its primary service area is in the town of Derby and city of Newport, Vermont, with approximately 70% of its total deposits as of December 31, 2003 derived from that area.

The Bank competes in all aspects of its business with other banks and credit unions in northern and central Vermont, including two of the largest banks in the state, which maintain branch offices throughout the Bank's service area. Historically, competition in Orleans and Essex Counties has come primarily from two of the largest banks in the state, the Chittenden Trust Company based in Burlington, Vermont and Banknorth, N.A. based in Portland, Maine. The Chittenden Trust Company maintains a branch office in Newport, and Banknorth, N.A. maintains offices in Barton, Orleans, and St. Johnsbury. The Bank also competes in Orleans County with two local financial institutions, Lyndonville Savings Bank and Trust Company, based in Lyndonville and Passumpsic Savings Bank, based in St. Johnsbury, and Orlex Credit Union and Border Lodge Credit Union, both based in Newport. The Bank's primary competitors in Caledonia County are Passumpsic Savings Bank and Union Bank based in Morrisville, Lyndonville Savings Bank and Trust Company, Fairbanks Credit Union, based in St. Johnsbury, Vermont State Employee Credit Union, based in Montpelier, and Merchants Bank, based in Burlington. In Washington County, the Bank competes with Merchants Bank, Chittenden Trust Company and BankNorth, N.A, as well as Northfield Savings Bank based in Northfield; Key Bank and Charter One Bank, both based in Cleveland, Ohio; Vermont State Employees Credit Union, and Granite Hills Credit Union, based in Barre.

With recent changes in the regulatory framework of the banking industry, the competition for commercial bank products such as deposits and loans has broadened to include not only traditional rivals such as the mutual savings banks, stock savings banks, and credit unions, but also many non-traditional rivals such as insurance companies, brokerage firms, mutual funds and consumer and commercial finance and leasing companies. In addition, many national financial service firms operate in the Company's market areas through mass marketing solicitations by mail, radio, television and email.

Employees

As of December 31, 2003, the Company did not have any employees at the holding company level. However, as of such date, the Bank employed 113 full-time employees and 21 part-time employees. Management of the Bank considers its employee relations to be good.

Regulation and Supervision

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

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

Except for trust and investment management operations conducted by its affiliate, through CFSG, the Company does not presently engage, directly or indirectly, in any non-banking activities.

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

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

Community Bancorp. and its wholly-owned subsidiary, Community National Bank, as well as its non-subsidiary affiliates, CFSP and CFSG, are all considered "affiliates" of each other for the purposes of Section 18(j) of the Federal Deposit Insurance Act, as amended, and Sections 23A and 23B of the Federal Reserve Act, as amended. Accordingly, the Bank is subject to certain limitations with respect to loans and other extensions of credit to or investments in its affiliates in some circumstances. In addition, the Company is prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or lease or sale of any property or the furnishing of services.

Financial Modernization. On March 11, 2000 the federal Gramm-Leach-Bliley financial modernization act ("Gramm-Leach-Bliley") became effective. Under Gramm-Leach-Bliley, eligible bank holding companies may elect to become financial holding companies and thereby affiliate with securities firms and insurance companies and engage in a broader range of activities than is otherwise permissible for bank holding companies. A bank holding company is eligible to elect to become a "financial holding company" and to engage in activities that are "financial in nature" if each of its subsidiary banks is well capitalized for regulatory capital purposes, is well managed and has at least a satisfactory rating under the Community Reinvestment Act ("CRA"). Activities which are deemed "financial in nature" under Gramm-Leach-Bliley would include activities generally permitted to bank holding companies as described above, and in addition securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; and merchant banking. Gramm-Leach-Bliley also contains similar provisions authorizing eligible national banks to engage indirectly through a "financial subsidiary" and, subject to limitations on investment, in activities that are financial in nature, other than insurance underwriting, insurance company portfolio investment, real estate development and real estate investment. In order to be considered eligible for these expanded activities, the bank must be well capitalized, well managed and have at least a satisfactory CRA rating.

As of the date of filing this report with the Securities and Exchange Commission (SEC), the Company had not elected to become a financial holding company, nor had the Bank created any financial subsidiaries.

Continued implementation of Gramm-Leach-Bliley will likely result in structural changes to the financial services industry, the full effect of which cannot be predicted with any certainty.

USA Patriot Act. In response to the terrorist events of September 11, 2001, Congress enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act"). The USA Patriot Act is intended to strengthen the ability of U.S. law enforcement and the intelligence community to work cooperatively to combat terrorism on a variety of fronts. The potential impact of the USA Patriot Act on financial institutions is significant and wide ranging. The Act contains sweeping anti-money laundering and financial transparency laws and imposes various regulations, including standards for verifying client identification at account opening, and rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. The Act amends the Bank Secrecy Act and adopts certain additional measures that increase the obligation of financial institutions to identify their customers, watch for and report upon suspicious transactions, respond to requests for information by federal banking regulatory authorities and law enforcement agencies, share information with other financial institutions, and guard against dealings with "shell banks." The Secretary of the Treasury and banking regulators have adopted several regulations to implement these provisions. The Act also amended the federal Bank Holding Company Act and the Bank Merger Act to require the federal banking regulatory authorities to consider the effectiveness of a bank holding company or a financial institution's anti-money laundering activities when reviewing an application to expand operations. As required by law, Community National Bank has in place a Bank Secrecy Act and Anti-Money Laundering compliance program, as well as a customer identification program.

Sarbanes-Oxley Act. On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the "Act"). The stated goals of the Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Act is the most far-reaching U.S. securities legislation enacted in decades, and generally applies to companies that file or are required to file periodic reports with the SEC under the Securities Exchange Act of 1934. The Act calls for extensive rulemaking by the SEC, a process which is not yet complete.

Among other things, the Act includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues by the SEC. The Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

The Act includes provisions addressing, among other matters, the duties, functions and qualifications of audit committees for all public companies; certification of financial statements by the chief executive officer and the chief financial officer; the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement; disclosure of off-balance sheet transactions; a prohibition on personal loans to directors and officers, except in the normal course of business; expedited filing requirements for reports of beneficial ownership of company stock by insiders; disclosure of a code of ethics for senior officers, and of any change or waiver of such code; the formation of a public accounting oversight board; auditor independence; disclosure of fees paid to the company's auditors for non-audit services and limitations on the provision of such services; attestation requirements for company management and external auditors, relating to internal controls and procedures; and various increased criminal penalties for violations of federal securities laws.

The Act contains provisions that were effective upon enactment on July 30, 2002 and provisions that are subject to delayed phase in. The SEC was delegated the task of enacting rules to implement various provisions with respect to, among other matters, disclosure in periodic filings pursuant to the Exchange Act.

Interstate Banking and Branching. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 permits a bank holding company to acquire banks in states other than its home state, without regard to the permissibility of such acquisitions under state law, but subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding company, prior to or following the proposed acquisition, controls no more than 10% of the total amount of deposits of insured depository institutions in the United States and less than 30% of such deposits in that state (or such lesser or greater amount set by state law).

The Interstate Banking and Branching Act also authorizes banks to merge across state lines, subject to certain restrictions a state may choose to impose, thereby creating interstate branches, and to open new branches in a state in which it does not already have banking operations if the state enacts a law permitting such de novo branching. The states contiguous to Vermont permit interstate branching without substantial restrictions. Similarly, Vermont permits interstate branching without substantial restrictions. Interstate branching generally heightens the competitive environment for financial services and, although it is difficult to predict with any certainty, it is likely that the trend toward increasing competition will continue in the future.

Capital and Operational Requirements. The Federal Reserve Board, the Office of the Comptroller of the Currency (the "OCC") and other banking regulators have issued substantially similar risk-based and leverage capital guidelines applicable to U.S. banking organizations. In addition, those regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels, whether because of its financial condition or actual or anticipated growth. The Federal Reserve Board risk-based guidelines define a three-tier capital framework. "Tier 1 capital" generally consists of common and qualifying preferred shareholders' equity, less certain intangibles and other adjustments. "Tier 2 capital" and "Tier 3 capital" generally consist of subordinated and other qualifying debt, preferred stock that does not qualify as Tier 1 capital and the allowance for credit losses up to 1.25% of risk-weighted assets.

The sum of Tier 1, Tier 2 and Tier 3 capital, less investments in unconsolidated subsidiaries, represents qualifying "total capital," at least 50% of which must consist of Tier 1 capital. Risk-based capital ratios are calculated by dividing Tier 1 capital and total capital by risk-weighted assets. Assets and off-balance sheet exposures are assigned to one of four categories of risk weights, based primarily on relative credit risk. The minimum Tier 1 capital ratio is 4% and the minimum total capital ratio is 8%. The "leverage ratio" requirement is determined by dividing Tier 1 capital by adjusted average total assets. Although the stated minimum ratio is 3%, most banking organizations are required to maintain ratios of at least 100 to 200 basis points above 3%.

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

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

As of December 31, 2003, both Community Bancorp. and Community National Bank were considered "well capitalized" under all applicable regulatory requirements.

Dividends. The Company derives funds for payment of dividends to its shareholders primarily from dividends received from its subsidiary, Community National Bank. The Bank is subject to various general regulatory policies and requirements relating to the payment of dividends, including requirements to maintain capital above regulatory minimums. Prior approval from the OCC is required if the total of all dividends declared by a national bank in any calendar year will exceed the sum of such bank's net profits for that last year and its retained net profits for the preceding two calendar years, less any required transfers to surplus. Federal law also prohibits national banks from paying dividends greater than the bank's undivided profits after deducting statutory bad debt in excess of the bank's allowance for loan losses.

In addition, the Company and the Bank are subject to various general regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The appropriate federal or state banking agency is authorized to determine under certain circumstances relating to the financial condition of a bank or bank holding company that the payment of dividends would be an unsafe or unsound practice and to prohibit such payment. The federal banking agencies have indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsound and unsafe banking practice and that banking organizations should generally pay dividends only out of current operating earnings.

"Source of Strength" Policy. According to Federal Reserve Board policy, bank holding companies are expected to act as a source of financial strength to each subsidiary bank and to commit resources to support each such subsidiary. This support may be required at times when a bank holding company may not be able to provide such support. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act, in the event of a loss suffered or anticipated by the Federal Deposit Insurance Corporation (the "FDIC")--either as a result of default of a banking subsidiary of a bank holding company or related to FDIC assistance provided to a subsidiary in danger of default--the other banking subsidiaries of such bank holding company may be assessed for the FDIC's loss, subject to certain exceptions.

OCC Supervision; FDIC Deposit Insurance. The Bank is a national banking association and subject to the provisions of the National Bank Act and federal and state statutes and rules and regulations applicable to national banks. The primary supervisory authority for the Bank is the OCC. The Comptroller's examinations are designed for the protection of the Bank's depositors and not its shareholders. The Bank is subject to periodic examination by the Comptroller and must file periodic reports with the Comptroller containing a full and accurate statement of its affairs. The deposits of the Bank are insured by the FDIC. Accordingly, the Bank is also subject to the provisions of the Federal Deposit Insurance Act.

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

The CRA requires banks to define the communities they serve, identify the credit needs of those communities and adopt and implement a Community Reinvestment Act Statement to respond to those identified needs. The federal banking regulators examine the institutions they regulate for compliance with the CRA and rate the institutions as "outstanding," "satisfactory," "needs to improve" and "substantial noncompliance." As of the Bank's last CRA examination, it received a rating of "outstanding." .

Brokered Deposits. Under FDICIA, an FDIC-insured bank is prohibited from accepting brokered deposits unless it is well capitalized under the FDICIA's prompt corrective actions guidelines. In January of 2003, the Company entered into an agreement with Promontory Interfinancial Network making it possible to offer our customers insurance protection for their deposits in excess of $100,000. This Certificate of Deposit Account Registry Service (CDARS) uses a deposit-matching engine to match CDARS deposits in other participating banks, dollar- for-dollar. This product is designed to enhance customer attraction and retention, build deposits and improve net interest margins, while providing additional FDIC coverage to customers. Promontory now offers member banks an opportunity to participate with one-way orders. Banks can either accept deposits as a surplus bank or invest in CDARS offered by banks seeking funding without matching funds. The Promontory Interfinancial Network provides the Company an alternative source of funding or investment opportunities.

Due to the nature of the placement of funds, CDARS deposits are considered to be "brokered deposits." Although it has been the Company's policy in the past not to accept any brokered deposits, management and the directors deemed it advisable to make a limited exception for the CDARS program. Accordingly, the Company's Asset Liability policy now states that the Company will not accept brokered deposits, other than through the CDARS program in the Promontory Interfinancial Network.

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

Effects of Government Monetary Policy

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

Other Available Information

This annual report on Form 10-K is on file with SEC. The Company also files with the SEC quarterly reports on Form 10-Q and current reports on Form 8-K, as well as proxy materials for its annual meeting of shareholders. You may obtain copies of these documents by visiting the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549, by calling the SEC at 1-800-SEC-0330 or by accessing the SEC's website at http://www.sec.gov. In addition, the Company is in the process of designing a website and, once that website is completed, the Company's SEC-filed reports and proxy statements will be made available through its website as soon as reasonably practicable after such documents are filed with or furnished to the SEC. The Company's website address will be www.communitybancorpvt.com. The Company will also post on its website the Company's Code of Ethics for Senior Financial Officers and the Principal Executive Officer; Audit Committee Charter; Compensation Committee Charter; and Nominating Committee Charter. The information contained on the Company's website does not constitute part of this report. Copies of these documents (other than exhibits) can also be obtained by contacting Chris Bumps, Corporate Secretary, at our principal offices, which are located at 4811 U.S. Route 5, Derby, Vermont 05829 or by calling (802) 334-7915.

Item 2. Properties

Community Bancorp. does not own or lease real property. The Company's administrative offices are located at the main offices of the Bank. All of the Bank's offices are located in Vermont. In addition to the main office in Derby, the Bank maintains facilities in the Cities of Newport, Montpelier and Barre; the Towns of Barton and St. Johnsbury, and the Villages of Island Pond, Troy and Derby Line.

The Bank's main offices are located in a 15,000 square foot, two-story brick building on U.S. Route 5 in Derby, Vermont, equipped with a drive-up facility as well as an Automated Teller Machine (ATM). Computer and similar support equipment is also located in the main office building. The building behind the main office serves as a conference center for the Bank as well as various non-profit organizations, free of charge, upon request.

The Bank owns the Derby Line office located on Main Street in a renovated bank building. The facility consists of a small banking lobby containing approximately 200 square feet equipped with an ATM.

The Bank's Island Pond office is located in the renovated "Railroad Station" acquired by the town of Brighton in 1993. The Bank leases approximately two-thirds of the downstairs including a banking lobby, a drive-up window, and an ATM. The other portion of the downstairs is occupied by an information center, and the upstairs section houses the Island Pond Historical Society.

The Bank's Barton office is located on Church Street, in a renovated facility. This office is equipped with a banking lobby, a drive-up window, and an ATM. The facility is leased from Dean M. Comstock. The lease was entered into in 1985 with a fifteen-year term, and was most recently renewed in 2000 for an additional 15 years.

The Bank occupies condominium space in the state office building on Main Street in Newport to house its Newport office. The Bank occupies approximately 3,084 square feet on the first floor of the building for a full service banking facility equipped with a remote drive-up facility and an ATM. In addition, the Bank owns approximately 4,400 square feet on the second floor, a portion of which formerly housed the Bank's trust department and is now leased to CFSG, LLC. The second floor also includes an office for our public relations coordinator, with room for future expansion.

The Bank owns the Troy office located in the village of Troy. This building was built in 1986 and acquired by the Bank in 1992. This office is also equipped with an ATM to provide the same type of limited 24-hour accessibility as all of the other offices. The marketing department is also located at this facility.

The St. Johnsbury office is located at the corner of the I-91 Access Road and Route 5 in the town of St. Johnsbury. The Bank occupies approximately 2,250 square feet in the front of the Price Chopper building. Fully equipped with an ATM and a drive-up window, this office operates as a full service banking facility. This space is leased from Murphy Realty of St. Johnsbury. Peter Murphy, President of Murphy Realty, is a member of the Bank's St. Johnsbury Advisory Committee.

The Bank leases approximately 1,500 square feet of office space for the Montpelier office located at 95 State Street in Montpelier.

This office opened at the end of May, 2001, operating as a full service banking facility. Additional office space is leased in an adjacent building at 99 State Street to accommodate a residential mortgage loan originator, as well as a conference room used for loan closings. A stand-alone ATM in a Kiosk building is also located at this site.

Subsequent to receiving permission from the OCC to establish a full service branch in Barre, Vermont, the Bank opened for business in a temporary facility at 308 North Main Street in Barre in early May 2003. On December 8, 2003, after completion of a two-story, 8,000 square foot building, the branch was relocated to the new building at 316 North Main Street. This new building constructed on leased land, houses a full-service branch, a two-lane drive-up window, including a drive-up ATM, as well as an inside lobby ATM. The branch also includes a Community Room that is made available as a public service to outside non-profit groups to be used for meetings and gatherings at no charge. The ground lease provides for a twenty year term and includes a purchase option exercisable at the end of the sixth year, with one-half of the annual rental previously paid applied to the purchase price.

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

None

PART II.

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters

Incorporated by reference to Page 59 of the Annual Report to Shareholders under the caption "Common Stock Performance by Quarter" for 2003.

