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# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

# Community Bancorp /VT

## Form: 10-K

## Date Filed: 2007-03-22

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| Corporate Issuer CIK: | 718413 |
| Symbol: | CMTV |
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| Fiscal Year End: | 12/31 |

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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, 2006

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

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

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

Registrant's telephone number, including area code: (802) 334-7915
Securities registered pursuant to Section 12(b) of the Act:

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ( ) NO (X)

Indicated by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES( ) NO (X)

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. ( )

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ( ) Accelerated filer ( ) Non-accelerated filer (X)

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

As of June 30, 2006, the aggregate market value of the voting stock held by non-affiliates of the registrant was $47,068,007, based on a per share trade price of $13.00, as reported on the OTC Bulleting Board® on June 28, 2006 (the date of the last reported sale prior to July 1, 2006). For purposes of the calculation, all directors and executive officers were deemed to be affiliates of the registrant. However, such assumption is not intended as an admission of affiliate status as to any such individual.

There were 4,145,436 shares outstanding of the issuer's class of common stock as of the close of business on March 16, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the year ended December 31, 2006 are incorporated by reference to Part II.
Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held May 15, 2007
are incorporated by reference to Part III.

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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 are 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."

Community National Bank provides a broad range of retail banking services to the residents and businesses in northeastern and central Vermont. These services include checking, savings and time deposit accounts, mortgage, consumer, municipal 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 at eight third party business locations in the counties of Orleans, Washington and Caledonia.

In 2002, the Bank transferred its trust operations to a newly formed Vermont-chartered nondepository trust and investment management affiliate, Community Financial Services Group, LLC, based in Newport, Vermont ("CFSG"). The Bank's ownership interest in CFSG is held indirectly, through Community Financial Services Partners, LLC, a Vermont limited liability company ("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. CFSG offers personal fiduciary services throughout the market area of the three owner financial institutions.

Competition

The Bank has five banking 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 in Orleans County, with approximately 50% of its total deposits derived from the Company's Derby, Derby Line and Newport offices as of December 31, 2006.

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 Bank based in Burlington, Vermont and TD Banknorth, N.A. based in Portland, Maine. The Chittenden Bank maintains a branch office in Newport, and TD Banknorth, N.A. maintains branch offices in Barton, Orleans, and St. Johnsbury. The Bank also competes in Orleans County with two local banks, Lyndonville Savings Bank and Trust Company, based in Lyndonville and Passumpsic Savings Bank, based in St. Johnsbury, and with three local credit unions, Orlex Credit Union and Border Lodge Credit Union, both based in Newport, and North Country Federal Credit Union, based in South Burlington. The Bank's primary competitors in Caledonia County are Passumpsic Savings Bank and Union Bank based in Morrisville, TD Banknorth, N.A., Lyndonville Savings Bank and Trust Company, Northern Lights Federal Credit Union, based in St. Johnsbury, Vermont State Employees Credit Union, based in Montpelier, Merchants Bank, based in Burlington and North Country Federal Credit Union. In Washington County, the Bank competes with Merchants Bank, Chittenden Bank and TD Banknorth, N.A, as well as Northfield Savings Bank based in Northfield, Key Bank based in Ohio, Citizens Bank Vermont, based in Rhode Island, Vermont State Employees Credit Union, North Country Federal Credit Union, and Granite Hills Credit Union, based in Barre.

Changes in the regulatory framework of the banking industry during the past decade or so have broadened the competition for commercial bank products such as deposits and loans 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 out-of-market nationwide banks, nonbank lenders and other financial service firms operate in the Company’s market areas through mass marketing solicitations by mail, radio, television and email. Three of the Bank’s credit union competitors, including the largest state-chartered Vermont credit union, Vermont State Employees Credit Union, have converted in recent years from an employment based common bond to a community common bond, thereby significantly increasing their fields of membership in the Bank’s market areas. Similarly, another of the Bank's credit union competitors, which previously had an employment based common bond, merged last year into a much larger credit union which has a community common bond. At the same time, regulatory changes in the credit union industry, including passage in 2005 of a comprehensive Vermont credit union modernization statute, have steadily increased the financial services and products that credit unions are authorized to offer, such as small business lending and products for non-profit organizations, resulting in increased competition for the Bank from this tax exempt sector of the financial services industry.

Employees

As of December 31, 2006, the Company did not have any employees at the holding company level. However, as of such date, the Bank employed 119 full-time employees and 16 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 ("Federal Reserve Board"), 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, 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 Board approval in order to purchase or redeem its own stock if the gross consideration to be paid, when added to the net consideration paid by the company for all purchases or redemptions by the company of its equity securities within the preceding 12 months, will equal 10% or more of the company's consolidated net worth.

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

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. In particular, section 23A limits loans or other extensions of credit to, asset purchases with and investments in affiliates of the Bank to 10% of the Bank's capital and surplus. In addition, such loans and extensions of credit and certain other transactions must be collateralized in specified amounts. Section 23B requires, among other things, that certain transactions between the Bank and its affiliates must be on terms substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving non-affiliated persons. Further, the Company is prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or lease or sale of any property or the furnishing of services.

Financial Modernization. In 1999 Congress enacted the federal Gramm-Leach-Bliley financial modernization act ("Gramm-Leach-Bliley"), which repealed provisions of the Glass-Steagall Act of 1933 that required separation of banking and commercial entities. 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" 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. A national bank's investment in financial subsidiaries is subject to certain limitations under Gramm-Leach-Bliley.

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.

Implementation of Graham-Leach-Bliley has resulted in an increase in the number and type of institutions engaging in the same or similar financial activities as those of the Company and the Bank, thereby creating a more competitive financial services environment generally. However, management of the Company believes that Gramm-Leach-Bliley has thus far had a more significant competitive impact on larger institutions, such as regional and national holding companies and banks, than on community-based institutions serving largely rural populations, such as the Company and the Bank, which are engaged primarily in traditional banking activities and have a stronger local marketing focus.

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 impact of the USA Patriot Act on financial institutions is significant and wide ranging. The Act contains sweeping anti-money laundering and financial transparency laws and imposes various regulations, including standards for verifying client identification at account opening, and rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. The Secretary of the Treasury and banking regulators have adopted several regulations to implement these provisions. The Act also amended the federal Bank Holding Company Act and the Bank Merger Act to require the federal banking regulatory authorities to consider the effectiveness of a bank holding company or a financial institution's anti-money laundering activities when reviewing an application to expand operations. As required by law, Community National Bank has in place a Bank Secrecy Act and Anti-Money Laundering compliance program, as well as a customer identification program.

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Sarbanes-Oxley Act. The Sarbanes-Oxley Act of 2002 (the "Act") was enacted to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. 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 ("Exchange Act"). The SEC has engaged in extensive rulemaking to implement the Act's provisions.

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 case of banking companies) loans in the normal course of business; expedited filing requirements for reports of beneficial ownership of company stock by insiders; disclosure of a code of ethics for senior officers, and of any change or waiver of such code; the formation of a public accounting oversight board; auditor independence; disclosure of fees paid to the company's auditors for non-audit services and limitations on the provision of such services; attestation requirements for company management and external auditors, relating to internal controls and procedures; and various increased criminal penalties for violations of federal securities laws.

In response to Sarbanes-Oxley, the Board of Directors of the Company approved a series of actions to strengthen and improve its already strong corporate governance practices. Among other measures, the Board adopted a Code of Ethics for Senior Financial Officers and the Principal Executive Officer, adopted an Insider Trading Policy, adopted amendments to the Audit Committee Charter, appointed a Compensation Committee and a Corporate Governance/Nominating Committee and adopted charters for those committees. The American Bankers Association has been active in efforts to bring relief to smaller public companies by supporting the scaling of regulatory treatment based on size. Last year a special Advisory Committee on Smaller Public Companies appointed by the SEC recommended that smaller public companies, such as the Company, be granted relief from the burdensome internal control and related external audit attestation requirements of Section 404 of Sarbanes-Oxley (“SOX 404”). However, at this time it is unclear whether, and to what extent, the SEC will accept and implement the Advisory Committee's recommendations. Management is in the process of preparing for the internal control reporting requirements of SOX 404.

Unless further relief is granted to smaller public companies during 2007, the Company will be required to comply with certain portions of Section 404 of Sarbanes-Oxley for its 2007 year-end financial statements, with full compliance required in 2008. Section 404 requires management to undertake an assessment of the adequacy and effectiveness of the Company’s internal controls over financial reporting and requires the Company’s auditors to attest to, and report on, management’s assessment and the operating effectiveness of these controls. The Company has incurred, and expects to continue to incur, costs in connection with its compliance with Section 404.

More information on the Company’s corporate governance practices is available on the Company’s website at www.communitybancorpvt.com.

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. Vermont and states contiguous to it, all permit 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.

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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, 2006, 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 OCC's examinations are designed for the protection of the Bank's depositors and not its shareholders. The Bank is subject to periodic examination by the OCC and must file periodic reports with the OCC containing a 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, collect and maintain data for each small business or small farm loan originated or purchased by the Bank, and maintain a Public File at each location. The federal banking regulators examine the institutions they regulate for compliance with the CRA and assign one of the following four ratings: “outstanding,” “satisfactory,” “needs to improve” or “substantial noncompliance”. The rating assigned reflects the bank’s record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the bank. As of the Bank’s last CRA examination, completed during 2005, 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 place deposits 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, while at the same time increasing the level of FDIC insurance available to deposit customers.

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. To date, the amount of brokered deposits accepted through the CDARS program is not considered by management to be material.

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

Management expects to review deposit classifications during 2007, with a view toward reclassifying deposits, to the extent permissible under Regulation D, to reduce required reserves.

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 in 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 100F Street, NE, Washington, DC 20549-0213, by calling the SEC at 1-800-SEC-0330 or by accessing the SEC's website at http://www.sec.gov. The Company's SEC-filed reports and proxy statements are also available on the Company's website at www.communitybancorpvt.com. The Company has also posted on its website the Company's Code of Ethics for Senior Financial Officers and the Principal Executive Officer; the Insider Trading Policy and the charters of the Audit, Compensation, and Nominating Committees. The information and documents contained on the Company's website do not constitute part of this report. Copies of the Company's reports filed with the SEC (other than exhibits) can also be obtained by contacting Chris Bumps, Corporate Secretary, at our principal offices, which are located at 4811 U.S. Route 5, Derby, Vermont 05829 or by calling (802) 334-7915.

## Item 1A. Risk Factors

### Industry Factors

Investments in Community Bancorp. stock involve risk. The following discussion highlights risks that management believes are material for our Company, but does not necessarily include all risks that the Company may face.

Fluctuations in interest rates could adversely affect our business

Significant increases in market interest rates, or the perception that an increase may occur, could adversely affect both our ability to originate new loans and our ability to grow. Conversely, decreases in interest rates could result in an acceleration of loan prepayments. An increase in market interest rates could also adversely affect the ability of our floating-rate borrowers to meet their higher payment obligations. If this occurred, it could cause an increase in nonperforming assets and charge-offs, which could adversely affect our business.

Significant increases in market interest rates could also affect our cost of funds by requiring us to increase the rates we pay on interest bearing deposits and other liabilities and by providing an incentive for depositors to more rapidly move funds into higher yielding deposits and investments. Also, such increases in market rates could increase our borrowing costs.

Fluctuations in interest rates could adversely affect our margin spread

Changes in market interest rates, including changes in the relationship between short-term and long-term market interest rates or between different interest rate indices, can impact our margin spread, that is, the difference between the interest rates we charge on interest earning assets, such as loans, and the interest rates we pay on interest bearing liabilities, such as deposits or other borrowings. The impact could result in a decrease in our interest income relative to interest expense.

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Substantial competition could adversely affect us

Banking is a highly competitive business. We compete actively for loan, deposit, and other financial services business in northeastern and central Vermont. Our competitors include a number of state and national banks and credit unions, as well as financial and nonfinancial firms that offer services similar to those offered by us. Some of our competitors are community or regional banks that have strong local market positions. Our large regional bank competitors, in particular, have substantial capital, technology and marketing resources that are well in excess of ours. Such large regional financial institutions may have greater access to capital at a lower cost and a higher per-borrower lending limit than our company, which may adversely affect our ability to compete with them effectively.

There are an increasing number of non-bank and out-of-market competitors providing financial services

Technology and other changes increasingly allow parties to complete financial transactions electronically, without the need for a physical presence in a market area. We are therefore likely to face increasing competition from out-of-market competitors. In addition, in many cases transactions may now be completed without the involvement of banks. For example, consumers can pay bills and transfer funds over the Internet and by telephone without banks. Many non-bank financial service providers have lower overhead costs and are subject to fewer regulatory constraints. If consumers do not use banks to complete their financial transactions, we could potentially lose fee income, deposits and income generated from those deposits.

Adverse effects of, or changes in, banking or other laws and regulations or governmental fiscal or monetary policies could adversely affect us

We are subject to significant federal regulation and supervision and to certain state requirements. These laws and regulatory supervision are primarily for the benefit and protection of our customers and not for the benefit of investors. Laws, regulations or policies, including accounting standards and interpretations, currently affecting us and our subsidiary may change at any time. Regulatory authorities may also change their interpretation of these statutes and regulations. Therefore, our business may be adversely affected by changes in laws, regulations, policies or interpretations or regulatory approaches to compliance and enforcement.

Additionally, our business is affected significantly by the fiscal and monetary policies of the U.S. federal government and its agencies. We are particularly affected by the policies of the Federal Reserve Board, which regulates the supply of money and credit in the U.S. Under long-standing policy of the Federal Reserve Board, a bank holding company is expected to act as a source of financial strength for its subsidiary banks. As a result of that policy, we may be required to commit financial and other resources to our subsidiary bank in circumstances where we might not otherwise do so. Among the instruments of monetary policy available to the Federal Reserve Board are (a) conducting open market operations in U.S. government securities, (b) changing the discount rates on borrowings by depository institutions, and (c) imposing or changing reserve requirements against certain borrowings by banks and their affiliates. These methods are used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. The policies of the Federal Reserve Board may have a material effect on our business, prospects, results of operations and financial condition.

See “Supervision and Regulation” under Item 1 above for discussion of other laws and regulations that may have a material effect on our business, prospects, results of operations and financial condition.

Changes in accounting standards could materially impact our financial statements

From time to time the Financial Accounting Standards Board and the SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be very difficult to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements. Implementation of accounting changes, with associated professional consultation and advice, can be costly, even if the change will not have any material impact on the Company’s financial statements.

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## Company Factors

### Allowance for loan losses may be insufficient

We maintain an allowance for loan losses based on, among other things, our estimate of local and regional economic conditions, historical loss experience and delinquency trends. However, we cannot predict loan losses with certainty, and cannot ensure that charge-offs in future periods will not exceed the allowance for loan losses. If charge-offs exceed our allowance, our earnings would decrease. In addition, the Comptroller of the Currency reviews our allowance for loan losses from time to time and may require additions to the allowance based on their judgment about information available to them at the time of their examination. An increase in our allowance for loan losses would require a charge against earnings.

### Adverse local economic conditions could negatively impact our business

Substantially all of our assets, deposits and fee income is generated in northeastern Vermont. As a result, poor economic conditions in northeastern Vermont may cause us to incur losses associated with higher default rates and decreased collateral values in our loan portfolio. Our primary market area is located in the poorest region of Vermont. Economic conditions in northeastern Vermont are subject to various uncertainties, to a greater degree than other regions of the state. If economic conditions in northeastern Vermont decline, we expect that our level of problem assets could increase and our prospects for growth could be impaired.

### Adverse economic factors affecting certain industries we serve could adversely affect our business

We are subject to certain industry-specific economic factors. For example, a significant and increasing portion of our total loan portfolio is related to residential real estate, especially in northeastern Vermont. Accordingly, a downturn in the real estate and housing industries in northeastern Vermont could have an adverse effect on our operations and the quality of our real estate loan portfolio. Increases in residential mortgage loan interest rates could also have an adverse effect on our operations by depressing new mortgage loan originations. We provide financing to businesses in a number of other industries that may be vulnerable to industry-specific economic factors. Industry-specific risks are beyond our control and could adversely affect our portfolio of loans, potentially resulting in an increase in nonperforming loans or charge-offs and a slowing of growth or reduction in our loan portfolio.

### We are not able to offer all of the financial services and products of a financial holding company

Banks, securities firms, and insurance companies can now combine under a “financial holding company” umbrella. Financial holding companies can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting), and merchant banking. Some of our competitors have elected to become financial holding companies.

### Our common stock is not traded on any securities exchange

Our common stock is not traded on any securities exchange. Trades in our stock affected by certain brokerage firms are reported on the Over-the-Counter (OTC) Bulletin Board maintained by the NASD, but trading in the stock is sporadic. Therefore, an investment in our stock is not as liquid as an investment in a company whose stock is actively traded on an exchange.

### Restrictions on dividends and other distributions could limit amounts payable to us

As a holding company, our cash flow typically comes from dividends our bank subsidiary pays to us. Statutory provisions restrict the amount of dividends our subsidiary can pay to us without regulatory approval. In addition, if our subsidiary were to liquidate, its creditors would be entitled to receive distributions from assets to satisfy their claims against it before we, as a holder of an equity interest in the subsidiary, would be entitled to receive any of such assets.

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We rely on third parties for important products and services

Third-party vendors provide key components of our business infrastructure such as Internet connections, network access and transaction processing and we do not control their actions. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services poorly, could adversely affect our ability to deliver products and services to our customers and otherwise to conduct our business. Replacing these third-party vendors could also entail significant delay and expense.

Our business could suffer if we fail to attract and retain skilled personnel

Our success depends, in large part, on our ability to attract and retain key personnel, including executives. Any of our current employees, including our senior management, may terminate their employment with us at any time. Competition for qualified personnel in our industry can be intense and our geographic market area might not be favorably perceived by potential executive management candidates. We may not be successful in attracting and retaining sufficient qualified personnel. We may also incur increased expenses and be required to divert the attention of other senior executives to recruit replacements for the loss of any key personnel.

Significant legal actions could subject us to substantial uninsured liabilities

We are from time to time subject to claims related to our operations. These claims and legal actions, including supervisory or enforcement actions by our regulators, could involve large monetary claims and significant defense costs. To protect ourselves from the cost of these claims, we maintain insurance coverage in amounts and with deductibles that we believe are appropriate for our operations. However, our insurance coverage may not cover all claims against us or continue to be available to us at a reasonable cost. As a result, we may be exposed to substantial uninsured liabilities, which could adversely affect our business, prospects, results of operations and financial condition.

Changes in our tax rates could affect our future results

Our future effective tax rates and tax liabilities could be favorably or unfavorably affected by increases or decreases in applicable tax rates and changes in federal or state tax laws, regulations and agency interpretations. Our effective tax rates could also be affected by changes in the valuation of our deferred tax assets and liabilities or by the outcomes of any examinations of our income tax returns by the Internal Revenue Service or the Vermont Department of Taxes.

