SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Community Bancorp /VT

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

OR

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

Commission File No. 000-16435

Community Bancorp.

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)

Indicate 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES (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, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", “accelerated filer" and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

As of June 30, 2011 the aggregate market value of the voting stock held by non-affiliates of the registrant was $38,771,090, based on a per share trade price of $9.11, as reported on the OTC Bulletin Board® on June 29, 2011. 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 4,727,721 shares outstanding of the issuer's class of common stock as of the close of business on March 26, 2012.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Annual Report to Shareholders for the year ended December 31, 2011 are incorporated by reference to Part I of this Report.
Portions of the Annual Report to Shareholders for the year ended December 31, 2011 are incorporated by reference to Part II of this report.
Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held May 15, 2012 are incorporated by reference to Part III of this report.

FORM 10-K ANNUAL REPORT

Table of Contents

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." On December 31, 2007, the Company completed its acquisition of LyndonBank, a Vermont bank headquartered in Lyndonville, Vermont, in a cash merger transaction. As a result of the merger, the Company added three office locations in Caledonia County and one office location in each of Orleans, Lamoille and Franklin Counties.

Community National Bank provides a broad range of retail banking services to the residents, businesses, and municipalities 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, ACH, wire transfer services, automatic teller machine (ATM) facilities, credit card services, 24 hour telephone banking, remote deposit and internet banking. Additionally, the Bank maintains cash machines at 10 third party business locations in the counties of Orleans, Washington, Caledonia and Franklin. The Company focuses on establishing and maintaining long-term relationships with customers and is committed to providing for the financial services needs of the communities it serves. In particular, the Company continues to emphasize its relationships with individual customers and small-to-medium-sized businesses. The Company actively evaluates the banking needs of its markets, including low- and moderate-income areas, and offers products that are responsive to the needs of its customer base. The markets served by the Company provide a mix of real estate, commercial and industrial, municipal and consumer lending opportunities, as well as a stable core deposit base. Additional information about our business, including the Company's deposit-taking activities, lending activities and credit and risk management policies, is set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in the Annual Report to Shareholders for 2011 filed as Exhibit 13 to this Report and is incorporated herein by reference.

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 fiduciary services throughout the market areas of the three owner financial institutions.

In 2007, the Company formed CMTV Statutory Trust I (the "Trust"), a Delaware statutory business trust, for the purpose of issuing $12.5 million of trust preferred securities and lending the proceeds to the Company. This funding provided a portion of the cash consideration paid by the Company in the acquisition of LyndonBank and provided additional regulatory capital. The Trust is a variable interest entity for which the Company is not the primary beneficiary, within the meaning of applicable accounting standards. Accordingly, the Trust is not consolidated with the Company for financial reporting purposes.

In 2011, the Company formed a limited liability company ("LLC") to facilitate its purchase of federal New Markets Tax Credits ("NMTCs") under an investment structure designed by a local community development entity. The LLC is a variable interest entity for which, in the context of the overall NMTC structure, the Company is not the primary beneficiary, within the meaning of applicable accounting standards. Accordingly, the LLC is not consolidated with the Company for financial reporting purposes.

Competition

All of the Bank's offices are located in northern and central Vermont. The Bank's main office is located in Derby, in Orleans County. In addition to its main office, the Bank has four other banking offices in Orleans County, one office in Essex County, four offices in Caledonia County, two offices in Washington County and one office each in Franklin and Lamoille Counties.

The Bank competes in all aspects of its business with other banks and credit unions in northern and central Vermont, including three 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, People's United Bank, FSB based in Bridgeport, Connecticut and TD Bank, N.A., a subsidiary of Toronto Dominion (based in Toronto, Ontario), based in Portland, Maine and Cherry Hill, New Jersey. People's United Bank (formerly Chittenden Bank) maintains a branch office in Newport, and TD Bank, N.A. maintains branch offices in Barton, Orleans, and St. Johnsbury. The Bank also competes in Orleans County with one local bank, Passumpsic Savings Bank, based in St. Johnsbury with a branch in Newport, 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, Union Bank based in Morrisville, TD Bank, N.A., Northern Lights Federal Credit Union, based in St. Johnsbury, Vermont State Employees Credit Union, based in Montpelier, Burlington-based Merchants Bank, the largest Vermont-based bank, and North Country Federal Credit Union. In Washington County, the Bank competes with Merchants Bank, People's United Bank and TD Bank, 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. In Franklin County, the Bank competes with Peoples Trust Company, based in St. Albans, TD Bank, N.A., People's United Bank, Citizens Bank Vermont, Key Bank, Merchants Bank, and Union Bank. In Lamoille County the Bank's competitors are Union Bank, TD Bank, People's United Bank and Merchants Bank.

Changes in the regulatory framework of the banking industry during the past decade 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, the internet and email. At the same time, technological changes have facilitated remote delivery of financial services by bank and nonbank competitors outside the context of a traditional branch bank network.

Competition from the tax-exempt credit union industry has also intensified in recent years. 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 in 2009 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.

In order to compete with other bank and non-bank service providers, the Company stresses the community orientation of its banking operations and relies to a large extent upon personal relationships established by its officers, directors and employees with their customers and on their strong ties to the local community. In addition, management's knowledge of the local community assists it in tailoring the Company's products and services to meet the needs of its customer base. Although competition is strong throughout the Company's market area, management believes that the Company can continue to compete effectively, in view of its local market knowledge and community ties and its understanding of customer needs.

Employees

As of December 31, 2011, the Company did not have any employees at the holding company level. However, as of such date, the Bank employed 136 full-time employees and 21 part-time employees. Management of the Bank considers its employee relations to be good.

Regulation and Supervision

The following discussion describes elements of an extensive regulatory framework applicable to bank holding companies and banks, to which the Company and the Bank are subject. Regulation of banks and bank holding companies is intended primarily for the protection of depositors and the Deposit Insurance Fund (the "DIF") of the FDIC, rather than for the protection of shareholders and creditors.
The Company's earnings are affected by general economic conditions, management policies, changes in state and federal laws and regulations and actions of various regulatory authorities, including those referred to below. Banking is a highly regulated business and proposals to change the laws and regulations to which the Company and the Bank are subject are frequently introduced at both the federal and state levels. The likelihood and timing of any such changes and the impact such changes may have on the Company and the Bank are impossible to predict with any certainty.

The following summary does not purport to be complete and is qualified by reference to the particular statutes and regulations.

Financial Regulatory Reform. On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and

Consumer Protection Act of 2010 (the “Dodd-Frank Act”). The Dodd-Frank Act represents a comprehensive revision and restructuring of many aspects of financial services industry regulation and impacts practically all aspects of a banking organization. Implementation of the Dodd-Frank Act continued throughout 2011, including through various agency rulemakings. Many of the provisions of the Dodd-Frank Act are designed to reduce systemic risk from large, complex “systemically significant” financial institutions, and thus do not apply to a smaller banking organization such as the Company. Nevertheless, certain of its provisions do directly apply to the Company and others will indirectly impact its operations, as the Dodd-Frank Act reshapes the financial services environment for many years to come.

Among the changes and reforms of the Dodd-Frank Act are provisions:

- Granting new powers to the Federal Reserve to monitor the systemic safety of the financial system and to take proactive steps to reduce or eliminate threats, including imposing strict controls on large, systemically significant bank and non-bank financial holding companies;

- Establishing a new independent agency, the Consumer Financial Protection Bureau (“CFPB”), with centralized responsibility for implementing and (with respect to large organizations) enforcing and examining compliance with federal consumer financial laws. Although the CFPB does not have enforcement or examination authority over smaller banking organizations such as the Company, its regulatory standards and mandates will ultimately affect all financial service providers;

- Applying the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies, savings and loan holding companies and systemically important non-bank financial companies on a consolidated basis. These changes prohibit the use of additional trust preferred securities as Tier 1 capital, but the Company’s existing trust preferred securities are grandfathered;

- Requiring debit card interchange transaction fees charged by large financial institutions to be reasonable and proportional to the cost incurred by the issuer for the transaction. The Federal Reserve adopted regulations during 2011 establishing such fee standards, eliminating exclusivity arrangements between issuers and networks for debit card transactions and limiting restrictions on merchant discounting for use of certain payment forms and minimum or maximum amount thresholds as a condition for acceptance of credit cards. Although smaller institutions such as the Company are not subject to the interchange fee restrictions, it is possible that, over time, competitive pricing pressures in the marketplace may operate to make the restrictions applicable to them by default;

- Requiring public companies to periodically seek a “say on executive pay” vote of shareholders, and in some circumstances, a “say on golden parachute” vote of shareholders. As a smaller reporting company, applicability of the say on executive pay vote requirement is delayed for the Company until 2013;

- Allowing depository institutions to pay interest on demand deposits effective July 21, 2011;

- Establishing by statute the Federal Reserve’s “source of strength” doctrine mandating holding company financial support of subsidiary insured depository institutions;

- Eliminating state restrictions on de novo interstate branching;

- Establishing new requirements related to mortgage lending, including prohibitions against payment of steering incentives and provisions relating to underwriting standards, disclosures, appraisals and escrows;

- Weakening federal preemption standards for national banks and federal savings associations and their operating subsidiaries;

- Providing permanent relief for smaller reporting companies, such as the Company, from the requirements for auditor attestation of management’s assessment of internal controls and their effectiveness; and

- Permanently increasing the FDIC’s standard maximum deposit insurance amount to $250,000; providing for unlimited FDIC insurance on non-interest bearing transaction accounts through December 31, 2012; and changing the FDIC insurance assessment base to assets rather than deposits; and increasing the reserve ratio for the deposit insurance fund to ensure the future strength of the fund.

While the Dodd-Frank Act became law on July 22, 2010, many of its provisions did not become effective until July 21, 2011 and many require additional rulemaking and further studies for implementation. Regulations for a number of key provisions of the Dodd-Frank Act have not yet been promulgated by the applicable federal regulators. The Company will continue to monitor the impact of implementation of this significant legislation.