Item 6. Selected Financial Data

Incorporated by reference to Pages 28, 33, 37, 52, and 53of the Annual Report to Shareholders for 2003.

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

Incorporated by reference to Pages 35-57 of the Annual Report to Shareholders for 2003.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

Incorporated by reference to Pages 51 under the section labeled "Risk Management" of Management's Discussion and Analysis of Financial Condition and Results of Operation in the Annual Report to Shareholders for 2003.

Item 8. Financial Statements and Supplementary Data

The audited consolidated financial statements and related notes of Community Bancorp. and Subsidiary and the report thereon of the independent accounting firm of Berry, Dunn, McNeil & Parker, are incorporated herein by reference from the Annual Report to Shareholders for 2003, Page 6 through Note 25 on Page 34.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosures

In December 2002, the Audit Committee informed the Board of Directors that it had approved a change in the Company's external auditors. As of such date the Company elected not to continue the engagement of A.M. Peisch & Company, LLP ("A.M. Peisch") following completion of the 2002 year-end audit. The Company engaged the independent auditing firm of Berry, Dunn, McNeil and Parker to serve as the Company's external auditors for 2003. That engagement has been renewed for 2004, subject to ratification by the Company's shareholders at the 2004 Annual Meeting of Shareholders. The Audit Committee and Board were satisfied with the professional competence and standing of A.M. Peisch and did not have any disagreement with A.M. Peisch on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure during the two fiscal years preceding the change in the Company's accountants. A.M. Peisch had not issued a report during such two year period containing either a disclaimer or an adverse or qualified opinion, nor had A.M. Peisch subsequently modified any of its reports as to uncertainty, audit scope or accounting principles. In accordance with the rules of the Securities and Exchange Commission, A.M. Peisch furnished a letter to the Company, addressed to the Commission, stating that it agreed with the foregoing statements.

Item 9A. Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of December 31, 2003. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in ensuring that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There were no changes made in the Company's internal controls or in other factors that could significantly affect these internal controls subsequent to the date of the evaluation performed by the Company's Chief Executive Officer and Chief Financial Officer.

PART III.

Item 10. Directors and Executive Officers of the Registrant

The following is incorporated by reference to the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 4, 2004:

Listing of the names, ages, principal occupations and business experience of the directors under the caption "ARTICLE I - ELECTION OF DIRECTORS."

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

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

Information regarding (i) the process for shareholders to communicate with the Directors, (ii) the director nomination process of the Board's Nominating Committee, and (iii) the process for director nominations by shareholders, under the caption "CORPORATE GOVERNANCE."

The Code of Ethics for Senior Financial Officers and the Principal Executive Officer is filed as Exhibit 14 to this report

Item 11. Executive Compensation

The following is incorporated by reference to the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 4, 2004:

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

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

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

Information set forth under the caption "HUMAN RESOURCES COMMITTEE REPORT."

Information set forth under the caption "STOCK PERFORMANCE GRAPH."

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

The following is incorporated by reference to the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 4, 2004:

Information regarding the share ownership of management and principal shareholders under the captions "SHARE OWNERSHIP INFORMATION" and "ARTICLE I - ELECTION OF DIRECTORS."

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

Item 13. Certain Relationships and Related Party Transactions

The following is incorporated by reference to the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 4, 2004:

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

Item 14. Principal Accountant Fees and Services

The following is incorporated by reference to the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 4, 2004 under the caption "ARTICLE 2 - RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS - Fees Paid to Independent Auditors":

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

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

PART IV.

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) Financial Statements

The Company's audited consolidated financial statements and notes thereto and the report of Berry, Dunn, McNeil & Parker thereon, are incorporated by reference to the Annual Report to Shareholders for fiscal year 2003, filed as Exhibit 13 to this report.

(b) Reports on Form 8-K

Form 8-K dated October 8, 2003 announced the earnings for Community Bancorp. for the period ended September 30, 2003.

Form 8-K/A dated October 20, 2003 furnished the earnings and other information of Community Bancorp. under Items 7 and 12 of Form 8-K, previously filed on October 8, 2003 under Item 9.

(c) Exhibits

The following exhibits are incorporated by reference:

Exhibit 3(i) - Restated Articles of Association filed as Exhibit 1 to the Company's current report on Form 8-K filed with the Commission on September 8, 1998.
Exhibit 3(iii) - Amended and Restated By-laws of Community Bancorp. filed as Exhibit 3(ii) to the Company's Form 10-Q filed with the Commission on August 14, 2003
Exhibit 10(i) - Directors Deferred Compensation Plan* is incorporated by reference to exhibit 10(i) of the Form 10-K filed with the Commission on March 31, 2000.
Exhibit 10(ii) - Supplemental Retirement Plan* is incorporated by reference to exhibit 10(ii) of the Form 10-K filed with the Commission on March 29, 2002.
Exhibit 10(iii) - Description of the Officer Incentive Plan* is incorporated by reference to the section of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 4, 2004, under the caption "EXECUTIVE COMPENSATION - Officer Incentive Plan."

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*Denotes compensatory plan or arrangement.

The following exhibits are filed as part of this report:
Exhibit 3(ii) - Amendments to the Restated Articles of Association
Exhibit 13 - Portions of the Annual Report to Shareholders of Community Bancorp. for 2003, specifically incorporated by reference into this report.
Exhibit 14 - Code of Ethics for Senior Financial Officers and the Principal Executive Officer
Exhibit 21 - Subsidiaries of Community Bancorp.
Exhibit 23(i) - Consent of Berry, Dunn, McNeil & Parker
Exhibit 23(ii) - Consent of A.M. Peisch & Company

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 section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2 - Certification from the Chief Financial Officer of the Company pursuant to section 906 of the Sarbanes-Oxley Act of 2002

(d) Financial Statement Schedules

The reissued report of A.M. Peisch & Company on the Company's audited financial statements for the years ended 2002 and 2001 is set forth below:

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Community Bancorp. and Subsidiaries
Derby, Vermont

We have audited the accompanying consolidated balance sheet of Community Bancorp. and Subsidiaries as of December 31, 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for the years ended December 31, 2002 and 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with U. S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Community Bancorp. and Subsidiaries at December 31, 2002, and the results of their operations and their cash flows for the years ended December 31, 2002 and 2001 in conformity with U. S. generally accepted accounting principles.

January 10, 2003
St. Johnsbury, Vermont
VT Reg. No. 92-0000102

SIGNATURES

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

COMMUNITY BANCORP.

BY: /s/ Richard C. White
Richard C. White, Chairman
and Chief Executive Officer

Date: March 30, 2004

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

BY: /s/ Stephen P. Marsh
Stephen P. Marsh, President and COO

Date March 30, 2004

COMMUNITY BANCORP. DIRECTORS

/s/ Thomas E. Adams Date March 30, 2004

Thomas E. Adams

/s/ Jacques R. Couture Date March 30, 2004
Jacques R. Couture

/s/ Elwood G. Duckless Date March 30, 2004
Elwood G. Duckless

/s/ Michael H. Dunn Date March 30, 2004
Michael H. Dunn

/s/ Rosemary M. Lalime Date March 30, 2004
Rosemary M. Lalime

/s/ Marcel Locke Date March 30, 2004
Marcel Locke

/s/ Stephen P. Marsh Date March 30, 2004
Stephen P. Marsh

/s/ Anne T. Moore Date March 30, 2004
Anne T. Moore

/s/ Dale Wells Date March 30, 2004
Dale Wells

/s/Richard C. White Date March 30, 2004
Richard C. White

The following two amendments to the Amended and Restated Articles of Association of Community Bancorp. were adopted by the requisite vote of the shareholders at the Annual Meeting of Shareholders held on May 2, 2000 and became effective on May 12, 2000, upon filing in the Office of the Vermont Secretary of State:

Article Eleven is amended to read in its entirety as follows:

ARTICLE ELEVEN

INDEMNIFICATION

The Board of Directors is authorized to adopt such By-laws and other regulations or arrangements (including contracts) providing for indemnification of, and advancement of expenses to, any person who is or was a director, officer, employee or agent of the Corporation, as the Directors may deem advisable, to the extent not inconsistent with applicable law.

Article Sixteen is added, reading in its entirety as follows:

ARTICLE SIXTEEN

LIMITATION OF DIRECTOR LIABILITY

A Director of the Corporation shall have no personal liability to the Corporation or to its shareholders for money damages for any action taken, or any failure to take any action, solely as a director, based on a failure to discharge his or her own duties in accordance with Section 8.30 of Title 11A of the Vermont Statutes Annotated, except for (a) the amount of a financial benefit received by the Director to which the Director is not entitled; (b) an intentional reckless infliction of harm on the Corporation or its shareholders; (c) a violation of Section 8.33 of Title 11A of the Vermont Statutes Annotated; or (d) an intentional or reckless criminal act. This Article Sixteen shall not be deemed to eliminate or limit the liability of a Director for any act or omission occurring prior to the date this Article becomes effective. No amendment or repeal of this Article Sixteen shall apply to or have any effect on the liability or alleged liability of any Director of the Corporation for or with respect to any acts or omissions of such Director occurring prior to such amendment or repeal.

Berry, Dunn, McNeil & Parker
Certified Public Accountants
Management Consultants

To the Board of Directors and Stockholders
Community Bancorp. and Subsidiary
Derby, Vermont

We have audited the accompanying consolidated balance sheet of Community Bancorp. and Subsidiary as of December 31, 2003 and the related consolidated statement of income, stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of Community Bancorp. and Subsidiaries as of December 31, 2002 and 2001 and for the years ended December 31, 2002 and 2001 were audited by other auditors whose report thereon dated January 10, 2003 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Community Bancorp. and Subsidiary at December 31, 2003, and the results of their operations and their cash flows for the year then ended in conformity with U. S. generally accepted accounting principles.

/s/ Berry, Dunn, McNeil & Parker

Portland, Maine
January 9, 2004
Vermont Registration No. 92-0000278

PORTLAND, ME * BANGOR, ME * LEBANON, NH * MANCHESTER, NH
WWW.BDMP.COM

Community Bancorp. and Subsidiaries
Consolidated Balance Sheets

December 31, 2003 and 2002

ASSETS	**2003**	**2002**
Cash and due from banks	$ 11,620,762	$ 8,957,633
Federal funds sold and overnight deposits	2,751,148	5,079,647
Cash and cash equivalents	14,371,910	14,037,280
Securities held-to-maturity (fair value $41,716,965 and $39,359,442 at December 31, 2003 and 2002)	41,563,840	38,969,114
Securities available-for- sale	56,319,321	41,074,804

Restricted equity securities	1,356,850	1,309,050
Loans held for sale	2,253,151	6,169,017
Loans	204,277,612	200,913,490
Allowance for loan losses	(2,199,110)	(2,155,789)
Unearned net loan fees	(805,284)	(879,501)
Net loans	201,273,218	197,878,200
Bank premises and equipment, net	7,814,922	5,292,597
Accrued interest receivable	1,676,190	1,744,805
Other real estate owned, net	88,277	0
Other assets	4,024,728	2,752,738
Total assets	$ 330,742,407	$ 309,227,605
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand, non-interest bearing	$ 38,198,327	$ 32,302,824
NOW and money market accounts	98,209,841	88,786,101
Savings	41,506,976	37,737,157
Time, $100,000 and over	22,116,006	20,591,082
Other time	79,648,109	81,504,466
Total deposits	279,679,259	260,921,630
Repurchase agreements	12,016,570	14,069,026
Borrowed funds	8,040,000	5,040,000
Accrued interest and other liabilities	3,921,432	3,491,847
Total liabilities	303,657,261	283,522,503
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 5, 14, 15 and 19)		
STOCKHOLDERS' EQUITY		
Common stock, $2.50 par value; 6,000,000 shares authorized, 3,971,989 shares issued at December 31, 2003 and 3,939,078 shares issued at December 31, 2002 (including 188,676 shares issued February 1, 2003)	9,929,973	9,847,694
Additional paid-in capital	16,861,802	16,423,022
Retained earnings	1,971,870	625,932
Accumulated other comprehensive income	506,006	984,953
Less treasury stock, at cost (2003-182,905 shares, 2002-182,377 shares)	(2,184,505)	(2,176,499)
Total stockholders' equity	27,085,146	25,705,102
Total liabilities and stockholders' equity	$ 330,742,407	$ 309,227,605

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

Community Bancorp. and Subsidiaries
Consolidated Statements of Income

Years Ended December 31, 2003, 2002, and 2001

	2003	2002	2001
Interest and dividend income			
Interest and fees on loans	$ 14,214,617	$ 14,467,463	$ 15,522,741
Interest on debt securities			
Taxable	2,394,232	2,820,188	2,410,427
Tax-exempt	938,911	976,074	742,560
Dividends	45,187	49,196	80,352
Interest on federal funds sold and overnight deposits	33,854	65,707	288,172
	17,626,801	18,378,628	19,044,252
Interest expense			
Interest on deposits	4,969,184	6,074,378	7,705,308
Interest on borrowed funds and securities sold under agreements to repurchase	389,944	605,532	880,456
Interest on subordinated debentures	0	0	706
	5,359,128	6,679,910	8,586,470
Net interest income	12,267,673	11,698,718	10,457,782
Provision for loan losses	(123,000)	(326,000)	(410,000)
Net interest income after provision for loan losses	12,144,673	11,372,718	10,047,782
Non interest income			
Trust department income	0	109,826	438,736
Service fees	973,502	964,067	921,877
Net realized gains on securities	142,904	31,311	170,899
Other income	2,316,058	2,214,004	812,539
	3,432,464	3,319,208	2,344,051
Non interest expense			
Salaries and wages	4,152,000	3,711,380	3,285,000

Pension and other employee benefits	1,300,895	1,241,032	959,078
Occupancy expenses	1,738,790	1,532,238	1,499,186
Other expenses	3,598,005	4,042,353	2,975,268
	10,789,690	10,527,003	8,718,532
Income before income taxes	4,787,447	4,164,923	3,673,301
Income taxes	989,181	924,951	875,476
Net income	$ 3,798,266	$ 3,239,972	$ 2,797,825
Earnings per common share on weighted average	$1.01	$0.87	$0.75
Weighted average number of common shares used in computing earnings per share	3,772,748	3,736,786	3,722,953
Dividends declared per share	$0.64	$0.64	$0.64
Book value per share on shares outstanding at December 31	$7.15	$6.84	$6.28

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

Community Bancorp. and Subsidiaries
Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2003, 2002, and 2001

	Common Stock		Additional	Retained	Accumulated other	Treasury	Total
	Shares	Amount	paid-in capital	earnings	comprehensive income (loss)	stock	stockholders' equity
Balances, December 31, 2000	3,355,784	$ 8,696,402	$ 11,515,514	$ 3,731,098	$ (23,108)	$ (1,389,736)	$ 22,530,170
Comprehensive income, net of taxes							
Net income	0	0	0	2,797,825	0	0	2,797,825
Net unrealized holding gains on securities available-for-sale, net of tax expense, ($25,534)	0	0	0	0	49,567	0	49,567
Total comprehensive income							2,847,392
Dividends declared	0	0	0	(2,265,934)	0	0	(2,265,934)
5% stock dividend	167,939	419,848	1,383,314	(1,803,162)	0	0	0
Issuance of stock	60,174	150,436	513,184	0	0	0	663,620
Purchase of treasury stock	(27,288)	0	0	0	0	(328,422)	(328,422)
Balances, December 31, 2001	3,556,609	9,266,686	13,412,012	2,459,827	26,459	(1,718,158)	23,446,826

Comprehensive income, net of taxes							
Net income	0	0	0	3,239,972	0	0	3,239,972
Net unrealized holding gains on securities available-for-sale, net of tax expense, ($493,769)	0	0	0	0	958,494	0	958,494
Total comprehensive income							4,198,466
Dividends declared	0	0	0	(2,274,997)	0	0	(2,274,997)
5% stock dividend	178,408	446,021	2,352,849	(2,798,870)	0	0	0
Issuance of stock	53,996	134,987	658,161	0	0	0	793,148
Purchase of treasury stock	(32,312)	0	0	0	0	(458,341)	(458,341)
Balances, December 31, 2002	3,756,701	9,847,694	16,423,022	625,932	984,953	(2,176,499)	25,705,102
Comprehensive income, net of taxes							
Net income	0	0	0	3,798,266	0	0	3,798,266
Net unrealized holding losses on securities available-for-sale, net of tax benefit, ($246,730)	0	0	0	0	(478,947)	0	(478,947)
Total comprehensive income							3,319,319
Dividends declared	0	0		(2,452,328)			(2,452,328)
Issuance of stock	32,911	82,279	438,780	0	0	0	521,059
Purchase of treasury stock	(528)	0	0	0	0	(8,006)	(8,006)
Balances, December 31, 2003	3,789,084	$ 9,929,973	$ 16,861,802	$ 1,971,870	$ 506,006	$ (2,184,505)	$ 27,085,146

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

Community Bancorp. and Subsidiaries
Consolidated Statements of Cash Flows

Years Ended December 31, 2003, 2002, and 2001

	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,798,266	$ 3,239,972	$ 2,797,825
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	642,827	812,264	588,862