Item 1B. Unresolved Staff Comments

Not Applicable

Item 2. Properties

Although Community Bancorp. does not itself own or lease real property, the Bank owns and leases various properties for its banking operations. 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 on U.S. Route 5 in Derby, Vermont, in a freshly renovated 15,000 square foot two-story brick building with a 19,000 square foot state of the art addition, which was completed in the first quarter of 2006. An operations center houses most of the addition as well as a community room used by the Bank for meetings and various functions. This community room has a secure outside access making it possible for the Bank to offer it to non-profit organizations after banking hours free of charge. A remote drive-up facility and an additional ATM featuring drive-up access were also part of this major renovation project.

The Bank owns the Derby Line office located on Main Street in a renovated bank building. The facility consists of a small banking lobby of approximately 200 square feet with additional office space on the first and second floor. This office is also equipped with a walk-up 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 lease was entered into in 1985 with an initial fifteen-year term, and was most recently renewed in 2000 for an additional 15 years.

The Bank owns 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 an ATM and a remote drive-up facility. 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 the Company’s Trust Company affiliate, CFSG, with another portion leased to a law firm.

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 Board.

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.

The Bank's newest office is located in Barre in a two-story, 8,000 square foot building located at 316 North Main Street. This new building constructed in 2003 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 provided for a twenty year term and including 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. During the third quarter of 2006, the Company was offered the option to buy the property earlier than the sixth year, and as a result, exercised that option.

## 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

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PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Information on the market price of, and dividends paid on, the Company's common stock is incorporated by reference to Page 62 of the Annual Report to Shareholders for 2006 under the caption "Common Stock Performance by Quarter".

The following table provides information as to purchases of the Company's common stock during the fourth quarter ended December 31, 2006, by the Company and by any affiliated purchaser (as defined in SEC Rule 10b-18):

| For the month ended: | Total Number of Shares Purchased(1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan(2) | Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period(2) |
|---|---|---|---|---|
| October 1 - October 31 | 3,250 | $13.50 | 0 | 226,110 |
| November 1 - November 30 | 800 | $13.35 | 0 | 226,110 |
| December 1 - December 31 | 834 | $13.70 | 0 | 226,110 |
| Total | 4,884 | $13.51 | 0 | 226,110 |

(1) 4,884 shares were purchased by Community Financial Services Group, LLC ("CFSG"), which may be deemed to be an affiliate of the Company under Rule 10b-18, for the account of participants invested in the Company Stock Fund under the Company's Retirement Savings Plan. All purchases by CFSG were made in the open market in brokerage transactions and reported on the OTC Bulletin Board©.

(2) The Company's Board of Directors in April, 2000 initially authorized the repurchase from time to time of up to 205,000 shares of the Company's common stock in open market and privately negotiated transactions, in management's discretion and as market conditions may warrant. The Board extended this authorization on October 15, 2002 to repurchase an additional 200,000 shares, with an aggregate limit for such repurchases under both authorizations of $3.5 million. The approval did not specify a termination date, and although there were no repurchases during 2006, the repurchase program is still open.

Item 6. Selected Financial Data

Incorporated by reference to Pages 33, 38, 50, and 51 of the Annual Report to Shareholders for 2006, filed as Exhibit 13 to this report.

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

Incorporated by reference to Pages 40-62 of the Annual Report to Shareholders for 2006, filed as Exhibit 13 to this report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Incorporated by reference to the section labeled "Risk Management", beginning on page 49, of Management's Discussion and Analysis of Financial Condition and Results of Operation in the Annual Report to Shareholders for 2006, filed as Exhibit 13 to this report.

Item 8. Financial Statements and Supplementary Data

The audited consolidated financial statements and related notes of Community Bancorp. and Subsidiary and the report thereon of the independent registered accounting firm of Berry, Dunn, McNeil & Parker, are incorporated herein by reference from the Annual Report to Shareholders for 2006, filed as Exhibit 13 to this report, at Page 11 through Note 25 on Page 39.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

NONE

Item 9A. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Chairman and Chief Executive Officer and its President and Chief Operating Officer (Chief Financial Officer). Based upon that evaluation, such officers concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. For this purpose, the term "disclosure controls and procedures" means controls and other procedures of the Company that are designed to ensure that information required to be disclosed by it in the reports that it files or submits under the Exchange Act (15 U.S.C. 78a *et seq.*) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There were no changes during the Company's last fiscal quarter in the Company's internal control over financial reporting identified in connection with the evaluation of the Company's disclosure controls and procedures that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

Not Applicable

PART III.

Item 10. Directors, Executive Officers and Corporate Governance

The following is incorporated by reference to the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 15, 2007:

Listing of the names, ages, principal occupations and business experience of the incumbent directors and nominees 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 whether a member of the Audit Committee qualifies as an audit committee financial expert under applicable SEC rules, under the caption "Corporate Governance - Board Committees."

The Code of Ethics for Senior Financial Officers and the Principal Executive Officer is available on the Company's website at www.communitybancorpvt.com. The Code is also listed as Exhibit 14 to this report and incorporated by reference to a prior filing with the SEC.

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 15, 2007:

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, and the Compensation Discussion and Analysis, under the caption "EXECUTIVE COMPENSATION."
The report of the Compensation Committee under the caption “COMPENSATION COMMITTEE REPORT.”
Information regarding management interlocks and certain transactions under the caption "CORPORATE GOVERNANCE - Compensation Committee Interlocks and Insider Participation."

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

The following is incorporated by reference to the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 15, 2007:

Information regarding the share ownership of management and principal shareholders under the caption "SHARE OWNERSHIP INFORMATION."

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

Item 13.  Certain Relationships and Related Transactions, and Director Independence

The following is incorporated by reference to the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 15, 2007:

Information regarding transactions with management under the caption "CORPORATE GOVERNANCE -Transactions with Management."
Information regarding the independence of directors under the caption “CORPORATE GOVERNANCE - Director Independence.”

Item 14.  Principal Accounting Fees and Services

The following is incorporated by reference to the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 15, 2007 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.
Description of the audit committee's pre-approval policies and procedures required by paragraph (c) (7)(I) of rule 2-01of Regulation S-X.

PART IV.

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements

The 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 2006, filed as Exhibit 13 to this report.

(b) Exhibits

The following exhibits are incorporated by reference:
Exhibit 3(i) - Amended and Restated Articles of Association filed as Exhibit 3(i) of the Company's Form 10-Q report filed with the Commission on November 9, 2004.
Exhibit 3(ii) - Amended and Restated By-laws of Community Bancorp. as amended through April 4, 2006 filed as Exhibit 3(ii) in the Company’s Form 10-K/A filed on April 13, 2006.
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, and supplemented by the disclosure contained in the Company's Current Report on Form 8-K filed with the Commission on December 19, 2005.
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 15, 2007, under the caption "EXECUTIVE COMPENSATION - Officer Incentive Plan".
Exhibit 10(iv) - Description of the Directors Retirement Plan* filed as exhibit 10(iv) of the Company's Form 10-K filed with the Commission on March 30, 2005; plan terminated in 2005 with respect to future accruals, as disclosed in the Company's Current Report on Form 8-K filed with the Commission on December 19, 2005.
Exhibit 14 - Code of Ethics for Senior Financial Officers and the Principal Executive Officer is incorporated by reference to Exhibit 14 of the Form 10-K filed with the Commission on March 30, 2004.

The following exhibits are filed as part of this report:
Exhibit 13 - Portions of the Annual Report to Shareholders of Community Bancorp. for 2006, specifically incorporated by reference into this report.
Exhibit 21 - Subsidiaries of Community Bancorp.
Exhibit 23 - Consent of Berry, Dunn, McNeil & Parker
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**

* Denotes compensatory plan or arrangement.

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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 — Date: March 20, 2007

Richard C. White, Chairman
and Chief Executive Officer

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

BY: /s/ Stephen P. Marsh — Date: March 20, 2007

Stephen P. Marsh, President and COO

COMMUNITY BANCORP. DIRECTORS

| Signature | Date |
|---|---|
| /s/ Thomas E. Adams<br>Thomas E. Adams | Date: March 20, 2007 |
| /s/ Aminta K. Conant<br>Aminta K. Conant | Date: March 20, 2007 |
| /s/ Jacques R. Couture<br>Jacques R. Couture | Date: March 20, 2007 |
| /s/ Elwood G. Duckless<br>Elwood G. Duckless | Date: March 20, 2007 |
| /s/ Michael H. Dunn<br>Michael H. Dunn | Date: March 20, 2007 |
| /s/ Rosemary M. Lalime<br>Rosemary M. Lalime | Date: March 20, 2007 |
| /s/ Marcel Locke<br>Marcel Locke | Date: March 20, 2007 |
| /s/ Stephen P. Marsh<br>Stephen P. Marsh | Date: March 20, 2007 |
| /s/ Dorothy R. Mitchell<br>Dorothy R. Mitchell | Date: March 20, 2007 |
| /s/ Anne T. Moore<br>Anne T. Moore | Date: March 20, 2007 |
| /s/ Dale Wells<br>Dale Wells | Date: March 20, 2007 |
| /s/Richard C. White<br>Richard C. White | Date: March 20, 2007 |

**BERRY . DUNN . MCNEIL & PARKER**
**BDMP**
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Community Bancorp. and Subsidiary

We have audited the accompanying consolidated balance sheets of Community Bancorp. and Subsidiary as of December 31, 2006 and 2005 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Community Bancorp. and Subsidiary at December 31, 2006 and 2005, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

/s/ Berry, Dunn, McNeil & Parker

Portland, Maine
March 20, 2007
Vermont Registration No. 92-0000278

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**COMMUNITY BANCORP. AND SUBSIDIARY**
**CONSOLIDATED BALANCE SHEETS**
**December 31, 2006 and 2005**

| **ASSETS** | **2006** | **2005** |
|---|---|---|
| Cash and due from banks | $ 11,292,831 | $ 11,066,745 |
| Federal funds sold and overnight deposits | 8,173,779 | 6,508,194 |
| Cash and cash equivalents | 19,466,610 | 17,574,939 |
| Securities held-to-maturity (fair value $21,301,000 and $28,444,000 at December 31, 2006 and 2005) | 21,069,866 | 28,391,665 |
| Securities available-for-sale | 22,612,207 | 36,454,426 |
| Restricted equity securities | 2,828,250 | 3,252,150 |
| Loans held for sale | 566,300 | 1,586,582 |
| Loans | 268,729,726 | 250,622,955 |
| Allowance for loan losses | (2,267,821) | (2,189,187) |
| Unearned net loan fees | (632,105) | (684,106) |
| Net loans | 265,829,800 | 247,749,662 |
| Bank premises and equipment, net | 12,334,024 | 11,617,119 |
| Accrued interest receivable | 1,667,135 | 1,789,251 |
| Other assets | 5,440,350 | 5,411,770 |
| Total assets | $ 351,814,542 | $ 353,827,564 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| LIABILITIES | | |
| Deposits: | | |
| Demand, non-interest bearing | $ 47,402,628 | $ 45,848,972 |
| NOW and money market accounts | 81,402,928 | 100,078,793 |
| Savings | 38,471,441 | 45,281,605 |
| Time, $100,000 and over | 33,835,057 | 25,621,541 |
| Other time | 99,876,140 | 77,481,500 |
| Total deposits | 300,988,194 | 294,312,411 |
| Other borrowed funds | 40,000 | 10,040,000 |
| Securities sold under agreements to repurchase | 17,083,946 | 17,347,140 |
| Accrued interest and other liabilities | 2,971,591 | 3,004,679 |
| Total liabilities | 321,083,731 | 324,704,230 |
| COMMITMENTS AND CONTINGENT LIABILITIES (Notes 6, 15, 16, 17 and 20) | | |
| SHAREHOLDERS' EQUITY | | |
| Common stock, $2.50 par value; 6,000,000 shares authorized, 4,339,619 shares issued at December 31, 2006 and 4,279,884 shares shares issued at December 31, 2005 (including 15,222 shares issued February 1, 2007 and 13,522 shares issued February 1, 2006) | 10,849,048 | 10,699,709 |
| Additional paid-in capital | 22,006,492 | 21,324,481 |
| Retained earnings | 760,667 | 165,983 |
| Accumulated other comprehensive loss | (270,664) | (452,118) |
| Less treasury stock, at cost (2006 and 2005 - 209,510 shares) | (2,614,732) | (2,614,721) |
| Total shareholders' equity | 30,730,811 | 29,123,334 |
| Total liabilities and shareholders' equity | $ 351,814,542 | $ 353,827,564 |

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

**COMMUNITY BANCORP. AND SUBSIDIARY**
**CONSOLIDATED STATEMENTS OF INCOME**
**Years Ended December 31, 2006, 2005, and 2004**

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Interest and dividend income | | | |
| Interest and fees on loans | $ 18,471,445 | $ 15,645,438 | $ 13,869,932 |
| Interest on debt securities | | | |
| Taxable | 1,082,241 | 1,482,998 | 1,973,437 |
| Tax-exempt | 1,079,573 | 1,059,198 | 1,023,986 |
| Dividends | 176,610 | 133,119 | 61,075 |
| Interest on federal funds sold and overnight deposits | 165,975 | 36,809 | 37,915 |
| | 20,975,844 | 18,357,562 | 16,966,345 |
| Interest expense | | | |
| Interest on deposits | 6,684,827 | 4,596,744 | 4,335,331 |
| Interest on borrowed funds and securities sold under agreements to repurchase | 1,018,261 | 830,654 | 426,839 |
| | 7,703,088 | 5,427,398 | 4,762,170 |
| Net interest income | 13,272,756 | 12,930,164 | 12,204,175 |
| Provision for loan losses | 137,500 | 150,000 | 95,000 |
| Net interest income after provision for loan losses | 13,135,256 | 12,780,164 | 12,109,175 |
| Non-interest income | | | |
| Service fees | 1,322,360 | 1,251,910 | 1,212,020 |
| Net realized gains on securities | 56,875 | 0 | 44,059 |
| Other income | 1,744,941 | 1,920,811 | 1,961,622 |
| | 3,124,176 | 3,172,721 | 3,217,701 |
| Non-interest expense | | | |
| Salaries and wages | 4,562,000 | 4,567,003 | 4,268,960 |
| Employee benefits | 1,699,405 | 1,628,501 | 1,536,441 |
| Occupancy expenses | 2,180,336 | 2,002,091 | 1,973,934 |
| Other expenses | 3,712,629 | 3,544,654 | 3,420,155 |
| | 12,154,370 | 11,742,249 | 11,199,490 |
| Income before income taxes | 4,105,062 | 4,210,636 | 4,127,386 |
| Income taxes | 729,614 | 790,001 | 730,422 |
| Net income | $ 3,375,448 | $ 3,420,635 | $ 3,396,964 |
| Earnings per common share | $0.82 | $0.84 | $0.85 |
| Weighted average number of common shares used in computing earnings per share | 4,097,577 | 4,050,993 | 4,010,894 |
| Dividends declared per share | $0.68 | $0.67 | $0.64 |
| Book value per share on shares outstanding at December 31 | $7.44 | $7.15 | $6.96 |

All per share data and number of shares have been restated to reflect a 5% stock dividend declared in June 2005.

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

**COMMUNITY BANCORP. AND SUBSIDIARY**
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
**Years Ended December 31, 2006, 2005, and 2004**

| | ---Common Stock--- | |
|---|---|---|
| | **Shares** | **Amount** |
| Balances, December 31, 2003 | 3,789,084 | $ 9,929,973 |
| Comprehensive income, net of taxes | | |
| Net income | 0 | 0 |
| Net unrealized holding losses on securities available-for-sale, net of tax benefit, ($347,565) | 0 | 0 |
| Total comprehensive income | | |
| Dividends declared | 0 | 0 |
| Issuance of stock | 65,559 | 163,898 |
| Purchase of treasury stock | (15,539) | 0 |
| Balances, December 31, 2004 | 3,839,104 | 10,093,871 |
| Comprehensive income, net of taxes | | |
| Net income | 0 | 0 |
| Net unrealized holding losses on securities available-for-sale, net of tax benefit, ($146,014) | 0 | 0 |
| Total comprehensive income | | |
| Dividends declared | 0 | 0 |
| 5% stock dividend | 192,544 | 481,360 |
| Issuance of stock | 49,791 | 124,478 |
| Purchase of treasury stock | (11,065) | 0 |
| Balances, December 31, 2005 | 4,070,374 | 10,699,709 |
| Comprehensive income, net of taxes | | |
| Net income | 0 | 0 |
| Net unrealized holding gain on securities available-for-sale, net of tax, $93,477 | 0 | 0 |
| Total comprehensive income | | |
| Dividends declared | 0 | 0 |
| Issuance of stock | 59,736 | 149,339 |
| Purchase of treasury stock (fractional share redeemed) | (1) | 0 |
| Balances, December 31, 2006 | 4,130,109 | $ 10,849,048 |

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

| Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock | Total shareholders' equity |
|---|---|---|---|---|
| $ 16,861,802 | $ 1,971,870 | $ 506,006 | $ (2,184,505) | $ 27,085,146 |
| 0 | 3,396,964 | 0 | 0 | 3,396,964 |
| 0 | 0 | (674,685) | 0 | (674,685) |
| | | | | 2,722,279 |
| 0 | (2,592,823) | 0 | 0 | (2,592,823) |
| 916,803 | 0 | 0 | 0 | 1,080,701 |
| 0 | 0 | 0 | (251,857) | (251,857) |
| 17,778,605 | 2,776,011 | (168,679) | (2,436,362) | 28,043,446 |
| 0 | 3,420,635 | 0 | 0 | 3,420,635 |
| 0 | 0 | (283,439) | 0 | (283,439) |
| | | | | 3,137,196 |
| 0 | (2,720,332) | 0 | 0 | (2,720,332) |
| 2,828,971 | (3,310,331) | 0 | 0 | 0 |
| 716,905 | 0 | 0 | 0 | 841,383 |
| 0 | 0 | 0 | (178,359) | (178,359) |
| 21,324,481 | 165,983 | (452,118) | (2,614,721) | 29,123,334 |
| 0 | 3,375,448 | 0 | 0 | 3,375,448 |
| 0 | 0 | 181,454 | 0 | 181,454 |
| | | | | 3,556,902 |
| 0 | (2,780,764) | 0 | 0 | (2,780,764) |
| 682,011 | 0 | 0 | 0 | 831,350 |
| 0 | 0 | 0 | (11) | (11) |
| $ 22,006,492 | $ 760,667 | $ (270,664) | $ (2,614,732) | $ 30,730,811 |

**COMMUNITY BANCORP. AND SUBSIDIARY**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**Years Ended December 31, 2006, 2005, and 2004**