Bank Holding Company Act. 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”), 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 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 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 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 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. Trust and investment management activities conducted through a nondepository trust company such as the Company's affiliate, CFSG, are also considered by the Federal Reserve to be permissible nonbanking activities that are closely related to banking.

Except for CFSG's trust and investment management operations, the Company does not presently engage, directly or indirectly, in any other permissible non-banking activities.

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

The Company is required to file with the Federal Reserve Board annual and parent company quarterly 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 ("FDIA"), 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.

<u>Bank Holding Company Consolidated Capital Requirements</u>. Under the Dodd-Frank Act and longstanding Federal Reserve policy, a bank holding company is expected to act as a source of financial strength to its subsidiary banks and to commit resources to support them. In implementing this requirement, the Federal Reserve could require the Company to provide such support when the Company otherwise would not consider it advisable to do so.

The Company is subject to Federal Reserve's risk-based capital requirements for assessing bank holding company capital adequacy. These standards define regulatory capital and establish minimum ratios in relation to assets, both on an aggregate basis and as adjusted for credit risks and off-balance sheet exposures. Bank holding companies are required to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8%, of which one-half must be in the form of Tier 1 capital (as defined). The Federal Reserve also requires a minimum leverage ratio of Tier 1 capital to total average assets of 3% for strong bank holding companies, defined as those bank holding companies rated a composite "1" under the rating system used by the Federal Reserve. For all other bank holding companies, the minimum ratio of Tier 1 capital to total assets is 4.0 percent. Bank holding companies with supervisory, financial, operational, or managerial weaknesses, as well as those that are anticipating or experiencing significant growth, are expected to maintain capital ratios well above the minimum levels.

The Federal Reserve's capital guidelines classify bank holding company capital into two categories. Tier 1 or "core capital" generally is defined as the sum of eligible core capital elements, less any amounts of goodwill and other items that are required to be deducted in accordance with the Federal Reserve capital guidelines. Eligible Tier 1 or core capital elements include qualifying common stockholders' equity, qualifying preferred stock (such as the Company's Series A preferred stock), and qualifying trust preferred securities (such as those of the Company), subject to certain limitations. Tier 1 capital must represent at least 50% of a bank holding company's qualifying total capital. Eligible Tier 2, or "supplementary capital" includes the allowance for loan and lease losses (subject to limitations), preferred stock that does not qualify as Tier 1 capital, certain hybrid capital instruments, and certain subordinated and mandatory convertible debt securities.

The Federal Reserve capital guidelines limit the amount of restricted core elements that a bank holding company may include in Tier 1 capital. Until March 31, 2011, the aggregate amount of restricted core elements consisting of certain preferred stock and qualifying trust preferred securities that were includable in Tier 1 capital was limited to 25%. Beginning March 31, 2011, the aggregate amount of all restricted core capital elements that may be included by a bank holding company as Tier 1 capital may not exceed 25% of the sum of all core capital elements, including restricted core capital elements, net of goodwill less any associated deferred tax liability.

The excess of restricted core capital not included in Tier 1 may generally be included in the Tier 2 capital calculation. However, beginning March 31, 2011, the aggregate of excess qualifying trust preferred securities and other excess restricted core capital elements that may be treated as Tier 2 capital is limited to 50% of Tier 1 capital. Amounts of these instruments in excess of this limit, although not included in Tier 2 capital, will be taken into account by the Federal Reserve in its overall assessment of a bank holding company's funding and financial condition.

As of December 31, 2011, the Company had consolidated regulatory capital at the level required to be considered well capitalized. As of such date, the Company had a total consolidated capital to risk-weighted assets ratio of 12.50%, a Tier 1 capital to risk-weighted assets ratio of 10.78%, and a leverage ratio of 7.28%.

As noted above, the Dodd-Frank Act requires the Federal Reserve to establish minimum capital levels for bank holding companies on a consolidated basis that are as stringent as those required for insured depository institutions. The components of Tier 1 capital will be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. As an example, the proceeds of trust preferred securities will be excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by bank holding companies with less than $15 billion of assets. In accordance with this grandfather provision, the Company will be permitted to continue to include the proceeds of its trust preferred securities (issued in 2007) in its Tier 1 capital. However, as a result of the Dodd-Frank Act, in the future it will not be able to raise additional Tier 1 capital through the issuance of new trust preferred securities.

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 SEC, the Company had not elected to become a financial holding company, nor had the Bank created any financial subsidiaries.

Implementation of Gramm-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" or the "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.

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.

Effective in 2007 for the Company, Section 404 of Sarbanes-Oxley required management to undertake an assessment of the adequacy and effectiveness of the Company's internal controls over financial reporting. In 2007, the Company performed an entity-level control assessment that identified and documented the Company's key controls. Bank-wide testing of key controls was performed based on the assessment and remediation was implemented where weakness was noted. The results of testing of these key controls in 2008 and 2009 were used by management to assess the adequacy and effectiveness of the Company's internal controls over financial reporting. Management's report on internal control over financial reporting is contained in Item 9A of this Report. The Company has incurred, and expects to continue to incur, costs in connection with its on-going compliance with Section 404.

As enacted in 2002 and implemented by the SEC, Sarbanes-Oxley provided that, beginning with annual financial statements for 2010, the Company's external auditors would be required to attest to, and report on, management's assessment of the Company's internal controls and the operating effectiveness of these controls. As noted above, however, the Dodd-Frank Act included permanent relief from this requirement for smaller reporting companies such as the Company.

More information on the Company's corporate governance practices, including committee charters, is available on the Company's website at www.communitybancorpvt.com.

SEC Regulatory Relief for Smaller Reporting Companies. In December 2007, the SEC adopted amendments to its disclosure and reporting rules to extend to more public companies the benefits of the simplified and less rigorous disclosure requirements previously applicable only to "small business issuers." The amendments establish a new category of "smaller reporting companies" with a public float of less than $75 million. The Company continues to qualify as a smaller reporting company as of its last measurement date (June 30, 2010). Under the amendments, smaller reporting companies are able to elect whether to comply with specified financial and nonfinancial disclosure requirements on an item by item basis. The amendments were effective February 4, 2008 and the Company has elected to avail itself of some of the relief provided in the amendments in connection with preparation of the Company's annual meeting proxy statement and its periodic reports, including this annual report on Form 10-K.

Interstate Banking and Branching. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 authorized interstate mergers and permitted 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 certain state law requirements. As noted above, the Dodd-Frank Act effectively eliminated the remaining state law limitations on de novo interstate banking. 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. As of December 31, 2011, the Company did not maintain any interstate branches.

Prompt Corrective Action. Community National Bank is subject to regulatory capital requirements established under the Federal Deposit Insurance Company Improvement Act of 1991 ("FDICIA"). Among other things, FDICIA 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 to risk weighted assets of at least 6%, a total capital ratio to risk weighted assets 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 to risk weighted assets of at least 4%, a total capital ratio to risk weighted assets of at least 8% and a leverage ratio of at least 4%, or 3% in some cases.

As noted above, the Dodd-Frank Act mandates similar capital requirements for bank and thrift holding companies on a consolidated basis to those applicable to insured depository institutions under the Prompt Corrective Action provisions of FDICIA.

As of December 31, 2011, Community National Bank was considered "well capitalized" under FDICIA's regulatory capital requirements.

Dividends. The Company derives funds for payment of dividends to its shareholders primarily from dividends received from its subsidiary, Community National Bank. Under the National Bank Act, prior approval from the Office of the Comptroller of the Currency (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.

In February 2009, the Federal Reserve issued supervisory guidance on the payment of dividends and redemption and repurchases of stock by bank holding companies. The guidance heightened expectations that a bank holding company will inform and consult with Federal Reserve supervisory staff in advance of declaring and paying any dividend that could raise safety and soundness concerns, such as a dividend exceeding current period earnings; redeeming or repurchasing regulatory capital instruments when the bank holding company is experiencing financial weaknesses; or redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. The guidance provides that a bank holding company should eliminate, defer or severely limit dividends if net income for the past four quarters is not sufficient to fully fund dividends; the prospective rate of earnings retention is not consistent with the holding company's capital needs and overall current and prospective financial condition; or the holding company will not meet, or is in danger of not meeting, its minimum regulatory capital ratios. The Company would be required in future periods to consult with, and obtain the approval of, the Federal Reserve for payment of any dividends, including regular quarterly cash dividends, that are in excess of earnings for the applicable quarterly period.

OCC Supervision. 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 complete statement of its financial condition and results of operations.

Deposit Insurance. The deposits of the Bank are insured by the Deposit Insurance Fund ("DIF") of the FDIC up to the limits set forth under applicable law and are subject to the deposit insurance premium assessments of the DIF. The FDIC imposes a risk-based deposit premium assessments system, which was amended pursuant to the Federal Deposit Insurance Reform Act of 2005 (the

"Reform Act") and further amended by the Dodd-Frank Act. Under this system, as amended, the assessment rates for an insured depository institution vary according to the level of risk incurred in its activities. To arrive at an assessment rate for a banking institution, the FDIC places it in one of four risk categories determined by reference to its capital levels and supervisory ratings. In addition, in the case of those institutions in the lowest risk category, the FDIC further determines its assessment rate based on certain specified financial ratios or, if applicable, its long-term debt ratings. The assessment rate schedule can change form time to time, at the discretion of the FDIC, subject to certain limits. On November 12, 2009, the FDIC adopted a rule requiring banks to prepay three years' worth of premiums to replenish the depleted insurance fund. The FDIC has published guidelines under the Reform Act on the adjustment of assessment rates for certain institutions. Under the current system, premiums are assessed quarterly. In addition, all FDIC insured depository institutions are required to pay a pro rata portion of the interest due on the obligations issued by the Financing Corporation ("FICO") to fund the closing and disposal of failed thrift institutions by the Resolution Trust Corporation.

The Dodd-Frank Act changed the assessment formula for determining deposit insurance premiums and modified certain insurance coverage provisions of the FDIA. In February 2011, the FDIC finalized new rules which redefined the base for FDIC insurance assessments from the amount of insured deposits to "average consolidated total assets less average tangible equity." A new rate schedule and other revisions to the assessment rules became effective April 1, 2011, and were used to calculate the June 2011 assessments which were due in September 2011. The Bank's total FDIC insurance assessment for 2011 was $439,306.