Provision for loan losses	123,000	326,000	410,000
Provision (credit) for deferred income taxes	320,631	(88,010)	1,509
Net gain on sale of securities	(142,904)	(31,311)	(170,899)
Net gain on sale of loans	(1,168,275)	(548,369)	(152,469)
(Gain) loss on sales of fixed assets	(5,000)	(12)	4,075
Gains on sales of other real estate owned	(2,651)	(43,528)	(36,858)
Loss on Trust LLC	61,540	99,630	0
Gain on sale of trust assets	0	(617,355)	0
Writedowns of other real estate owned	0	0	44,824
Amortization of bond premium, net	338,595	308,571	139,244v
Proceeds from sales of loans held for sale	66,628,959	41,697,000	14,887,568
Originations of loans held for sale	(61,544,818)	(44,204,182)	(17,137,574)
Decrease (increase) in interest receivable	68,615	(672)	185,362
Increase in mortgage servicing rights	(114,516)	(210,752)	(20,532)
(Increase) decrease in other assets	(387,035)	(109,401)	55,193
(Decrease) increase in unamortized loan fees	(74,217)	(71,693)	257
(Decrease) increase in taxes payable	(298,250)	4,447	34,819
Decrease in interest payable	(23,234)	(43,615)	(141,707)
Increase in accrued expenses	201,740	277,594	36,667
(Decrease) increase in other liabilities	(27,455)	405,034	120,188
Net cash provided by operating activities	8,395,818	1,201,612	1,646,354
CASH FLOWS FROM INVESTING ACTIVITIES			
Securities held-to-maturity			
Maturities and paydowns	35,946,144	27,906,387	38,229,271
Purchases	(38,585,121)	(26,254,490)	(43,634,788)
Securities available-for-sale			
Sales and maturities	14,213,770	14,060,000	13,147,578
Purchases	(30,335,404)	(21,422,819)	(19,450,231)
Purchase of restricted equity securities	(47,800)	(84,400)	(83,000)
Increase in loans, net	(3,729,141)	(11,349,630)	(13,884,200)
Capital expenditures, net	(3,165,151)	(986,150)	(743,572)
Proceeds from sale of fixed assets	5,000	0	0
Investments in limited partnership, net	(561,184)	456,049	79,123
Proceeds from sale of interest in Trust LLC	0	1,132,000	0
Investment in Trust LLC	0	(700,547)	0
Proceeds from sales of other real estate owned	82,151	285,310	452,162
Recoveries of loans charged off	117,563	119,120	138,820
Net cash used in investing activities	(26,059,173)	(16,839,170)	(25,748,837)

	2003	2002	2001
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in demand, NOW, savings, and money market accounts	19,089,062	18,261,950	29,335,617
Net (decrease) increase in certificates of deposit	(331,433)	4,590,147	349,386

Net (decrease) increase in repurchase agreements	(2,052,456)	(5,764,484)	5,461,972
Net increase (decrease) in borrowed funds	3,000,000	(15,000)	(537,000)
Payments to acquire treasury stock	(8,006)	(458,341)	(328,422)
Dividends paid	(1,699,182)	(1,639,849)	(1,577,182)
Debentures redeemed for cash	0	0	(12,000)
Net cash provided by financing activities	17,997,985	14,974,423	32,692,371
Net (decrease) increase in cash and cash equivalents	334,630	(663,135)	8,589,888
Cash and cash equivalents			
Beginning	14,037,280	14,700,415	6,110,527
Ending	$ 14,371,910	$ 14,037,280	$ 14,700,415
SUPPLEMENTAL SCHEDULE OF CASH PAID DURING THE YEAR			
Interest	$ 5,382,362	$ 6,723,525	$ 8,728,177
Income taxes	$ 966,800	$ 1,008,514	$ 839,149
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Change in unrealized gain on securities available-for-sale	$ (725,677)	$ 1,452,263	$ 75,101
Other real estate owned acquired in settlement of loans	$ 167,777	$ 181,782	$ 319,005
Investments in limited partnership			
Increase in limited partnerships	$ (821,416)	$ (274,759)	$ (304,163)
Increase in contributions payable	260,232	730,808	383,286
	$ (561,184)	$ 456,049	$ 79,123
Debentures:			
Decrease in subordinated debentures	$ 0	$ 1,000	$ 19,000
Debentures converted to common stock	0	(1,000)	(7,000)
Debentures redeemed for cash	$ 0	$ 0	$ 12,000

Dividends paid:			
Dividends declared	$ 2,452,328	$ 2,274,997	$ 2,265,934
Decrease (increase) in dividends payable attributable to dividends declared	(232,087)	157,000	(32,132)
Dividends reinvested	(521,059)	(792,148)	(656,620)
	$ 1,699,182	$ 1,639,849	$ 1,577,182
Stock dividends	$ 0	$ 2,798,870	$ 1,803,162

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

Community Bancorp. and Subsidiaries
Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies

The accounting policies of Community Bancorp. and Subsidiaries ("Company") are in conformity with U. S. generally accepted accounting principles and general practices within the banking industry. The following is a description of the significant policies.

Basis of presentation and consolidation

The consolidated financial statements include the accounts of Community Bancorp. and its wholly owned subsidiaries, Community National Bank (Community) and Liberty Savings Bank (Liberty). During the third quarter of 2003, the Company sold its stock interest in Liberty Savings Bank, a New Hampshire guaranty savings bank charter acquired by Community Bancorp. in 1997. The Company was paid $307,500 for this charter valued at $300,000 as of the sale date. All significant intercompany accounts and transactions have been eliminated.

Nature of operations

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

Concentration of risk

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

Use of estimates

The preparation of consolidated financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties. Accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio and the recovery of a substantial portion of the carrying amount of foreclosed real estate are susceptible to changes in local market conditions. The amount of the change that is reasonably possible cannot be estimated.

While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowances for losses on loans and foreclosed real estate. Such agencies may require the Company to recognize additions to the allowances based on their judgments about information available to them at the time of their examination.

Presentation of cash flows

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

Investment securities

Debt securities the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. Debt and equity securities not classified as held-to-maturity are classified as available-for-sale. Investments classified as available-for-sale are carried at fair value with unrealized gains and losses net of tax and reclassification adjustment reported as a net amount in other comprehensive income. Investment securities transactions are accounted for on a trade date basis. The specific identification method is used to determine realized gains and losses on sales of securities available-for-sale. Premiums and discounts are recognized in interest income using the interest method over the period to maturity or call date.

Restricted equity securities

Restricted equity securities are comprised of Federal Reserve Bank stock and Federal Home Loan Bank stock. These securities are carried at cost. As a member of the Federal Reserve Bank of Boston (FRB), the Company is required to invest in FRB stock in an amount equal to 3% of Community National Bank's capital stock and surplus.

As a member of the Federal Home Loan Bank of Boston (FHLB), the Company is required to invest in $100 par value stock of the FHLB in an amount that approximates 1% of unpaid principal balances on qualifying loans. The stock is nonmarketable, and when redeemed, the Company would receive from the FHLB an amount equal to the par value of the stock.

Loans held for sale

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

Loans

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

Loan interest income is accrued daily on the outstanding balances. 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 remote. Interest payments received on such loans are generally applied as a reduction of the loan principal balance. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received. Loans are returned to accrual status when principal and interest payments are brought current and the customer has proven the ability to make future payments on a timely basis. Loans are charged off when collection of principal is considered doubtful. Past due status is determined on a contractual basis.

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

Allowance for loan losses

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's periodic evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries.

Bank premises and equipment

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

Other real estate owned

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the lower of the Company's carrying amount or fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, these assets are carried at the lower of their new cost basis or fair value less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

Income taxes

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

Foreign currency transactions

Foreign currency (principally Canadian) amounts are translated to U.S. dollars. The U.S. dollar is the functional currency and therefore translation adjustments are recognized in income. Total translation adjustments, including adjustments on foreign currency transactions, are immaterial.

Mortgage servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying the rights by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance, to the extent that fair value is less than the capitalized amount.

Pension costs

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

Advertising costs

The Company expenses advertising costs as incurred.

Comprehensive income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

The components of other comprehensive income and related tax effects at December 31 are as follows:

	2003	2002	2001
Change in unrealized holdings gains (losses) on available-for-sale securities arising during the period	$ (583,309)	$ 1,454,475	$ 194,508
Reclassification adjustment for gains realized in income	(142,368)	(2,212)	(119,407)
Net unrealized gains (losses)	(725,677)	1,452,263	75,101
Tax effect	246,730	(493,769)	(25,534)
Net of tax amount	$ (478,947)	$ 958,494	$ 49,567

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) and reduced for shares held in treasury.

Off-balance-sheet financial instruments

In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commitments under credit card arrangements, commercial and municipal letters of credit, standby letters of credit, and risk-sharing commitments on certain sold loans. Such financial instruments are recorded in the financial statements when they are funded.

Fair values of financial instruments

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

Cash and cash equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate their fair values.

Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Restricted equity securities: The carrying amounts of these securities approximate their fair values.

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 analysis, 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. The carrying amounts reported in the balance sheet for loans that are held for sale approximate their market values. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposits 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 debt are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates and debt to a schedule of aggregated contractual maturities on such time deposits and debt.

Short-term borrowings: The carrying amounts reported in the balance sheets for repurchase agreements approximate their fair values. These borrowings are short-term and due on demand.

Other liabilities: Commitments to extend credit were evaluated and fair value was estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

Accrued interest: The carrying amounts of accrued interest approximates their fair values.

Transfers of financial assets

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

Reclassification

Certain amounts in the 2002 and 2001 financial statements have been reclassified to conform to the current year presentation.

Note 2. Investment Securities

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

Securities AFS	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2003				
U. S. Government and agency securities	$ 50,455,906	$ 713,601	$ 121,218	$ 51,048,289
Corporate debt securities	5,064,239	174,293	0	5,238,532
Other investments	32,500	0	0	32,500
	$ 55,552,645	$ 887,894	$ 121,218	$ 56,319,321
December 31, 2002				
U. S. Government and agency securities	$ 30,352,824	$ 1,295,205	$ 6,737	$ 31,641,292
Corporate debt securities	9,229,628	241,929	38,045	9,433,512
	$ 39,582,452	$ 1,537,134	$ 44,782	$ 41,074,804

Securities HTM

December 31, 2003				
U. S. Government and agency securities	$ 7,019,882	$ 153,125	$ 0	$ 7,173,007
States and political subdivisions	34,543,958	0	0	34,543,958
	$ 41,563,840	$ 153,125	$ 0	$ 41,716,965
December 31, 2002				
U. S. Government and agency securities	$ 13,064,133	$ 390,328	$ 0	$ 13,454,461
States and political subdivisions	25,904,981	0	0	25,904,981
	$ 38,969,114	$ 390,328	$ 0	$ 39,359,442

Included in the caption "States and Political Subdivisions" are securities of local municipalities carried at $34,543,958 and $25,904,981 at December 31, 2003 and 2002, respectively, which are attributable to private financing transactions arranged by the Company. There is no established trading market for these securities and, accordingly, the carrying amount of these securities has been reflected as their fair value. The Company anticipates no losses on these securities and expects to hold them until their maturity.

Investment securities with a book value of $15,175,475 and $18,305,028 and a fair value of $15,535,216 and $18,889,483 at December 31, 2003 and 2002, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law.

Proceeds from the sale of securities available-for-sale amounted to $14,213,770 in 2003, $14,060,000 in 2002, and $13,147,578 in 2001. Realized gains from sales of investments available-for-sale were $142,368 in 2003, $2,212 in 2002, and $120,190 in 2001. Realized losses were $-0- in 2003, $-0- in 2002, and $783 in 2001. Realized gains of $536, $29,099, and $51,492 were recognized in 2003, 2002, and 2001 respectively, on securities held-to-maturity due to call features exercised prior to maturity on certain debt securities.

The carrying amount and estimated fair value of securities by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The scheduled maturities of securities available-for-sale at December 31, 2003 were as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 5,068,983	$ 5,161,598
Due from one to five years	43,438,664	43,937,423
Due from five to ten years	7,012,498	7,187,800
Other Investments	32,500	32,500

	$ 55,552,645	$ 56,319,321

The scheduled maturities of securities held-to-maturity at December 31, 2003 were as follows:

	Amortized Cost	**Fair Value**
Due in one year or less	$ 34,266,450	$ 34,308,765
Due from one to five years	2,675,005	2,689,529
Due from five to ten years	3,936,675	4,032,961
Other Investments	685,710	685,710
	$ 41,563,840	$ 41,716,965

All investments with unrealized losses at December 31, 2003 have been in a continuous loss position less than 12 months. Investments with unrealized losses at December 31, 2003 are as follows:

	Fair Value	**Unrealized Loss**
U.S. Government and agency securities	$ 11,865,636	$ 121,218
	$ 11,865,636	$ 121,218

The unrealized losses are a result of increases in market interest rates and not from deterioration in the creditworthiness of the issuer. At December 31, 2003 there were 12 securities in the investment portfolio that were in an unrealized loss position.

Note 3. Loans

The composition of net loans at December 31 is as follows:

	2003	**2002**
Commercial	$ 17,479,785	$ 19,222,027
Real estate-Construction	8,929,228	7,438,922
Real estate-Mortgage	154,799,657	150,573,954
Installment and other	23,068,942	23,678,587

	$204,277,612	$ 200,913,490
Deduct:		
Allowance for loan losses	2,199,110	2,155,789
Unearned net loan fees	805,284	879,501
	3,004,394	3,035,290
	$201,273,218	$ 197,878,200

The total recorded investment in impaired loans as determined in accordance with U. S. generally accepted accounting principles approximated $304,000 and $500,000 at December 31, 2003 and 2002, respectively. These loans were subject to allowances for loan losses of $132,732 and $160,237 at December 31, 2003 and 2002, respectively. The average recorded investment in impaired loans amounted to $401,866, $251,812, and $277,551 for the years ended December 31, 2003, 2002, and 2001, respectively. Cash receipts on impaired loans amounted to $196,267, $81,688, and $185,404 in 2003, 2002, and 2001, respectively, of which $196,267, $57,695, and $185,404, respectively, were applied to the principal balances of the loans.

In addition, the Company had other non-accrual loans of approximately $990,534 and $1,131,330 at December 31, 2003 and 2002, respectively, for which impairment had not been recognized. If interest on these loans had been recognized at the original interest rates, interest income net of taxes would have increased approximately $69,229, $263,171, and $150,720 for the years ended December 31, 2003, 2002, and 2001, respectively. The total recorded investment in loans past due ninety days or more and still accruing interest approximated $24,000 and $357,000 at December 31, 2003 and 2002, respectively.

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

Note 4. Loan Servicing

Commercial and mortgage loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of commercial and mortgage loans serviced for others were $115,339,288, $84,979,942, and $57,675,883 at December 31, 2003, 2002, and 2001, respectively. Net gains realized on the sale of loans amounted to $1,168,275, $344,584, and $10,858, respectively, for the years ended 2003, 2002, and 2001. The balance of capitalized servicing rights, net of valuation allowances, included in other assets at December 31, 2003 and 2002, was $541,082 and $426,566, respectively. The fair values of these rights were $726,860 and $533,181, respectively. The fair value of servicing rights was determined using market prices for similar assets with similar characteristics.

The following summarizes mortgage servicing rights capitalized and amortized in each year:

	Years Ended December 31, 2003	2002	2001
	(in thousands)		
Mortgage servicing rights capitalized	$ 368	$ 326	$ 90
Mortgage servicing rights amortized	$ 253	$ 116	$ 69

In February of 2003, the Company began selling loans under a new program with FHLB, the Mortgage Partnership Finance program (MPF). While selling loans to the secondary market is not new business for the Company, this partnership with FHLB is different in that the bank shares in the credit risk of each mortgage, while receiving fee income in return. These loans meet specific underwriting standards of the FHLB. As of December 31, 2003, the Company had funded $28.3 million in loans with the MPF program. The volume of loans sold to the MPF program and the corresponding credit obligation continues to be closely monitored by management. As of December 31, 2003, the maximum contingent liability related to this program is $538,000 of which $75,000 is included in accrued expenses and other liabilities.

Note 5. Allowance for Loan Losses

Changes in the allowance for loan losses for the years ended December 31 are as follows:

	2003	2002	2001
Balance, beginning	$ 2,155,789	$ 2,007,408	$ 1,796,810
Provisions for loan losses	123,000	326,000	410,000
Recoveries of amounts charged off	117,563	119,120	138,820
	2,396,352	2,452,528	2,345,630
Amounts charged off	(197,242)	(296,739)	(338,222)
Balance, ending	$ 2,199,110	$ 2,155,789	$ 2,007,408

Note 6. Bank Premises and Equipment

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

	2003	2002
Land and land improvements	$ 966,561	$ 350,612
Buildings and improvements	5,699,824	3,796,261
Furniture and equipment	7,213,283	6,572,644
Leasehold improvements	722,651	717,650
	14,602,319	11,437,167
Less accumulated depreciation	(6,787,397)	(6,144,570)

$	7,814,922	$	5,292,597

Depreciation included in occupancy and equipment expense amounted to $642,826, $560,978, and $566,018 for the years ended December 31, 2003, 2002, and 2001, respectively.

The Company is obligated under non-cancelable operating leases at five branch office locations expiring in various years through 2022 with options to renew. Minimum future rental payments for these leases with original terms in excess of one year as of December 31, 2003 for each of the next five years and in aggregate are:

2004	$ 160,124
2005	137,303
2006	86,638
2007	87,948
2008	101,796
Subsequent to 2008	757,798
	$ 1,331,607

Total rental expense amounted to $178,178, $163,193, and $139,307 for the years ended December 31, 2003, 2002, and 2001, respectively.