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | $ 3,375,448 | $ 3,420,635 | $ 3,396,964 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 874,564 | 789,587 | 776,093 |
| Provision for loan losses | 137,500 | 150,000 | 95,000 |
| Provision for deferred income taxes | (28,349) | (36,931) | 72,768 |
| Net gain on sale of securities | (56,875) | 0 | (44,059) |
| Net gain on sale of loans | (314,850) | (376,946) | (426,198) |
| Loss on disposal or sale of bank premises and equipment | 6,589 | 32,835 | 24,796 |
| Gain on sales of other real estate owned | 0 | (7,710) | (12,684) |
| (Gain) loss on Trust LLC | (60,409) | (20,825) | 15,829 |
| Amortization of bond premium, net | 84,650 | 251,535 | 406,234 |
| Proceeds from sales of loans held for sale | 30,058,562 | 29,074,835 | 36,277,381 |
| Originations of loans held for sale | (28,723,430) | (28,451,074) | (35,431,429) |
| Decrease (increase) in interest receivable | 122,116 | (136,424) | 23,363 |
| Increase in mortgage servicing rights | (166,799) | (174,143) | (231,583) |
| (Increase) decrease in other assets | (210,815) | (101,135) | 42,063 |
| Amortization of limited partnerships | 354,156 | 338,216 | 292,915 |
| Decrease in unamortized loan fees | (52,001) | (79,668) | (41,510) |
| Increase in taxes payable | 7,963 | 90,881 | 113,416 |
| Increase (decrease) in interest payable | 128,579 | 49,169 | (18,636) |
| Increase (decrease) in accrued expenses | 4,140 | 225,818 | (351,322) |
| Increase (decrease) in other liabilities | 95,410 | (5,167) | 47,242 |
| Net cash provided by operating activities | 5,636,149 | 5,033,488 | 5,026,643 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Securities held-to-maturity | | | |
| Maturities and paydowns | 43,144,522 | 40,946,852 | 47,074,787 |
| Purchases | (35,822,723) | (37,755,503) | (37,107,593) |
| Securities available-for-sale | | | |
| Sales and maturities | 15,089,375 | 17,000,000 | 20,461,560 |
| Purchases | (1,000,000) | (2,988,906) | (16,659,541) |
| Proceeds from redemption (purchase) of restricted equity securities | 423,900 | (936,700) | (958,600) |
| Decrease in limited partnership contributions payable | (301,625) | (149,294) | (668,178) |
| Increase in loans, net | (18,234,097) | (23,013,545) | (23,840,610) |
| Capital expenditures, net | (1,598,059) | (4,382,421) | (1,043,086) |
| Investments in limited partnerships, net | 0 | (494,505) | (678,178) |
| Proceeds from sales of other real estate owned | 0 | 100,510 | 68,048 |
| Recoveries of loans charged off | 68,460 | 66,193 | 127,809 |
| Net cash provided by (used in) investing activities | 1,769,753 | (11,607,319) | (13,223,582) |

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Net (decrease) increase in demand, NOW, savings, and money market accounts | (23,932,373) | 6,692,807 | 6,601,419 |
| Net increase (decrease) in time deposits | 30,608,156 | 5,013,733 | (3,674,807) |
| Net (decrease) increase in repurchase agreements | (263,194) | 2,439,622 | 2,890,948 |
| Net (decrease) increase in short-term borrowings | (2,000,000) | 633,000 | (1,633,000) |
| Advances in long-term borrowings | 20,000,000 | 10,000,000 | 0 |
| Repayments in long-term borrowings | (28,000,000) | (7,000,000) | 0 |
| Payments to acquire treasury stock | (11) | (178,359) | (251,857) |
| Dividends paid | (1,926,809) | (1,842,839) | (1,716,868) |
| Net cash (used in) provided by financing activities | (5,514,231) | 15,757,964 | 2,215,835 |
| Net increase (decrease) in cash and cash equivalents | 1,891,671 | 9,184,133 | (5,981,104) |
| Cash and cash equivalents | | | |
| Beginning | 17,574,939 | 8,390,806 | 14,371,910 |
| Ending | $ 19,466,610 | $ 17,574,939 | $ 8,390,806 |
| SUPPLEMENTAL SCHEDULE OF CASH PAID DURING THE YEAR | | | |
| Interest | $ 7,574,509 | $ 5,378,229 | $ 4,780,806 |
| Income taxes | $ 750,000 | $ 688,200 | $ 592,088 |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | | |
| Change in unrealized loss on securities available-for-sale | $ 274,931 | $ (429,453) | $ (1,022,250) |
| Other real estate owned acquired in settlement of loans | $ 0 | $ 10,000 | $ 49,887 |
| Dividends paid: | | | |
| Dividends declared | $ 2,780,764 | $ 2,720,332 | $ 2,592,823 |
| Increase in dividends payable attributable to dividends declared | (7,585) | (41,516) | (6,304) |
| Dividends reinvested | (846,370) | (835,977) | (869,651) |
| | $ 1,926,809 | $ 1,842,839 | $ 1,716,868 |
| Stock dividend | $ 0 | $ 3,310,331 | $ 0 |

## Note 1. Significant Accounting Policies

The accounting policies of Community Bancorp. and Subsidiary ("Company") are in conformity with accounting principles generally accepted in the United States of America and general practices within the banking industry. The following is a description of the Company's significant accounting policies.

### Basis of presentation and consolidation

The consolidated financial statements include the accounts of Community Bancorp. and its wholly-owned subsidiary, Community National Bank ("Bank"). All significant intercompany accounts and transactions have been eliminated.

### 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 capabilities 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 its 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. While 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions involve inherent uncertainties. Accordingly, actual results could differ from those estimates and those differences could be material.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for 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 generally obtains independent appraisals for significant properties. While the allowances for loan losses and foreclosed real estate represent management's best estimate of probable loan and foreclosure losses as of the balance sheet date, the ultimate collectibility of a substantial portion of the Company's loan portfolio and the recovery of a substantial portion of the carrying amount of foreclosed real estate are susceptible to changes in a number of factors, especially 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.

Under current accounting rules, mortgage servicing rights associated with loans originated and sold, where servicing is retained, are capitalized and included in other assets in the consolidated balance sheet. Mortgage servicing rights are amortized into non-interest income in proportion to, and over the period of, estimated future net servicing income of the underlying financial assets. Mortgage servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. The value of capitalized servicing rights represents the present value of the future servicing fees arising from the right to service loans in the portfolio. The carrying value of the mortgage servicing rights is periodically reviewed for impairment based on a determination of fair value and impairment, if any, is recognized through a valuation allowance and is recorded as amortization of other assets. Critical accounting policies for mortgage servicing rights relate to the initial valuation and subsequent impairment tests. The methodology used to determine the valuation of mortgage servicing rights requires the development and use of a number of estimates, including anticipated principal amortization and prepayments of that principal balance. Events that may significantly affect the estimates used are changes in interest rates and the payment performance of the underlying loans.

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, and deferred taxes. The assumptions considered in making these estimates are based on historical experience and on various other factors that are believed by management to be reasonable under the circumstances. Management acknowledges that the use of different estimates or assumptions could produce different estimates of carrying values

**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 adjustments, reported as a net amount in other comprehensive income (loss). 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.

**Other investments**

The Company acquires partnership interests in limited partnerships for low income housing projects. The investments in limited partnerships are amortized using the effective yield method.

The Company has a one-third ownership interest in Community Financial Services Group, LLC (CFSG), as discussed further in Note 8 of this report. The Company's investment in CFSG is accounted for under the equity method of accounting.

**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 and evaluated for impairment. 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, as well as an activity based requirement. 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 unearned 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 reflects management's estimate as to the collectibility of the loan portfolio, based on its periodic evaluation of factors it considers relevant, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and prevailing 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 is 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. Appraisals are then done periodically on properties that management deems significant, or evaluations may be performed by management on properties in the portfolio that are less vulnerable to market conditions. 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 bases and the tax bases of the Company's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. Adjustments to the Company's deferred tax assets are recognized as deferred income tax expense or benefit based on management's judgments relating to the realizability of such asset.

**Foreign currency transactions**

Foreign currency (principally Canadian) amounts are converted to U.S. dollars. The U.S. dollar is the functional currency and therefore translation adjustments are recognized in income. Total conversion 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 non-interest 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 recognized revenue, expenses, gains, and losses to be included in net income. Certain changes in assets and liabilities, such as the after-tax effect of unrealized gains and losses on available-for-sale securities, are not reflected in the statement of income, but the cumulative effect of such items from period-to-period is reflected as a separate component of the equity section of the balance sheet (accumulated other comprehensive income or loss). Other comprehensive income or loss, along with net income, comprises the Company's total comprehensive income.

The Company's total comprehensive income for the years ended December 31 is calculated as follows:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Net income | $ 3,375,448 | $ 3,420,635 | $ 3,396,964 |
| Other comprehensive income (loss), net of tax: | | | |
| Change in unrealized holding losses on available-for-sale securities arising during the period | 331,806 | (429,453) | (983,603) |
| Reclassification adjustment for gains realized in income | (56,875) | 0 | (38,647) |
| Net unrealized gain (losses) | 274,931 | (429,453) | (1,022,250) |
| Tax effect | (93,477) | 146,014 | 347,565 |
| Other comprehensive income (loss), net of tax | 181,454 | (283,439) | (674,685) |
| Total comprehensive income | $ 3,556,902 | $ 3,137,196 | $ 2,722,279 |

**Earnings per common share**

Earnings per common share amounts are computed based on the weighted average number of shares of common stock issued during the period including Dividend Reinvestment Plan (DRIP) shares payable through dividends declared (retroactively adjusted for a 5% stock dividend declared in June 2005) 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 fair value is estimated using current interest rates on borrowings of similar maturity.

**Off-balance-sheet credit related instruments:** 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 credit-worthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

**Accrued interest:** The carrying amounts of accrued interest approximate 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 2005 and 2004 financial statements have been reclassified to conform to the current year presentation.

**Impact of Recently Issued Accounting Standards:**

Statement of Financial Accounting Standards (SFAS) No. 156, "Accounting for Servicing of Financial Assets-an Amendment to FASB Statement No. 140," requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. Servicing assets and servicing liabilities will subsequently be reported using the amortization method or the fair value measurement method. An entity should adopt SFAS No. 156 as of the beginning of its first fiscal year that begins after September 15, 2006 with earlier application permitted with certain restrictions. The initial application of the fair value measurement method would be reported as a cumulative effect adjustment to beginning retained earnings. SFAS No. 156 requires certain disclosures about the basis for measurement and regarding risks, activity, and fair value of servicing assets and of servicing liabilities. Management does not expect SFAS No. 156 to have a material impact on the Company's financial statements.

In July 2006, FASB issued Financial Accounting Standards Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not expect FIN 48 to have a material effect on the financial condition and results of operations of the Company.

In September 2006, the SEC issued SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 requires registrants to evaluate the materiality of unadjusted financial statement misstatements using both the rollover and iron curtain methods. The rollover method quantifies a misstatement based on the amount of the error originating in the current period statement of income. The iron curtain method quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current period, irrespective of the misstatement's year(s) of origination. SAB No. 108 is effective for years ending after November 15, 2006. The cumulative effect of the initial application on prior years is required to be reported as an adjustment to retained earnings at the beginning of the year of initial application. The adoption of SAB No. 108 did not have a material effect on the Company's financial statements for the year ended December 31, 2006.

**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, 2006 | | | | |
| U. S. sponsored enterprise securities | $ 19,030,313 | $ 0 | $ 382,168 | $ 18,648,145 |
| U. S. Government securities | 3,991,991 | 5,068 | 32,997 | 3,964,062 |
| | $ 23,022,304 | $ 5,068 | $ 415,165 | $ 22,612,207 |
| December 31, 2005 | | | | |
| U. S. sponsored enterprise securities | $ 33,115,577 | $ 1,770 | $ 651,476 | $ 32,465,871 |
| U. S. Government securities | 2,989,486 | 983 | 39,844 | 2,950,625 |
| Corporate debt securities | 1,001,891 | 3,539 | 0 | 1,005,430 |
| Other investments | 32,500 | 0 | 0 | 32,500 |
| | $ 37,139,454 | $ 6,292 | $ 691,320 | $ 36,454,426 |
| **Securities HTM** | | | | |
| December 31, 2006 | | | | |
| States and Political Subdivisions | $ 21,069,866 | $ 231,134 | $ 0 | $ 21,301,000 |
| December 31, 2005 | | | | |
| States and Political Subdivisions | $ 28,391,665 | $ 52,335 | $ 0 | $ 28,444,000 |

Included in the caption "States and Political Subdivisions" are securities of local municipalities carried at $21,069,866 and $28,391,665 at December 31, 2006 and 2005, respectively, which are attributable to private financing transactions arranged by the Company. The current fair value of these securities is an estimation based on an analysis that takes into account future maturities and scheduled future repricing. The Company anticipates no losses on these securities and expects to hold them until their maturity.

Investment securities with a book value of $21,022,304 and $22,106,561 and a fair value of $20,645,566 and $21,675,699 at December 31, 2006 and 2005, respectively, were pledged as collateral for larger dollar repurchase agreement accounts and for other purposes as required or permitted by law.

Proceeds from the maturities, call or sale of securities available-for-sale amounted to $15,089,375 in 2006, $17,000,000 in 2005, and $20,461,560 in 2004. Realized gains from sales of investments available-for-sale were $56,875 in 2006, $0 in 2005, and $70,311 in 2004. Realized losses were $0 in 2006 and 2005, and $31,664 in 2004. When an investment classified as held-to-maturity has a call option, sale of the investment is permitted if the sale is within 90 days of the call date and it is highly probable that it will be called. In 2004, a realized gain of $5,412 was recognized through the sale of a held-to-maturity security that met the criteria.

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, 2006 were as follows:

| | Carrying Amount | Fair Value |
|---|---|---|
| Due in one year or less | $ 5,003,179 | $ 4,949,006 |
| Due from one to five years | 18,019,125 | 17,663,201 |
| | $23,022,304 | $22,612,207 |

The scheduled maturities of securities held-to-maturity at December 31, 2006 were as follows:

| | Carrying Amount | Fair Value* |
|---|---|---|
| Due in one year or less | $17,253,914 | $17,254,000 |
| Due from one to five years | 1,444,078 | 1,502,000 |
| Due from five to ten years | 1,744,228 | 1,802,000 |
| Due after ten years | 627,646 | 743,000 |
| | $21,069,866 | $21,301,000 |

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

All investments with unrealized losses are presented either as those with a continuous loss position less than 12 months or as those with a continuous loss position for 12 months or more. Investments with unrealized losses at December 31, 2006 and 2005 were as follows:

| December 31, 2006 | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| U.S. sponsored enterprise securities | $ 999,836 | $ 163 | $ 17,648,309 | $ 382,005 | $ 18,648,145 | $ 382,168 |
| U.S. Government Securities | 993,438 | 4,841 | 1,968,437 | 28,156 | 2,961,875 | 32,997 |
| | $ 1,993,274 | $ 5,004 | $ 19,616,746 | $ 410,161 | $ 21,610,020 | $ 415,165 |

| December 31, 2005 | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| U.S. sponsored enterprise securities | $ 2,958,580 | $ 35,003 | $ 27,499,097 | $ 616,473 | $ 30,457,677 | $ 651,476 |
| U.S. Government securities | 979,375 | 14,919 | 974,062 | 24,925 | 1,953,437 | 39,844 |
| | $ 3,937,955 | $ 49,922 | $ 28,473,159 | $ 641,398 | $ 32,411,114 | $ 691,320 |

The unrealized losses are a result of increases in market interest rates and not of deterioration in the creditworthiness of the issuer. At December 31, 2006 there were 22 securities in the investment portfolio that were in an unrealized loss position compared to 33 securities in an unrealized loss position at December 31, 2005. These unrealized losses were principally attributable to changes in current interest rates for similar types of securities.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns, or adverse developments relating to the issuer, warrant such evaluation. Consideration is given

to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary at December 31, 2006 and 2005.

**Note 3. Loans**

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

| | 2006 | 2005 |
|---|---|---|
| Commercial | $ 22,217,047 | $ 20,262,855 |
| Real estate - Construction | 11,889,203 | 13,931,238 |
| Real estate - Mortgage | 213,894,135 | 194,565,926 |
| Installment and other | 20,729,341 | 21,862,936 |
| | 268,729,726 | 250,622,955 |
| Deduct: | | |
| Allowance for loan losses | 2,267,821 | 2,189,187 |
| Unearned net loan fees | 632,105 | 684,106 |
| | 2,899,926 | 2,873,293 |
| | $265,829,800 | $247,749,662 |

The total recorded investment in impaired loans as determined in accordance with accounting principles generally accepted in the United States of America was $508,571 and $219,766 at December 31, 2006 and 2005, respectively. The allowance for loan losses allocated to these loans amounted to $68,229 and $87,938 at December 31, 2006 and 2005, respectively. The average recorded investment in impaired loans amounted to $643,307, $284,542, and $282,270 for the years ended December 31, 2006, 2005, and 2004, respectively. Interest income recognized on impaired loans during 2006 was $90,829, all of which was on a cash basis. No interest income was recognized or received on impaired loans in 2005 and 2004.

The Company had non-accrual loans of $720,587 and $436,419 at December 31, 2006 and 2005, respectively. If interest on non-accrual loans had been recognized at the original interest rates, interest income would have increased approximately $61,718, $49,644, and $63,212 for the years ended December 31, 2006, 2005, and 2004, respectively. The total recorded investment in loans past due ninety days or more and still accruing interest was $205,801 and $176,885 at December 31, 2006 and 2005, 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 $144,573,102 and $131,941,606 at December 31, 2006 and 2005, respectively. Net gains realized on the sale of loans amounted to $314,850, $376,946, and $426,198 for the years ended December 31, 2006, 2005, and 2004, respectively. The balance of capitalized servicing rights, net of valuation allowances, included in other assets at December 31, 2006 and 2005, was $1,113,607 and $946,808, respectively. The fair values of these rights were $1,463,324 and $1,365,244, respectively. The fair value of servicing rights was determined using market prices for similar assets with similar characteristics. The Company will be implementing changes to its analysis

procedures during the first quarter of 2007, as required by virtue of its implementation of SFAS No. 156, "Accounting for Servicing of Financial Assets - an Amendment to FASB Statement No. 140", which is discussed in more detail in Note 1 above, under the heading "Impact of Recently Issued Accounting Standards".