The Dodd-Frank Act also permanently increased from $100,000 to $250,000 the maximum per depositor FDIC insurance amount and extended to December 31, 2012 the temporary unlimited deposit insurance coverage on noninterest bearing transaction accounts. The temporary unlimited deposit insurance coverage was subsequently extended to IOLTAs.

Brokered Deposits. Under FDICIA, an FDIC-insured bank is prohibited from accepting brokered deposits without prior approval of the FDIC 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 (PIN) making it possible to offer our customers insurance protection for their deposits in excess of FDIC limits. 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 also 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. In June of 2010, the Company added Promontory's Insured Cash Sweep (ICS) account to the deposit-matching products available to customers through PIN. The PIN 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. The Company's Asset, Liability and Funds Management Policy limits the use of brokered deposits to 5% of total assets.

As of December 31, 2011 the Company had $1,121,632 in CDARS deposits, all of which were exchanged deposits, and ICS deposits of $10,872,204. CDARS are considered brokered deposits for certain purposes under the Federal Deposit Insurance Act and FDIC regulations.

Financial Privacy. Under the Gramm-Leach-Bliley Act (discussed above) all financial institutions, including the Company, are required to adopt privacy policies, restrict the sharing of nonpublic consumer customer data with nonaffiliated parties, and establish procedures and practices to protect customer data from unauthorized access. The Company is also subject to similar, but more stringent, requirements under state law, including the Vermont Financial Privacy Act. In addition, the Company is subject to the federal Fair Credit Reporting Act, including the amendments adopted in the federal Fair and Accurate Credit Transactions Act of 2003 (FACT Act). The FACT Act includes many provisions concerning national credit reporting standards and permits consumers to opt out of information sharing among affiliated companies for marketing purposes. It also requires financial institutions to notify their customers if they report negative information about them to a credit bureau or if they are granted credit terms less favorable than those generally available. The Federal Reserve and the OCC have extensive rulemaking authority under the FACT Act and have promulgated rules implementing the Act, including rules limiting information sharing for affiliate marketing and rules requiring programs to identify, detect and mitigate certain identity theft red flags. The Company is also subject to the requirements of the Vermont Fair Credit Reporting Act, which generally requires an individual's consent in order to obtain a credit report, and to data security standards and data breach notice requirements.

Other 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 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 2011, it received a rating of "outstanding".

Home Mortgage Disclosure Act. The federal Home Mortgage Disclosure Act ("HMDA"), which is implemented by Federal Reserve Board Regulation C, requires mortgage lenders that maintain offices within Metropolitan Statistical Areas (MSAs) to report and make available to the public specified information regarding their residential mortgage lending activities, such as the pricing of home mortgage loans, including the "rate spread" between the interest rate on loans and certain treasury securities and other benchmarks. Community National Bank became subject to HMDA reporting requirements as a result of its merger with LyndonBank in 2007, as the former LyndonBank branch in Enosburg Falls in Franklin County is included within the Burlington, Vermont MSA.

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 reviewed and reclassified the Company's deposits during 2011 and 2010, to the extent permissible under Regulation D, resulting in a reduction in required reserves compared to reserve levels in prior years.

Federal Home Loan Bank System. Community National Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. Member institutions are required to purchase and hold shares of capital stock in the applicable regional Federal Home Loan Bank (the Federal Home Loan Bank of Boston, in the case of Community National Bank), in an amount at least equal to the sum of 0.35% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year and 4.5% of its advances (borrowings) from the Federal Home Loan Bank. Community National Bank was in compliance with this requirement with an investment in Federal Home Loan Bank of Boston (FHLBB) stock at December 31, 2011 of approximately $3.7 million. During 2009, the FHLBB experienced significant net operating losses, and as a result temporarily ceased paying dividends on its stock and instituted a moratorium on stock repurchases and redemptions. In 2011, the FHLBB resumed paying dividends, but at a more modest rate than previous years and in February, 2012 it lifted the moratorium on stock redemptions. As a member, the Bank is subject to future capital calls by the FHLBB in order to maintain compliance with its capital plan.

Executive Compensation Guidelines. In October 2009, the Federal Reserve issued comprehensive guidance on executive compensation policies, intended to ensure that the incentive compensation practices of banking organizations do not undermine their safety and soundness by encouraging excessive risk-taking. The guidance covers all employees that have the ability to affect materially an institution's risk profile, either individually or as part of a group, and establishes that incentive compensation arrangements should (1) provide incentives that do not encourage risk-taking beyond the institution's ability to identify and manage effectively; (2) be compatible with effective internal controls and risk management; and (3) be supported by strong corporate governance, including active and effective oversight by the board of directors. The guidance instructed institutions to begin an immediate review of their incentive compensation policies to ensure that they do not encourage excessive risk-taking and implement corrective programs as needed. Where deficiencies in incentive compensation arrangements exist, they must be immediately addressed. For institutions such as the Company that are not "large, complex banking organizations" as defined in the guidance, the Federal Reserve will review the incentive compensation arrangements as part of its regular, risk-focused examination process and not in a separate examination. These examinations will be tailored to the scope and complexity of the institution's activity and compensation arrangements. The findings will be included in the Federal Reserve's examination report and deficiencies will be incorporated into the institution's supervisory ratings. Enforcement actions may be taken against an institution if its incentive compensation arrangements, or related risk management control or governance processes, pose a risk to the institution's safety and soundness and the institution fails to take prompt and effective measures to correct the deficiencies.

Pursuant to the Dodd-Frank Act, in February 2011, the federal banking agencies issued a joint proposed rulemaking imposing various restrictions on incentive compensation arrangements for institutions with over $1 billion in assets. Although not directly applicable to smaller institutions such as the Company, the proposal will likely help set "best practices" at financial institutions of all sizes.

Other Regulatory Initiatives. In October 2008, following enactment of the Emergency Economic Stabilization Act of 2008, the U.S. Treasury Department announced the implementation of the Capital Purchase Program ("CPP") to encourage financial institutions to build capital and increase the flow of financing to businesses and consumers and to support the U.S. economy. Under the CPP, the Treasury Department made $250 billion of capital available to U.S. financial institutions in the form of senior preferred stock investments qualifying as Tier 1 capital. The Company applied for and was approved to participate in the CPP. However, after consideration of all relevant factors, including the Company's sound capital position and the regulatory risk of burdensome conditions being imposed on participants, the Company declined to participate in the CPP.

In addition to the statutes, regulations and regulatory initiatives described above, new legislation and regulations affecting financial institutions are frequently proposed. If enacted or adopted, these measures could change banking statutes and the Company's operating environment in substantial and unpredictable ways and could further increase reporting and compliance requirements, governance structures and costs of doing business. The Company cannot predict whether any such additional legislation or other regulatory initiatives will be adopted or the effect they may have on the Company's business, results of operations or financial condition.

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 supply, 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, regulating interest rates payable by member banks on time and savings deposits and expanding or contracting the money supply. 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 meetings 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 through a link 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

Omitted, in accordance with the regulatory relief available to smaller reporting companies in SEC Release Nos. 33-8876 and 34-56994 (effective February 4, 2008).

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 in Derby, Vermont. All of the Bank's offices are located in Vermont. In addition to the main office in Derby, the Bank maintains branches in the Cities of Newport, Montpelier and Barre; the Towns of Barton, Troy, Lyndon, Enosburg, Morristown and St. Johnsbury, and the Villages of Island Pond, Derby Line, and Lyndonville.

The Bank's main offices are located on U.S. Route 5 in Derby, Vermont, with total office space of approximately 34,000 square feet, including an operations center 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. This office is equipped with a remote drive-up facility and a drive-up ATM as well as an inside lobby ATM.

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 10 years. This lease is currently on a month to month basis, with negotiations on renewal terms in process.

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 is 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 town 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.

One of the Company's two St. Johnsbury offices 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 on market terms from St. Johnsbury Properties, Inc., a wholly owned subsidiary of Murphy Realty Co. Inc. of St. Johnsbury. Peter Murphy, President of Murphy Realty, is a director of the Company and the Bank.

The second St. Johnsbury office is located on the southern end of Railroad Street, which consists of approximately 1,600 square feet. The Company leases the building that houses one office, customer service areas and a small meeting room. This is a full service facility consisting of a walk-up ATM in the front vestibule and a two-lane drive-up window.

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 space is leased nearby at 99 State Street to accommodate a stand-alone drive-up ATM in a Kiosk building.

The Barre office is a two-story, 8,000 square foot building located at 316 North Main Street. This building 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 an office leased to CFSG and 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 Bank owns an office located on Broad Street in Lyndonville. The building is approximately 6,200 square feet. The first floor is used for customer services with one office leased by CFSG and the second floor has clerical offices and a meeting room. The building is primarily constructed of brick with a front exterior of polished red granite. A walk-up ATM is located in the front entry vestibule.

The Memorial Drive office in the town of Lyndon is a full service banking facility consisting of approximately 2,600 square feet with a 3-lane drive-up, one of which is exclusively for night drops and ATM usage. This facility is leased on market terms from a neighboring business, 48 Broad Street, LLC, owned by David Stahler who is a member of Community National Bank's Caledonia County advisory board. CFSG leases office space in this building as well.

The Bank owns a full service banking office in Enosburg consisting of approximately 3,056 square feet and houses offices and customer service areas. The office has a drive-up ATM plus two additional drive-through banking lanes.

The Bank leases approximately 2,688 square feet of space for the Morrisville office located on Route 15 West in Morristown. It is a one story building with a walk-up ATM in the front vestibule and a two-lane drive-up window.

Item 3. Legal Proceedings

There are no pending legal proceedings to which the Company or the Bank 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 consolidated operations or financial condition.

Item 4. Mine Safety Disclosures

Not Applicable

PART II.