Note 7. Other Real Estate Owned

A summary of foreclosed real estate at December 31 is as follows:

	2003	2002
Other real estate owned	$ 88,277	$ 0
Less allowance for losses on OREO	0	0
Other real estate owned, net	$ 88,277	$ 0

Changes in the allowance for losses on OREO for the years ended December 31 were as follows:

	2003	2002	2001
Balance, beginning	$ 0	$ 0	$ 263,006
Provision for losses	0	0	44,824
Charge-offs, net	0	0	(307,830)

Balance, ending	$ 0	$ 0	$ 0

Note 8. Other Investments

The Company purchased various partnership interests in limited partnerships. These partnerships were established to acquire, own and rent residential housing for low and moderate income Vermonters located in northeastern Vermont.

These investments, which are included in other assets, are recorded at cost and adjusted for the Company's proportionate share of the partnership's undistributed earnings or losses. Under the effective yield method, the tax credits allocated, net of any deferred tax provisions, are recognized in the income statement as a component of income taxes attributable to continuing operations. Amortization of the investment in the limited partnerships is recognized as a component of "other expenses". The carrying values of these investments were $2,001,792

and $1,180,376 at December 31, 2003 and 2002, respectively. The provision for undistributed net losses of the partnerships charged to earnings was $403,374, $708,473, and $127,758 for 2003, 2002, and 2001, respectively.

Prior to March 31, 2002, Community National Bank operated a trust department through which it offered personal fiduciary services. As of such date, the Bank transferred its trust operations to a newly formed Vermont-chartered nondepository trust and investment management affiliate, Community Financial Services Group, LLC based in Newport, Vermont ("CFSG"). The Bank's ownership interest in CFSG is held indirectly through Community Financial Services Partners, LLC, a Vermont limited liability company ("Partners") that owns 100% of the limited liability company equity interests of CFSG. On April 1, 2002, the Bank sold a one-third interest in Partners to each of the National Bank of Middlebury in Middlebury, Vermont, and Guaranty Bancorp, Inc., the bank holding company parent of Woodsville Guaranty Savings Bank in Woodsville, New Hampshire. As of such date, the Bank retained a one-third ownership interest in Partners and, indirectly, in CFSG. The Bank accounts for its investment in Partners under the equity method of accounting. As of December 31, 2003, the Company's investment in Partners amounted to $114,022 with a loss for the respective year of $61,540.

Note 9. Deposits

The following is a maturity distribution of time certificates of deposit at December 31, 2003:

2004	2005	2006	2007	2008 and thereafter	Total
$48,558,348	$22,169,304	$15,992,499	$10,669,678	$4,374,286	$101,764,115

Note 10. Borrowed Funds

Borrowings from the FHLB as of December 31 were as follows:

	2003	2002

FHLB term borrowing, 4.78% fixed rate, payable January 18, 2011, callable January 16, 2003 and quarterly thereafter	$	5,000,000	$	5,000,000
FHLB term borrowing, 1.19% fixed rate, payable March 04, 2004		3,000,000		0
Community Investment Program borrowing, 7.57% fixed rate, payable November 16, 2007		30,000		30,000
Community Investment Program borrowing, 7.67% fixed rate, payable November 16, 2012		10,000		10,000
	$	8,040,000	$	5,040,000

Principal maturities of borrowed funds as of December 31, 2003 are as follows:

2004	$	3,000,000
2007		30,000
Thereafter		5,010,000
	$	8,040,000

The Company also maintains a $4,301,000 IDEAL Way Line of Credit with FHLB. There were no outstanding advances under this line at December 31, 2003 and 2002. Interest on these borrowings is chargeable at a rate determined daily by FHLB and payable monthly.

Borrowings from FHLB are secured by a blanket lien on qualified collateral consisting primarily of loans with first mortgages secured by one to four family properties, and other qualified assets. Qualified collateral for these borrowings approximated $122,033,000 and $127,383,000 as of December 31, 2003 and 2002, respectively.

Under a separate agreement, the Company has the authority to collateralize public unit deposits, up to their borrowing capacity, with letters of credit issued by FHLB. As of December 31, 2003, the Company's potential borrowing capacity was approximately $91.5 million, reduced by outstanding advances. At December 31, 2003, $42,231,000 was pledged as collateral for these deposits. A fee is charged to the Company quarterly based on the average daily balance outstanding at a rate of 20 basis points.

Note 11. Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to $12,016,570 and $14,069,026 as of December 31, 2003 and 2002, respectively. These agreements are collateralized by U. S. government and agency securities and U. S. Treasury notes with a book value of $14,172,332 and $17,298,115 and a fair value of $14,548,750 and $17,846,382 at December 31, 2003 and 2002, respectively. These securities pay interest at rates between 3.65% and 7.575% and mature at varying dates through 2012.

The average daily balance of these repurchase agreements approximated $11,686,200 and $12,603,469 during 2003 and 2002, respectively. The maximum borrowings outstanding on these agreements at any month-end reporting period of the Company were $12,846,064 and $15,775,133 in 2003 and 2002, respectively. These repurchase agreements mature daily and carried a weighted average interest rate of 1.04% during 2003. The securities underlying these agreements are held in safekeeping at the Federal Reserve Bank.

Note 12. Income Taxes

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

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

	2003	2002	2001
Currently paid or payable	$ 668,550	$ 1,012,961	$ 873,967
Deferred	320,631	(88,010)	1,509
	$ 989,181	$ 924,951	$ 875,476

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

	2003	2002	2001
Computed expected tax expense	$ 1,627,732	$ 1,416,074	$ 1,248,922
Tax exempt interest	(319,230)	(331,865)	(252,470)
Disallowed interest	38,103	39,573	35,124
Partnership tax credits	(361,876)	(288,934)	(169,990)
Other	4,452	90,103	13,890
	$ 989,181	$ 924,951	$ 875,476

The deferred income tax provision consisted of the following items for the years ended December 31:

	2003	2002	2001
Depreciation	$ 125,476	$ 70,549	$ 27,406
Loan fees	9,186	12,084	27,143
Mortgage servicing	38,935	71,656	6,981
Deferred compensation	8,358	(69,854)	(36,429)
Bad debts	7,429	(72,608)	(66,398)
Limited partnerships	53,709	(53,251)	77,312
Nonaccrual loan interest	100,193	1,064	(12,020)
OREO	0	0	89,422
Other	(22,655)	(47,650)	(111,908)
	$ 320,631	$ (88,010)	$ 1,509

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

	2003	2002
Components of the deferred tax asset:		
Bad debts	$ 573,521	$ 580,951
Unearned loan fees	14,292	23,479
Nonaccrual loan interest	36,405	136,598
Deferred compensation	261,131	269,489
Other	93,026	82,261
Total deferred tax asset	$ 978,375	$ 1,092,778
Components of the deferred tax liability		
Depreciation	$ 361,444	$ 235,968
Limited partnerships	255,280	228,260
Mortgage servicing rights	183,968	145,033
Unrealized gain on securities available-for-sale	260,670	507,400
Other	14,797	0
Total deferred tax liability	1,076,159	1,116,661
Net deferred tax liability	$ (97,784)	$ (23,883)

U. S. generally accepted accounting principles allow for the recognition and measurement of deductible temporary differences (including general valuation allowances) to the extent that it is more likely than not that the deferred tax asset will be realized.

Net deferred tax liabilities are included in the caption "Accrued interest and other liabilities" on the balance sheets at December 31, 2003 and 2002, respectively.

Note 13. Pension Plan

The Company has a discretionary defined contribution plan covering all employees who meet certain age and service requirements. Due to the fact that the plan is a defined contribution plan, rather than a defined benefit plan, there is no unfunded past service liability. The provisions for pension expense were $353,205, $323,375, and $285,105 for 2003, 2002, and 2001, respectively. These amounts represent discretionary matching contributions of a portion of the voluntary employee salary deferrals under the 401(k) plan and discretionary profit-sharing contributions under the plan.

Note 14. Financial Instruments with Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees, commitments to sell loans, and risk-sharing commitments on certain sold loans. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

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

The Company generally requires collateral or other security to support financial instruments with credit risk.

	Contract or Notional Amount 2003	2002
	(in thousands)	
Financial instruments whose contract amount represent credit risk:		
Commitments to extend credit	$ 21,377	$ 12,924
Standby letters of credit and commercial letters of credit	$ 401	164
Credit card arrangements	$ 7,899	7,040
MPF credit enhancement obligation	$ 538	$ 0

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. At December 31, 2003 and 2002, the Company has binding loan commitments at fixed rates approximating $1,538,000 and $2,100,000, respectively, that are included in commitments to extend credit.

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

Standby letters of credit and financial guarantees written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

Note 15. Commitments and Contingencies

In the normal course of business, the Company is involved in various claims and legal proceedings. In the opinion of the Company's management, after consulting with the Company's legal counsel, any liabilities resulting from such proceedings would not have a material adverse effect on the Company's financial statements.

Note 16. Transactions with Related Parties

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

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

	2003	**2002**
Balance, beginning	$ 720,631	$ 631,464
New loans	150,672	367,173
Repayments	(207,692)	(278,006)
Retirement (Executive Officer)	(72,335)	0
Balance, ending	$ 591,276	$ 720,631

Total deposits with related parties approximated $791,056 and $984,979 at December 31, 2003 and 2002, respectively.

Note 17. Deferred Compensation and Supplemental Employee Retirement Plans

The Company maintains a deferred compensation plan and a retirement plan for its directors. These participants are general creditors of the Company with respect to these benefits. The benefits accrued under these plans were $514,572 and $458,780 at December 31, 2003 and 2002, respectively. Expenses associated with these plans were $67,791, $59,759, and $57,695 for the years ended December 31, 2003, 2002, and 2001, respectively.

The Company also maintains a supplemental employee retirement plan for key employees of the Company. Benefits accrued under this plan were $253,460 and $333,835 at December 31, 2003 and 2002, respectively. The expense associated with this plan was $76,795, $156,125, and $62,720 for the years ended December 31, 2003, 2002, and 2001, respectively.

Note 18. Restrictions on Cash and Due From Banks

The Company is required to maintain reserve balances in cash with Federal Reserve Banks. The totals of those reserve balances were approximately $2,176,000 and $2,879,000 at December 31, 2003 and 2002, respectively.

The nature of the Company's business requires that it maintain amounts due from banks that, at times, may exceed federally insured limits. No losses have been experienced in these accounts. The Company believes it is not exposed to any significant risk with respect to these accounts. In addition, the Company was required to maintain contracted clearing balances of $275,000 at December 31, 2003 and 2002.

Note 19. Regulatory Matters

The Company (on a consolidated basis) and the Bank (Community National 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 provisions are not applicable to 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). Management believes, as of December 31, 2003, that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2003, the most recent notification from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's categories.

The Company's and the Bank's actual capital amounts and ratios (000's omitted) are also presented in the table.

	Actual		Minimum For Capital Adequacy Purposes:		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2003:						
Total capital (to risk-weighted assets)						
Consolidated	$28,783	16.32%	$14,105	8.0%	N/A	N/A
Subsidiary (Community National Bank)	$28,949	16.42%	$14,102	8.0%	$17,628	10.0%
Tier I capital (to risk-weighted assets)						
Consolidated	$26,579	15.07%	$ 7,053	4.0%	N/A	N/A
Subsidiary (Community National Bank)	$26,750	15.17%	$ 7,051	4.0%	$10,577	6.0%
Tier I capital (to average assets)						
Consolidated	$26,579	8.05%	$13,199	4.0%	N/A	N/A
Subsidiary (Community National Bank)	$26,750	8.11%	$13,196	4.0%	$16,495	5.0%
As of December 31, 2002:						
Total capital (to risk-weighted assets)						
Consolidated	$26,828	15.91%	$13,487	8.0%	N/A	N/A
Subsidiary (Community National Bank)	$25,350	15.04%	$13,484	8.0%	$16,855	10.0%
Tier I capital (to risk-weighted assets)						
Consolidated	$24,720	14.66%	$ 6,743	4.0%	N/A	N/A
Subsidiary (Community National Bank)	$23,243	13.79%	$ 6,742	4.0%	$10,113	6.0%
Tier I capital (to average assets)						
Consolidated	$24,720	7.97%	$12,407	4.0%	N/A	N/A
Subsidiary (Community National Bank)	$23,243	7.49%	$12,406	4.0%	$15,507	5.0%

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

Note 20. Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments are as follows:

	December 31, 2003		December 31, 2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Financial assets:				
Cash and cash equivalents	$ 14,372	$ 14,372	$ 14,037	$ 14,037
Securities held-to-maturity	41,564	41,717	38,969	39,359
Securities available-for-sale	56,319	56,319	41,075	41,075
Restricted equity securities	1,357	1,357	1,309	1,309
Loans and loans held-for-sale, net	203,527	206,996	204,047	208,180
Accrued interest receivable	1,676	1,676	1,745	1,745
Financial liabilities:				
Deposits	279,679	282,495	260,922	262,045
Repurchase agreements	12,017	12,017	14,069	14,069
Borrowed funds	8,040	8,450	5,040	5,238
Accrued interest payable	186	186	209	209

The estimated fair values of deferred fees on commitments to extend credit and letters of credit were immaterial at December 31, 2003 and 2002.

Note 21. Intangibles

As a result of the Company's purchase of 100% of the stock of Liberty Savings Bank, a New Hampshire guaranty savings bank, the excess of the purchase price paid over the assets acquired was amortized on a straight-line basis over 15 years. In 2002, this goodwill became impaired due to changes in New Hampshire's Interstate Branching law, and accordingly, the Company expensed the remaining balance, which amounted to $251,286. Amortization of goodwill in 2002 includes recognition of impairment expenses associated with the adoption of SFAS No. 142. Amortization expense was $251,286, and $22,844 for the years ended December 31, 2002, and 2001, respectively.

Note 22. Condensed Financial Information (Parent Company)

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

COMMUNITY BANCORP. (PARENT COMPANY)
CONDENSED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

ASSETS	**2003**	**2002**
Cash	$ 399,416	$ 221,175
Investment in Subsidiary-Community National Bank	27,256,355	24,228,410
Investment in Subsidiary-Liberty Savings Bank	0	1,637,349
Other assets	73,519	30,226
Total assets	$ 27,729,290	$ 26,117,160
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Dividends payable	$ 644,144	$ 412,058
Total liabilities	644,144	412,058
Stockholders' equity		
Common stock, $2.50 par value; 6,000,000 shares authorized, 3,971,989 shares issued at December 31, 2003 and 3,939,078 shares issued at December 31, 2002(including 188,676 shares issued February 1, 2003)	9,929,973	9,847,694
Additional paid-in capital	16,861,802	16,423,022
Retained earnings	1,971,870	625,932
Accumulated other comprehensive income	506,006	984,953
Less treasury stock, at cost (2003-182,905 shares;) 2002-182,377 shares	(2,184,505)	(2,176,499)
Total stockholders' equity	27,085,146	25,705,102
Total liabilities and stockholders' equity	$ 27,729,290	$ 26,117,160

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

COMMUNITY BANCORP. (PARENT COMPANY)
CONDENSED STATEMENTS OF INCOME
Years Ended December 31, 2003, 2002, and 2001

	2003	**2002**	**2001**
Revenues			
Dividends			
Bank subsidiary-Community National Bank	$ 371,000	$ 2,380,000	$ 1,652,000
Non-bank subsidiary-Liberty Savings Bank	1,337,349	0	0
Other dividend income	375	0	0
Total revenues	1,708,724	2,380,000	1,652,000
Expenses			
Interest on long-term debt	0	0	706
Administrative and other	121,021	88,899	108,614
Total expenses	121,021	88,899	109,320
Income before applicable income tax and equity in undistributed net income of subsidiaries	1,587,703	2,291,101	1,542,680
Applicable income benefit	(41,020)	(30,226)	(37,169)
Income before equity in undistributed net income of subsidiaries	1,628,723	2,321,327	1,579,849
Equity in undistributed net income of subsidiaries	2,169,543	918,645	1,217,976
Net income	$ 3,798,266	$ 3,239,972	$ 2,797,825

COMMUNITY BANCORP. (PARENT COMPANY)

CONDENSED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2003, 2002, and 2001

	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,798,266	$ 3,239,972	$ 2,797,825
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed net income of subsidiaries	(2,169,543)	(918,645)	(1,217,976)
(Increase) decrease in income taxes receivable	(10,794)	6,943	(5,479)
(Decrease) increase in other liabilities	0	(13,800)	13,433
Net cash provided by operating activities	1,617,929	2,314,470	1,587,803
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of stock in subsidiary-Liberty Savings Bank	300,000	0	0
Purchase of investment available for sale	(32,500)	0	0
Net cash provided by investing activities	267,500	0	0
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of treasury stock	(8,006)	(458,341)	(328,422)
Debentures redeemed for cash	0	0	(12,000)
Dividends paid	(1,699,182)	(1,639,849)	(1,577,182)
Net cash used for financing activities	(1,707,188)	(2,098,190)	(1,917,604)
Net increase (decrease) in cash	178,241	216,280	(329,801)
Cash			
Beginning	221,175	4,895	334,696
Ending	$ 399,416	$ 221,175	$ 4,895
SUPPLEMENTAL SCHEDULE OF CASH PAID (RECEIVED) DURING THE YEAR			
Interest	$ 375	$ 0	$ 1,073
Income taxes	$ (30,225)	$ (37,169)	$ (31,690)