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Mortgage servicing rights capitalized | $ 447,939 | $ 423,133 | $ 446,079 |
| Mortgage servicing rights amortized | $ 281,140 | $ 248,990 | $ 214,496 |

**Note 5. Allowance for Loan Losses**

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

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Balance, beginning of year | $ 2,189,187 | $ 2,153,372 | $ 2,199,110 |
| Provision for loan losses | 137,500 | 150,000 | 95,000 |
| Recoveries of amounts charged off | 68,460 | 66,193 | 127,809 |
| | 2,395,147 | 2,369,565 | 2,421,919 |
| Amounts charged off | (127,326) | (180,378) | (268,547) |
| Balance, end of year | $ 2,267,821 | $ 2,189,187 | $ 2,153,372 |

**Note 6. Bank Premises and Equipment**

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

| | 2006 | 2005 |
|---|---|---|
| Land and land improvements | $ 2,315,414 | $ 1,566,010 |
| Buildings and improvements | 9,746,666 | 9,301,401 |
| Furniture and equipment | 5,282,007 | 5,039,609 |
| Leasehold improvements | 623,621 | 636,789 |
| Other prepaid assets and construction in progress | 94,688 | 8,127 |
| | 18,062,396 | 16,551,936 |
| Less accumulated depreciation and amortization | (5,728,372) | (4,934,817) |
| | $12,334,024 | $11,617,119 |

Depreciation included in occupancy expenses amounted to $878,645, $789,587, and $772,886 for the years ended December 31, 2006, 2005, and 2004, respectively.

The Company is obligated under non-cancelable operating leases at four 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, 2006 for each of the next five years and in aggregate are:

| | | |
|---|---|---|
| 2007 | $ | 142,563 |
| 2008 | | 143,872 |
| 2009 | | 145,220 |
| 2010 | | 118,451 |
| 2011 | | 98,924 |
| Subsequent to 2011 | | 335,641 |
| | $ | 984,671 |

Total rental expense amounted to $198,370, $181,201, and $173,882 for the years ended December 31, 2006, 2005, and 2004, respectively.

**Note 7. Other Real Estate Owned (OREO)**

There was no OREO at December 31, 2006 or 2005, and there was no change in the allowance for losses on OREO for the years ended December 31, 2006, 2005 or 2004.

**Note 8. Other Investments**

The Company has purchased from time to time 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 and central Vermont.

The tax credits from these investments were estimated at $345,522, $320,165, and $248,521 for the years ended December 31, 2006, 2005, and 2004, respectively, and are recorded as a reduction of income tax expense. Expenses related to amortization of the investments in the limited partnerships are recognized as a component of "other expenses", and were $354,156, $338,216, and $292,915 for 2006, 2005, and 2004, respectively. The carrying values of these investments, which are included in other assets, were $2,170,053 and $2,543,344 at December 31, 2006 and 2005, respectively.

The Bank has a one-third ownership interest in a nondepository trust company, Community Financial Services Group, LLC (“CFSG”) based in Newport, Vermont, which is held indirectly through Community Financial Services Partners, LLC, ("Partners") a Vermont limited liability company that owns 100% of the limited liability company equity interests of CFSG. The Bank accounts for its investment in Partners under the equity method of accounting. As of December 31, 2006, the Company's investment in Partners amounted to $170,427 with income for 2006 of $72,109, compared to an investment of $119,018 as of December 31, 2005 with income of $20,825 for 2005.

**Note 9. Deposits**

The following is a maturity distribution of time certificates of deposit at December 31, 2006:

| | | |
|---|---|---|
| **2007** | $ | 103,452,693 |
| **2008** | | 11,249,101 |
| **2009** | | 11,034,356 |
| **2010** | | 1,442,297 |
| **2011** | | 6,532,750 |
| **Total** | $ | 133,711,197 |

**Note 10. Borrowed Funds**

Borrowings from the Federal Home Loan Bank of Boston (FHLB) as of December 31 were as follows:

| | 2006 | 2005 |
|---|---|---|
| FHLB term borrowing, 4.11% fixed rate, payable January 18, 2006 | $ 0 | $ 2,000,000 |
| FHLB term borrowing, 4.47% fixed rate, payable March 27, 2006 | 0 | 3,000,000 |
| Community Investment Program borrowing, 7.57% fixed rate, payable November 16, 2007 | 30,000 | 30,000 |
| FHLB term borrowing, 4.78% fixed rate, payable January 18, 2011, callable quarterly | 0 | 5,000,000 |
| Community Investment Program borrowing, 7.67% fixed rate, payable November 16, 2012 | 10,000 | 10,000 |
| | $ 40,000 | $ 10,040,000 |

Principal maturities of borrowed funds as of December 31, 2006 were as follows:

| | |
|---|---|
| 2007 | $ 30,000 |
| 2012 | 10,000 |
| | $ 40,000 |

The Company maintains a $4,301,000 IDEAL Way Line of Credit with FHLB. As of December 31, 2006 and 2005, there were no outstanding advances under this line. Interest on these borrowings is 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 $110,574,000 and $114,089,000 as of December 31, 2006 and 2005, respectively.

Under a separate agreement, the Company has the authority to collateralize public unit deposits, up to its available borrowing capacity, with letters of credit issued by FHLB. As of December 31, 2006, the Company's potential borrowing capacity was $82.9 million, reduced by outstanding advances. At December 31, 2006, $52.3 million in letters of credit 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. The average daily balance for the fourth quarter of 2006 was $26.0 million.

**Note 11. Securities Sold Under Agreements to Repurchase**

Securities sold under agreements to repurchase amounted to $17,083,946 and $17,347,140 as of December 31, 2006 and 2005, respectively. These agreements are collateralized by U. S. government sponsored enterprise securities and U. S. Treasury notes with a book value of $20,022,304 and $18,115,155 and a fair value of $19,667,030 and $17,737,454 at December 31, 2006 and 2005, respectively.

The average daily balance of these repurchase agreements approximated $15,687,663 and $13,986,763 during 2006 and 2005, respectively. The maximum borrowings outstanding on these agreements at any month-end reporting period of the Company were $17,536,357 and $17,347,140 in 2006 and 2005, respectively. These repurchase agreements mature daily and carried a weighted average interest rate of 2.07% during 2006, compared to 1.48% during 2005. The securities underlying these agreements are held in safekeeping at the Investors Bank & Trust Company.

**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:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Currently paid or payable | $ 757,963 | $ 826,932 | $ 657,654 |
| Deferred | (28,349) | (36,931) | 72,768 |
| | $ 729,614 | $ 790,001 | $ 730,422 |

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

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Computed expected tax expense | $1,395,721 | $1,431,616 | $1,403,311 |
| Tax exempt interest | (367,055) | (360,127) | (348,155) |
| Disallowed interest | 42,257 | 34,813 | 36,932 |
| Partnership tax credits | (345,522) | (320,165) | (248,521) |
| Other | 4,213 | 3,864 | (113,145) |
| | $ 729,614 | $ 790,001 | $ 730,422 |

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

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Depreciation | $ (20,178) | $ (60,525) | $ 4,199 |
| Loan fees | 1,814 | 2,721 | 5,181 |
| Mortgage servicing | 56,711 | 59,209 | 78,738 |
| Deferred compensation | (36,458) | (27,654) | (44,742) |
| Bad debts | (26,735) | (12,177) | 15,551 |
| Nonaccrual loan interest | (8,661) | 1,495 | 32,567 |
| Other | 5,158 | 0 | (18,726) |
| | $ (28,349) | $ (36,931) | $ 72,768 |

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

| | 2006 | 2005 |
|---|---|---|
| Components of the deferred tax asset: | | |
| Bad debts | $ 596,883 | $ 570,148 |
| Unearned loan fees | 4,577 | 6,391 |
| Nonaccrual loan interest | 11,003 | 2,342 |
| Deferred compensation | 366,925 | 330,467 |
| Unrealized loss on securities available-for-sale | 139,433 | 232,910 |
| Other | 94,858 | 100,014 |
| Total deferred tax asset | 1,213,679 | 1,242,272 |
| Components of the deferred tax liability: | | |
| Depreciation | 284,941 | 305,119 |
| Limited partnerships | 255,280 | 255,280 |
| Mortgage servicing rights | 378,627 | 321,915 |
| Total deferred tax liability | 918,848 | 882,314 |
| Net deferred tax asset | $ 294,831 | $ 359,958 |

Accounting principles generally accepted in the United States of America 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 assets are included in the caption "Other Assets" in the balance sheets at December 31, 2006 and 2005.

**Note 13. 401(k) and Profit-Sharing Plan**

The Company has a defined contribution plan covering all employees who meet certain age and service requirements. 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 $448,784, $429,000, and $379,435 for 2006, 2005, and 2004, respectively. These amounts represent discretionary matching contributions of a portion of the voluntary employee salary deferrals under the 401(k) plan and discretionary profit-sharing contributions under the plan.

**Note 14. Deferred Compensation and Supplemental Employee Retirement Plans**

The Company maintains a directors' deferred compensation plan and, prior to 2005, a retirement plan for its directors. Participants are general creditors of the Company with respect to these benefits. The benefits accrued under these plans were $601,951 and $578,937 at December 31, 2006 and 2005, respectively. Expenses associated with these plans were $35,013, $15,587, and $64,779 for the years ended December 31, 2006, 2005, and 2004, respectively.

Deferrals of director compensation under the plan were suspended during 2005 pending receipt of guidance from the Internal Revenue Service (IRS) for compliance with Internal Revenue Code (IRC) section 409A, added by the American Jobs Creation Act of 2004. In accordance with IRS guidance issued in 2005, the Company permits new deferrals under the plan for eligible directors effective January 1, 2006. Benefits accrued under this plan during 2006 were $19,058 and are included in the 2006 total of $601,951 in the paragraph above.

The Company terminated the directors' retirement plan during 2005, and no benefits for 2005 were accrued. Eligible directors will receive additional current compensation in lieu of accruing additional benefits payable under the retirement plan. Retirement benefits accrued prior to termination of the plan will be paid out to participants at their retirement from the board.

The Company also maintains a supplemental employee retirement plan for key employees of the Company. Benefits accrued under this plan were $477,241 and $393,025 at December 31, 2006 and 2005, respectively. The expense associated with this plan was $84,216, $69,000, and $70,565 for the years ended December 31, 2006, 2005, and 2004, respectively.

It was anticipated that certain provisions of these plans would be amended during 2006 to ensure compliance with IRC section 409A; however, the deadline was extended to December 2007, pending the issuance of final IRS regulations. Such amendments are not expected to have any material impact upon the Company's financial obligations under the plans.

**Note 15. Financial Instruments with Off-Balance-Sheet Risk**

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees, commitments to sell loans, and risk-sharing commitments on certain sold loans. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the 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. At December 31, the following financial instruments were outstanding whose contract amount represent credit risk:

| | Contract or --Notional Amount-- | |
|---|---|---|
| | 2006 | 2005 |
| Unused portions of commercial lines of credit | $ 11,116,285 | $ 17,497,235 |
| Unused portions of home equity lines of credit | 11,212,136 | 8,867,594 |
| Other commitments to extend credit | 11,982,321 | 10,303,630 |
| Standby letters of credit and commercial letters of credit | 1,004,200 | 621,135 |
| Credit card arrangements | 9,086,665 | 8,890,318 |
| MPF credit enhancement obligation, net (See Note 16) | 1,130,949 | 1,066,162 |

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, 2006 and 2005, the Company had binding loan commitments at fixed rates approximating $0 and $607,600, respectively, which 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. The fair value of standby letters of credit has not been included in the balance sheets as required by Financial Accounting Standards Board Interpretation No. 45 as the fair value is immaterial.

**Note 16. Contingent Liability**

The Company sells 1-4 family residential loans under a program with FHLB, the Mortgage Partnership Finance program (MPF). Under this program the Company shares in the credit risk of each mortgage, while receiving fee income in return. The Company is responsible for a Credit Enhancement Obligation (CEO) based on the credit quality of these loans. FHLB funds a First Loss Account (FLA) based on the Company's outstanding MPF mortgage balances. This creates a laddered approach to sharing in any losses. In the event of default, homeowner's equity and Private Mortgage Insurance, if any, are the first sources of repayment; the FHLB's FLA funds are then utilized, followed by the member's CEO, with the balance picked up by FHLB. These loans meet specific underwriting standards of the FHLB. As of December 31, 2006 and 2005, the Company had $45.7 million and $44.1 million, respectively, in loans sold through the MPF program. The Company carries a contingent liability of $91,667 as of December 31, 2006 and 2005, which is calculated on the same methodology used in calculating its allowance for loan loss, adjusted to reflect the risk sharing arrangements with the FHLB. The volume of loans sold to the MPF program and the corresponding credit obligation continue to be closely monitored by management. As of December 31, 2006, the notional amount of the maximum contingent contractual liability related to this program was $1,222,616 compared to $1,157,829 as of December 31, 2005.

**Note 17. Legal 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 are not expected to have a material adverse effect on the Company's financial statements.

**Note 18. Transactions with Related Parties**

The Company has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties), all of which have been, in the opinion of management, 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:

| | 2006 | 2005 |
|---|---|---|
| Balance, beginning | $ 520,675 | $ 567,907 |
| Loans - New Directors | 749,441 | 0 |
| New loans | 784,933 | 378,271 |
| Repayments | (669,552) | (425,503) |
| Balance, ending | $ 1,385,497 | $ 520,675 |

Total deposits with related parties approximated $1,234,207 and $1,243,014 at December 31, 2006 and 2005, respectively.

The Company leases approximately 1,466 square feet of condominium space in the state office building on Main Street in Newport to its trust company affiliate, CFSG. This is the location of CFSG's principal offices. CFSG also leases an office in the Company's Barre branch.

The amount of rental income received from CFSG for the twelve months ended December 31 was:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Newport | $ 18,635 | $ 16,994 | $ 16,555 |
| Barre | 2,313 | 2,225 | 2,135 |
| Total | $ 20,948 | $ 19,219 | $ 18,690 |

The Company has utilized the services of CFSG as an investment advisor for the 401(k) plan since August 1, 2002. The Human Resources committee of the Board of Directors is the Trustee of the plan, and CFSG is hired to provide investment advice for the plan. CFSG also acts as custodian of the retirement funds and makes investments on behalf of the plan and its participants. The Company pays monthly management fees to CFSG based on the market value of the total assets under management.

The amount paid to CFSG for the twelve months ended December 31 was:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Management Fees | $ 36,841 | $ 35,521 | $ 37,316 |

**Note 19. Restrictions on Cash and Due From Banks**

The Company is required to maintain reserve balances in cash with the Federal Reserve Bank. The totals of those reserve balances were approximately $3,024,000 and $2,845,000 at December 31, 2006 and 2005, respectively.

The nature of the Company's business requires that it maintain amounts due from correspondent 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 with correspondent banks of $325,000 and $300,000 at December 31, 2006 and 2005, respectively, of which $275,000 is included in the year-end reserve balances reported for the Federal Reserve Bank in the paragraph above.

**Note 20. 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, 2006, that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2006, the most recent notification from the Office of the Comptroller of the Currency (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 regulatory capital categories.

The Company's and the Bank's actual capital amounts (in thousands) and ratios 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, 2006:** | | | | | | |
| Total capital (to risk-weighted assets) | | | | | | |
| Consolidated | $33,270 | 14.10% | $18,879 | 8.0% | N/A | N/A |
| Bank | $33,047 | 14.01% | $18,872 | 8.0% | $23,590 | 10.0% |
| Tier I capital (to risk-weighted assets) | | | | | | |
| Consolidated | $31,002 | 13.14% | $ 9,439 | 4.0% | N/A | N/A |
| Bank | $30,779 | 13.05% | $ 9,436 | 4.0% | $14,154 | 6.0% |
| Tier I capital (to average assets) | | | | | | |
| Consolidated | $31,002 | 8.59% | $14,434 | 4.0% | N/A | N/A |
| Bank | $30,779 | 8.53% | $14,430 | 4.0% | $18,038 | 5.0% |
| **As of December 31, 2005:** | | | | | | |
| Total capital (to risk-weighted assets) | | | | | | |
| Consolidated | $31,764 | 14.65% | $17,347 | 8.0% | N/A | N/A |
| Bank | $32,037 | 14.78% | $17,343 | 8.0% | $21,678 | 10.0% |
| Tier I capital (to risk-weighted assets) | | | | | | |
| Consolidated | $29,575 | 13.64% | $ 8,674 | 4.0% | N/A | N/A |
| Bank | $29,848 | 13.77% | $ 8,671 | 4.0% | $13,007 | 6.0% |
| Tier I capital (to average assets) | | | | | | |
| Consolidated | $29,575 | 8.37% | $14,136 | 4.0% | N/A | N/A |
| Bank | $29,848 | 8.45% | $14,132 | 4.0% | $17,666 | 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 OCC. Regardless of formal regulatory restrictions, the Bank may not pay dividends that would result in its capital levels being reduced below the minimum requirements shown above.

**Note 21. Fair Value of Financial Instruments**

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

| | December 31, 2006 | | December 31, 2005 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (in thousands) | | | |
| Financial assets: | | | | |
| Cash and cash equivalents | $ 19,467 | $ 19,467 | $ 17,575 | $ 17,575 |
| Securities held-to-maturity | 21,070 | 21,301 | 28,392 | 28,444 |
| Securities available-for-sale | 22,612 | 22,612 | 36,454 | 36,454 |
| Restricted equity securities | 2,828 | 2,828 | 3,252 | 3,252 |
| Loans and loans held-for-sale, net | 266,396 | 266,361 | 249,336 | 247,367 |
| Accrued interest receivable | 1,667 | 1,667 | 1,789 | 1,789 |
| Financial liabilities: | | | | |
| Deposits | 300,988 | 299,670 | 294,312 | 292,940 |
| Repurchase agreements | 17,084 | 17,072 | 17,347 | 17,335 |
| Federal funds purchased and other borrowed funds | 40 | 42 | 10,040 | 10,088 |
| Accrued interest payable | 345 | 345 | 216 | 216 |

The estimated fair values of commitments to extend credit and letters of credit were immaterial at December 31, 2006 and 2005.