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

Information on the trading market in, market price of, and dividends paid on, the Company's common stock is incorporated by reference to the section of the Annual Report to Shareholders for 2011 under the caption "Common Stock Performance by Quarter" immediately following the "Management's Discussion and Analysis of Financial Condition and Results of Operations", filed as Exhibit 13 to this report. The balance of the information required by item 201 of Regulation S-K is omitted in accordance with the regulatory relief available to smaller reporting companies in SEC Release Nos. 33-8876 and 34-56994 (effective February 4, 2008).

The following table provides information as to purchases of the Company's common stock during the fourth quarter ended December 31, 2011, 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)(2)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period
October 1 - October 31	0	$0.00	N/A	N/A
November 1 - November 30	5,333	$9.65	N/A	N/A
December 1 - December 31	0	$0.00	N/A	N/A
Total	5,333	$9.65	N/A	N/A

(1) All 5,333 shares were purchased for the account of participants invested in the Company Stock Fund under the Company's Retirement Savings Plan by or on behalf of the Plan Trustee, the Human Resources Committee of Community National Bank. Such share purchases were facilitated through Community Financial Services Group, LLC ("CFSG"), which provides certain custodial and investment advisory services to the Plan. Both the Plan Trustee and CFSG may be considered affiliates of the Company under Rule 10b-18.

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

Item 6. Selected Financial Data

Omitted, in accordance with the regulatory relief available to smaller reporting companies in SEC Release Nos. 33-8876 and 34-56994 (effective Feb. 4, 2008).

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

Incorporated by reference to the section of the Annual Report to Shareholders for 2011 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," immediately following the "Notes to Consolidated Financial Statements", filed as Exhibit 13 to this report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Incorporated by reference to the subsection labeled "Risk Management" of Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in the Annual Report to Shareholders for 2011, 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, LLC are incorporated herein by reference from the Annual Report to Shareholders for 2011, filed as Exhibit 13 to this report.

In accordance with the regulatory relief available to smaller reporting companies in SEC Release Nos. 33-8876 and 34-56994 (effective Feb. 4, 2008), the Company has elected to present audited statements of income, cash flows and changes in shareholders' equity for each of the preceding two, rather than three, fiscal years.

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

None

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"). As of December 31, 2011, an evaluation was performed under the supervision and with the participation of management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, management concluded that its disclosure controls and procedures as of December 31, 2011 were effective in ensuring that material information required to be disclosed in the reports it files with the Commission under the Exchange Act was recorded, processed, summarized, and reported on a timely basis.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective internal controls over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. As of December 31, 2011, an evaluation was performed under the supervision and with the participation of management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's internal controls over financial reporting. Management assessed the Company's system of internal control over financial reporting as of December 31, 2011, in relation to criteria for effective internal control over financial reporting as described in "Internal Control – Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2011, its system of internal control over financial reporting met those criteria and is effective.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report is not subject to attestation by the Company's independent registered public accounting firm pursuant to permanent relief accorded to smaller reporting companies in the Dodd-Frank Act.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2011 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, 2012.

Listing of the names, ages, principal occupations, business experience and specific qualifications of the incumbent directors and nominees under the caption "PROPOSAL 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 changes in the Company's procedures for submission of director nominations by shareholders under the caption "SHAREHOLDER NOMINATIONS AND OTHER PROPOSALS."
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. There were no waivers of any provision of the Code during 2011.

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, 2012:

Information regarding compensation of directors under the captions "PROPOSAL I - ELECTION OF DIRECTORS - Directors' Fees and Other Compensation" and "-Directors' Deferred Compensation Plan."
Information regarding executive compensation and benefit plans under the caption "EXECUTIVE COMPENSATION."
Information regarding management interlocks and certain transactions under the caption "CORPORATE GOVERNANCE - Compensation Committee Interlocks and Insider Participation."

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, 2012:

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, 2012:

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, 2012 under the caption "PROPOSAL 3- 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 Form 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, LLC thereon, are incorporated by reference to the Annual Report to Shareholders for the years ended December 31, 2011 and 2010, filed as Exhibit 13 to this report.

(b) Exhibits

The following exhibits, previously filed with the Commission, are incorporated by reference:

Exhibit 3(i) - Amended and Restated Articles of Association, filed as Exhibit 3.1 to the Company's Form 8-K Report filed on July 12, 2010.
Exhibit 3(ii) – Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of the Series A Fixed-to-Floating Non-Cumulative Perpetual Preferred Stock, filed as Exhibit 3(i) to the Company’s Form 8-K Report filed on December 31, 2007.
Exhibit 3(iii) - Amended and Restated By-laws of Community Bancorp. as amended and restated through February 8, 2011, filed as Exhibit 3.1 to the Company’s Form 8-K Report filed on February 14, 2011.
Exhibit 4(i) – Indenture dated as of October 31, 2007 between Community Bancorp., as issuer and Wilmington Trust Company, as indenture trustee, filed as Exhibit 4.1 to the Company’s Form 8-K Report filed on November 2, 2007.
Exhibit 4(ii) – Amended and Restated Declaration of Trust dated as of October 31, 2007 among Community Bancorp., as sponsor, Wilmington Trust Company, as Delaware and institutional Trustee, and the administrators named therein, filed as Exhibit 4.2 to the Company’s Form 8-K Report filed on November 2, 2007.
Exhibit 10(i)* - Amended and Restated Deferred Compensation Plan for Directors, filed as Exhibit 10.2 to the Company’s Form 8-K Report filed on December 15, 2008.
Exhibit 10(ii)* - Amended and Restated Supplemental Retirement Plan, filed as Exhibit 10.1 to the Company’s Form 8-K Report filed on December 15, 2008.
Exhibit 10(iii)* - Amended and Restated Officer Incentive Plan, filed as Exhibit 10.1 to the Company’s Form 8-K Report filed on

February 14, 2011.

Exhibit 10(iv)* - Description of the Directors Retirement Plan, filed as Exhibit 10(iv) to the Company's Form 10-K Report filed on March 30, 2005; plan terminated in 2005 with respect to future accruals, as disclosed in the Company's Form 8-K Report filed on December 19, 2005.

Exhibit 10(v) – Guarantee Agreement dated as of October 31, 2007 between Community Bancorp., as guarantor and Wilmington Trust Company, as guarantee trustee, filed as Exhibit 10.1 to the Company's Form 8-K Report filed on November 2, 2007.

Exhibit 10(vi) – Placement Agreement dated October 30, 2007 among Community Bancorp., CMTV Statutory Trust I, FTN Financial Capital Markets and Keefe, Bruyette & Woods, Inc., filed as Exhibit 10.2 to the Company's Form 8-K Report filed on November 2, 2007.

Exhibit 14 – Amended Code of Ethics for Senior Financial Officers and the Principal Executive Officer, filed as Exhibit 14 to the Company's Form 8-K Report on July 12, 2010.

The following exhibits are filed as part of this report:**

Exhibit 13 - Portions of the Annual Report to Shareholders of Community Bancorp. for 2011, specifically incorporated by reference into this report.

Exhibit 21 - Subsidiaries of Community Bancorp.

Exhibit 23 - Consent of Berry, Dunn, McNeil & Parker, LLC

Exhibit 31(i) - Certification from the Chief Executive Officer of the Company pursuant to section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31(ii) - Certification from the Chief Financial Officer of the Company pursuant to section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32(i) - Certification from the Chief Executive Officer of the Company pursuant to section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32(ii) - Certification from the Chief Financial Officer of the Company pursuant to section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 101 The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2011 formatted in eXtensible Business Reporting Language (XBRL): (i) the audited consolidated balance sheets, (ii) the audited consolidated statements of income, (iii) the audited consolidated statements of changes in shareholders' equity, (iv) the audited consolidated statements of cash flows and (v) related notes, tagged as blocks of text, for the years ended December 31, 2011 and 2010.***

* Denotes compensatory plan or arrangement.

** Exhibit 12 (Statement re Computation of Ratios) is omitted in accordance with the regulatory relief available to smaller reporting companies in SEC Release Nos. 33-8876 and 34-56994 (effective February 4, 2008).

***This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934. As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

SIGNATURES

Pursuant to the requirements of 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/ Stephen P. Marsh Date: March 27, 2012
Stephen P. Marsh, President
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 27, 2012
Stephen P. Marsh, President
and Chief Executive Officer

BY: /s/ Louise M. Bonvechio Date: March 27, 2012
Louise M. Bonvechio, Treasurer
(Principal Financial Officer)

BY: /s/ Candace A. Patenaude Date: March 27, 2012
Candace A. Patenaude
(Principal Accounting Officer)

COMMUNITY BANCORP. DIRECTORS

/s/ Thomas E. Adams Date: March 27, 2012
Thomas E. Adams

/s/ Charles W. Bucknam, Jr. Date: March 27, 2012
Charles W. Buckman, Jr.

/s/ Aminta K. Conant Date: March 27, 2012
Aminta K. Conant

/s/ Jacques R. Couture Date: March 27, 2012
Jacques R. Couture

/s/ Elwood G. Duckless Date: March 27, 2012
Elwood G. Duckless

/s/ Rosemary M. Lalime Date: March 27, 2012
Rosemary M. Lalime

/s/ Stephen P. Marsh Date: March 27, 2012
Stephen P. Marsh

/s/ Dorothy R. Mitchell Date: March 27, 2012
Dorothy R. Mitchell

/s/ Anne T. Moore Date: March 27, 2012
Anne T. Moore

/s/ Peter J. Murphy Date: March 27, 2012
Peter J. Murphy

/s/ Frederic Oeschger Date: March 27, 2012
Frederic Oeschger

/s/James G. Wheeler, Jr. Date: March 27, 2012
James G. Wheeler, Jr.