SUPPLEMENTAL SCHEDULE OF NONCASH

INVESTING AND FINANCING ACTIVITIES

Change in unrealized gain on securities available-for-sale	$ (725,677)	$ 1,452,263	$ 75,101
Debentures			
Decrease in subordinated debentures payable	0	$ 1,000	$ 19,000
Debentures converted to common stock	0	(1,000)	(7,000)
Debentures redeemed for cash	$ 0	$ 0	$ 12,000
Dividends paid:			
Dividends declared	$ 2,452,328	$ 2,274,997	$ 2,265,934
(Increase) decrease in dividends payable attributable to dividends declared	(232,087)	157,000	(32,132)
Dividends reinvested	(521,059)	(792,148)	(656,620)
	$ 1,699,182	$ 1,639,849	$ 1,577,182
Stock dividends	$ 0	$ 2,798,870	$ 1,803,162

Note 23. Quarterly Financial Data (Unaudited)

A summary of financial data for the four quarters of 2003, 2002, and 2001 is presented below:

COMMUNITY BANCORP. AND SUBSIDIARIES

	Quarters in 2003 ended			
	March 31,	**June 30,**	**Sept. 30,**	**Dec. 31,**
Interest income	$4,332,512	$4,401,300	$4,541,547	$4,351,442
Interest expense	1,429,208	1,374,087	1,288,754	1,267,079
Provision for loan losses	75,000	18,000	10,000	20,000
Securities gains	142,904	0	0	0
Non-interest expense	2,564,445	2,622,596	2,720,590	2,882,059
Net income	909,056	1,088,881	1,000,589	799,740
Earnings per common share	0.24	0.29	0.27	0.21

	Quarters in 2002 ended			
	March 31,	**June 30,**	**Sept. 30,**	**Dec. 31,**
Interest income	$4,569,700	$4,584,951	$4,604,929	$4,619,048
Interest expense	1,793,377	1,691,977	1,648,130	1,546,426
Provision for loan losses	132,000	94,000	50,000	50,000

Securities gains	3,648	0	27,663	0
Non-interest expense	2,572,473	2,585,323	2,594,852	2,774,355
Net income	615,924	948,460	801,209	874,379
Earnings per common share	0.17	0.25	0.21	0.24

	Quarters in 2001 ended			
	March 31,	**June 30,**	**Sept. 30,**	**Dec. 31,**
Interest income	$4,769,266	$4,750,476	$4,733,901	$4,790,609
Interest expense	2,367,798	2,220,408	2,085,309	1,912,955
Provision for loan losses	90,000	90,000	60,000	170,000
Securities gains	29,644	124,795	10,095	6,365
Non-interest expense	2,190,350	2,241,075	2,276,735	2,010,372
Net income	488,917	640,976	654,867	1,013,065
Earnings per common share	0.13	0.17	0.18	0.27

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Community Bancorp. and Subsidiaries
Notes to Consolidated Financial Statements (continued)

Note 24. Other Income and Other Expenses

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

	2003	2002	2001
Income			
Income from sold loans	$ 1,168,275	$ 548,369	$ 152,469
Gain from sale of Trust Department	0	617,355	0
Other	1,147,783	1,048,280	660,070
	$ 2,316,058	$ 2,214,004	$ 812,539
Expenses			
Printing and supplies	$ 241,843	$ 245,964	$ 235,160
State deposit tax	208,760	260,000	228,400
Loss on limited partnerships	403,374	708,473	127,758
Goodwill amortization	0	251,286	22,844
Other	2,744,028	2,576,630	2,361,106
	$ 3,598,005	$ 4,042,353	$ 2,975,268

Note 25. Subsequent Events

Effective December 9, 2003, the Company declared a cash dividend of $0.17 per share payable February 1, 2004 to shareholders of record as of January 15, 2004. This dividend has been recorded as of the declaration date.

Management's Discussion and Analysis of Financial Condition and the Results of Operations

For the Years Ended December 31, 2003, 2002, and 2001

FORWARD-LOOKING STATEMENTS

The Company's 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 subsidiaries. When used therein, the words "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 participation in the FHLB Mortgage Partnership Finance (MPF) program, and management's general outlook for the future performance of the Company, summarized below under "Overview". 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 undo 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) competitive pressures increase among financial service providers in the Company's northern New England market area or in the financial service 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; (2) interest rates change in such a way as to reduce the Company's margins; (3) general economic or monetary conditions, either nationally or regionally, are less favorable than expected, resulting in a deterioration in credit quality or a diminished demand for the Company's products and services; (4) changes in laws or government rules, or the way in which courts interpret those laws or rules, adversely affect the Company's business; and (5) changes in federal or state tax policy.

OVERVIEW

The following Management's Discussion and Analysis will tell you what you already know: 2003 was a very successful year for the Company. With interest rates continuing at all time lows, the mortgage activity was well above anticipated levels resulting in record income from the sales of these mortgages in the secondary market. This, combined with our ability to reduce the cost of deposits, resulted in earnings of $1.01 per share compared to $.87 in 2003, and $.75 in 2002.

Asset growth was also strong, with total assets growing by $21 million to $331 million. We view the successful opening of our new facility in Barre and the improving health of the economy in the regions in which we operate as positive signs for the future. Although predictions are subject to inherent uncertainties and actual results may differ significantly, we are hopeful that the Company can continue our asset growth at rates above the rate of inflation for the next few years. Growth is important to the future prospects of the Company because it allows us to spread our overhead over a larger asset base.

The cost of operating the Company, other than interest expense, known as non-interest expenses was up marginally over the previous year but, when expressed as a percentage of assets, was down slightly. This is the trend that we hope to follow as we continue to grow and spread the cost of doing business over a larger asset base.

We expect that mortgage activity will slow during 2004 and that our spread, the difference between our cost of deposits and return on assets, will continue to shrink, resulting in slightly lower earnings.

The following pages describe the financial results of our year in much more detail. Please take the time to read them to more fully understand 2003 in relation to other recent years. The discussion below should be read in conjunction with the Consolidated Financial Statements of the Company and related notes. This report includes forward-looking statements within the meaning of the Securities and Exchange Act of 1934 (the "Exchange Act").

CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared according to accounting principles generally accepted in the United States of America. The preparation of such financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities in the consolidated financial statements and related notes. The Securities and Exchange Commission (SEC) has defined a company's critical accounting policies as the ones that are most important to the portrayal of the Company's financial condition and results of operations, and which require the Company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Because of the significance of these estimates and assumptions, there is a high likelihood that materially different amounts would be reported for the Company under different conditions or using different assumptions or estimates.

Management believes that the calculation of the allowance for loan loss (ALL) is a critical accounting policy that requires the most significant judgments and estimates used in the preparation of its consolidated financial statements. In estimating the ALL, management utilizes historical experience as well as other factors including the effect of changes in the local real estate market on collateral values, use of current economic indicators and their probable impact on borrowers and changes in delinquent, nonperforming or impaired loans. Management's estimates used in the ALL may increase or decrease based on changes in these factors resulting in adjustments to the Company's provision for loan losses. Actual results could differ significantly from these estimates under different assumptions, judgments or conditions.

Occasionally, the Company acquires property in connection with foreclosures or in satisfaction of debt previously contracted. To determine the value of property acquired in foreclosure, management often obtains independent appraisals for significant properties. Accordingly, the recovery of a substantial portion of the carrying amount of foreclosed real estate is susceptible to changes in local market conditions. The amount of the change that is reasonably possible cannot be estimated. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for losses on loans and foreclosed real estate. Such agencies may require the Company to recognize additions to the allowances based on their judgments about information available to them at the time of their examination.

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

Management evaluates on an ongoing basis its judgment as to which policies are considered to be critical.

RESULTS OF OPERATIONS

The Company's net income of $3.8 million for the year ended December 31, 2003 was an increase of 17.2% over the 2002 calendar year, compared to a 15.8% increase for 2002 over 2001. The tremendous volume in the sale of mortgage loans, due to the low rate environment, continued to boost income in 2003. A gain on the sale of some corporate bonds, as well as a decrease in the provision for loan losses also contributed significantly to earnings in 2003. The sale of the Company's trust operations and the increase in the secondary market loan activity were key components of the increase for 2002 compared to 2001. These earnings resulted in earnings per share of $1.01, $0.87, and $0.75, respectively. The Company's average assets grew by 6.8% in 2003 resulting in total average assets of $316.1 million at year end. Growth of the Company's assets, together with strong earnings, resulted in a return on average assets of 1.20%.

Return on average assets (ROA), which is net income divided by average total assets, measures how effectively a corporation uses its assets to produce earnings. Return on average equity (ROE), which is net income divided by average shareholders' equity, measures how effectively a corporation uses its equity capital to produce earnings. The following table shows these ratios as well as other equity ratios.

	December 31,		
	2003	**2002**	**2001**
Return on Average Assets	1.20%	1.09%	1.07%
Return on Average Equity	14.28%	13.33%	12.12%
Dividend Payout Ratio (1)	63.37%	73.56%	85.33%
Ave. Equity to Ave. Assets Ratio	8.41%	8.21%	8.86%

(1) Data for 2001 restated to reflect 5% stock dividend declared during the last quarter of 2002.

The following table is a summary of the earnings performance of the Company:

SELECTED FINANCIAL DATA

Year Ended December 31,	2003	2002	2001	2000	1999
	(Dollars in Thousands, except per share data)				
Total Interest Income	17,627	18,379	19,044	18,435	16,723
Less:					
Total Interest Expense	5,359	6,680	8,586	8,789	7,535
Net Interest Income	12,268	11,699	10,458	9,646	9,188
Less:					
Provision for Loan Losses	123	326	410	384	497
Other Operating Income	3,432	3,319	2,344	1,865	1,759
Less:					
Other Operating Expense	10,790	10,527	8,719	7,929	7,330
Income Before Income Taxes	4,787	4,165	3,673	3,198	3,120
Less:					
Applicable Income Taxes (1)	989	925	875	776	786
Net Income	**3,798**	**3,240**	**2,798**	**2,422**	**2,334**
Balance Sheet Data:					
Net Loans	203,526	204,047	190,197	174,778	150,673
Total Assets	330,742	309,228	288,678	252,785	232,216
Total Deposits	279,679	260,922	238,070	208,385	201,843
Borrowed Funds	8,040	5,040	5,055	5,592	4,075
Total Liabilities	303,657	283,523	265,231	230,255	210,035
Total Shareholders' Equity	27,085	25,705	23,447	22,530	22,181
Per Share Data: (2)					
Earnings per Share	1.01	0.87	0.75	0.65	0.64
Cash Dividends Declared	0.64	0.64	0.64	0.64	0.64
Weighted Average Number of Common Shares Outstanding	3,772,748	3,736,786	3,722,953	3,721,154	3,648,586
Number of Common Shares Outstanding	3,789,084	3,756,701	3,734,439	3,699,752	3,702,754

(1) Applicable income taxes above includes the income tax effect, assuming a 34% tax rate, on securities gains (losses), which totaled $48,587 in 2003, $10,646 in 2002, $58,106 in 2001, $(6,386) in 2000, and $0 in 1999.

(2) All per share data for calendar years prior to 2002 have been restated to reflect a 5% stock dividend declared in the last quarter of 2002.

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). Tables A and B below provide a visual comparison for each period. A portion of the Company's income from municipal investments is not subject to income taxes. Therefore, for the purpose of comparative analysis, we convert the non-taxable income to a tax equivalent amount. Figures presented on these two tables are consolidated and are stated on a tax equivalent basis assuming a federal tax rate of 34%. The Company's corporate tax rate is 34%, therefore, to equalize tax-free and taxable income in the comparison, we must divide the tax-free income by 66%, with the result that every tax-free dollar is equal to $1.52 in taxable income.

The following table provides a reconciliation between net interest income presented on the statement of income and the tax equivalent net interest income presented on Table A below for the 12 months comparison periods of 2003, 2002, and 2001.

	For the year ended December 31, 2003	2002	2001
	(Dollars in Thousands)		
Net interest income as presented	12,267	11,699	10,536
Effect of tax-exempt income	484	503	383
Net interest income, tax equivalent	12,751	12,202	10,839

The table below presents the following information for each of the last three fiscal years: average earning assets (including non-accrual loans) and average interest-bearing liabilities supporting earning assets; and interest income and interest expense expressed both in dollars and as a rate/yield.

Table A
AVERAGE BALANCES AND INTEREST RATES

	2003			2002			2001		
	Average Balance	Income/ Expense	Rate/ Yield	Average Balance	Income/ Expense	Rate/ Yield	Average Balance	Income/ Expense	Rate/ Yield
				(Dollars in Thousands)					
EARNING ASSETS									
Loans (1)	205,237	14,215	6.93%	196,528	14,468	7.36%	181,631	15,523	8.55%
Taxable Investment Securities	56,632	2,394	4.23%	54,085	2,820	5.21%	41,240	2,410	5.84%
Tax-exempt Investment Securities	33,382	1,422	4.26%	26,053	1,479	5.68%	15,693	1,125	7.17%
Federal Funds Sold	1,465	15	0.96%	1,852	29	1.57%	5,005	166	3.32%
Overnight Deposits	2,114	19	0.90%	2,937	37	1.26%	3,732	122	3.27%
Other Securities (2)	1,346	45	3.34%	1,297	49	3.78%	1,204	80	6.64%
TOTAL	**300,176**	**18,110**	**6.03%**	**282,752**	**18,882**	**6.68%**	**248,505**	**19,426**	**7.82%**

INTEREST-BEARING LIABILITIES

Savings Deposits	40,744	254	0.62%	35,952	454	1.26%	31,708	637	2.01%
NOW and Money Market Funds	89,827	1,450	1.61%	82,308	1,949	2.37%	56,807	1,832	3.22%
Time Deposits	102,538	3,265	3.18%	99,886	3,671	3.68%	99,418	5,236	5.27%
Other Borrowed Funds	6,449	269	4.17%	7,305	335	4.59%	5,647	280	4.96%
Repurchase Agreements	11,686	121	1.04%	12,604	271	2.15%	15,888	601	3.78%
Subordinated Debentures	0	0	0.00%	0	0	0.00%	8	1	8.75%
TOTAL	**251,244**	**5,359**	**2.13%**	**238,055**	**6,680**	**2.81%**	**209,476**	**8,587**	**4.10%**
Net Interest Income		**12,751**			**12,202**			**10,839**	
Net Interest Spread (3)			**3.90%**			**3.87%**			**3.72%**
Interest Differential (4)			**4.25%**			**4.32%**			**4.36%**

(1) Included in gross loans are non-accrual loans with an average balance of $1,377,720 for 2003, $1,369,154 for 2002, and $1,420,468 for 2001.

(2) Included in other securities for 2002 and 2001 are taxable industrial development bonds issued by the Vermont Economic Development Authority (VEDA), with tax equivalent income of $226 and $2,611, respectively.

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

(4) Interest differential is net interest income divided by average earning assets.

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Interest income from loans accounts for approximately 78.5% of interest income, reporting $14.2 million for 2003, $14.5 million for 2002, and $15.5 million for 2001, with average yields of 6.93%, 7.36%, and 8.55%, respectively. Although an increase in the average volume of loans is noted, the rate charged on these assets has decreased throughout the comparison period clearly supporting the decrease in interest earned for 2003 compared to 2002. Since 2001, overall interest rates have remained at a 40-year low. This has affected the Company's net interest income in several ways. First and foremost, some of the Company's loans are contractually allowed to reprice based on benchmarks such as Prime Rate and the Federal Housing Finance Board Contract Rate. As these loans reprice, the rate that the customer is paying on the loan is reduced, resulting in a reduction in interest income to the Company. Second, the low interest rate environment has created a highly competitive marketplace for new loan activity. Therefore, interest rates on new loans were lower than previously experienced. Furthermore, cash flows and payoffs of loans that were reinvested in other investments such as securities were also at the lower rates. The Company's decision to sell fixed rate loans on the secondary market in this historically low interest rate environment is a strategy to protect the interest margin in the future. Furthermore, the Company retains the servicing rights on the sold loans which generates fee income.

Interest expense on time deposits accounts for approximately 60.9% of total interest expense. Totals for the comparison were $3.3 million for 2003, $3.7 million for 2002, and $5.2 million for 2001, with average yields of 3.18%, 3.68% and 5.27%, respectively. The Company was able to partially compensate for the decrease in revenue from lower interest rates received on assets by reducing the interest rates paid on the deposit portfolio as the market would allow. Maintaining spreads has been increasingly challenging in this sustained low rate environment.

Growth of the balance sheet, and low non-performing assets have helped to maintain spreads in the low rate environment. However, during 2004, we anticipate a decrease in the spread as the asset base continues to reprice to the lower rates faster than funding costs can be reduced. To compensate for the compression in spreads, the Company will be looking for more opportunities to increase non-interest income and will be committed to controlling expenses.

The following table summarizes the variances in income for the years 2003, 2002, and 2001 resulting from volume changes in assets and liabilities and fluctuations in rates earned and paid.