**Note 22. Condensed Financial Information (Parent Company Only)**

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

**COMMUNITY BANCORP. (PARENT COMPANY ONLY)**
**CONDENSED BALANCE SHEETS**
**DECEMBER 31, 2006 AND 2005**

| **ASSETS** | **2006** | **2005** |
|---|---|---|
| Cash | $ 635,250 | $ 113,967 |
| Investment in subsidiary - Community National Bank | 30,507,941 | 29,395,617 |
| Other assets | 85,732 | 89,257 |
| Total assets | $ 31,228,923 | $ 29,598,841 |
| | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Liabilities | | |
| Dividends payable | $ 498,112 | $ 475,507 |
| Total liabilities | 498,112 | 475,507 |
| | | |
| Shareholders' equity | | |
| Common stock, $2.50 par value; 6,000,000 shares authorized, 4,339,619 shares issued at December 31, 2006 and 4,279,884 shares issued at December 31, 2005 (including 15,222 shares issued February 1, 2007 and 13,522 shares issued February 1, 2006) | 10,849,048 | 10,699,709 |
| Additional paid-in capital | 22,006,492 | 21,324,481 |
| Retained earnings | 760,667 | 165,983 |
| Accumulated other comprehensive loss | (270,664) | (452,118) |
| Less treasury stock, at cost (2006 and 2005 - 209,510 shares) | (2,614,732) | (2,614,721) |
| Total shareholders' equity | 30,730,811 | 29,123,334 |
| Total liabilities and shareholders' equity | $ 31,228,923 | $ 29,598,841 |

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

**COMMUNITY BANCORP. (PARENT COMPANY ONLY)**
**CONDENSED STATEMENTS OF INCOME**
**Years Ended December 31, 2006, 2005, and 2004**

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Revenues | | | |
| Dividends | | | |
| Bank subsidiary - Community National Bank | $ 2,611,000 | $ 1,491,000 | $ 2,331,000 |
| Other dividend income | 300 | 600 | 600 |
| Total revenues | 2,611,300 | 1,491,600 | 2,331,600 |
| Other non-interest income | | | |
| Gain on sale of stock | 56,875 | 0 | 0 |
| Total non-interest income | 56,875 | 0 | 0 |
| Expenses | | | |
| Administrative and other | 309,329 | 167,533 | 164,466 |
| Total expenses | 309,329 | 167,533 | 164,466 |
| Income before applicable income tax and equity in undistributed net income of subsidiary | 2,358,846 | 1,324,067 | 2,167,134 |
| Applicable income tax benefit | 85,732 | 56,757 | 172,254 |
| Income before equity in undistributed net income of subsidiary | 2,444,578 | 1,380,824 | 2,339,388 |
| Equity in undistributed net income of subsidiary | 930,870 | 2,039,811 | 1,057,576 |
| Net income | $ 3,375,448 | $ 3,420,635 | $ 3,396,964 |

**COMMUNITY BANCORP. (PARENT COMPANY ONLY)**

**CONDENSED STATEMENTS OF CASH FLOWS**

**Years Ended December 31, 2006, 2005, and 2004**

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | $ 3,375,448 | $ 3,420,635 | $ 3,396,964 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Equity in undistributed net income of subsidiary | (930,870) | (2,039,811) | (1,057,576) |
| Net gain on sale of investments | (56,875) | 0 | 0 |
| (Increase) decrease in income taxes receivable | (28,975) | 115,496 | (131,234) |
| Net cash provided by operating activities | 2,358,728 | 1,496,320 | 2,208,154 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sale of investments available-for-sale | 89,375 | 0 | 0 |
| Net cash provided by investing activities | 89,375 | 0 | 0 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Purchase of treasury stock | (11) | (178,359) | (251,857) |
| Dividends paid | (1,926,809) | (1,842,839) | (1,716,868) |
| Net cash used in financing activities | (1,926,820) | (2,021,198) | (1,968,725) |
| Net increase (decrease) in cash | 521,283 | (524,878) | 239,429 |
| Cash | | | |
| Beginning | 113,967 | 638,845 | 399,416 |
| Ending | $ 635,250 | $ 113,967 | $ 638,845 |
| SUPPLEMENTAL SCHEDULE OF CASH RECEIVED DURING THE YEAR | | | |
| Income taxes | $ 56,757 | $ 172,254 | $ 41,019 |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | | |
| Change in unrealized loss on securities available-for-sale | $ 274,931 | $ (429,453) | $ (1,022,250) |
| Dividends paid: | | | |
| Dividends declared | $ 2,780,764 | $ 2,720,332 | $ 2,592,823 |
| Increase in dividends payable attributable to dividends declared | (7,585) | (41,516) | (6,304) |
| Dividends reinvested | (846,370) | (835,977) | (869,651) |
| | $ 1,926,809 | $ 1,842,839 | $ 1,716,868 |
| Stock dividend | $ 0 | $ 3,310,331 | $ 0 |

**Note 23. Quarterly Financial Data (Unaudited)**

A summary of financial data for the four quarters of 2006, 2005, and 2004 is presented below:

**COMMUNITY BANCORP. AND SUBSIDIARY**

| | Quarters in 2006 ended | | | |
|---|---|---|---|---|
| | **March 31,** | **June 30,** | **Sept. 30,** | **Dec. 31,** |
| Interest income | $ 4,874,446 | $ 5,188,141 | $ 5,293,321 | $ 5,619,936 |
| Interest expense | 1,616,977 | 1,847,419 | 2,078,793 | 2,159,899 |
| Provision for loan losses | 37,500 | 37,500 | 37,500 | 25,000 |
| Securities gains | 0 | 0 | 0 | 56,875 |
| Non-interest income | 669,624 | 838,393 | 791,409 | 824,750 |
| Non-interest expense | 3,113,226 | 3,120,224 | 3,061,570 | 2,859,350 |
| Net income | 665,942 | 832,100 | 764,064 | 1,113,342 |
| Earnings per common share | 0.16 | 0.20 | 0.19 | 0.27 |

| | Quarters in 2005 ended | | | |
|---|---|---|---|---|
| | **March 31,** | **June 30,** | **Sept. 30,** | **Dec. 31,** |
| Interest income | $ 4,357,163 | $ 4,421,948 | $ 4,648,748 | $ 4,929,703 |
| Interest expense | 1,179,886 | 1,318,911 | 1,394,072 | 1,534,529 |
| Provision for loan losses | 37,500 | 37,500 | 37,500 | 37,500 |
| Non-interest income | 694,589 | 796,303 | 821,370 | 860,459 |
| Non-interest expense | 2,951,815 | 2,953,735 | 2,896,883 | 2,939,816 |
| Net income | 730,141 | 757,044 | 918,112 | 1,015,338 |
| Earnings per common share | 0.18 | 0.19 | 0.23 | 0.24 |

| | Quarters in 2004 ended | | | |
|---|---|---|---|---|
| | **March 31,** | **June 30,** | **Sept. 30,** | **Dec. 31,** |
| Interest income | $ 4,161,101 | $ 4,177,138 | $ 4,172,423 | $ 4,455,683 |
| Interest expense | 1,255,820 | 1,226,265 | 1,145,625 | 1,134,460 |
| Provision for loan losses | 51,000 | 34,000 | 10,000 | 0 |
| Securities gains | 0 | 18,631 | 25,428 | 0 |
| Non-interest income | 663,209 | 884,152 | 855,239 | 815,101 |
| Non-interest expense | 2,740,438 | 2,777,099 | 2,875,104 | 2,806,849 |
| Net income | 763,842 | 819,201 | 800,123 | 1,013,798 |
| Earnings per common share | 0.19 | 0.20 | 0.20 | 0.26 |

**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:

| | | 2006 | | 2005 | | 2004 |
|---|---|---|---|---|---|---|
| Income | | | | | | |
| Income from sold loans, net of amortization | $ | 481,649 | $ | 551,091 | $ | 657,781 |
| Expenses | | | | | | |
| Printing and supplies | $ | 206,144 | $ | 214,263 | $ | 219,379 |
| State deposit tax | | 280,805 | | 240,000 | | 264,000 |
| Loss on limited partnerships | | 354,156 | | 338,216 | | 292,915 |
| Advertising | | 224,802 | | 219,996 | | 213,309 |
| Telephone | | 162,783 | | 193,121 | | 207,348 |
| ATM fees | | 187,173 | | 229,003 | | 197,716 |

**Note 25. Subsequent Event**

Effective December 12, 2006, the Company declared a cash dividend of $0.17 per share payable February 1, 2007 to shareholders of record as of January 15, 2007. This dividend has been recorded as of the declaration date including shares issuable under the DRIP plan.

For the Years Ended December 31, 2006, 2005, and 2004

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 Company ended the year on December 31, 2006 with total assets of $351,814,542. This is a decline of $2,013,022 from December 31, 2005. Although gross loans grew by $18,106,771, municipal investments were down by $7,321,799 and the available for sale securities portfolio decreased by $13,842,219. While loans grew by over $18 million, deposits, the Company’s traditional source of funding, grew by less than $7 million. To bridge the gap, the Company relied on maturities in the securities portfolio and wholesale borrowings to fund loan growth.

Mortgage interest rates remained low throughout the year fueling this loan growth, while short term rates remained flat. The flat, and at times slightly inverted, yield curve compressed net interest income spreads as rarely seen in the past. Our net interest spread for 2006 was 3.73% compared to 3.87% in 2005. While the shift of investment securities into loans created a higher yield on assets by 61 basis points, cost of funds increased disproportionately with an increase of 75 basis points. This was due to increasing rates on money market and certificate of deposit accounts and the need to use wholesale funding throughout the year.

Net income for 2006 was $3,375,448, or $.82 per share, compared to $3,420,635, or $.84 per share, in 2005. Net interest income after provision for loan losses for 2006 was $13,135,256, an incremental increase of $355,092 from 2005. Non-interest income was down from $3,172,721 in 2005 to $3,124,176 in 2006. This decrease was due mostly to lower fee income from mortgage loan activity and less income from foreign exchange of the Canadian dollar.

Non-interest expense was up from $11,742,249 in 2005 to $12,154,370 in 2006. This 3.5% increase is due primarily to increases in occupancy expense and outside professional expense such as audit, legal and consulting fees.

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 2006 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 evaluates on an ongoing basis its judgment as to which policies are considered to be critical. Management believes that the calculation of the allowance for loan losses (ALL) is a critical accounting policy that requires the most significant judgments and estimates used in the preparation of its consolidated financial statements. In estimating the ALL, management considers historical experience as well as other factors including the effect of changes in the local real estate market on collateral values, current economic indicators and their probable impact on borrowers and changes in delinquent, non-performing or impaired loans. Management's estimates used in calculating the ALL may increase or decrease based on changes in these factors, which in turn will affect the amount of the Company's provision for loan losses charged against current period income. 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. Because the extent of any recovery on these loans depends largely on the amount the Company is able to realize upon liquidation of the underlying collateral, 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.

Under current accounting rules, mortgage servicing rights associated with loans originated and sold, where servicing is retained, are capitalized and included in other assets in the consolidated balance sheet. Mortgage servicing rights are amortized into non-interest income in proportion to, and over the period of, estimated future net servicing income of the underlying financial assets. Mortgage servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. The value of capitalized servicing rights represents the present value of the future servicing fees arising from the right to service loans in the portfolio. The carrying value of the mortgage servicing rights is periodically reviewed for impairment based on a determination of fair value and impairment, if any, is recognized through a valuation allowance and is recorded as amortization of other assets. Critical accounting policies for mortgage servicing rights relate to the initial valuation and subsequent impairment tests. The methodology used to determine the valuation of mortgage servicing rights requires the development and use of a number of estimates, including anticipated principal amortization and prepayments of that principal balance. Events that may significantly affect the estimates used are changes in interest rates and the payment performance of the underlying loans. As required by SFAS No. 156, "Accounting for Servicing of Financial Assets-an Amendment to FASB Statement No. 140", the Company will be implementing changes to its valuation analysis, through the guidance of a third party provider. This accounting standard is discussed in more detail in the section labeled "Impact of Recently Issued Accounting Standards" found at the end of this narrative.

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, and deferred taxes. The assumptions considered in making these estimates are based on historical experience and on various other factors that are believed by management to be reasonable under the circumstances. Management acknowledges that the use of different estimates or assumptions could produce different estimates of carrying values.

## RESULTS OF OPERATIONS

The Company's net income of $3.38 million for the year ended December 31, 2006 represented a decrease of 1.3% from $3.42 million for the 2005 calendar year, compared to an increase of less than one percent over 2004. Although an increase of $342,592, or 2.7% is noted in net interest income for 2006 compared to 2005, non-interest income decreased $48,545 or by 1.5%, and non-interest expense increased $412,121, or by 3.5%, clearly offsetting the increase in net interest income. With the completion of the Derby Operation Center during the beginning of 2006, occupancy expense increased accordingly through increases in depreciation expense from year-end 2005 to year-end 2006. Increases in audit expenses and the state deposit tax also contributed to the increase from 2005 to 2006. Most of the increase in net income from year-end 2004 to year-end 2005 is due to a higher volume of in-house mortgages, creating more interest income in 2005 compared to 2004. Earnings for 2006, 2005 and 2004 resulted in earnings per share of $0.82, $0.84, and $0.85 respectively. The Company's average assets grew by 3.9% in 2006 resulting in total average assets of $354.0 million during 2006, compared to average assets of $340.7 million during 2005. An increase of $25.5 million or 10.7% in average loan volume accounts for the increase in average assets. This increase was offset, in part, by a decrease of $17.6 million or 23.1% in the Company's investment portfolio, as cash flows through maturities and calls were used to fund a portion of the loan growth. Significant growth of the Company's assets, together with a decrease in earnings for 2006, resulted in a return on average assets of 0.95% for 2006 compared to 1.00% for 2005.

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

| | December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| Return on Average Assets | 0.95% | 1.00% | 1.03% |
| Return on Average Equity | 11.35% | 12.05% | 12.32% |
| Dividend Payout Ratio | 82.93% | 79.76% | 75.29% |
| Average Equity to Average Assets Ratio | 8.40% | 8.33% | 8.38% |

The following table summarizes the earnings performance and balance sheet data of the Company during each of the last five fiscal years:

SELECTED FINANCIAL DATA

| Year Ended December 31, | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| | (Dollars in Thousands, except per share data) | | | | |
| Total Interest Income | $ 20,976 | $ 18,357 | $ 16,966 | $ 17,627 | $ 18,379 |
| Total Interest Expense | (7,703) | (5,427) | (4,762) | (5,359) | (6,680) |
| Net Interest Income | 13,273 | 12,930 | 12,204 | 12,268 | 11,699 |
| Provision for Loan Losses | (138) | (150) | (95) | (123) | (326) |
| Non-Interest Income | 3,124 | 3,173 | 3,218 | 3,432 | 3,319 |
| Non-Interest Expense | (12,154) | (11,742) | (11,200) | (10,790) | (10,527) |
| Income Before Income Taxes | 4,105 | 4,211 | 4,127 | 4,787 | 4,165 |
| Applicable Income Taxes (1) | (730) | (790) | (730) | (989) | (925) |
| Net Income | $ 3,375 | $ 3,421 | $ 3,397 | $ 3,798 | $ 3,240 |
| Balance Sheet Data: | | | | | |
| Net Loans | $ 266,396 | $ 249,336 | $ 226,716 | $ 203,526 | $ 204,047 |
| Total Assets | 351,815 | 353,828 | 334,836 | 330,742 | 309,228 |
| Total Deposits | 300,988 | 294,312 | 282,606 | 279,679 | 260,922 |
| Borrowed Funds | 40 | 10,040 | 6,407 | 8,040 | 5,040 |
| Total Liabilities | 321,084 | 324,704 | 306,793 | 303,657 | 283,523 |
| Total Shareholders' Equity | 30,731 | 29,123 | 28,043 | 27,085 | 25,705 |
| Per Share Data: (2) | | | | | |
| Earnings per Share | $ 0.82 | $ 0.84 | $ 0.85 | $ 0.96 | $ 0.83 |
| Cash Dividends Declared | $ 0.68 | $ 0.67 | $ 0.64 | $ 0.61 | $ 0.60 |
| Weighted Average Number of Common Shares Outstanding | 4,097,577 | 4,050,993 | 4,010,894 | 3,961,386 | 3,923,625 |
| Number of Common Shares Outstanding | 4,130,109 | 4,070,374 | 4,031,060 | 3,978,538 | 3,944,536 |

*(1) Applicable income taxes above includes the income tax effect, assuming a 34% tax rate, on securities gains, totaling $56,875 in 2006, $0 in 2005, $14,980 in 2004, $48,587 in 2003,and $10,646 in 2002.*
*(2) All per share data prior to the second quarter of 2005 has been restated to reflect a 5% stock dividend declared in that quarter of 2005.*

## INTEREST INCOME VERSUS INTEREST EXPENSE

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. Because the proportion of tax-exempt items in the Company's portfolio varies from period-to-period, to improve comparability of information across periods, the non-taxable income shown in tables A and B below has been converted to a tax equivalent amount. Because the Company’s corporate tax rate is 34%, 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 equivalent to $1.52 in taxable income.

The following table provides a reconciliation between net interest income presented in the statement of income and the tax equivalent net interest income presented in Table A below for the 12 month comparison periods of 2006, 2005, and 2004.

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| | (Dollars in Thousands) | | |
| Net interest income as presented | $ 13,273 | $ 12,930 | $ 12,204 |
| Effect of tax-exempt income | 556 | 546 | 527 |
| Net interest income, tax equivalent | $ 13,829 | $ 13,476 | $ 12,731 |

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 tax equivalent interest income and interest expense expressed both in dollars and as a rate/yield.

Table A
AVERAGE BALANCES AND INTEREST RATES

| | 2006 | | | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average Balance | Income/ Expense | Rate/ Yield | Average Balance | Income/ Expense | Rate/ Yield | Average Balance | Income/ Expense | Rate/ Yield |
| | (Dollars in Thousands) | | | | | | | | |
| Interest-Earning Assets | | | | | | | | | |
| Loans (1) | $ 263,901 | $ 18,471 | 7.00% | $ 238,376 | $ 15,645 | 6.56% | $ 212,460 | $ 13,870 | 6.53% |
| Taxable Investment Securities | 30,174 | 1,082 | 3.59% | 44,243 | 1,483 | 3.35% | 55,621 | 1,974 | 3.55% |
| Tax-exempt Investment Securities | 28,529 | 1,636 | 5.73% | 32,092 | 1,605 | 5.00% | 37,386 | 1,551 | 4.15% |
| Federal Funds Sold | 263 | 10 | 3.80% | 465 | 17 | 3.66% | 1,146 | 12 | 1.05% |
| Overnight Deposits | 3,052 | 156 | 5.11% | 591 | 20 | 3.38% | 2,059 | 26 | 1.26% |
| Other Securities | 3,161 | 177 | 5.60% | 3,014 | 133 | 4.41% | 1,969 | 60 | 3.05% |
| TOTAL | $ 329,080 | $ 21,532 | 6.54% | $ 318,781 | $ 18,903 | 5.93% | $ 310,641 | $ 17,493 | 5.63% |
| Interest-Bearing Liabilities | | | | | | | | | |
| Savings Deposits | $ 43,563 | $ 152 | 0.35% | $ 46,722 | $ 163 | 0.35% | $ 45,154 | $ 164 | 0.36% |
| NOW and Money Market Funds | 80,348 | 1,698 | 2.11% | 88,152 | 1,452 | 1.65% | 91,258 | 1,272 | 1.39% |
| Time Deposits | 121,691 | 4,835 | 3.97% | 99,042 | 2,981 | 3.01% | 100,656 | 2,903 | 2.88% |
| Other Borrowed Funds | 13,236 | 693 | 5.24% | 16,106 | 624 | 3.87% | 8,763 | 298 | 3.40% |
| Repurchase Agreements | 15,688 | 325 | 2.07% | 13,987 | 207 | 1.48% | 12,880 | 125 | 0.97% |
| TOTAL | $ 274,526 | $ 7,703 | 2.81% | $ 264,009 | $ 5,427 | 2.06% | $ 258,711 | $ 4,762 | 1.84% |
| Net Interest Income | | $13,829 | | | $13,476 | | | $12,731 | |
| Net Interest Spread(2) | | | 3.73% | | | 3.87% | | | 3.79% |
| Interest Margin(3) | | | 4.20% | | | 4.23% | | | 4.10% |

(1) Included in gross loans are non-accrual loans with an average balance of $1,070,518 for 2006, $623,011 for 2005, and $1,191,852 for 2004.
(2) Net interest spread is the difference between the yield on earning assets and the rate paid on interest-bearing liabilities.
(3) Interest margin is tax equivalent net interest income divided by average earning assets.