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, 2011 and 2010 and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. 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 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 as of December 31, 2011 and 2010, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
March 27, 2012
Vermont Registration No. 92-0000278

Community Bancorp. and Subsidiary
Consolidated Balance Sheets

	December 31 2011	December 31 2010
Assets		
Cash and due from banks	$ 23,459,776	$ 51,441,652
Federal funds sold and overnight deposits	5,000	6,635
Total cash and cash equivalents	23,464,776	51,448,287
Securities held-to-maturity (fair value $30,289,000 at December 31, 2011 and $38,157,000 at December 31, 2010)	29,702,159	37,440,714
Securities available-for-sale	66,098,917	21,430,436
Restricted equity securities, at cost	4,308,550	4,308,550
Loans held-for-sale	2,285,567	2,363,938
Loans	386,386,472	389,068,859
Allowance for loan losses	(3,886,502)	(3,727,935)
Unearned net loan fees	7,251	(74,351)
Net loans	382,507,221	385,266,573
Bank premises and equipment, net	12,715,226	12,791,971
Accrued interest receivable	1,700,600	1,789,621
Bank owned life insurance	4,063,246	3,933,331
Core deposit intangible	1,704,346	2,130,432
Goodwill	11,574,269	11,574,269
Other real estate owned (OREO)	90,000	1,210,300
Prepaid expense - Federal Deposit Insurance Corporation (FDIC)	1,131,861	1,533,157
Other assets	11,558,779	8,711,070
Total assets	$552,905,517	$545,932,649
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Demand, non-interest bearing	$ 62,745,782	$ 55,570,893
NOW	123,493,475	108,957,174
Money market funds	71,408,069	73,470,728
Savings	59,284,631	56,461,370
Time deposits, $100,000 and over	51,372,782	52,014,363
Other time deposits	86,088,570	91,717,735
Total deposits	454,393,309	438,192,263
Federal funds purchased and other borrowed funds	18,010,000	33,010,000
Repurchase agreements	21,645,446	19,107,815
Capital lease obligations	833,467	834,839
Junior subordinated debentures	12,887,000	12,887,000
Accrued interest and other liabilities	4,217,886	2,773,063
Total liabilities	511,987,108	506,804,980
Commitments and contingent liabilities (Notes 5, 15, 16, 17 and 20)		
Shareholders' Equity		
Preferred stock, 1,000,000 shares authorized, 25 shares issued and outstanding ($100,000 liquidation value)	2,500,000	2,500,000
Common stock - $2.50 par value; 10,000,000 shares authorized at December 31, 2011 and 2010, and 4,938,262 and 4,834,615 shares issued at December 31, 2011 and 2010, respectively (including 24,324 and 19,312 shares issued February 1, 2012 and 2011, respectively)	12,345,655	12,086,538
Additional paid-in capital	27,410,049	26,718,403
Retained earnings	1,151,751	368,848
Accumulated other comprehensive income	133,731	76,657
Less: treasury stock, at cost; 210,101 shares at December 31, 2011 and 2010	(2,622,777)	(2,622,777)
Total shareholders' equity	40,918,409	39,127,669
Total liabilities and shareholders' equity	$552,905,517	$545,932,649

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

Community Bancorp. and Subsidiary
Consolidated Statements of Income

For The Years Ended December 31,	2011	2010
Interest income		
Interest and fees on loans	$ 21,242,577	$ 21,975,775
Interest on debt securities		
Taxable	357,437	343,596
Tax-exempt	996,387	1,284,104
Dividends	75,469	64,556
Interest on federal funds sold and overnight deposits	72,493	18,952
Total interest income	22,744,363	23,686,983
Interest expense		
Interest on deposits	4,064,057	4,758,106
Interest on federal funds purchased and other borrowed funds	415,647	616,629
Interest on repurchase agreements	141,667	178,745
Interest on junior subordinated debentures	974,257	974,257
Total interest expense	5,595,628	6,527,737
Net interest income	17,148,735	17,159,246
Provision for loan losses	1,000,000	1,016,668
Net interest income after provision for loan losses	16,148,735	16,142,578
Non-interest income		
Service fees	2,339,674	2,285,570
Income from sold loans	792,303	1,203,014
Income on bank owned life insurance	129,915	120,315
Other income	1,940,277	2,032,403
Total non-interest income	5,202,169	5,641,302
Non-interest expense		
Salaries and wages	5,841,453	5,824,999
Employee benefits	2,170,862	2,153,142
Occupancy expenses, net	3,068,071	2,971,418
FDIC insurance	439,306	633,043
Amortization of core deposit intangible	426,086	532,608
Write down of Fannie Mae preferred stock	0	25,804
Other expenses	5,587,304	5,141,136
Total non-interest expense	17,533,082	17,282,150
Income before income taxes	3,817,822	4,501,730
Income tax expense	234,276	555,722
Net income	$ 3,583,546	$ 3,946,008
Earnings per common share	$ 0.73	$ 0.82
Weighted average number of common shares used in computing earnings per share	4,674,806	4,584,145
Dividends declared per common share	$ 0.56	$ 0.48
Book value per share on common shares outstanding at December 31,	$ 8.13	$ 7.92

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

COMMUNITY BANCORP. AND SUBSIDIARY
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2011 and 2010

	Common stock		Preferred stock	
	Shares	**Amount**	**Shares**	**Amount**
Balances, December 31, 2009	4,549,812	$ 11,899,783	25	$ 2,500,000
Comprehensive income				
Net income	0	0	0	0
Net unrealized holding loss on securities				
available-for-sale, net of tax, $18,660	0	0	0	0
Total comprehensive income				
Cash dividends declared - common stock	0	0	0	0
Cash dividends declared - preferred stock	0	0	0	0
Issuance of common stock	74,702	186,755	0	0
Balances, December 31, 2010	4,624,514	12,086,538	25	2,500,000
Comprehensive income				
Net income	0	0	0	0
Net unrealized holding gain on securities				
available-for-sale, net of tax, $29,401	0	0	0	0
Total comprehensive income				
Cash dividends declared - common stock	0	0	0	0
Cash dividends declared - preferred stock	0	0	0	0
Issuance of common stock	103,647	259,117	0	0
Balances, December 31, 2011	4,728,161	$ 12,345,655	25	$ 2,500,000

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

Additional paid-in capital	Retained earnings (accumulated deficit)	Accumulated other comprehensive income	Treasury stock	Total shareholders' equity
$ 26,192,359	$ (1,192,409)	$ 112,882	$ (2,622,777)	$ 36,889,838
0	3,946,008	0	0	3,946,008
0	0	(36,225)	0	(36,225)
				3,909,783
0	(2,197,251)	0	0	(2,197,251)
0	(187,500)	0	0	(187,500)
526,044	0	0	0	712,799
26,718,403	368,848	76,657	(2,622,777)	39,127,669
0	3,583,546	0	0	3,583,546
0	0	57,074	0	57,074
				3,640,620
0	(2,613,143)	0	0	(2,613,143)
0	(187,500)	0	0	(187,500)
691,646	0	0	0	950,763
$ 27,410,049	$ 1,151,751	$ 133,731	$ (2,622,777)	$ 40,918,409

Community Bancorp. and Subsidiary
Consolidated Statements of Cash Flows

For The Years Ended December 31,	2011	2010
Cash Flow from Operating Activities:		
Net income	$ 3,583,546	$ 3,946,008
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, bank premises and equipment	1,022,178	1,035,739
Provision for loan losses	1,000,000	1,016,668
Deferred income tax	(114,334)	(456,275)
Net gain on sale of loans	(792,303)	(1,203,014)
Gain on sale of bank premises and equipment	0	(4,584)
Loss on sale of OREO	7,212	10,807
Gain on Trust LLC	(147,779)	(70,344)
Amortization of bond premium, net	399,486	382,422
Write down of Fannie Mae preferred stock	0	25,804
Write down of OREO	10,000	91,500
Proceeds from sales of loans held for sale	41,847,797	53,544,819
Originations of loans held for sale	(40,977,123)	(54,383,760)
Decrease in taxes payable	(492,939)	(288,003)
Decrease in interest receivable	89,021	105,692
Amortization of FDIC insurance assessment	401,296	572,408
Increase in mortgage servicing rights	(20,734)	(143,747)
Decrease (increase) in other assets	62,072	(281,602)
Increase in cash surrender value of bank owned life insurance	(129,915)	(120,315)
Amortization of core deposit intangible	426,086	532,608
Amortization of limited partnerships	615,864	495,592
Decrease in unamortized loan fees	(81,602)	(77,837)
Decrease in interest payable	(41,966)	(42,248)
(Decrease) increase in accrued expenses	(55,074)	12,451
(Decrease) increase in other liabilities	(321,870)	175,743
Net cash provided by operating activities	6,288,919	4,876,532
Cash Flows from Investing Activities:		
Investments - held-to-maturity		
Maturities and pay downs	46,799,907	55,629,885
Purchases	(39,061,352)	(48,304,349)
Investments - available-for-sale		
Maturities, calls, pay downs and sales	14,000,000	9,160,000
Purchases	(58,981,492)	(7,078,717)
Purchase of restricted equity securities	0	(401,700)
Increase (decrease) in limited partnership contributions payable	1,816,000	(766,455)
Investments in limited partnerships	(2,779,260)	0
Decrease (increase) in loans, net	1,519,714	(8,724,874)
Proceeds from sales of bank premises and equipment, net of capital expenditures	(945,433)	(185,712)
Proceeds from sales of OREO	1,324,088	170,843
Recoveries of loans charged off	100,240	113,413
Net cash used in investing activities	(36,207,588)	(387,666)

	2011	2010
Cash Flows from Financing Activities:		
Net increase in demand and NOW accounts	21,711,190	29,635,587
Net increase in money market and savings accounts	760,602	13,309,688
Net decrease in time deposits	(6,270,746)	(23,538,742)
Net increase in repurchase agreements	2,537,631	65,601
Net decrease in short-term borrowings	0	(3,401,000)
Proceeds from long-term borrowings	0	28,000,000
Repayments on long-term borrowings	(15,000,000)	(5,000,000)
Decrease in capital lease obligations	(1,372)	(41,697)
Dividends paid on preferred stock	(187,500)	(187,500)
Dividends paid on common stock	(1,614,647)	(1,485,659)
Net cash provided by financing activities	1,935,158	37,356,278
Net (decrease) increase in cash and cash equivalents	(27,983,511)	41,845,144
Cash and cash equivalents:		
Beginning	51,448,287	9,603,143
Ending	$ 23,464,776	$ 51,448,287
Supplemental Schedule of Cash Paid During the Period		
Interest	$ 5,637,594	$ 6,569,985
Income taxes	$ 841,550	$ 1,300,000
Supplemental Schedule of Noncash Investing and Financing Activities:		
Change in unrealized gain on securities available-for-sale	$ 86,475	$ (54,885)
Loans and bank premises transferred to OREO	$ 221,000	$ 740,450
Investments in limited partnerships		
Investments in limited partnerships	$ (2,779,260)	$ 0
Increase (decrease) in limited partnership contributions payable	1,816,000	(766,455)
	$ (963,260)	$ (766,455)
Common Shares Dividends Paid		
Dividends declared	$ 2,613,143	$ 2,197,251
(Increase) decrease in dividends payable attributable to dividends declared	(47,733)	1,207
Dividends reinvested	(950,763)	(712,799)
	$ 1,614,647	$ 1,485,659

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

Note 1. Significant Accounting Policies

The accounting policies of Community Bancorp. and Subsidiary ("Company") are in conformity, in all material respects, with accounting principles generally accepted in the United States of America (“US GAAP”) 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. The Company is considered a “smaller reporting company” under applicable disclosure rules of the Securities and Exchange Commission and accordingly, has elected to provide its audited statements of income, cash flows and changes in shareholders’ equity for a two year, rather than a three year, period.