Table B
CHANGES IN INTEREST INCOME AND INTEREST EXPENSE

	2003 vs. 2002			**2002 vs. 2001**		
	Variance (1)			**Variance (1)**		
	Due to		**Total**	**Due to**		**Total**
RATE VOLUME	**Rate**	**Volume**	**Variance**	**Rate**	**Volume**	**Variance**
			(Dollars in Thousands)			
Income-Earning Assets						
Loans (2)	(894)	641	(253)	(2,328)	1,273	(1,055)
Taxable Investment Securities	(559)	133	(426)	(341)	751	410
Tax-exempt Investment Securities	(472)	416	(56)	(389)	743	354
Federal Funds Sold	(11)	(4)	(15)	(88)	(49)	(137)
Overnight Deposits	(11)	(7)	(18)	(75)	(10)	(85)
Other Securities	(6)	2	(4)	(37)	6	(31)
Total Interest Earnings	(1,953)	1,181	(772)	(3,258)	2,714	(544)
Interest-Bearing Liabilities						
Savings Deposits	(261)	61	(200)	(268)	85	(183)
NOW and Money Market Funds	(677)	178	(499)	(705)	822	117
Time Deposits	(503)	97	(406)	(1,590)	25	(1,565)
Other Borrowed Funds	(30)	(36)	(66)	(27)	82	55
Repurchase Agreements	(140)	(10)	(150)	(259)	(71)	(330)
Subordinated Debentures	0	0	0	(1)	0	(1)
Total Interest Expense	(1,611)	290	(1,321)	(2,850)	943	(1,907)

(footnotes on following page)

(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

Variance due to volume = Change in volume x new rate

(2) Loans are stated before deduction of unearned discount and allowance for loan losses. Interest on non-accrual loans is excluded from income. The principal balances of non-accrual loans are included in calculations of the yield on loans.

NON-INTEREST INCOME AND NON-INTEREST EXPENSE

Non-interest Income: The Company's non-interest income was $3.4 million in 2003 and $3.3 million in 2002 compared to $2.3 million in 2001. Originations of approximately $62 million and $44 million in loans sold to the secondary market respectively, in 2003 and 2002 generated all-time high point fee and service fee income in 2003 and 2002. In 2003, gain on sales of securities contributed $142.9 thousand to non-interest income. The gain of $617,355 recognized from the sale of the Company's trust operations also contributed to the increase for 2002.

Non-interest Expense: The Company's non-interest expense increased to $10.8 million for the year ended December 31, 2003, from $10.5 million in 2002, an increase of approximately $262.7 thousand, or 2.5%. Although non-interest expense was up slightly from 2002 levels in absolute dollar terms, it was down slightly as a percentage of total assets (3.26% for 2003 versus 3.4% for 2002). Non-interest expense increased by $1.8 million in 2002, from $8.7 million in 2001, or 3.02% of total assets. Salaries, wages and employee benefits increased from 2002 to 2003 by $500.5 thousand due in part to the additional staff in the Central Vermont offices, as well as annual salary increases and higher employee benefit costs. Also contributing to the increase in non-interest expense in 2003 was the cost of the temporary facilities and start-up costs of the Barre offices. In 2002, the Company had a one-time expense of $245,575 when the Company expensed the remaining goodwill associated with the acquisition of Liberty Savings Bank.

Total losses relating to various limited partnership investments constitute a generous portion of non-interest expenses. These losses amounted to $403,374 in 2003, $708,473 in 2002 and $127,758 in 2001. These investments involve financing of low income housing projects throughout the Company's market area, and offer tax benefits for participants, including tax credits. The Company amortizes its investments in these limited partnerships under the effective yield method, resulting in the asset being amortized consistent with the periods in which the Company receives the tax benefit. Investment in limited partnerships with qualified rehabilitation credits results in a large portion of the benefit received in the form of tax credits in the first year, resulting in a lower tax expense. Consistent with applying the effective yield method, amortization of the asset is also proportionately larger in the first year.

Many of the components of non-interest expense are estimated on a yearly basis and accrued in monthly installments. In an attempt to present accurate figures on the statement of income for any interim period, these expenses are reviewed quarterly by senior management to ensure that monthly accruals are accurate, and any necessary adjustments are made at that time.

APPLICABLE INCOME TAXES

Provisions for income taxes increased approximately 6.9% for 2003 versus 2002, and 5.6% for 2002 versus 2001. The increase in computed tax expense is consistent with increased earnings. Tax credits for the investments in the limited partnerships mentioned above amounted to $361,876 for 2003, compared to $288,934 for 2002 and $169,990 for the 2001 tax year.

CHANGES IN FINANCIAL CONDITION

The Company had total average assets of $316.1 million as of December 31, 2003 and $296.0 million as of December 31, 2002. Average earning assets were reported at just over $300 million at the end of 2003, including average loans of $205 million and investment securities of $91 million, compared to $283 million at the end of 2002, with average loans totaling $197 million and average investment securities of $81 million.

Other factors contributing to the increase in total assets were from an increase to bank premises of $2.5 million for the Barre project, Net loans increased by $3.4 million, while loans held-for-sale decreased by $3.9 million, indicating that the demand for residential real estate mortgages is decreasing.

Average interest-bearing liabilities at December 31, 2003 were $251 million, with $103 million in average time deposits and $90 million in average NOW and money market funds, compared to $238 million at December 31, 2002, with $100 million in average time deposits and $82 million in average NOW and money market funds.

Changes to liabilities, providing funds for the growth in assets, came from an increase in total deposits of $18.8 million. Demand deposits increased by $5.9 million, NOW and money market accounts increased by $9.4 million, savings accounts increased by $3.8 million and total time deposits decreased by $400,000. Borrowed funds increased by $3.0 million while repurchase agreements decreased by $2.1 million. Municipal balances contributed to the increase in NOW and money market accounts by $6.4 million and the decrease in repurchase agreements by $1.2 million. Further funding came from earnings with an increase in retained earnings of $1.3 million.

Repurchase agreements ended the years of 2003 and 2002 at average volumes of $11.7 million and $12.6 million, respectively, resulting in a decrease of just under $1 million. As required, securities from our investment portfolio are pledged against these agreements with a book value of $14.2 million and $17.3 million, respectively, and a fair value of $14.5 million and $17.8 million, respectively, at December 31, 2003 and 2002. The decrease in repurchase agreements can be attributed to a shift in municipal deposits to the Government Agency NOW Accounts introduced in 2002. The Government Agency Accounts are collateralized with an irrevocable letter of credit from the Federal Home Loan Bank of Boston (FHLB). These accounts are available only for Public Unit Deposits, therefore only available to our municipal customers. The benefit of the program for the Company is to reduce the amount of pledged securities required, thereby increasing liquidity.

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

DISTRIBUTION OF AVERAGE ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY

	Year ended December 31,					
	2003		2002		2001	
AVERAGE ASSETS	**Balance**	**%**	**Balance**	**%**	**Balance**	**%**
	(Dollars in Thousands)					
Taxable Investment Securities (1)	56,632	17.91%	54,085	18.27%	41,240	15.83%
Tax-exempt Investment Securities (1)	33,382	10.56%	26,053	8.80%	15,693	6.03%
Other Securities (1)	1,346	0.43%	1,297	0.44%	1,204	0.46%
Total Investment Securities	91,360	28.90%	81,435	27.51%	58,137	22.32%
Cash and Due from Banks						
Non-Interest Bearing	7,377	2.33%	6,676	2.26%	5,808	2.23%
Overnight Deposits	2,114	0.67%	2,937	0.99%	3,732	1.43%

Federal Funds Sold	1,465	0.46%	1,852	0.63%	5,005	1.92%
Gross Loans	205,237	64.93%	196,528	66.39%	181,631	69.74%
Reserve for Loan Losses and Accrued Fees	(3,056)	-0.97%	(3,093)	-1.05%	(2,864)	-1.10%
Premises and Equipment	5,344	1.69%	4,905	1.66%	4,720	1.81%
Other Real Estate Owned	59	0.02%	60	0.02%	196	0.08%
Other Assets	6,211	1.97%	4,713	1.59%	4,085	1.57%
Total Average Assets	316,111	100%	296,013	100%	260,450	100%
AVERAGE LIABILITIES						
Demand Deposits	34,817	11.01%	30,995	10.47%	26,218	10.07%
Now and Money Market Accounts	89,827	28.42%	82,308	27.81%	56,807	21.81%
Savings Accounts	40,744	12.89%	35,952	12.15%	31,708	12.17%
Time Deposits	102,538	32.44%	99,886	33.74%	99,418	38.17%
Total Deposits	267,926	84.76%	249,141	84.17%	214,151	82.22%
Other Borrowed Funds	6,449	2.04%	7,305	2.47%	5,647	2.17%
Repurchase Agreements	11,686	3.70%	12,604	4.26%	15,888	6.10%
Other Liabilities	3,459	1.09%	2,651	0.89%	1,672	0.64%
Subordinated Debentures	0	0.00%	0	0.00%	8	0.01%
Total Average Liabilities	289,520	91.59%	271,701	91.79%	237,366	91.14%
AVERAGE STOCKHOLDERS' EQUITY						
Common Stock	9,889	3.13%	9,336	3.16%	9,214	3.54%
Surplus	16,640	5.26%	13,736	4.64%	13,227	5.08%
Retained Earnings	1,462	0.46%	2,967	1.00%	2,117	0.81%
Less: Treasury Stock	(2,183)	-0.69%	(2,089)	-0.71%	(1,592)	-0.61%
Accumulated Other Comprehensive Income (1)	783	0.25%	362	0.12%	118	0.04%
Total Average Stockholders' Equity	26,591	8.41%	24,312	8.21%	23,084	8.86%
Total Avg. Liab. and Stockholders' Equity	316,111	100%	296,013	100%	260,450	100%

(1) In accordance with FASB No. 115, securities classified as held to maturity are carried at book value and securities classified as available for sale are carried at fair value with the unrealized gain (loss), net of applicable income taxes, reported as a net amount in accumulated other comprehensive income. The Company does not carry, nor does it intend to carry, securities classified as trading.

LOANS

The Company's loan portfolio consists of a mix of real estate, consumer, commercial, agricultural and other loans, including fixed and variable rate loans. Fluctuations in the loan portfolio are directly related to the economies of the communities served by the Company. Thus, the Company's borrowers could be adversely impacted by a downturn in local economies that could have a material effect on the borrowers' ability to repay their loans.

The following table reflects the composition of the Company's loan portfolio, including loans held for sale, as of December 31,

COMPOSITION OF LOAN PORTFOLIO

	2003		2002		2001		2000		1999	
	Total Loans	% of Total	Total Loans	% of Total	Total Loans	% of Total	Total Loans	% of Total	Total Loans	% of Total
	(Dollars in Thousands)									
Real Estate Loans										
Construction & Land Development	8,929	4.32%	9,969	4.81%	3,365	1.74%	1,021	0.58%	1,620	1.06%
Farm Land	2,783	1.35%	2,818	1.36%	2,597	1.34%	2,939	1.66%	3,229	2.11%
1-4 Family Residential	120,848	58.51%	121,138	58.50%	116,281	60.20%	107,411	60.50%	98,439	64.22%
Commercial Real Estate	33,422	16.18%	30,277	14.62%	32,924	17.05%	29,133	16.41%	21,223	13.85%
Loans to Finance Agricultural Production	529	0.26%	369	0.18%	432	0.22%	646	0.36%	661	0.43%
Commercial & Industrial	16,951	8.21%	18,846	9.10%	13,340	6.91%	13,989	7.88%	11,527	7.52%
Consumer Loans	22,517	10.90%	23,110	11.16%	23,820	12.33%	22,223	12.52%	16,344	10.66%
All Other Loans	552	0.27%	556	0.27%	397	0.21%	164	0.09%	236	0.15%
Gross Loans	**206,531**	**100%**	**207,083**	**100%**	**193,156**	**100%**	**177,526**	**100%**	**153,279**	**100%**
Less:										
Reserve for Loan Losses	(2,199)	-1.06%	(2,156)	-1.04%	(2,008)	-1.04%	(1,797)	-1.01%	(1,715)	-1.12%
Deferred Loan Fees	(805)	-0.39%	(880)	-0.43%	(951)	-0.49%	(951)	-0.54%	(891)	-0.58%
Net Loans	**203,527**	**98.55%**	**204,047**	**98.53%**	**190,197**	**98.47%**	**174,778**	**98.45%**	**150,673**	**98.30%**

The following table shows the estimated maturity of loans (excluding residential properties of 1 - 4 families, consumer loans and other loans) outstanding as of December 31, 2003.

MATURITY SCHEDULE

	Fixed Rate Loans				Variable Rate Loans			
	Within 1 Year	1 - 5 Years	After 5 years	Total	Within 1 Year	1 - 5 Years	After 5 years	Total
	(Dollars in Thousands)							
Real Estate								

Construction & Land Development	5,620	183	187	5,990	2,722	217	0	2,939
Secured by Farm Land	0	18	594	612	1,913	258	0	2,171
Commercial Real Estate	388	1,022	10,483	11,893	15,357	4,447	1,725	21,529
Loans to Finance Agricultural Production	0	41	0	41	488	0	0	488
Commercial & Industrial Loans	186	5,043	822	6,051	8,615	1,727	558	10,900
Total	**6,194**	**6,307**	**12,086**	**24,587**	**29,095**	**6,649**	**2,283**	**38,027**

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***Allowance for Loan Losses and Provisions**:* The valuation allowance for loan losses as of December 31, 2003 of $2.2 million constitutes approximately 1.1% of the total loan portfolio. In management's opinion, this is both adequate and reasonable in view of the fact that $121 million, or 59% of the total loan portfolio is secured by 1-4 family residences, and $45 million, or 22% is secured by commercial real estate properties. In management's opinion, a loan portfolio consisting of 81% in residential and commercial real estate secured mortgage loans is more stable and less vulnerable to significant default risk than a portfolio with a higher concentration of unsecured commercial and industrial loans or personal loans.

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

SUMMARY OF LOAN LOSS EXPERIENCE

December 31,	**2003**	**2002**	**2001**	**2000**	**1999**
			(Dollars in Thousands)		
Loans Outstanding End of Period	206,531	207,083	193,156	177,526	153,279
Ave. Loans Outstanding During Period	205,237	196,528	181,631	165,176	150,321
Loan Loss Reserve, Beginning of Period	**2,156**	**2,008**	**1,797**	**1,715**	**1,659**
Loans Charged Off:					
Residential Real Estate Loans	2	55	60	83	88
Commercial Real Estate Loans	10	0	1	94	139
Commercial Loans not Secured by Real Estate	0	5	3	15	41
Consumer Loans	185	237	274	246	281
Total	**197**	**297**	**338**	**438**	**549**
Recoveries:					
Residential Real Estate Loans	4	3	5	13	10
Commercial Real Estate Loans	0	0	0	4	0
Commercial Loans not Secured by Real Estate	3	4	7	12	8
Consumer Loans	110	112	127	107	90

Total	**117**	**119**	**139**	**136**	**108**
Net Loans Charged Off	**80**	**178**	**199**	**302**	**441**
Provision Charged to Income	**123**	**326**	**410**	**384**	**497**
Loan Loss Reserve, End of Period	**2,199**	**2,156**	**2,008**	**1,797**	**1,715**
Net Losses as a Percent of Ave. Loans	0.04%	0.09%	0.11%	0.18%	0.29%
Provision Charged to Income as a Percent of Ave. Loans	0.06%	0.17%	0.23%	0.23%	0.33%
At End of Period:					
Loan Loss Reserve as a Percent of Outstanding Loans	1.06%	1.04%	1.04%	1.01%	1.12%

A comparison of non-performing assets reveals a decrease of 29% for 2003 compared to 2002 and an increase of approximately 18% for 2002 compared to 2001. Non-performing assets were made up of the following:

NON PERFORMING LOANS

December 31,	**2003**	**2002**	**2001**	**2000**	**1999**
			(Dollars in Thousands)		
Accruing Loans Past Due 90 Days or More:					
Consumer	4	16	16	9	77
Commercial	0	1	0	7	0
Commercial Real Estate	0	198	4	0	119
Residential Real Estate	15	142	39	34	437
Total	19	357	59	50	633
Non-accrual Loans	1,295	1,631	1,571	1,415	1,758
Total Non-accrual, Past Due and Restructured Loans	1,314	1,988	1,630	1,465	2,391
Other Real Estate Owned	88	0	60	201	435
Total Non Performing Loans	**1,402**	**1,988**	**1,690**	**1,666**	**2,826**
Percent of Gross Loans	0.68%	0.96%	0.87%	0.94%	1.84%
Reserve Coverage of Non Performing Loans	156.85%	108.45%	118.82%	107.86%	60.69%

When a loan reaches non-accrual status, it is determined that future collection of interest and principal is doubtful. At this point, the Company's policy is to reverse the accrued interest and to discontinue the accrual of interest until the borrower clearly demonstrates the ability to resume normal payments. Our portfolio of non-accrual loans for the years ended 2003, 2002, 2001, 2000, and 1999, are made up primarily of commercial real estate loans and residential real estate loans. Management does not anticipate any substantial effect to future operations if any of these loans are liquidated. Although interest is included in income only to the extent received from the borrower, deferred taxes are calculated monthly, based on the accrued interest of all non-accrual loans. This accrued interest amounted to $107,073 in 2003, $401,758 in 2002, $404,880 in 2001, $369,536 in 2000, and $398,006 in 1999. The Company had no foreign loans in 2003, and has no concentration in any industrial category.