Interest income from loans accounts for approximately 85.8% of total interest income for 2006, reporting $18.5 million for 2006, compared to 82.8% or $15.6 million for 2005, and 79.3% or $13.9 million for 2004, with average yields of 7.00%, 6.56%, and 6.53%, respectively. An increase in the average volume of loans is noted throughout the comparison periods, and the rate earned on these assets increased 3 basis points from 2004 to 2005 and 44 basis points from 2005 to 2006. Short-term rates started to increase in the second half of 2004 and continued throughout 2005 and 2006. The Company's loans that are contractually scheduled to reprice based on benchmarks such as Prime Rate, increased according to their repricing schedule. This resulted in higher interest income to the Company on the loans tied to short-term indexes. Long-term rates however, did not increase accordingly. The increase in short-term rates while long-term rates remained at an all-time low created an even flatter yield curve, putting pressure on the net interest spread. The Company's loan growth during 2006 was primarily in adjustable rate mortgages that are kept in house, allowing the Company to grow the balance sheet with assets that will reprice as interest rates fluctuate.

The increase in short-term interest rates posed a challenge to the Company to manage interest cost during 2006. Interest expense on time deposits represents approximately 62.8% of total interest expense for 2006 compared to 54.9% for 2005. Totals for the comparison periods were $4.84 million for 2006, $2.98 million for 2005, $2.90 million for 2004, with average rates paid of 3.97%, 3.01%, and 2.88%, respectively. Growth in loans, which increased in average volume by $25.5 million or 10.7%, was funded in part through growth in average deposits of $12.6 million or 4.5%, but more so from maturities and calls of the securities portfolio, with wholesale borrowing used to fund short-term liquidity needs throughout the year. During 2006, the average volume of the securities portfolio decreased by $17.5 million or 22.1%. The increase in cost of funds for 2005 over 2004 reflects both the increase in borrowed funds and the increase in rates being paid on time deposits driven by market demands. Maintaining spreads continues to be challenging as deposit rates are driven higher by short term market rates. The flattening yield curve (short-term rates increasing faster than long-term rates) continues to delay the benefits of the rising rates.

During the first quarter of 2007, the Company implemented deposit reclassification as an effort to increase spread income. Deposit reclassification allows banks to reclassify certain balances of transactional accounts to non-transactional accounts for the purposes of calculating the daily cash reserve balances required to be maintained by the Federal Reserve Bank. Management expects that this process will reduce the Company's daily reserve requirement, translating to lower funding costs or greater investment opportunities.

The following table summarizes the variances in income for the years 2006, 2005, and 2004 resulting from volume changes in assets and liabilities and fluctuations in rates earned and paid.

Table B
CHANGES IN INTEREST INCOME AND INTEREST EXPENSE

| RATE VOLUME | 2006 vs. 2005 Variance Due to(1) Rate | Volume | Total Variance | 2005 vs. 2004 Variance Due to(1) Rate | Volume | Total Variance |
|---|---|---|---|---|---|---|
| | (Dollars in Thousands) | | | | | |
| Interest-Earning Assets | | | | | | |
| Loans(2) | $ 1,151 | $ 1,675 | $ 2,826 | $ 83 | $ 1,692 | $ 1,775 |
| Taxable Investment Securities | 103 | (504) | (401) | (110) | (381) | (491) |
| Tax-exempt Investment Securities | 235 | (204) | 31 | 319 | (265) | 54 |
| Federal Funds Sold | 1 | (8) | (7) | 30 | (25) | 5 |
| Overnight Deposits | 53 | 83 | 136 | 44 | (50) | (6) |
| Other Securities | 38 | 6 | 44 | 41 | 32 | 73 |
| Total Interest Earnings | $ 1,581 | $ 1,048 | $ 2,629 | $ 407 | $ 1,003 | $ 1,410 |
| Interest-Bearing Liabilities | | | | | | |
| Savings Deposits | $ 0 | $ (11) | $ (11) | $ (7) | $ 6 | $ (1) |
| NOW and Money Market Funds | 411 | (165) | 246 | 231 | (51) | 180 |
| Time Deposits | 1,172 | 682 | 1,854 | 127 | (49) | 78 |
| Other Borrowed Funds | 219 | (150) | 69 | 76 | 250 | 326 |
| Repurchase Agreements | 93 | 25 | 118 | 71 | 11 | 82 |
| Total Interest Expense | $ 1,895 | $ 381 | $ 2,276 | $ 498 | $ 167 | $ 665 |
| Change in Net Interest Income | $ (314) | $ 667 | $ 353 | $ (91) | $ 836 | $ 745 |

(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 declined 1.5% to $3.13 million in 2006 from $3.17 million in 2005, which decreased approximately 1.4% from $3.22 million in 2004. Income from sold loans is the largest single item that contributes to total non-interest income. Although secondary market sales were up in 2006 compared to 2005, income from loan sales was down due to a more competitive mortgage interest rate market. Income generated through the sale and servicing of these loans amounted to $852,461 for the year ended 2006, and $892,247 for the year ended 2005, compared to $975,720 for the same period in 2004. Originations of loans sold to the secondary market were $28.7 million in 2006 compared to $28.5 million in 2005. Originations have declined compared to the years from 2002 through 2004, but the Company still considers these figures to be strong. The Company will also continue to benefit from higher servicing fee income from the record sales during that time period. Increases in service fees during 2005 and 2006 helped to partially offset lower income from loan sales to the secondary market.

*Non-interest Expense*: The Company's non-interest expense increased approximately 3.5% to $12.2 million for 2006 compared to $11.7 million for 2005, which increased approximately 4.8% over 2004 expenses totaling $11.2 million. Salaries and wages decreased $5,003 or 0.11% for 2006 compared to 2005, while an increase of $298,043 or approximately 7% is noted for 2005 compared to 2004. Employee benefits increased throughout the comparison periods due to increases in health benefits and

pension plan costs, with an increase of $70,904 or 4.4% from 2005 to 2006 and $92,060 or approximately 6.0% from 2004 to 2005. Salaries and wages decreased in 2006 due to attrition and consolidation of some positions as well as reduced incentive payments. The increase in salaries, wages and employee benefits for 2005 compared to 2004 was due in part to some additional staff and normal salary increases, and an increase in health benefit payments for several major unforeseen claims against the Company's self-insured health plan that fell below the individual and aggregate coverage levels under the Company's stop loss insurance policy with a third party insurer.

Total losses relating to various limited partnership investments constitute a generous portion of other expenses. These losses amounted to $354,156 or 9.5% of other expenses in 2006, $338,216 or 9.5% in 2005, and $292,915 or 8.6% in 2004. These investments provide tax benefits, including tax credits in exchange for our participation in low income housing projects throughout the Company's market area. 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.

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 decreased 7.6% for 2006 versus 2005 while an increase of 8.2% was noted for 2005 versus 2004. The decrease in 2006 and the increase in 2005 are both consistent with earnings levels for those periods. Tax credits for the investments in the limited partnerships mentioned above amounted to $345,522 in 2006, compared to $320,165 in 2005 and $248,521 for 2004.

CHANGES IN FINANCIAL CONDITION

The Company had total average assets of $354.0 million during 2006 and $340.7 million during 2005, representing a 3.9% growth in average assets. Average earning assets grew by 3.2% with totals of $329.1 million during 2006 compared to $318.8 million during 2005. The growth of the balance sheet during 2006 was due primarily to an increase in the loan portfolio, as well as an increase in overnight deposits. The portfolio of government bonds and agency securities decreased from 2005 to 2006 as maturities and calls were used to help fund a portion of the loan growth.

Increases in liabilities help to provide funding for the growth in assets. An increase in total average interest-bearing liabilities of $10.5 million or approximately 4.0% was noted during 2006 compared to 2005. Average time deposits increased by $22.6 million, or by 22.9%, while average NOW and money market accounts decreased by $7.8 million, or 8.9% and average savings accounts decreased by $3.2 million, or by 6.8%. The increase in short-term rates fueled competition for Certificate of Deposit specials, thus the shift of money from the non-maturing NOW and money market accounts to Certificates of Deposits with favorable rates and maturity options. Additionally, the Company utilized the Certificate of Deposit Account Registry Service (CDARS) of Promontory Interfinancial Network as a source for wholesale funds in the amount of $9.0 million during the year, with $5.7 million still outstanding at year end. These balances are included in the total Time Deposits. As of December 31, 2006 the Company reported an average volume of $6.8 million from the CDARS.

Repurchase agreements ended the years of 2006 and 2005 at average volumes of $15.7 million and $14.0 million, respectively, resulting in an increase of $1.7 million or 12.2%. As required, securities from our investment portfolio are pledged against these agreements with a book value of $20.0 million and $18.1 million, respectively, for year-end 2006 and 2005, and a fair value of $19.7 million and $17.7 million, respectively.

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

DISTRIBUTION OF AVERAGE ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY

| | Year ended December 31, (Dollars in Thousands) | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | | 2005 | | 2004 | |
| AVERAGE ASSETS | Balance | % | Balance | % | Balance | % |
| Taxable Investment Securities(1) | $ 30,174 | 8.53% | $ 44,243 | 12.99% | $ 55,621 | 16.89% |
| Tax-exempt Investment Securities(1) | 28,529 | 8.06% | 32,092 | 9.42% | 37,386 | 11.35% |
| Other Securities(1) | 3,161 | 0.89% | 3,014 | 0.88% | 1,969 | 0.60% |
| Total Investment Securities | 61,864 | 17.48% | 79,349 | 23.29% | 94,976 | 28.84% |
| Cash and Due from Banks | | | | | | |
| Non-Interest Bearing | 8,724 | 2.46% | 8,618 | 2.53% | 7,816 | 2.37% |
| Overnight Deposits | 3,052 | 0.86% | 591 | 0.17% | 2,059 | 0.63% |
| Federal Funds Sold | 263 | 0.07% | 465 | 0.14% | 1,146 | 0.35% |
| Gross Loans | 263,901 | 74.55% | 238,376 | 69.97% | 212,460 | 64.52% |
| Reserve for Loan Losses and Accrued Fees | (2,923) | -0.83% | (2,892) | -0.85% | (3,004) | -0.91% |
| Premises and Equipment | 11,876 | 3.36% | 7,602 | 2.23% | 7,713 | 2.34% |
| Other Real Estate Owned | 0 | 0.00% | 5 | 0.00% | 103 | 0.03% |
| Other Assets | 7,238 | 2.05% | 8,579 | 2.52% | 6,020 | 1.83% |
| Total Average Assets | $ 353,995 | 100% | $ 340,693 | 100% | $ 329,289 | 100% |
| AVERAGE LIABILITIES | | | | | | |
| Demand Deposits | $ 46,964 | 13.27% | $ 46,078 | 13.53% | $ 40,140 | 12.19% |
| Now and Money Market Accounts | 80,348 | 22.70% | 88,152 | 25.87% | 91,258 | 27.71% |
| Savings Accounts | 43,563 | 12.30% | 46,722 | 13.71% | 45,154 | 13.71% |
| Time Deposits | 121,691 | 34.38% | 99,042 | 29.07% | 100,656 | 30.57% |
| Total Deposits | 292,566 | 82.65% | 279,994 | 82.18% | 277,208 | 84.18% |
| Other Borrowed Funds | 13,236 | 3.74% | 16,106 | 4.73% | 8,763 | 2.66% |
| Repurchase Agreements | 15,688 | 4.43% | 13,987 | 4.11% | 12,880 | 3.91% |
| Other Liabilities | 2,780 | 0.78% | 2,215 | 0.65% | 2,859 | 0.87% |
| Total Average Liabilities | $ 324,270 | 91.60% | $ 312,302 | 91.67% | $ 301,710 | 91.62% |
| AVERAGE SHAREHOLDERS' EQUITY | | | | | | |
| Common Stock | $ 10,783 | 3.05% | $ 10,430 | 3.06% | $ 10,021 | 3.04% |
| Surplus | 21,663 | 6.12% | 19,754 | 5.80% | 17,373 | 5.28% |
| Retained Earnings | 300 | 0.08% | 1,054 | 0.31% | 2,250 | 0.68% |
| Less: Treasury Stock | (2,600) | -0.73% | (2,483) | -0.73% | (2,277) | -0.69% |
| Accumulated Other Comprehensive (Loss) Income (1) | (421) | -0.12% | (364) | -0.11% | 212 | 0.07% |
| Total Average Shareholders' Equity | 29,725 | 8.40% | 28,391 | 8.33% | 27,579 | 8.38% |
| Total Average Liability and Shareholders' Equity | $ 353,995 | 100% | $ 340,693 | 100% | $ 329,289 | 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 (loss). The Company does not carry, nor does it intend to carry, securities classified as trading.*

RISK MANAGEMENT

*Interest Rate Risk and Asset and Liability Management* - 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 Management Committee (ALCO) is made up of the Executive Officers and all the Vice Presidents of the Bank. The ALCO formulates strategies to manage interest rate risk by evaluating the impact on earnings and capital of such factors as current interest rate forecasts and economic indicators, potential changes in such forecasts and indicators, liquidity, and various business strategies. The ALCO meets monthly to review financial statements, liquidity levels, yields and spreads to better understand, measure, monitor and control the Company’s interest rate risk. In the ALCO process, the committee members apply policy limits set forth in the Asset Liability, Liquidity and Investment policies approved by the Company’s Board of Directors. The ALCO's methods for evaluating interest rate risk include an analysis of the effects of interest rate changes on net interest income and an analysis of the Company's interest rate sensitivity "gap", which provides a static analysis of the maturity and repricing characteristics of the entire balance sheet.

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

While assumptions are developed based upon current economic and local market conditions, the Company cannot provide any assurances as to the predictive nature of these assumptions, including how customer preferences or competitor influences might change.

The following reflects the Company's NII sensitivity analysis over one-year and two-year horizons, assuming a parallel shift of the yield curve, as prepared by the consultant's review and measured as of December 31, 2006;

| One Year Horizon | | Two Year Horizon | |
|---|---|---|---|
| Rate Change | Percent Change in NII | Rate Change | Percent Change in NII |
| Down 200 basis points | -1.1% | Down 200 basis points | -4.6% |
| Up 200 basis points | -3.0% | Up 200 basis points | 1.1% |

The preceding sensitivity analysis does not represent a Company forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including, among others, the nature and timing of interest rate levels, yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, and reinvestment/replacement of asset and liability cash flows. While assumptions are developed based upon current economic and local market conditions, the Company cannot make any assurances as to the predictive nature of these assumptions, including how customer preferences or competitor influences might change.

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, 2006 and December 31, 2005. 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.

GAP ANALYSIS
Community Bancorp. & Subsidiary
December 31, 2006
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 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Overnight deposits | 8,174 | 0 | 0 | 0 | 0 | 8,174 |
| Investments - | | | | | | |
| Available for Sale | 1,000 | 3,949 | 16,675 | 988 | 0 | 22,612 |
| Held to Maturity | 1,960 | 15,294 | 762 | 682 | 2,372 | 21,070 |
| Restricted equity securities | 0 | 0 | 0 | 0 | 2,828 | 2,828 |
| Loans (1) | 49,725 | 36,213 | 42,941 | 68,749 | 70,947 | 268,575 |
| Total interest sensitive assets | $ 60,859 | $ 55,456 | $ 60,378 | $ 70,419 | $ 76,147 | $ 323,259 |
| Interest sensitive liabilities: | | | | | | |
| Time deposits $100,000 and over | $ 9,089 | $ 17,534 | $ 4,927 | $ 2,285 | $ 0 | $ 33,835 |
| Other time deposits | 28,092 | 53,352 | 12,987 | 5,445 | 0 | 99,876 |
| Money markets | 2,986 | 10,781 | 0 | 0 | 23,000 | 36,767 |
| Regular savings | 0 | 3,471 | 0 | 0 | 35,000 | 38,471 |
| Now accounts | 0 | 0 | 0 | 0 | 44,636 | 44,636 |
| Borrowed funds | 0 | 0 | 30 | 0 | 10 | 40 |
| Repurchase agreements | 17,084 | 0 | 0 | 0 | 0 | 17,084 |
| Total interest sensitive liabilities | $ 57,251 | $ 85,138 | $ 17,944 | $ 7,730 | $ 102,646 | $ 270,709 |
| Net interest rate sensitivity gap | $ 3,608 | $ (29,682) | $ 42,434 | $ 62,689 | $ (26,499) | |
| Cumulative net interest rate sensitivity gap | $ 3,608 | $ (26,074) | $ 16,360 | $ 79,049 | $ 52,550 | |
| Cumulative net interest rate sensitivity gap as a percentage of total assets | 1.03% | -7.41% | 4.65% | 22.47% | 14.94% | |
| Cumulative interest sensitivity gap as a percentage of total interest-earning assets | 1.12% | -8.07% | 5.06% | 24.45% | 16.26% | |
| Cumulative interest earning assets as a percentage of cumulative interest-bearing liabilities | 106.30% | 81.69% | 110.20% | 147.04% | 119.41% | |

(1) Loan totals exclude non-accruing loans amounting to $720,587.