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810, “Consolidation”, in part, addresses limited purpose trusts formed to issue trust preferred securities. It also establishes the criteria used to identify variable interest entities (“VIEs”) and to determine whether or not to consolidate a VIE. In general, ASC Topic 810 provides that the enterprise with the controlling financial interest, known as the primary beneficiary, consolidates the VIE. In 2007 the Company formed CMTV Statutory Trust I for the purposes of issuing trust preferred securities to unaffiliated parties and investing the proceeds from the issuance thereof and the common securities of the trust in junior subordinated debentures issued by the Company. The Company is not the primary beneficiary of CMTV Statutory Trust I; accordingly, the trust is not consolidated with the Company for financial reporting purposes. CMTV Statutory Trust I is considered an affiliate of the Company (see Note 10).

In December 2011, the Company formed a limited liability company (“LLC”) to facilitate its purchase of federal New Markets Tax Credits (“NMTCs”) under an investment structure designed by a local development entity. Management has evaluated the Company’s interest in the LLC under the ASC guidance relating to VIEs in light of the overall structure and purpose of the NMTC financing transaction and has concluded that the LLC should not be consolidated in the Company’s financial statements for financial reporting purposes, as the Company is not the primary beneficiary of the NMTC structure, does not exercise control within the overall structure and is not obligated to absorb a majority of any losses of the NMTC structure.

Nature of operations

The Company provides a variety of deposit and lending services to individuals, municipalities, and corporate customers through its branches, ATMs, and telephone and internet banking capabilities in northern 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 by loan type, 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 northern and central Vermont. In addition, a substantial portion of the Company's loans are secured by real estate, which is susceptible to a decline in value, especially during times of adverse economic conditions.

Use of estimates

The preparation of consolidated financial statements in conformity with US GAAP 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 loan losses and the valuation of OREO. In connection with evaluating loans for impairment or assigning the carrying value of OREO, management generally obtains independent evaluations or appraisals for significant properties. While the allowances for loan losses and OREO represent management's best estimate of probable loan and OREO 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 fair value of OREO are susceptible to uncertainties and changes in a number of factors, especially local real estate 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 OREO, future additions to the allowances may be necessary based on changes in local economic conditions or other relevant factors. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowances for losses on loans and OREO. Such agencies may require the Company to recognize additions to the allowances based on their judgment about information available to them at the time of their examination.

Mortgage servicing rights associated with loans originated and sold in the secondary market, where servicing is retained, are capitalized and included in other assets in the consolidated balance sheets. 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 loans. The value of capitalized servicing rights represents the present estimated 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 estimated fair value as compared to amortized cost, and impairment, if any, is recognized through a valuation allowance and is recorded as a write down. 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 evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to various factors, including the length of time and the extent to which the fair value has been less than cost; the nature of the issuer and its financial condition and near-term prospects; and 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. The evaluation of these factors is a subjective process and involves estimates and assumptions about matters that are inherently uncertain. Should actual factors and conditions differ materially from those used by management, the actual realization of gains or losses on investment securities could differ materially from the amounts recorded in the financial statements.

Management utilizes numerous techniques to estimate the carrying value of various other assets held by the Company, including, but not limited to, bank premises 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.

Accounting for a business combination that was completed prior to 2009 requires the application of the purchase method of accounting. Under the purchase method, the Company was required to record the assets and liabilities acquired through the LyndonBank merger in 2007 at fair market value, with the excess of the purchase price over the fair market value of the net assets recorded as goodwill and evaluated annually for impairment. The determination of the fair value of the acquired LyndonBank assets and liabilities requires the use of numerous assumptions, including discount rates, changes in which could significantly affect fair 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

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, reflected as a net amount in the accumulated other comprehensive income component of the statements of shareholders' equity. 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. The Company does not hold any securities purchased for the purpose of selling in the near term and classified as trading.

Declines in the fair value of individual equity securities that are deemed to be other than temporary are reflected in earnings when identified. For individual debt securities where the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in the fair value of the debt security related to (1) credit loss is recognized in earnings and (2) other factors is recognized in other comprehensive income or loss. Credit loss is deemed to exist if the present value of expected future cash flows using the interest rates at acquisition is less than the amortized cost basis of the debt security. For individual debt securities where the Bank intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the security's cost basis and its fair value at the balance sheet date.

Other investments

On December 19, 2011, the Company made an equity investment in a New Markets Tax Credit (NMTC) financing structure, as discussed further in Note 7 of this report. The Company's investment in the NMTC is amortized using the effective yield method.

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"), a non-depository trust company, as discussed further in Note 7 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. As a member of the Federal Reserve Bank of Boston ("FRBB"), the Company is required to invest in FRBB stock in an amount equal to 6% of the Bank's capital stock and surplus.

As a member of the Federal Home Loan Bank of Boston ("FHLBB"), the Company is required to invest in $100 par value stock of the FHLBB in an amount that approximates 1% of unpaid principal balances on qualifying loans, plus an additional amount to satisfy an activity based requirement. The stock is nonmarketable and redeemable at par value, subject to the FHLBB's right to temporarily suspend such redemptions. Members are subject to capital calls in some circumstances to ensure compliance with the FHLBB's capital plan.

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, if any, 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, loan premiums or discounts for acquired loans and any unearned fees or costs on originated loans.

Loan interest income is accrued daily on the outstanding balances. On all classes of loans 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 impaired loans are generally applied as a reduction of the loan principal balance. Loans are returned to accrual status when principal and interest payments are brought current and the customer has demonstrated the ability to make future payments on a timely basis. Loans are written down or 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 deferred and the net amount amortized as an adjustment of the related loan's yield. The Company generally amortizes these amounts over the contractual life of the loans.

Loan premiums and discounts on loans acquired in the merger with LyndonBank are amortized as an adjustment to yield over the life of the loans.

Allowance for loan losses

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

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

General component

The general component of the allowance for loan losses is based on historical loss experience, adjusted for qualitative factors and stratified by the following loan segments: commercial, commercial real estate, residential real estate first lien, residential real estate junior lien, and consumer loans. Management uses an average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels of and trends in delinquencies and non-performing loans, levels of and trends in loan risk groups, trends in volumes and terms of loans, effects of any changes in loan related policies, experience, ability and the depth of management, documentation and credit data exception levels, national and local economic trends, external factors such as competition and regulation and lastly, concentrations of credit risk in a variety of areas, including portfolio product mix, the level of loans to individual borrowers and their related interests, loans to industry segments, and the geographic distribution of commercial real estate loans. This evaluation is inherently subjective as it requires estimates that are susceptible to revision as more information becomes available.

During the fourth quarter of 2011 the Company modified its allowance methodology by further segmenting the classes of the residential real estate portfolio into first lien residential mortgages and junior lien residential mortgages, also known as home equity loans. The change was made to allow the Company to more closely monitor and appropriately reserve for the risk inherent with home equity lending, given the modest repayment requirements, relaxed documentation characteristic of home equity lending, higher loan to value ratios, and the recent decline of home property values. The residential real estate junior lien portfolio accounted for 22 percent of the total residential real estate portfolio as of December 31, 2011. No other changes in the Company's policies or methodology pertaining to the general component for loan losses were made since December 31, 2010.

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

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

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

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

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

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

Specific component

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

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

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

Unallocated component

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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 the estimated useful lives of the assets. The cost of assets sold or otherwise disposed of, and the related accumulated depreciation, are eliminated from the accounts and the resulting gains or losses are reflected in the consolidated statements 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 or properties no longer used for bank operations are initially recorded at fair value less estimated selling cost at the date of acquisition, foreclosure or transfer. Any write-down based on the asset's fair value at the date of acquisition or institution of foreclosure is charged to the allowance for loan losses. After acquisition through or in lieu of foreclosure, these assets are carried at their new cost basis. Costs of significant property improvements are capitalized, whereas costs relating to holding the property are expensed as incurred. Appraisals are performed 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 other expense. Gains or losses on the sale of such properties are included in income when the properties are sold.

Intangible assets

Intangible assets include the excess of the purchase price over the fair value of net assets acquired (goodwill) in the 2007 acquisition of LyndonBank, as well as a core deposit intangible related to the deposits acquired from LyndonBank (see Note 6). The core deposit intangible is amortized on an accelerated basis over 10 years to approximate the pattern of economic benefit to the Company. The Company evaluates the valuation and amortization of the core deposit intangible asset if events occur that could result in possible impairment. Goodwill is reviewed for impairment annually, or more frequently as events or circumstances warrant.

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.

Mortgage servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or retained upon the sale of loans. 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 periodically evaluated for impairment, based upon the estimated 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 and is recorded as amortization of other assets, to the extent that estimated fair value is less than the capitalized amount. Subsequent improvement, if any, in the estimated fair value of impaired mortgage servicing rights is reflected in a positive valuation adjustment and is recognized in other income up to (but not in excess of) the amount of the prior impairment.