Other real estate owned consists of property the Company has acquired in lieu of foreclosure or through normal foreclosure proceedings, and property the Company does not hold title to, but is in actual control of, known as in-substance foreclosure. The fair market value of the property is determined prior to transferring the balance to other real estate owned. The balance transferred is the lesser of the appraised value of the property, less cost to sell, or the book value of the loan. A write-down may be deemed necessary to bring the loan balance to a level equal to the appraised value prior to including it in OREO. Appraisals are then done periodically thereafter charging any additional write-downs to the appropriate expense account.

Management continues to monitor the allowance for loan losses very carefully with the reserve currently approximating one percent of total eligible loans. The Northeast Kingdom is known for being on the lower end of the economic scale within New England, and as such typically sees an immediate and direct impact in times of economic downturn or uncertainty. In view of this, the Company intends to maintain its conservative approach to the review process for reserve requirements and to adjust accordingly for any changes.

Allocation of the allowance for loan losses, as well as the percent to the total allowance are shown below (1).

December 31,	**2003**	**%**	**2002**	**%**	**2001**	**%**	**2000**	**%**	**1999**	**%**
					(Dollars in Thousands)					
Domestic										
Residential Real Estate	809	37%	873	40%	838	42%	467	26%	421	24%
Commercial (2)	786	36%	646	30%	595	30%	534	30%	372	22%
Consumer	325	15%	430	20%	493	24%	492	27%	356	21%
Unallocated	279	12%	207	10%	82	4%	304	17%	566	33%
Total	2,199	100%	2,156	100%	2,008	100%	1,797	100%	1,715	100%

(1) The Company has no foreign loans, therefore, allocations for this category are not necessary.

(2) Includes commercial loans secured by real estate, as well as unsecured commercial loans and those secured by other types of collateral.

INVESTMENT SECURITIES

The Company maintains an investment portfolio of various securities to diversify its revenues, as well as provide interest rate risk and credit risk diversification and to provide for its liquidity and funding needs. The Company's portfolio of available-for-sale securities increased approximately $15.2 million in 2003, from just over $41.1 million to $56.3 million as of December 31, 2003. Additionally, as of December 31, 2003, the Company held in its investment portfolio U.S. Government agency securities and Obligations of State and Political Subdivisions classified as held-to-maturity, with a book value of $41.5 million, compared to $39.0 million a year ago. Accounting standards require banks to recognize all appreciation or depreciation of investments classified as either trading securities or available-for-sale either through the income statement or on the balance sheet even though a gain or loss has not been realized. Securities classified as "trading securities" are marked to market with any gain or loss charged to income. The Company did not have any trading securities during any of the preceding three years. Securities classified as "held-to-maturity" are to be held at book value. Securities classified as "available-for-sale" are marked to market with any gain or loss after taxes charged to the equity portion of the balance sheet. These figures amounted to an unrealized gain after taxes of $506,006 at the end of 2003 compared to $984,953 for 2002. As economic conditions decline and other market rates decrease, the value of debt securities increases. In 2002, the Company held many investments with yields greater than available in the market at that time, thereby increasing the market value and the related unrealized gains. Some of the Company's investment portfolios have a "call" feature, meaning that the investment can payoff early. Given the low rate environment, many of those investments with call features were exercised during 2003, and were replaced with investments at current market prices, contributing to the decrease in unrealized gains.

The Company's investment portfolios as of December 31, 2003 and 2002 were as follows:

COMPOSITION OF INVESTMENT PORTFOLIO

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in Thousands)		
December 31, 2003:				
Available-for-Sale				
U.S. Government & agency securities	50,456	714	(121)	51,048
Corporate Bonds	5,064	174	0	5,239
Other investments	32	0	0	32
Held-to-Maturity				
U.S. Government & agency securities	7,020	153	0	7,173
States & political subdivisions	34,544	0	0	34,544
Restricted Equity Securities	1,357	0	0	1,357
	98,473	1,041	(121)	99,393
December 31, 2002:				
Available-for-sale				
U.S. Government & agency securities	30,353	1,295	(7)	31,641
Corporate Bonds	9,230	242	(38)	9,434
Held-to-maturity				

U.S. Government & agency securities	13,064	390	0	13,454
States & political subdivisions	25,905	0	0	25,905
Restricted Equity Securities	1,309	0	0	1,309
	79,861	1,927	(45)	81,743

Realized gains and losses for the respective years' end were as follows:

	2003	2002	2001
	(Dollars in Thousands)		
Available-for-Sale			
Realized Gains	153	2	120
Realized Losses	(11)	0	(1)
Net Realized Gains	142	2	119
Held-to-Maturity			
Realized Gains	1	29	52
Total Realized Gains	143	31	171

Realized gains on securities held-to-maturity were due to call features exercised prior to maturity on certain debt securities.

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The following is an analysis of the maturities and yields of the Company's investment portfolio. Investments classified as available-for-sale are presented at fair value, and investments classified as held-to-maturity are presented at book value.*

MATURITIES AND YIELDS OF INVESTMENT PORTFOLIO

	December 31, 2003		2002		2001	
	Fair/Book Value*	Wtd. Ave. Rate	Fair/Book Value*	Wtd. Ave. Rate	Fair/Book Value*	Wtd. Ave. Rate
	(Dollars in Thousands)					
U.S. Treasury & Agency Obligations						
Available-for-Sale						
Due within 1 year	2,053	5.06%	0	0.00%	13,288	6.30%
Due after 1 year within 5 years	41,807	3.98%	22,146	4.98%	2,995	5.04%
Due after 5 years within 10 years	7,188	5.64%	9,495	5.94%	6,980	5.97%
Total	**51,048**	**4.25%**	**31,641**	**5.27%**	**23,263**	**6.04%**

Held-to-Maturity						
Due within 1 year	3,013	3.98%	0	0.00%	2,008	6.25%
Due after 1 year within 5 years	1,000	7.40%	8,032	6.16%	4,052	4.48%
Due after 5 years within 10 years	3,007	6.54%	5,032	6.55%	13,028	6.90%
Total	**7,020**	**5.56%**	**13,064**	**6.31%**	**19,088**	**6.32%**
Obligations of State & Political Subdivisions (1)						
Held-to-Maturity						
Due within 1 year	31,253	2.22%	22,509	2.98%	18,526	3.95%
Due after 1 year within 5 years	1,675	3.72%	1,600	4.19%	1,109	4.52%
Due after 5 years within 10 years	930	4.59%	730	5.21%	806	5.25%
Due after 10 years	686	7.50%	1,066	6.19%	1,116	6.35%
Total	**34,544**	**2.47%**	**25,905**	**3.25%**	**21,557**	**4.15%**
Corporate Bonds						
Available-for-Sale						
Due within 1 year	3,108	6.98%	0	0.00%	0	0.00%
Due after 1 year within 5 years	2,131	5.53%	9,434	6.34%	8,181	6.29%
Due after 5 years within 10 years	0	0.00%	0	0.00%	1,069	6.88%
Total	**5,239**	**6.39%**	**9,434**	**6.34%**	**9,250**	**6.35%**
Restricted Equity Securities	1,357	3.08%	1,309	3.99%	1,225	5.65%
Total	**1,357**	**3.08%**	**1,309**	**3.99%**	**1,225**	**5.65%**

(1) Income on Obligations of State and Political Subdivisions is stated on a tax equivalent basis assuming a 34 percent tax rate. Also included in the figures for 2001 are taxable industrial development bonds of the Vermont Economic Development Authority (VEDA), with a fair value of $26,657 and a yield of 2.60% as of December 31, 2001.

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BANK PREMISES AND EQUIPMENT

Major classes of bank premises and equipment and the total accumulated depreciation are as follows:

	2003	**2002**
	(Dollars in Thousands)	
Land and land improvements	966	350

Buildings and improvements	5,700	3,796
Furniture and equipment	7,213	6,573
Leasehold improvements	723	718
	14,602	11,437
Less accumulated depreciation	(6,787)	(6,144)
	7,815	5,293

In 2003, the Company completed the construction of a new branch at 316 North Main St. in Barre, Vermont. A new two-story, 8,000 square foot building was constructed on leased land under a twenty-year ground lease. The lease includes an option to purchase exercisable after the 6th year, with one-half of the annual rental previously paid applied to the purchase price. The anticipated future payments under this lease are included in the schedule of future rental payments below. The cost of this project is reflected in the above schedule of bank premises and equipment as follows: land and improvements, $465,949; buildings, $2,053,563; furniture and equipment, $302,718.

Depreciation included in occupancy and equipment expense amounted to $642,826, $560,978, and $566,018 for the years ended December 31, 2003, 2002 and 2001, respectively. The amount of additional depreciation in 2003 from the Barre Branch project amounted to $12,369.

The Company now leases five of its nine locations. In addition to the new Barre branch, these leased facilities include branch offices in Island Pond, Barton, St. Johnsbury, and Montpelier, Vermont. The operating leases for these five locations expire in various years through 2022 with options to renew.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year, as of December 31, 2003, for each of the next five years and in aggregate are:

	2004	**2005**	**2006**	**2007**	**2008**	**Subsequent to 2008**	**Total**
				(Dollars in Thousands)			
Operating Leases	160	137	87	88	102	758	1,332

RISK MANAGEMENT

Market Risk and Asset and Liability Management*:* 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. 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. Management actively monitors and manages its 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 Committee 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 Asset Liability Management Committee (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 by the Company's Board of Directors. The Asset/Liability Committee's methods for evaluating interest rate risk include 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. It is part of the ALCO process to utilize the results of a simulation model to quantify the estimated exposure of NII 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. 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 100 basis point (bp) and a 200 bp shift upward and and a 100 bp downward shift in interest rates in one and two year scenarios. The analysis also provides testing of the assumptions used in previous simulation models by comparing the projected NII with actual NII.

Interest Rate Sensitivity "Gap" Analysis*:* An interest rate sensitivity "gap" is defined as the difference between the interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to affect net interest income adversely. Because different types of assets and liabilities with the same or similar maturities may react differently to changes in overall market interest rates or conditions, changes in interest rates may affect net interest income positively or negatively even if an institution were perfectly matched in each maturity category.

The following tables set forth the estimated maturity or repricing of the Company's interest-earning assets and interest-bearing liabilities at December 31, 2003 and December 31, 2002. The Company prepares its interest rate sensitivity "gap" analysis by scheduling assets and liabilities into periods based upon the next date on which such assets and liabilities could mature or reprice. The amounts of assets and liabilities shown within a particular period were determined in accordance with the contractual term of the assets and liabilities, except that:

* Adjustable rate loans and certificates of deposit are included in the period when they are first scheduled to adjust and not in the period in which they mature;

* Fixed rate loans reflect scheduled contractual amortization, with no estimated prepayments;

* NOW, money markets, and savings deposits, which do not have contractual maturities, reflect estimated levels of attrition, which are based on studies by the Company of the sensitivity of each such category of deposit, to changes in interest rates.

Management believes that these assumptions approximate actual experience and considers them reasonable. However, the interest rate sensitivity of the Company's assets and liabilities in the tables could vary substantially if different assumptions were used or actual experience differs from the historical experiences on which the assumptions are based. The asset/liability management process includes quarterly back testing of the assumptions to test for reasonableness.

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GAP ANALYSIS
Community Bancorp. & Subsidiaries
December 31, 2003
Cumulative repriced within:

	3 Months or less	4 to 12 Months	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	(Dollars in Thousands, by repricing date)					
Interest sensitive assets:						
Federal funds sold	1,250	0	0	0	0	1,250
Overnight deposits	1,501	0	0	0	0	1,501
Investments -						
Available-for-Sale (1)	0	5,162	25,943	17,994	7,220	56,319
Held-to-Maturity	1,574	32,861	2,001	674	4,454	41,564
Restricted equity securities	0	0	0	0	1,357	1,357
Loans (2)	45,123	51,749	39,262	16,198	52,903	205,235
Total interest sensitive assets	49,448	89,772	67,206	34,866	65,934	307,226
Interest sensitive liabilities:						
Time deposits $100,000 and over	923	8,153	8,115	4,925	0	22,116
Other time deposits	9,612	35,083	24,910	10,044	0	79,649
Money markets	994	38,777	0	0	20,000	59,771
Regular savings	0	13,507	0	0	28,000	41,507
Now and super now accounts	0	0	0	0	38,438	38,438
Borrowed funds	3,000	0	0	30	5,010	8,040
Repurchase agreements	12,017	0	0	0	0	12,017
Total interest sensitive liabilities	26,546	95,520	33,025	14,999	91,448	261,538
Net interest rate sensitivity gap	22,902	(5,748)	34,181	19,867	(25,514)	
Cumulative net interest rate sensitivity gap	22,902	17,154	51,335	71,202	45,688	
Cumulative net interest rate sensitivity gap as a percentage of total assets	6.92%	5.19%	15.52%	21.53%	13.81%	
Cumulative interest sensitivity gap as a percentage of total interest-earning assets	7.45%	5.58%	16.71%	23.18%	14.87%	
Cumulative interest earning assets as a percentage of cumulative interest-bearing liabilities	186.27%	114.05%	133.10%	141.86%	117.47%	

(1) The Company may sell investments available for sale with a fair value of $56,319,321.
(2) Loan totals exclude non-accruing loans amounting to $1,294,534.

GAP ANALYSIS
Community Bancorp. & Subsidiaries
December 31, 2002
Cumulative repriced within:

	3 Months or less	4 to 12 Months	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	(Dollars in Thousands, by repricing date)					
Interest sensitive assets:						
Federal funds sold	2,100	0	0	0	0	2,100
Overnight deposits	2,980	0	0	0	0	2,980
Investments -						
Available-for-Sale (1)	0	0	18,066	13,514	9,495	41,075
Held-to-Maturity	708	22,033	3,686	5,897	6,645	38,969
Restricted equity securities	0	0	0	0	1,309	1,309
Loans (2)	46,225	47,906	47,029	17,298	46,994	205,452
Total interest sensitive assets	52,013	69,939	68,781	36,709	64,443	291,885
Interest sensitive liabilities:						
Time deposits $100,000 and over	1,006	6,911	6,961	5,713	0	20,591
Other time deposits	11,325	37,316	18,378	14,486	0	81,505
Money markets	113	32,380	0	0	24,000	56,493
Regular savings	0	7,737	0	0	30,000	37,737
Now and super now accounts	0	0	0	0	32,293	32,293
Borrowed funds	0	0	0	30	5,010	5,040
Repurchase agreements	14,069	0	0	0	0	14,069
Total interest sensitive liabilities	26,513	84,344	25,339	20,229	91,303	247,728
Net interest rate sensitivity gap	25,500	(14,405)	43,442	16,480	(26,860)	
Cumulative net interest rate sensitivity gap	25,500	11,095	54,537	71,017	44,157	
Cumulative net interest rate sensitivity gap as a percentage of total assets	8.25%	3.59%	17.64%	22.97%	14.28%	
Cumulative interest sensitivity gap as a percentage of total interest-earning assets	8.74%	3.80%	18.68%	24.33%	15.13%	
Cumulative interest earning assets as a percentage of cumulative interest-bearing liabilities	196.18%	110.01%	140.04%	145.40%	117.82%	

(1) The Company may sell investments available for sale with a fair value of $41,074,804.
(2) Loan totals exclude non-accruing loans amounting to $1,631,330.

Liquidity Risk: 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 purchased funds. Short-term funding needs arise from declines in deposits or other funding sources and funding of loan commitments. The Company's strategy is to fund assets to the maximum extent possible with core deposits that provide a sizable source of relatively stable and low-cost funds.

The Company believes that a portion of the increase in core deposits over the past two years is due to the current economic environment, as customers seek a safe haven for their money. This has created a high level of liquidity that the Company considers temporary. The Company has purchased assets, primarily 3-5 year agencies, attempting to maximize yields and maintain adequate liquidity.

The Company has a credit line with the Federal Home Loan Bank of Boston (FHLB) with an available balance of $4.3 million. Interest is chargeable at a rate determined daily approximately 25 basis points higher than the rate paid on federal funds sold. Additional borrowing capacity of approximately $91.5 million through the FHLB is secured by the Company's qualifying loan and investment portfolio. As of December 31, 2003, the Company had an advance of $8.0 million against the $91.5 million line with no advances against the $4.3 million credit line. Under a separate agreement, the Company has the authority to collateralize public unit deposits (Government Agency Accounts mentioned under "Changes in Financial Condition") up to its FHLB borrowing capacity ($91.5 million less outstanding advances) with letters of credit issued by the FHLB. At December 31, 2003, approximately $42.2 million was pledged as collateral for these deposits. Interest is charged to the Company quarterly based on the average daily balance outstanding at a rate of 20 basis points. As of December 31, 2003, an average daily balance of approximately $11.4 million was reported.

In January of 2003, the Company entered into an agreement with Promontory Interfinancial Network making it possible for the Company to make available to its customers FDIC Insured deposits beyond the $100,000 limit. This Certificate of Deposit Account Registry Service (CDARS) uses a deposit-matching engine to match CDARS deposits in other participating banks, dollar-for-dollar. This product is designed to enhance customer attraction and retention, build deposits and improve net interest margins, while providing additional FDIC coverage to customers. Promontory now offers member banks an opportunity to participate with one-way orders. Banks can either accept deposits as a surplus bank or place customer funds with CDARS participating banks without matching funds. The Promontory Interfinancial Network provides the Company an alternative source of funding or investment opportunities.