GAP ANALYSIS
Community Bancorp. & Subsidiary
December 31, 2005
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 | $ 3,120 | $ 0 | $ 0 | $ 0 | $ 0 | $ 3,120 |
| Overnight deposits | 3,388 | 0 | 0 | 0 | 0 | 3,388 |
| Investments - | | | | | | |
| Available for Sale | 3,000 | 8,945 | 13,703 | 9,768 | 1,006 | 36,422 |
| Held to Maturity | 3,342 | 22,297 | 711 | 697 | 1,345 | 28,392 |
| Restricted equity securities | 0 | 0 | 0 | 0 | 3,252 | 3,252 |
| Loans (1) | 48,180 | 38,453 | 32,687 | 59,910 | 72,544 | 251,774 |
| Total interest sensitive assets | $ 61,030 | $ 69,695 | $ 47,101 | $ 70,375 | $ 78,147 | $ 326,348 |
| Interest sensitive liabilities: | | | | | | |
| Time deposits $100,000 and over | $ 3,234 | $ 10,650 | $ 8,701 | $ 3,037 | $ 0 | $ 25,622 |
| Other time deposits | 14,839 | 34,219 | 20,421 | 8,002 | 0 | 77,481 |
| Money markets | 1,268 | 26,155 | 0 | 0 | 30,000 | 57,423 |
| Regular savings | 0 | 5,281 | 0 | 0 | 40,000 | 45,281 |
| Now accounts | 0 | 0 | 0 | 0 | 42,656 | 42,656 |
| Borrowed funds | 5,000 | 0 | 30 | 0 | 5,010 | 10,040 |
| Repurchase agreements | 17,347 | 0 | 0 | 0 | 0 | 17,347 |
| Total interest sensitive liabilities | $ 41,688 | $ 76,305 | $ 29,152 | $ 11,039 | $ 117,666 | $ 275,850 |
| Net interest rate sensitivity gap | $ 19,342 | $ (6,610) | $ 17,949 | $ 59,336 | $ (39,519) | |
| Cumulative net interest rate sensitivity gap | $ 19,342 | $ 12,732 | $ 30,681 | $ 90,017 | $ 50,498 | |
| Cumulative net interest rate sensitivity gap as a percentage of total assets | 5.47% | 3.60% | 8.67% | 25.44% | 14.27% | |
| Cumulative interest sensitivity gap as percentage of total interest-earning assets | 5.93% | 3.90% | 9.40% | 27.58% | 15.47% | |
| Cumulative interest earning assets as a percentage of cumulative interest-bearing liabilities | 146.40% | 110.79% | 120.85% | 156.91% | 118.31% | |

(1) Loan totals exclude non-accruing loans amounting to $436,419.

*Credit Risk* - A primary concern of management is to reduce the exposure to credit loss within the loan portfolio. Management follows established underwriting guidelines, and any exceptions to the policy must be approved by a loan officer with higher authority than the loan officer 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. Credit risk may also arise from geographic concentration of loans. While the Company's loan portfolio is derived primarily from its primary market area in northeast Vermont, geographic concentration is partially mitigated by the continued growth of the Company's loan portfolio in central Vermont, its newest market area.

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

| | 2006 | | 2005 | | 2004 | | 2003 | | 2002 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | $ 11,889 | 4.42% | $ 13,931 | 5.52% | $ 11,646 | 5.07% | $ 8,929 | 4.32% | $ 9,969 | 4.81% |
| Farm Land | 3,217 | 1.19% | 2,870 | 1.14% | 2,496 | 1.09% | 2,783 | 1.35% | 2,818 | 1.36% |
| 1-4 Family Residential | 157,008 | 58.30% | 144,777 | 57.40% | 127,555 | 55.55% | 120,848 | 58.51% | 121,138 | 58.50% |
| Commercial Real Estate | 54,236 | 20.14% | 48,505 | 19.23% | 43,610 | 18.99% | 33,422 | 16.18% | 30,277 | 14.62% |
| Loans to Finance | | | | | | | | | | |
| Agricultural Production | 224 | 0.08% | 214 | 0.09% | 443 | 0.19% | 529 | 0.26% | 369 | 0.18% |
| Commercial & Industrial | 21,993 | 8.17% | 20,049 | 7.95% | 21,592 | 9.40% | 16,951 | 8.21% | 18,846 | 9.10% |
| Consumer Loans | 20,588 | 7.65% | 21,296 | 8.44% | 21,716 | 9.46% | 22,517 | 10.90% | 23,110 | 11.16% |
| All Other Loans | 141 | 0.05% | 567 | 0.23% | 575 | 0.25% | 552 | 0.27% | 556 | 0.27% |
| Gross Loans | 269,296 | 100% | 252,209 | 100% | 229,633 | 100% | 206,531 | 100% | 207,083 | 100% |
| Less: | | | | | | | | | | |
| Reserve for Loan Losses | (2,268) | -0.84% | (2,189) | -0.87% | (2,153) | -0.94% | (2,199) | -1.06% | (2,156) | -1.04% |
| Unearned Loan Fees | (632) | -0.24% | (684) | -0.27% | (764) | -0.33% | (805) | -0.39% | (880) | -0.43% |
| Net Loans | $ 266,396 | 98.92% | $ 249,336 | 98.86% | $ 226,716 | 98.73% | $ 203,527 | 98.55% | $ 204,047 | 98.53% |

The following table shows the estimated maturity of the Company's commercial loan portfolio as of December 31, 2006.

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 | $ 6,316 | $ 12 | $ 438 | $ 6,766 | $ 4,422 | $ 701 | $ 0 | $ 5,123 |
| Secured by Farm Land | 325 | 0 | 618 | 943 | 1,709 | 565 | 0 | 2,274 |
| Commercial Real Estate | 508 | 1,593 | 9,409 | 11,510 | 17,557 | 15,008 | 10,161 | 42,726 |
| Loans to Finance Agricultural Production | 3 | 13 | 0 | 16 | 208 | 0 | 0 | 208 |
| Commercial & Industrial Loans | 537 | 7,778 | 1,297 | 9,612 | 8,979 | 2,666 | 736 | 12,381 |
| Total | $ 7,689 | $ 9,396 | $ 11,762 | $ 28,847 | $ 32,875 | $ 18,940 | $ 10,897 | $ 62,712 |

*Allowance for loan losses and provisions* - The Company continues to maintain an allowance for loan losses at a level that management believes is appropriate to absorb losses inherent in the loan portfolio. As of December 31, 2006, the Company maintained a residential loan portfolio of $157 million and a commercial real estate portfolio (including construction, land development and farm land loans) of $69.3 million, together accounting for approximately 84% of the total loan portfolio. The Company's commercial loan portfolio includes loans that carry guarantees from government programs. At December 31, 2006, the Company had $18.4 million in guaranteed loans, compared to $18.7 million at December 31, 2005. This volume, together with the low historical loan loss experience in these portfolios, helps to support the Company's basis for loan loss coverage. Furthermore, the Company is committed to a conservative lending philosophy and maintains high credit and underwriting standards.

The loan loss provision decreased from $150,000 or .06% of average total loans in 2005 to $137,500 or .05% of average total loans in 2006. Growth in the loan portfolio was constant, while levels of delinquency and non-accrual loans remained moderate. This, in combination with the other factors noted above, in management's view warranted the slight decrease in the 2006 provision.

Net loan losses decreased for 2006 and 2005 compared to 2004. The following table summarizes the Company's loan loss experience for each of the last five years.

SUMMARY OF LOAN LOSS EXPERIENCE

| December 31, | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| | | | (Dollars in Thousands) | | |
| Loans Outstanding End of Period | $ 269,296 | $ 252,209 | $ 229,633 | $ 206,531 | $ 207,083 |
| Average Loans Outstanding During Period | $ 263,901 | $ 238,376 | $ 212,460 | $ 205,237 | $ 196,528 |
| Loan Loss Reserve, Beginning of Period | $ 2,189 | $ 2,153 | $ 2,199 | $ 2,156 | $ 2,008 |
| Loans Charged Off: | | | | | |
| Residential Real Estate Loans | 6 | 5 | 26 | 2 | 55 |
| Commercial Real Estate Loans | 17 | 0 | 0 | 10 | 0 |
| Commercial Loans not Secured by Real Estate | 13 | 45 | 54 | 0 | 5 |
| Consumer Loans | 91 | 130 | 189 | 185 | 237 |
| Total | 127 | 180 | 269 | 197 | 297 |
| Recoveries: | | | | | |
| Residential Real Estate Loans | 1 | 1 | 1 | 4 | 3 |
| Commercial Real Estate Loans | 6 | 0 | 0 | 0 | 0 |
| Commercial Loans not Secured by Real Estate | 3 | 6 | 12 | 3 | 4 |
| Consumer Loans | 58 | 59 | 115 | 110 | 112 |
| Total | 68 | 66 | 128 | 117 | 119 |
| Net Loans Charged Off | 59 | 114 | 141 | 80 | 178 |
| Provision Charged to Income | 138 | 150 | 95 | 123 | 326 |
| Loan Loss Reserve, End of Period | $ 2,268 | $ 2,189 | $ 2,153 | $ 2,199 | $ 2,156 |
| Net Losses as a Percent of Average Loans | 0.02% | 0.05% | 0.07% | 0.04% | 0.09% |
| Provision Charged to Income as a Percent of Average Loans | 0.05% | 0.06% | 0.04% | 0.06% | 0.17% |
| At End of Period: | | | | | |
| Loan Loss Reserve as a Percent of Outstanding Loans | 0.84% | 0.87% | 0.94% | 1.06% | 1.04% |

A comparison of non-performing assets reveals an increase of approximately $314,000 or 51% for 2006 compared to 2005, and a decrease of approximately $529,000 or 46% for 2005 compared to 2004. Non-performing assets were made up of the following:

NON-PERFORMING ASSETS

| December 31, | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| | | | (Dollars in Thousands) | | |
| Accruing Loans Past Due 90 Days or More: | | | | | |
| Consumer | $ 33 | $ 8 | $ 7 | $ 4 | $ 16 |
| Commercial | 60 | 0 | 50 | 0 | 1 |
| Commercial Real Estate | 0 | 0 | 0 | 0 | 198 |
| Residential Real Estate | 113 | 169 | 137 | 15 | 142 |
| Total | 206 | 177 | 194 | 19 | 357 |
| Non-accrual Loans | 721 | 436 | 865 | 1,295 | 1,631 |
| Total Non-accrual and Past Due Loans | 927 | 613 | 1,059 | 1,314 | 1,988 |
| Other Real Estate Owned | 0 | 0 | 83 | 88 | 0 |
| Total Non-Performing Loans | $ 927 | $ 613 | $ 1,142 | $ 1,402 | $ 1,988 |
| Percent of Gross Loans | 0.34% | 0.24% | 0.50% | 0.68% | 0.96% |
| Reserve Coverage of Non-Performing Loans | 244.66% | 357.10% | 188.53% | 156.85% | 108.45% |

When it is determined that future collection of interest and principal is doubtful, a loan is placed in non-accrual status. At this point, the Company's policy is to reverse the accrued interest against current income 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 2006, 2005, 2004, 2003, and 2002, is made up primarily of residential real estate loans. Management does not anticipate any substantial effect to future operations if any of these loans is liquidated. Although interest on non-accrual loans 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. As of December 31$^{st}$, for each respective year, this accrued interest amounted to $32,362 for 2006, $6,889 for 2005, $11,287 for 2004, $107,073 for 2003, and $401,758 for 2002. The decrease in accrued interest from 2002 to 2004 is attributable to the change from non-accrual to accrual status, during the two-year period, on loans that had been in the non-accrual portfolio for a number of years.

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

Specific allocations are made in the allowance for loan losses in situations management believes may represent a greater risk for loss. A portion of the allowance is determined based on historical charge-offs, adjusted for qualitative risk factors. 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 the trends in delinquencies and non-accruals. In addition, a portion of the allowance (termed "unallocated") is established to absorb inherent losses that exist as of the valuation date although not specifically identified through management's objective processes for estimated credit losses. Residential mortgage loans make up the largest part of the loan portfolio and have the lowest historical loss ratio, helping to alleviate the overall risk. While the allowance is described as consisting of separate allocated portions, the entire allowance is available to support loan losses, regardless of category.

Allocation of the allowance for loan losses, as well as the percent of loans in each category to total loans as of December 31, follows:

| December 31, | 2006 | % | 2005 | % | 2004 | % | 2003 | % | 2002 | % |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | (Dollars in Thousands) | | | | | |
| Residential Real Estate | $ 1,055 | 58% | $ 973 | 57% | $ 725 | 55% | $ 809 | 59% | $ 873 | 59% |
| Commercial(1) | 956 | 34% | 858 | 34% | 936 | 35% | 786 | 30% | 646 | 30% |
| Consumer | 204 | 8% | 229 | 9% | 260 | 10% | 325 | 11% | 430 | 11% |
| Unallocated | 53 | 0% | 129 | 0% | 232 | 0% | 279 | 0% | 207 | 0% |
| Total | $ 2,268 | 100% | $ 2,189 | 100% | $ 2,153 | 100% | $ 2,199 | 100% | $ 2,156 | 100% |

*Market Risk* - In addition to credit risk in the Company's loan portfolio and liquidity risk, the Company's business activities also generate market risk. Market risk is the risk of loss in a financial instrument arising from adverse changes in market prices and rates, foreign currency exchange rates, commodity prices and equity prices. 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. Interest rate risk is directly related to the different maturities and repricing characteristics of interest-bearing assets and liabilities, as well as to loan prepayment risks, early withdrawal of time deposits, and the fact that the speed and magnitude of responses to interest rate changes vary by product. As discussed above under "Interest Rate Risk and Asset and Liability Management", the Company actively monitors and manages its interest rate risk through the ALCO process.

INVESTMENT SECURITIES

The Company maintains an investment portfolio of various securities to diversify its 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 decreased approximately $13.8 million in 2006, from $36.5 million to $22.6 million as of December 31, 2006, as maturities and calls were used to fund loan demand, which outpaced deposit growth. The Company's held-to-maturity portfolio consisted of Obligations of State and Political Subdivisions with a book value of $21.1 million as of December 31, 2006, compared to $28.4 million as of December 31, 2005.

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's investment policy does not permit the holding of trading securities. 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 unrealized losses after taxes of $270,664 and $452,118, respectively, at the end of 2006 and 2005. The decrease in unrealized loss is due to the decreasing interest rate environment. As rates decrease, bonds with lower coupons increase in value in order to equalize the yield. Although classified as available for sale, these bonds are short term and we anticipate keeping them until maturity, therefore, this unrealized loss is considered a temporary position for the Company.

Some of the Company's investment portfolios have a "call" feature, meaning that the issuer may call in the investment, before maturity, at predetermined call dates and prices. Given the low rate environment, many of those investments with call features were exercised during 2006 and 2005. During 2005, a few of the investments called were replaced with investments at current market prices, while the remaining calls for 2005 and all the calls in 2006 were used to fund loan growth. A provision of the Statement of Financial Accounting Standards No. 115 allows an investor to sell an investment classified as held-to-maturity before its maturity date if the security has a call feature. It is permissible to sell such a security within 90 days of the call date if it is highly probable that the security will be called. During the third quarter of 2004, the Company sold an investment from the held-to-maturity portfolio as permitted by this special provision. This security was called on November 2, 2004.

The Company's investment portfolios as of December 31, 2006 and 2005 were as follows:

COMPOSITION OF INVESTMENT PORTFOLIO

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | (Dollars in Thousands) | | | |
| December 31, 2006 | | | | |
| Available-for-Sale | | | | |
| U. S. sponsored enterprise securities | $ 19,030 | $ 0 | $ 382 | $ 18,648 |
| U. S. Government securities | 3,992 | 5 | 33 | 3,964 |
| | $ 23,022 | $ 5 | $ 415 | $ 22,612 |
| Held-to-Maturity | | | | |
| States and political subdivisions | $ 21,070 | $ 231 | $ 0 | $ 21,301 |
| Restricted Equity Securities | $ 2,828 | $ 0 | $ 0 | $ 2,828 |
| Total | $ 46,920 | $ 236 | $ 415 | $ 46,741 |
| December 31, 2005 | | | | |
| Available-for-Sale | | | | |
| U. S. sponsored enterprise securities | $ 33,116 | $ 2 | $ 652 | $ 32,466 |
| U. S. Government securities | 2,989 | 1 | 39 | 2,951 |
| Corporate debt securities | 1,002 | 3 | 0 | 1,005 |
| Other investments | 32 | 0 | 0 | 32 |
| | $ 37,139 | $ 6 | $ 691 | $ 36,454 |
| Held-to-Maturity | | | | |
| States and political subdivisions | $ 28,392 | $ 52 | $ 0 | $ 28,444 |
| Restricted Equity Securities | $ 3,252 | $ 0 | $ 0 | $ 3,252 |
| Total | $ 68,783 | $ 58 | $ 691 | $ 68,150 |

Realized gains and losses for each of the last three years were as follows:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| | (Dollars in Thousands) | | |
| Available-for-Sale | | | |
| Realized Gains | $ 57 | $ 0 | $ 70 |
| Realized Losses | 0 | 0 | (31) |
| Net Realized Gains | $ 57 | $ 0 | $ 39 |
| Held-to-Maturity | | | |
| Realized Gains | $ 0 | $ 0 | $ 5 |
| Total Realized Gains | $ 57 | $ 0 | $ 44 |

In July, 2003, Community Bancorp. purchased 500 shares of Siwooganock stock at a price of $32,500. In January, 2004, Siwooganock Bank was reorganized into Siwooganock Holding Company Inc. In July, 2005, a 5 for 1 stock split occurred resulting in an increase of 2,000 shares bringing total shares held by Community Bancorp. to 2,500. In 2006, Siwooganock Holding Company Inc. was merged with Passumpsic Bancorp. As a result of this merger, all shares outstanding were converted into the right to receive payment of $35.75 per share. Community Bancorp. received $89,375 for the shares held, resulting in the gain of $56,875 in 2006.

In 2004, Realized gains on securities held-to-maturity were due to call features, discussed earlier in this section, exercised prior to maturity on certain debt securities.