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 shareholders' 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:

	2011	2010
Net income before write down of Fannie Mae preferred stock and tax effect thereof	$ 3,583,546	$ 3,963,039

Realized loss on write down of Fannie Mae preferred stock	0	25,804
Tax effect	0	(8,773)
Net income after realized loss	3,583,546	3,946,008
Other comprehensive income (loss), net of tax:		
Change in unrealized holding gain (loss) on available-for-sale securities arising during the period	86,475	(54,885)
Tax effect	(29,401)	18,660
Other comprehensive income (loss), net of tax	57,074	(36,225)
Total comprehensive income	$ 3,640,620	$ 3,909,783

Preferred stock

The Company issued 25 shares of fixed-to-floating rate non-cumulative perpetual preferred stock, without par value and with a liquidation preference of $100,000 per share, on December 27, 2007. Under the terms of the preferred stock, the Company pays non-cumulative cash dividends quarterly, when, as and if declared by the Board of Directors. Dividends are payable at a fixed rate of 7.50% per annum for the first five years, and thereafter at a variable dividend rate at the Wall Street Journal Prime Rate in effect on the first business day of each quarterly dividend period.

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 issuable upon reinvestment of dividends (retroactively adjusted for any stock dividends declared) and reduced for shares held in treasury.

The following table illustrates the calculation for the years ended December 31, as adjusted for the cash dividend declared on the preferred stock:

	2011	2010
Net income, as reported	$ 3,583,546	$ 3,946,008
Less: dividends to preferred shareholders	187,500	187,500
Net income available to common shareholders	$ 3,396,046	$ 3,758,508
Weighted average number of common shares used in calculating earnings per share	4,674,806	4,584,145
Earnings per common share	$ 0.73	$ 0.82

Off-balance-sheet financial instruments

In the ordinary course of business, the Company is a party to off-balance-sheet financial instruments consisting of commitments to extend credit, commercial and municipal letters of credit, standby letters of credit, and risk-sharing commitments on residential mortgage loans sold through the Mortgage Partnership Finance (MPF) program. Such financial instruments are recorded in the consolidated financial statements when they are funded.

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 2010 financial statements have been reclassified to conform to the current year presentation.

Impact of recently issued accounting standards

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, "Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements," amending the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuances, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance became effective for the Company on January 1, 2010, except for the disclosure on the roll forward activities for any Level 3 fair value measurements, which became effective for the Company on January 1, 2011. Adoption of this new guidance requires additional disclosures of fair value measurements but did not have a material impact on the Company's consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,” which requires significant new disclosures about the allowance for credit losses and the credit quality of financing receivables. The ASU is intended to enhance transparency about an entity's allowance for credit losses and the credit quality of loan and lease receivables by requiring disclosure of an evaluation of the nature of the credit risk inherent in the entity's financing receivables portfolio, as well as disclosure of how that risk is analyzed and assessed in arriving at the allowance for credit losses and the changes and reasons for those changes in the allowance. Under this standard, disclosures about the allowance for credit losses and fair value are to be presented by portfolio segment, while credit quality information, impaired financing receivables and non-accrual status are to be presented by class of financing receivables. In addition to existing requirements, ASU 2010-20 requires an entity to provide additional disclosures about (1) credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables; (2) the aging of past due financing receivables at the end of the reporting period by class of financing receivables; (3) the nature and extent of troubled debt restructurings ("TDRs") that occurred during the period, by class of financing receivables, and their effect on the allowance for credit losses; (4) the nature and extent of financing receivables modified as TDRs within the previous 12 months that defaulted during the reporting period, by class of financing receivables, and their effect on the allowance for credit losses; and (5) significant purchases and sales of financing receivables during the reporting period, disaggregated by portfolio segment. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the portfolio's risk and performance. ASU 2010-20 effective for interim and annual financial reporting periods ending after December 15, 2010, as it relates to disclosures required as of the end of a reporting period. On January 19, 2011, the FASB issued ASU 2011-01, "Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20," temporarily deferring the ASU 2010-20 effective date of the disclosure requirements for public entities about TDRs. The purpose of the delay is to make the disclosure requirements concurrent with the effective date of the FASB's guidance on determining what constitutes a TDR. The guidance for determining what constitutes a TDR was effective for interim and annual periods ending after June 15, 2011. Other than requiring additional disclosures, adoption of this ASU did not have a material impact on the Company's consolidated financial statements. On April 5, 2011, the FASB issued ASU 2011-02 "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring", which clarifies when creditors should classify loan modifications as TDRs. The guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after January 1, 2011. The guidance on measuring the impairment of a receivable restructured in a TDR is effective on a prospective basis. Adoption of ASU 2011-02 did not have a material impact on the Company's consolidated financial statements.

In April 2011, the FASB issued ASU 2011-03, "Reconsideration of Effective Control for Repurchase Agreements," amending the criteria under ASC Topic 860 for determining whether the transferor under a repurchase agreement involving a financial asset has retained effective control over the financial asset and therefore must account for the transaction as a secured borrowing rather than a sale. The guidance removes from the effective control criteria the consideration of whether the transferor has the ability to repurchase or redeem the financial asset on substantially the agreed terms. The guidance applies prospectively and is effective for new transactions and for existing transactions that are modified as of the beginning of the first interim or annual period beginning on or after December 15, 2011. The Company does not expect that adoption of the guidance will have a material impact on its consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs," amending Accounting Standards Codification ("ASC") Topic 820. Although ASU 2011-04 deals primarily with development of a single fair value framework for US GAAP and International Financial Reporting Standards, the ASU also contains additional guidance on fair value measurements. Among other things, ASU 2011-04: clarifies how a principal market is determined; addresses the fair value measurement or counterparty credit risks and the concept of valuation premise and highest and best use of nonfinancial assets; prescribes a model for measuring the fair value of an instrument classified in shareholders' equity; limits the use of premiums or discounts based on the size of a holding; and requires certain new disclosures, including disclosures of all transfers between Levels 1 and 2 of the fair value hierarchy, whether or not significant, and additional disclosures regarding unobservable inputs and valuation processes for Level 3 measurements. The guidance in ASU 2011-04 is to be applied prospectively, and is effective for the Company for interim and annual periods beginning on or after December 15, 2011. The Company does not expect that adoption of the guidance will have a material impact on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, "Presentation of Comprehensive Income," amending Topic 220. The amendments provide that an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The ASU does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income, nor does it require any transition disclosures. The amendments in this ASU are to be applied retrospectively, and are effective for fiscal years and interim periods beginning after December 15, 2011. Early adoption is permitted. In December 2011, the FASB issued ASU No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, which defers the effective date of a requirement in ASU 2011-05 related to reclassifications of items out of accumulated other comprehensive income. The deferral of the effective date was made to allow the FASB time to consider whether to require presentation on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented.

In September 2011, the FASB issued ASU 2011-08, "Testing Goodwill for Impairment," amending Topic 350. The guidance changes the manner of testing of goodwill for impairment by providing an entity with the option of first assessing qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the fair value of a reporting unit is less than its carrying amount. Such qualitative factors may include the following: macroeconomic conditions; industry and market considerations; cost factors; overall financial performance; and other relevant entity-specific events. If an entity elects to perform a qualitative assessment and determines that an impairment is more likely than not, the entity is then required to perform the existing two-step quantitative impairment test; otherwise, no further analysis is required. An entity also may elect not to perform the qualitative assessment and instead go directly to the two-step quantitative impairment test. These changes become effective for fiscal years beginning on or after December 15, 2011, although early adoption is permitted. The Company does not expect that adoption of ASU 2011-08 will have a material impact on its consolidated financial statements.

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

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, 2011				
U.S. Government sponsored enterprise (GSE) debt securities	$ 60,846,954	$ 215,595	$ 99,310	$ 60,963,239
U.S. Government securities	5,006,979	37,424	848	5,043,555
U.S. GSE preferred stock	42,360	49,763	0	92,123
	$ 65,896,293	$ 302,782	$ 100,158	$ 66,098,917
December 31, 2010				
U.S. GSE debt securities	$ 16,234,676	$ 88,091	$ 9,377	$ 16,313,390
U.S. Government securities	5,037,252	37,666	232	5,074,686
U.S. GSE preferred stock	42,360	0	0	42,360
	$ 21,314,288	$ 125,757	$ 9,609	$ 21,430,436

Securities HTM	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value*
December 31, 2011				
States and political subdivisions	$ 29,702,159	$ 586,841	$ 0	$ 30,289,000
December 31, 2010				
States and political subdivisions	$ 37,440,714	$ 716,286	$ 0	$ 38,157,000

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

The entire balance under “Securities HTM - States and political subdivisions" consists of securities of local municipalities which are attributable to private financing transactions arranged by the Company. The reported fair value of these securities is an estimate 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 AFS with a book value of $28,236,279 and $21,271,928 and a fair value of $28,425,092 and $21,388,075 at December 31, 2011 and 2010, respectively, were pledged as collateral for larger dollar repurchase agreement accounts and for other purposes as required or permitted by law.

Proceeds from maturities, calls, or pay downs of securities AFS amounted to $14,000,000 in 2011 and $9,160,000 in 2010. There were no sales of investments AFS in 2011 or 2010.