Due to the nature of the placement of funds, CDARS deposits are defined as "brokered deposits". Although it has always been the Company's policy not to accept brokered deposits,management and the directors deemd it advisable to make a limited exception for the CDARS program. Accordingly, the Company's Asset Liability policy now states that the Company will not accept brokered deposits other than through the CDARS program in the Promontory Interfinancial Network.

During the first quarter of 2003, the Company placed three test-Certificates of Deposit in the CDARS program. These were short-term and matured during the reporting period. As of December 31, 2003, the Company reported a total balance of $50,000 in this product, classified as surplus funds. The Company will continue to monitor the development of this product closely and manage any associated risk accordingly.

Credit Risk*:* A primary concern of management is to reduce the exposure of credit loss within the portfolio. Management follows established underwriting guidelines, and any exceptions to policy must be approved by a lender with higher authority than the lender originating the loan. The adequacy of the loan loss coverage is reviewed quarterly by the risk management committee of the Board of Directors. This committee meets to discuss, among other matters, potential exposures, historical loss experience, and overall economic conditions. Existing or potential problems are noted and addressed by senior management in order to assess the risk of probable loss or delinquency. A variety of loans are reviewed periodically by an independent firm in order to assure accuracy of the Company's internal risk ratings and compliance with various internal policies and procedures, as well as those set by the regulatory authorities. The Company also employs a Credit Administration Officer whose duties include monitoring and reporting on the status of the loan portfolio including delinquent and non-performing loans.

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Specific allocations are made in situations management feels are at a greater risk for loss. A quarterly review of various qualitative factors, including levels of, and trends in, delinquencies and non-accruals and national and local economic trends and conditions, helps to ensure that areas with potential risk are noted and coverage increased or decreased to reflect current trends in delinquencies and non-accruals. Residential mortgage loans make up the largest part of the loan portfolio and have the lowest historical loss ratio helping to alleviate overall risk.

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit and 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.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. For interest rate caps and floors written on adjustable rate loans, the contract or notional amounts do not represent exposure to credit loss. The Company controls the credit risk of their interest rate cap agreements through credit approvals, limits, and monitoring procedures.

The Company generally requires collateral or other security to support financial instruments with credit risk.

	Contract or Notional Amount	
	2003	2002
	(Dollars in Thousands)	
Financial instruments whose contract amount represent credit risk:		
Commitments to extend credit	21,377	12,924

Standby letters of credit and commercial letters of credit	401	164
Credit card arrangements	7,899	7,040
MPF credit enhancement obligation	538	0

AGGREGATE CONTRACTUAL OBLIGATIONS

As of December 31, 2003, the Company had the following contractual obligations in the time periods indicated:

	Less than 1 year	**1-3 years**	**3-5 years**	**More than 5 years**	**Total**
			(Dollars in Thousands)		
Operating Leases	160	224	190	758	1,332
Housing Limited Partnerships	1,056	381	0	0	1,437
FHLB Borrowings	5,000	0	30	5,010	8,040
Total	6,216	605	220	5,768	10,809

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EFFECTS OF INFLATION

Rates of inflation affect the reported financial condition and results of operations of all industries, including the banking industry. The effect of monetary inflation is generally magnified in bank financial and operating statements because, as costs and prices rise, cash and credit demands of individuals and businesses increase, and the purchasing power of net monetary assets declines.

CAPITAL RESOURCES

A cash dividend of $0.16 per share was paid in each of the four quarters of 2003 with the most recent paid on November 1, 2003 to shareholders of record as of October 15, 2003. These dividends of $0.16 per share for the quarter and $0.64 for the year are equal to the cash dividends paid in 2002 and 2001. A 5% stock dividend was declared in 2002, payable on February 1, 2003 to shareholders of record as of January 15, 2003. As a result of this stock dividend, all per share data for the previous quarters and years have been restated. In December, 2003, the Company declared a $0.17 per share cash dividend, payable February 1, 2004 to shareholders of record as of January 15, 2004, requiring the Company to accrue $644,144 equaling the value of this dividend at that time.

Stockholders' equity at December 31, 2002, was $25,705,102, with a book value of $6.84 per share. It increased in 2003 through earnings of $3,798,266 and the sale of common stock of $521,059 through our dividend reinvestment program. It decreased through dividends paid totaling $2,379,091, purchases of treasury stock of $8,006 through the stock buyback program and redemption of fractional shares in connection with the 5% stock dividend issued in February 2003 and a valuation adjustment of $478,947 to the valuation allowance of securities. The difference between the dividends mentioned above for 2002 and 2003 resulted in a decrease to stockholder's equity totaling $73,237. As of December 31, 2003, stockholders' equity was $27,085,146 with a book value of $7.15 per share.

At December 31, 2003, the Company reported that of the 405,000 shares authorized for the stock buyback plan, 152,463 shares have been purchased, leaving 252,537 shares available for repurchase. The repurchase price paid for these shares ranged from $9.75 per share in May of 2000 to $15.688 per share in February of 2003. The last purchase in 2003 was March 19, 2003 in which 500 shares were bought at a price of $15.125 per share.

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.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios 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). Under current guidelines, banks must maintain a risk-based capital ratio of 8.0%, of which at least 4.0% must be in the form of core capital (as defined). The risk based ratios of the Company and its subsidiaries exceeded regulatory guidelines at December 31, 2003 with reported risk-weighted assets of $176.3 million compared to $168.6 million at December 31, 2002 and total capital of $28.8 million and $26.8 million, respectively. The Company's total risk-based capital to risk weighted assets was 16.32% and 15.91% at December 31, 2003 and 2002, respectively. The Company's Tier 1 capital to risk weighted assets was 15.07% and 14.66% at December 31, 2003 and 2002, respectively. In addition to risk-based capital requirements, bank holding companies are required to maintain minimum leverage capital ratios of core capital to average assets of $4.0%. As of December 31, 2003, the Company's leverage ratio was 8.05% and as of December 31, 2002 was 7.97%.

Regulators have also established guidelines for minimum capital ratio requirements that define a bank as well-capitalized under prompt corrective action provisions. These minimums are risk-based capital ratio of 10.0% and Tier 1 capital ratio of 6.0%. As of December 31, 2003, the Company and its Subsidiary were deemed well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that time that management believes have changed the Company's classification.

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.

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.

RECENT ACCOUNTING DEVELOPMENTS

In 2003, FASB issued Statement of Financial Accounting Standards (SFAS) No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The Statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133.

SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively. The provisions of this Statement that relate to SFAS No. 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to existing contracts as well as new contracts entered into after June 30, 2003. SFAS No. 149 does not have a material impact on the Company's consolidated financial statements.

In May 2003, FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances).

SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. This Statement does not impact the Company's consolidated financial statements as the Company does not have any financial instruments with characteristics of both liabilities and equity.

FASB's Emerging Issues Task Force, in its Issue No. 03-1, has issued new disclosure requirements with respect to investment securities with unrealized losses that have not been classified as other-than-temporary. Companies are required to disclose separately investments that have had continual unrealized losses for twelve months or more, and those that have had continual unrealized losses for less than twelve months. For investments in the former category, a narrative disclosure is required that would allow financial statement users to understand the positive and negative information management considered in reaching the conclusion that the impairments are not other-than-temporary. The new disclosure requirements, which are effective for years ending after December 15, 2003, did not have a material impact on the Company's consolidated financial statements.

Common Stock Performance by Quarter *

	2003			
	First	**Second**	**Third**	**Fourth**
Trade Price				
High	$16.50	$19.50	$18.00	$17.50
Low	$14.50	$14.70	$15.00	$15.50
Cash Dividends Declared	$ 0.16	$ 0.16	$ 0.16	$ 0.16

	2002			
	First	**Second**	**Third**	**Fourth**
Trade Price				
High	$15.49	$17.85	$18.38	$17.33
Low	$14.18	$14.44	$15.23	$14.81

Cash Dividends Declared	$ 0.16	$ 0.16	$ 0.16	$ 0.16

* There is no established public trading market for the Company's common stock. Trade price information is based on high and low trade prices reported in the OTC Bulletin Board® maintained by NASDAQ, and may not represent all trades effected during the relevant periods.

As of February 1, 2004, the Corporation's common stock ($2.50 par value) was owned by approximately 883 shareholders of record.

Form 10-K

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

Stephen P. Marsh, President & COO
Community Bancorp.
P.O. Box 259
Derby, Vermont 05829

Shareholder Services
For shareholder services or information contact:
Chris Bumps, Corporate Secretary
Community Bancorp.
P.O. Box 259
Derby, Vermont 05829
(802) 334-7915

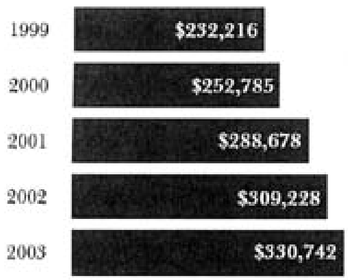
Annual Shareholders' Meeting
The 2004 Annual Shareholders' Meeting will be held at 5:30 p.m., May 4, 2004, at the Elks Club in Derby. We hope to see many of our shareholders there.

Additional Information Regarding Community Bancorp. Stock
Although there is no established public trading market in the Corporation's common stock, several brokerage firms follow the stock and have executed trades in the stock for their customers. Trading in the Corporation's stock, however, is not active. You can contact these firms at the following addresses:

Wachovia Securities	Winslow, Evans & Crocker	A.G. Edwards
P.O. Box 770	33 Broad Street	1184 Main Street, Suite 1
Colchester, Vermont 05446	Boston, Massachusetts 02109	St. Johnsbury, Vermont 05819
(800) 451-3249	(800) 556-8600	(800) 457-1002

Community Bancorp.
Performance at-a-Glance (Dollars in Thousands)

Assets

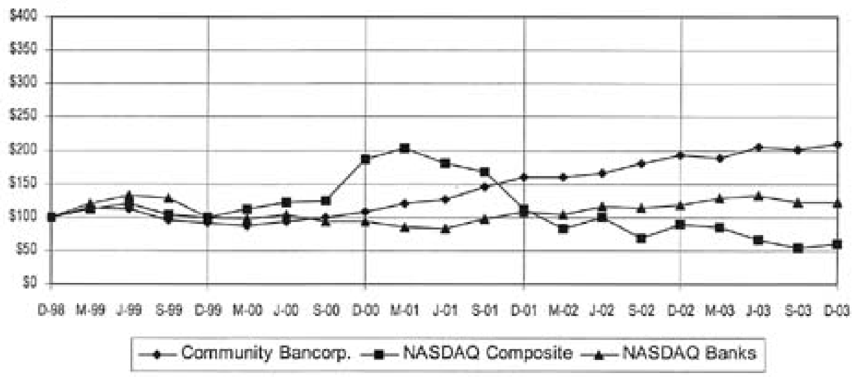


Earnings

Deposits

Total Loan Originations

Comparative Five-Year Stock Performance*



* Compares cumulative total shareholder return (stock price appreciation plus reinvested dividends) on the Company's common stock with the cumulative total return of the NASDAQ Composite Index and NASDAQ Bank Stock Index for the five years ended December 31, 2003, assuming an initial investment of $100 at the end of 1998 and reinvestment of dividends during the periods indicated. Stock price information of the Company's common stock used in the comparison is based on information reported in the OTC Bulletin Board® maintained by NASDAQ.

Code of Ethics for Senior Financial Officers and the Principal Executive Officer of Community Bancorp.

Community Bancorp. (the "Company") is committed to conducting its business in compliance with all the applicable laws and regulations in all jurisdictions in which it operates and in accordance with high standards of business conduct. The Company strives to maintain the highest standard of accuracy, completeness and disclosure in its financial dealings, records and reports. These standards serve as the basis for managing the Company's business, for meeting the Company's duties to its shareholders and for maintaining compliance with financial reporting requirements. All of the Company's financial executives must agree to comply with the following principles, and the Chief Executive Officer, in his or her capacity as the Company's principal executive officer, to whom all senior financial officers ultimately report, will promote and support this Code of Ethics, and, to the extent consistent with his or her duties and responsibilities, comply with the principles hereby established.

Financial officers hold an important and elevated role in corporate governance and are uniquely capable and empowered to ensure that stakeholders' interests are appropriately balanced, protected and preserved. The principles set forth herein embody rules regarding individual and peer responsibilities, as well as responsibilities to the company, the public and other stakeholders.

Each senior financial officer of the Company will adhere to and advocate the following principals and responsibilities governing his or her professional and ethical conduct, each to the best of his or her knowledge and ability:

1. Act with honesty and integrity and in an ethical manner, avoiding actual or apparent conflicts of interest in personal and professional relationships.
2. Promptly disclose to the Company, through the General Counsel, any material transaction or relationship that reasonably could be expected to give rise to a conflict of interest between personal and professional relationships.
3. Provide constituents with information that is accurate, complete, objective, relevant, timely and understandable.
4. Comply with rules and regulations of federal, state, provincial and local governments and other appropriate and private and public regulatory agencies.
5. Act in good faith, responsibly, with due care, competence and diligence, without misrepresenting material facts or allowing independent judgment to be subordinated.
6. Use good business judgment in the processing and recording of all financial transactions.
7. Respect the confidentiality of information acquired in the course of the Company's business, except when authorized or otherwise legally obligated to disclose such information, and not use confidential information so acquired for personal advantage.
8. Share knowledge and maintain skills important and relevant to his or her constituents' needs.
9. Promote ethical behavior among constituents in the work environment.
10. Achieve responsible use of and control over all assets and resources employed or entrusted to him or her.
11. Comply with generally accepted accounting standards and practices, rules, regulations and controls.
12. Ensure that accounting entries are promptly and accurately recorded and properly documented and that no accounting entry intentionally distorts or disguises the true nature of any business transaction.
13. Maintain books and records that fairly and accurately reflect the Company's business transactions.
14. Sign only those documents that he or she believes to be accurate and truthful.
15. Devise, implement and maintain sufficient internal controls to assure that financial record keeping objectives are met.
16. Prohibit the establishment of any undisclosed or unrecorded funds or assets for any purpose and provide for the proper and prompt recording of all disbursements of funds and all receipts.
17. Not knowingly be a party to any illegal activity or engage in acts that are discreditable to the profession or the Company.
18. Respect and contribute to the legitimate and ethical objectives of the Company.
19. Engage in only those services for which he or she has the necessary knowledge, skill and expertise.
20. Not make, or tolerate to be made, false or artificial statements or entries for any purpose in the books and records of the Company or in any internal or external correspondence, memoranda, or communication of any type, including telephone or wire communications.

21. Report to the Company, through the General Counsel any situation where the Code of Ethics, the Company's standards or the laws are being violated.

    The Company's General Counsel is Primmer and Piper, P.C. and our primary contact with the firm is Denise Deschenes at the St. Johnsbury Office.

    Those required to comply with this Code of Ethics understand that failure to comply with this Code of Ethics will not be tolerated by the Company and that deviations therefrom or violations thereof will result in serious consequences, which may include, but may not be limited to, serious reprimand, dismissal or other legal actions.

The parties subject to this Code of Ethics will acknowledge in writing that they agree to comply with these requirements.

Acknowledged and agreed to this ____ day of _________________, 20__,

____

Signature

Subsidiaries of the Company

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

Exhibit 31.1

CERTIFICATION

I, Richard C. White, President and Chief Executive Officer, certify that:

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

Date: March 30, 2004

/s/ Richard C. White

Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Stephen P. Marsh, President and Chief Financial Officer, certify that:

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

Date: March 30, 2004

/s/Stephen P. Marsh

President and Chief Operating Officer

(Chief Financial Officer)

Exhibit 32.1

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

In connection with the Annual Report of Community Bancorp. (the "Company") on Form 10-K for the period ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Executive Officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that: 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

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

/s/ Richard C. White

Richard C. White, Chief Executive Officer

March 30, 2004

Exhibit 32.2

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

In connection with the Annual Report of Community Bancorp. (the "Company") on Form 10-K for the period ended December 31, 2003, filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Financial Officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that: 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

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

/s/ Stephen P. Marsh

Stephen P. Marsh, President & Chief Operating Officer

(Chief Financial Officer)

March 30, 2004

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Community Bancorp. of our report dated January 10, 2003, included in the 2002 Annual Report to Shareholders of Community Bancorp.

We also consent to the incorporation by reference in the Registration Statement (Form S-3 No. 33-18535) pertaining to the Community Bancorp. Dividend Reinvestment Plan and in the Registration Statement (Form S-8 No. 33-44713) pertaining to the Community Bancorp. Retirement Savings Plan of our report dated January 10, 2003, with respect to the consolidated financial statements incorporated herein by reference of Community Bancorp. included in the Annual Report (Form 10-K) for the year ended December 31, 2002.

/s/A.M. Peisch & Company, LLP

March 29, 2004
St. Johnsbury, Vermont
VT Reg. No. 92-0000102

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Community Bancorp. of our report dated January 9, 2004, included in the 2003 Annual Report to Shareholders of Community Bancorp.

We also consent to the incorporation by reference in the Registration Statement (Form S-3 No. 33-18535) pertaining to the Community Bancorp. Dividend Reinvestment Plan and in the Registration Statement (Form S-8 No. 33-44713) pertaining to the Community Bancorp. Retirement Savings Plan of our report dated January 9, 2004, with respect to the consolidated financial statements incorporated herein by reference of Community Bancorp. included in the Annual Report (Form 10-K) for the year ended December 31, 2003.

/s/ Berry, Dunn, McNeil & Parker

March 30, 2004
Portland, Maine
VT Reg. No. 92-0000278