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The following is an analysis of the maturities and yields of the debt securities in the Company's investment portfolio for each of the last three fiscal years:

MATURITIES AND YIELDS OF INVESTMENT PORTFOLIO

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | | 2005 | | 2004 | |
| | Fair/Book Value(1) | Weighted Average Rate | Fair/Book Value(1) | Weighted Average Rate | Fair/Book Value(1) | Weighted Average Rate |
| | (Dollars in Thousands) | | | | | |
| U.S. Treasury & U.S. Sponsored Enterprise Obligations | | | | | | |
| Available-for-Sale | | | | | | |
| Due within 1 year | $ 4,949 | 3.23% | $ 10,939 | 2.92% | $ 12,114 | 3.05% |
| Due after 1 year within 5 years | 17,663 | 3.75% | 23,472 | 3.47% | 34,913 | 3.09% |
| Due after 5 years within 10 years | 0 | 0.00% | 1,006 | 5.31% | 2,039 | 5.78% |
| Total | $ 22,612 | 3.64% | $ 35,417 | 3.35% | $ 49,066 | 3.19% |
| Held-to-Maturity | | | | | | |
| Due after 5 years within 10 years | $ 0 | 0.00% | $ 0 | 0.00% | $ 996 | 7.66% |
| Total | $ 0 | 0.00% | $ 0 | 0.00% | $ 996 | 7.66% |
| Obligations of State & Political Subdivisions (2) | | | | | | |
| Held-to-Maturity | | | | | | |
| Due within 1 year | $ 17,254 | 5.40% | $ 25,638 | 5.04% | $ 27,280 | 4.02% |
| Due after 1 year within 5 years | 1,444 | 6.34% | 1,409 | 5.73% | 1,679 | 5.25% |
| Due after 5 years within 10 years | 1,744 | 7.42% | 697 | 7.09% | 956 | 6.48% |
| Due after 10 years | 628 | 10.88% | 648 | 10.90% | 668 | 10.90% |
| Total | $ 21,070 | 5.79% | $ 28,392 | 5.25% | $ 30,583 | 4.31% |
| Corporate Bonds | | | | | | |
| Available-for-Sale | | | | | | |
| Due within 1 year | $ 0 | 0.00% | $ 1,005 | 5.86% | $ 1,010 | 4.50% |
| Due after 1 year within 5 years | 0 | 0.00% | 0 | 0.00% | 1,042 | 5.89% |
| Total | $ 0 | 0.00% | $ 1,005 | 5.86% | $ 2,052 | 5.21% |
| Restricted Equity Securities | $ 2,828 | 5.76% | $ 3,252 | 4.90% | $ 2,315 | 3.65% |
| Total | $ 2,828 | 5.76% | $ 3,252 | 4.90% | $ 2,315 | 3.65% |

*(1) Investments classified as available-for-sale are presented at fair value, and investments classified as held-to-maturity are presented at book value.*

*(2) Income on Obligations of State and Political Subdivisions is stated on a tax equivalent basis assuming a 34 percent tax rate.*

## BANK PREMISES AND EQUIPMENT

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

| | 2006 | 2005 |
|---|---|---|
| | (Dollars in Thousands) | |
| Land and land improvements | $ 2,315 | $ 1,566 |
| Buildings and improvements | 9,747 | 9,301 |
| Furniture and equipment | 5,282 | 5,040 |
| Leasehold improvements | 623 | 637 |
| Other prepaid assets and construction in progress | 95 | 8 |
| | 18,062 | 16,552 |
| Less accumulated depreciation and amortization | (5,728) | (4,935) |
| | $ 12,334 | $ 11,617 |

The Barre branch building was constructed on leased land under a twenty-year ground lease. The lease included an option to purchase exercisable after the 6th year, with one-half of the annual rental previously paid applied to the purchase price. During the third quarter of 2006, the Company exercised its option to purchase the leased land.

The Company is well settled into its new operations center in Derby. Construction began on this project in October of 2004, and was completed during the first quarter of 2006. Major components include a three-lane drive up teller system; the third lane being served by a 24 hour drive-up ATM, and a 19,000 square foot addition to the main office. The cost of this project was approximately $4.3 million. The financial impact to the Company's earnings, from recording the cost of this project in 2005, was limited to less than two months of depreciation, amounting to approximately $44,000, compared to 12 months of depreciation for 2006 amounting to $323,580.

Depreciation included in occupancy and equipment expense amounted to $878,645, $789,586, and $772,886 for the years ended December 31, 2006, 2005 and 2004, respectively.

The Company leases four of its nine locations, and they are the offices in Island Pond, Barton, St. Johnsbury, and Montpelier, Vermont. The operating leases for these four locations expire in various years through 2015 with options to renew.

## 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. 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. From December 31, 2005 to December 31, 2006, there has not been any activity that has created any additional types of off-balance-sheet risk.

The Company generally requires collateral or other security to support financial instruments with credit risk. The Company's financial instruments whose contract amount represents credit risk as of December 31, 2006 and 2005 are as follows:

| | Contract or ----Notional Amount---- 2006 | 2005 |
|---|---|---|
| | (Dollars in Thousands) | |
| Unused portions of commercial lines of credit | $ 11,116 | $ 17,497 |
| Unused portions of home equity lines of credit | 11,212 | 8,868 |
| Other commitments to extend credit | 11,982 | 10,304 |
| Standby letters of credit and commercial letters of credit | 1,004 | 621 |
| Credit card arrangements | 9,087 | 8,890 |
| MPF credit enhancement obligation, net of liability recorded | 1,131 | 1,066 |

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

AGGREGATE CONTRACTUAL OBLIGATIONS

As of December 31, 2006, the Company had the following contractual obligations in the time periods indicated:

| | Less than 1 year | 2-3 years | 4-5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| | (Dollars in Thousands) | | | | |
| Operating Leases | $ 143 | $ 289 | $ 217 | $ 336 | $ 985 |
| Housing Limited Partnerships | 236 | 0 | 0 | 0 | 236 |
| FHLB Borrowings | 0 | 30 | 0 | 10 | 40 |
| Total | $ 379 | $ 319 | $ 217 | $ 346 | $ 1,261 |

EFFECTS OF INFLATION

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

The impact of inflation on the Company's financial results depends on management's ability to react to changes in interest rates in order to reduce inflationary effect on performance. Interest rates do not necessarily move in conjunction with changes in the prices of other goods and services. As discussed above, management seeks to manage the relationship between interest-sensitive assets and liabilities in order to protect against significant interest rate fluctuations, including those resulting from inflation.

LIQUIDITY AND CAPITAL RESOURCES

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

funding requirements for loan commitments. The Company's strategy is to fund assets to the maximum extent possible with core deposits that provide a sizable source of relatively stable and low-cost funds.

In past years, while depositors were waiting for improved performance in stock-market based investments, banks were flush with deposits, creating excess liquidity. This liquidity was put to good use while loan demand was high. As depositors gained confidence in the markets, deposit growth has become stagnate, while loan demand has remained steady. Funding for loan growth has been augmented with short-term borrowings and cash flows from maturing investments.

The Company has taken the approach of offering deposit specials at competitive rates, in varying terms that fit within the balance sheet mix. The strategy of offering specials is meant to provide a means to retain deposits while not having to reprice the entire deposit portfolio.

The Company has an unsecured Federal Funds line with the Federal Home Loan Bank of Boston (FHLB) with an available balance of $4.3 million at December 31, 2006. 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 $82.9 million through the FHLB is secured by the Company's qualifying loan portfolio (generally, residential mortgages).

Throughout 2006, the Company relied on this borrowing capacity to help fund loan growth, with month end balances reported as high as $22.7 million. As deposits increased during the year, the need for these sources decreased. As of December 31, 2006, the Company had total advances of approximately $40,000 against the $82.9 million line, consisting of the following:

| Purchase Date | Annual Rate | Maturity Date | Principal Balance |
|---|---|---|---|
| November 16, 1992 | 7.57% | November 16, 2007 | 30,000 |
| November 16, 1992 | 7.67% | November 16, 2012 | 10,000 |
| Total Long-term Advances | | | $ 40,000 |

Under a separate agreement, the Company has the authority to collateralize public unit deposits up to its FHLB borrowing capacity ($82.9 million less outstanding advances) with letters of credit issued by the FHLB. The Company offers a Government Agency Account to the municipalities collateralized with these letters of credit issued by FHLB. At December 31, 2006, approximately $52.3 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, 2006, an average daily balance for the fourth quarter of approximately $26.0 million was reported.

Total cash dividends of $0.68 per share were declared during 2006, representing increases of 1.50% over cash dividends of $0.67 declared during 2005, 6.25% over cash dividends totaling $0.64 per share during 2004. In December, 2006, the Company declared a $0.17 per share cash dividend, payable February 1, 2007 to shareholders of record as of January 15, 2007, requiring the Company to accrue a liability of $699,549 for this dividend in the fourth quarter of 2006. A 5% stock dividend was declared in the second quarter of 2005, payable on July 1, 2005 to shareholders of record as of June 15, 2005. As a result of this stock dividend, all per share data for the previous quarters and years have been restated.

The following table illustrates the changes in shareholders' equity from December 31, 2005 to December 31, 2006:

| | |
|---|---|
| Balance at December 31, 2005 (book value $7.15 per share) | $29,123,334 |
| Net income | 3,375,448 |
| Issuance of stock | 831,350 |
| Purchase of treasury stock (fractional shares redeemed) | (11) |
| Total dividends declared | (2,780,764) |
| Change in unrealized loss on available-for-sale securities, net of tax | 181,454 |
| Balance at December 31, 2006 (book value $7.44 per share) | $30,730,811 |

As of December 31, 2006, of the 405,000 shares authorized for the stock buyback plan announced in 2000 and extended in 2002, 178,890 shares had been repurchased, leaving 226,110 shares available for repurchase. The repurchase price paid for

these shares ranged from $9.75 per share in May of 2000 to $16.50 per share in September of 2005. There was no repurchase activity in 2006 under the buyback plan. The last purchase was on December 23, 2005 in which 4,938 shares were repurchased at a price of $16.00 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).

Regulators have also established minimum capital ratio guidelines for FDIC-insured banks under the prompt corrective action provisions of the Federal Deposit Insurance Act, as amended. These minimums are risk-based capital ratio of 10.0% and Tier 1 capital ratio of 6.0%. As of December 31, 2006, the Company’s Subsidiary was 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 Subsidiary's classification.

The risk based ratios of the Company and its subsidiary as of year end 2006 and 2005 exceeded regulatory guidelines and are presented in the table below.

| | Actual | | Minimum For Capital Adequacy Purposes: | | Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions: | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | | | (Dollars in Thousands) | | | |
| As of December 31, 2006: | | | | | | |
| Total capital (to risk-weighted assets) | | | | | | |
| Consolidated | $33,270 | 14.10% | $18,879 | 8.0% | N/A | N/A |
| Bank | $33,047 | 14.01% | $18,872 | 8.0% | $23,590 | 10.0% |
| Tier I capital (to risk-weighted assets) | | | | | | |
| Consolidated | $31,002 | 13.14% | $ 9,439 | 4.0% | N/A | N/A |
| Bank | $30,779 | 13.05% | $ 9,436 | 4.0% | $14,154 | 6.0% |
| Tier I capital (to average assets) | | | | | | |
| Consolidated | $31,002 | 8.59% | $14,434 | 4.0% | N/A | N/A |
| Bank | $30,779 | 8.53% | $14,430 | 4.0% | $18,038 | 5.0% |
| As of December 31, 2005: | | | | | | |
| Total capital (to risk-weighted assets) | | | | | | |
| Consolidated | $31,764 | 14.65% | $17,347 | 8.0% | N/A | N/A |
| Bank | $32,037 | 14.78% | $17,343 | 8.0% | $21,678 | 10.0% |
| Tier I capital (to risk-weighted assets) | | | | | | |
| Consolidated | $29,575 | 13.64% | $ 8,674 | 4.0% | N/A | N/A |
| Bank | $29,848 | 13.77% | $ 8,671 | 4.0% | $13,007 | 6.0% |
| Tier I capital (to average assets) | | | | | | |
| Consolidated | $29,575 | 8.37% | $14,136 | 4.0% | N/A | N/A |
| Bank | $29,848 | 8.45% | $14,132 | 4.0% | $17,666 | 5.0% |

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.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Financial Accounting Standards (SFAS) No. 156, "Accounting for Servicing of Financial Assets-an Amendment to FASB Statement No. 140," requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. Servicing assets and servicing liabilities will subsequently be reported using the amortization method or the fair value measurement method. An entity should adopt SFAS No. 156 as of the beginning of its first fiscal year that begins after September 15, 2006 with earlier application permitted with certain restrictions. The initial application of the fair value measurement method would be reported as a cumulative effect adjustment to beginning retained earnings. SFAS No. 156 requires certain disclosures about the basis for measurement and regarding risks, activity, and fair value of servicing assets and of servicing liabilities. Management does not expect SFAS No. 156 to have a material impact on the Company's financial statements.

In July 2006, FASB issued Financial Accounting Standards Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not expect FIN 48 to have a material effect on the financial condition and results of operations of the Company.

In September 2006, the SEC issued SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 requires registrants to evaluate the materiality of unadjusted financial statement misstatements using both the rollover and iron curtain methods. The rollover method quantifies a misstatement based on the amount of the error originating in the current period statement of income. The iron curtain method quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current period, irrespective of the misstatement's year(s) of origination. SAB No. 108 is effective for years ending after November 15, 2006. The cumulative effect of the initial application on prior years is required to be reported as an adjustment to retained earnings at the beginning of the year of initial application. The adoption of SAB No. 108 did not have a material effect on the Company's financial statements for the year ended December 31, 2006.

Common Stock Performance by Quarter*

| | 2006 | | | | 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| | First | Second | Third | Fourth | First | Second | Third | Fourth |
| Trade Price | | | | | | | | |
| High | $16.00 | $15.95 | $14.74 | $14.45 | $17.34 | $17.10 | $18.25 | $16.75 |
| Low | $14.55 | $12.50 | $12.75 | $13.10 | $15.68 | $14.96 | $15.00 | $15.00 |

| | 2006 | | | | 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| | First | Second | Third | Fourth | First | Second | Third | Fourth |
| Bid Price | | | | | | | | |
| High | $15.76 | $15.75 | $13.50 | $14.30 | $17.10 | $16.86 | $17.60 | $16.25 |
| Low | $14.50 | $12.50 | $12.25 | $13.10 | $15.68 | $14.73 | $14.75 | $15.00 |
| | | | | | | | | |
| Cash Dividends Declared | $0.17 | $0.17 | $0.17 | $0.17 | $0.16 | $0.17 | $0.17 | $0.17 |

** There is no established public trading market for the Company's common stock. Trade price and bid price information is based on high and low trade and bid prices reported in the OTC Bulletin Board® maintained by NASDAQ, and may not represent all trades effected during the relevant periods. Per share prices have been restated to reflect a 5% stock dividend declared during the second quarter of 2005.*

As of February 1, 2007, the Corporation's common stock ($2.50 par value) was owned by approximately 940 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


Transfer Agent:

Registrar & Transfer Company
Attn: Investors Relations Department
10 Commerce Drive
Cranford, NJ 07016
(800)368-5948
info@rtco.com
www.rtco.com

Annual Shareholders' Meeting

The 2007 Annual Shareholders' Meeting will be held at 5:30 p.m., May 15, 2007, at the Elks Club in Derby. We hope to see many of our shareholders there.

Additional Information Regarding Community Bancorp. Stock

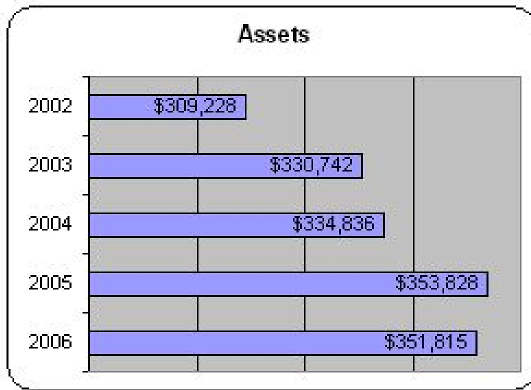
Although there is no established public trading market in the Corporation's common stock, several brokerage firms follow the stock and have executed trades in the stock for their customers. Trading in the Corporation's stock, however, is not active. You can contact these firms at the following addresses:

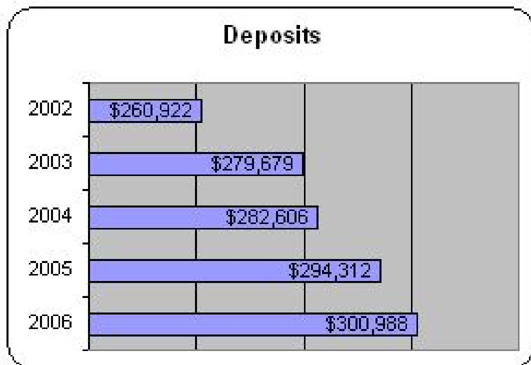
Silverlake Wealth Management
Wachovia Securities Financial Network
1795 Williston Road
South Burlington, VT 05403
(800) 235-0435

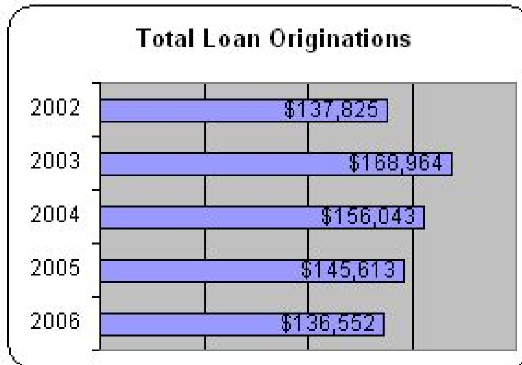
Winslow, Evans & Crocker
175 Federal Street
Boston, Massachusetts 02110
(800) 556-8600

A.G. Edwards
1184 Main Street, Suite 1
St. Johnsbury, Vermont 05819
(800) 457-1002

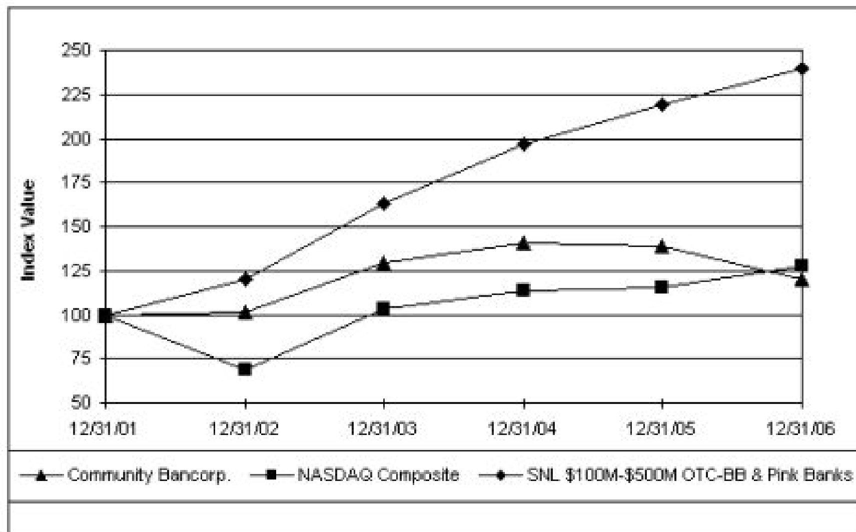
Community Bancorp.
Performance at-a-Glance (Dollars in Thousands)





COMMUNITY BANCORP.
## 5-Year Stock Performance*




*Compares the cumulative total shareholder return (stock price appreciated plus reinvested dividends) on the Company's common stock with the cumulative total return of the NASDAQ Composite Index and the SNL $100M-$500M OTC-BB and Pink Banks Index for the five years ended December 31, 2006, assuming an initial investment of $100 at the end of 2001 and reinvestment of dividends during the periods indicated.

**BERRY . DUNN . MCNEIL & PARKER**
**BDMP**

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

# CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Community Bancorp. of our report dated March 20, 2007, with respect to the consolidated financial statements included in the 2006 Annual Report to Shareholders of Community Bancorp.

We also consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-127024) 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 March 20, 2007, 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, 2006.

/s/ Berry, Dunn, McNeil & Parker

Portland, Maine
March 20, 2007
Vermont Registration No. 92-0000278

Exhibit 31.1

CERTIFICATION

I, Richard C. White, Chairman 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 20, 2007

/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 20, 2007

/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, 2006 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 20, 2007

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, 2006, 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 20, 2007