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

The scheduled maturities of debt securities AFS at December 31, 2011 were as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 5,018,549	$ 5,035,711
Due from one to five years	58,835,384	58,970,925
Due from five to ten years	2,000,000	2,000,158
	$ 65,853,933	$ 66,006,794

The scheduled maturities of debt securities HTM at December 31, 2011 were as follows:

	Amortized	Fair

	Cost	Value*
Due in one year or less	$ 20,589,247	$ 20,589,000
Due from one to five years	4,534,944	4,682,000
Due from five to ten years	822,735	969,000
Due after ten years	3,755,233	4,049,000
	$ 29,702,159	$ 30,289,000

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

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

	2011		2010	
	Less than 12 months		Less than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. GSE debt securities	$ 29,940,644	$ 99,310	$ 2,037,894	$ 9,377
U.S. Government securities	999,766	848	1,007,225	232
	$ 30,940,410	$ 100,158	$ 3,045,119	$ 9,609

The unrealized losses are a result of changes in market interest rates and not of deterioration in the creditworthiness of the issuer. At December 31, 2011, there were 21 U.S. GSE securities and one U.S. Government security in the investment portfolio that were in an unrealized loss position compared to two U.S. GSE securities and one U.S. Government security at December 31, 2010.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions, or adverse developments relating to the issuer, warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than 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 the Company has the ability to hold its debt securities until maturity, or for the foreseeable future if classified as AFS, and it is more likely than not that the Company will not have to sell such securities before recovery of their cost basis, no declines in such securities were deemed to be other-than-temporary at December 31, 2011 and 2010.

At December 31, 2011 and 2010, the Company’s AFS portfolio included two classes of Fannie Mae preferred stock with an aggregate cost basis of $42,360, which reflected an other-than-temporary impairment write down in the fourth quarter of 2010 of $25,804 and two other-than-temporary write downs on the investment in prior periods. The estimated fair value of the Fannie Mae preferred stock as of December 31, 2011 was $92,123, an increase of $49,763 from the December 31, 2010 fair value of $42,360. The value of the stock had declined shortly before the end of the second quarter of 2010, after the Federal Housing Finance Agency ordered Fannie Mae to delist its common and preferred stock from the New York Stock Exchange. There was improvement in the stock’s fair value during the third quarter of 2010, but a decrease was then noted during the fourth quarter causing management to reevaluate its holdings and record an other-than-temporary impairment for the quarter ended December 31, 2010.

The Bank is a member of the FHLBB. The FHLBB is a cooperatively owned wholesale bank for housing and finance in the six New England States. Its mission is to support the residential mortgage and community-development lending activities of its members, which include over 450 financial institutions across New England. As a requirement of membership in the FHLBB, the Bank must own a minimum required amount of FHLBB stock, calculated periodically based primarily on the Bank’s level of borrowings from the FHLBB. The Company obtains much of its wholesale funding from the FHLBB. As of December 31, 2011 and 2010, the Company’s investment in FHLBB stock was $3.7million.

FHLBB stock is a non-marketable equity security and therefore is reported at cost, which equals its par value. Shares held in excess of the minimum required amount are generally redeemable at par value. In the first quarter of 2012 the FHLBB announced the termination of a moratorium on member stock redemptions that it had instituted in 2009 in order to preserve its capital in response to adverse market conditions and declining retained earnings. Effective September 5, 2011, the FHLBB amended and restated its capital plan to implement the provisions of a Joint Capital Enhancement Agreement of the 12 Federal Home Loan Banks (FHLBs) intended to enhance the capital position of each FHLB, whereby each FHLB will allocate 20 percent of net earnings into its own separate restricted retained earnings account until the account balance equals at least one percent of the FHLB’s average balance of outstanding consolidated obligations for the previous quarter. The agreement is intended to benefit members and investors in FHLBs by further strengthening the FHLB balance sheets and creating an additional buffer to absorb losses.

As a member of the FHLBB, the Company is subject to future capital calls by the FHLBB in order to maintain compliance with its capital plan. The FHLBB ceased paying dividends on its stock during the third quarter of 2008 in order to conserve capital, but in February, 2011 announced its intention to declare modest cash dividends through 2011. The Company had dividend income on its FHLBB stock of $10,917 in 2011 and $0 in 2010.

The Company periodically evaluates its investment in FHLBB stock for impairment based on, among other factors, the capital adequacy of the FHLBB and its overall financial condition. No impairment losses have been recorded through December 31, 2011. The Bank will continue to monitor its investment in FHLBB stock.

Note 3. Loans, Allowance for Loan Losses and Credit Quality

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

	2011	2010
Commercial	$ 39,514,607	$ 31,045,424
Commercial real estate	132,269,368	133,494,431
Residential real estate - 1st lien	159,535,958	166,475,010
Residential real estate - Jr lien	45,886,967	47,359,808
Consumer	11,465,139	13,058,124
	388,672,039	391,432,797
Deduct (add):		
Allowance for loan losses	3,886,502	3,727,935
Unearned net loan fees	(7,251)	74,351
Loans held-for-sale	2,285,567	2,363,938
	6,164,818	6,166,224
Net loans	$382,507,221	$385,266,573

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

December 31, 2011	30-89 Days	90 Days or More	Total Past Due	Current	Total Loans	Non-Accrual Loans	Over 90 Days and Accruing
Commercial	$ 655,168	$ 265,668	$ 920,836	$ 38,593,771	$ 39,514,607	$ 1,066,945	$ 59,618
Commercial real estate	2,266,412	1,288,616	3,555,028	128,714,340	132,269,368	3,714,146	98,554
Residential real estate - 1st lien	5,614,513	2,517,282	8,131,795	149,118,596	157,250,391	2,703,920	969,078
Residential real estate - Jr lien	431,885	2,754,129	3,186,014	42,700,953	45,886,967	464,308	111,061
Consumer	152,151	1,498	153,649	11,311,490	11,465,139	0	1,498
Total	$ 9,120,129	$ 6,827,193	$ 15,947,322	$ 370,439,150	$ 386,386,472	$ 7,949,319	$ 1,239,809

December 31, 2010	30-89 Days	90 Days or More	Total Past Due	Current	Total Loans	Non-Accrual Loans	Over 90 Days and Accruing
Commercial	$ 915,924	$ 54,376	$ 970,300	$ 30,075,124	$ 31,045,424	$ 61,226	$ 29,446
Commercial real estate	939,910	130,512	1,070,422	132,424,009	133,494,431	1,145,194	94,982
Residential real estate	6,117,292	2,108,870	8,226,162	203,244,718	211,470,880	3,219,911	1,194,477
Consumer	242,742	38,466	281,208	12,776,916	13,058,124	0	38,466
Total	$ 8,215,868	$ 2,332,224	$ 10,548,092	$ 378,520,767	$ 389,068,859	$ 4,426,331	$ 1,357,371

The changes in the allowance for loan losses for the years ended December 31 are summarized as follows:

	2011	2010
Balance at beginning of year	$ 3,727,935	$ 3,450,542
Provision for loan losses	1,000,000	1,016,668
Recoveries of amounts charged off	100,240	113,413
	4,828,175	4,580,623
Amounts charged off	(941,673)	(852,688)
Balance at end of year	$ 3,886,502	$ 3,727,935

The following summarizes changes in the allowance for loan losses and select loan information, by portfolio segment.

For the year ended December 31, 2011

	Commercial	Commercial Real Estate	Residential Real Estate 1st Lien	Residential Real Estate Jr Lien	Consumer	Unallocated	Total
Allowance for loan losses							
Beginning balance	$ 302,421	$ 1,391,898	$ 1,830,816	$ 0	$ 151,948	$ 50,852	$ 3,727,935
Charge-offs	(22,050)	(197,367)	(521,608)	(96,961)	(103,687)	0	(941,673)
Recoveries	13,225	8,479	42,593	20	35,923	0	100,240
Provisions	48,718	182,929	226,692	428,625	40,595	72,441	1,000,000
Ending balance	$ 342,314	$ 1,385,939	$ 1,578,493	$ 331,684	$ 124,779	$ 123,293	$ 3,886,502
Allowance for loan losses Evaluated for impairment							
Individually	$ 70,600	$ 57,500	$ 283,200	$ 47,200	$ 0	$ 0	$ 458,500
Collectively	271,714	1,328,439	1,295,293	284,484	124,779	123,293	3,428,002
Total	$ 342,314	$ 1,385,939	$ 1,578,493	$ 331,684	$ 124,779	$ 123,293	$ 3,886,502
Loans evaluated for impairment							
Individually	$ 1,000,120	$ 3,669,260	$ 2,366,326	$ 434,664	$ 0		$ 7,470,370
Collectively	38,514,487	128,600,108	157,169,632	45,452,303	11,465,139		$381,201,669
Total	$39,514,607	$132,269,368	$159,535,958	$45,886,967	$11,465,139		$388,672,039

For the year ended December 31, 2010

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for loan losses evaluated for impairment						
Individually	$ 3,700	$ 51,200	$ 337,800	$ 0	$ 0	$ 392,700
Collectively	298,721	1,340,698	1,493,016	151,948	50,852	3,335,235
Total	$ 302,421	$ 1,391,898	$ 1,830,816	$ 151,948	$ 50,852	$ 3,727,935
Loans evaluated for impairment						
Individually	$ 61,226	$ 1,145,194	$ 3,219,911	$ 0		$ 4,426,331
Collectively	30,984,199	132,349,237	210,614,907	13,058,124		387,006,466
Total	$31,045,425	$133,494,431	$213,834,818	$13,058,124		$391,432,797

Impaired loans by class were as follows:

For the year ended December 31, 2011

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized *
With no related allowance recorded					
Commercial	$ 380,624	$ 391,800	$ 0	$ 332,523	$ 0
Commercial real estate	2,041,101	2,246,905	0	960,407	0
Residential real estate 1st lien	1,000,819	1,191,437	0	1,210,137	0
Residential real estate Jr lien	125,786	185,142	0	25,157	0
With an allowance recorded					
Commercial	619,496	637,729	70,600	237,724	0
Commercial real estate	1,628,159	1,653,646	57,500	1,128,795	0
Residential real estate 1st lien	1,365,507	1,869,338	283,200	1,629,151	0
Residential real estate Jr lien	308,878	321,475	47,200	61,776	0
Total					

Commercial	$ 1,000,120	$ 1,029,529	$ 70,600	$ 570,247	$ 0
Commercial real estate	$ 3,669,260	$ 3,900,551	$ 57,500	$ 2,089,202	$ 0
Residential real estate 1st lien	$ 2,366,326	$ 3,060,775	$ 283,200	$ 2,839,288	$ 0
Residential real estate Jr lien	$ 434,664	$ 506,617	$ 47,200	$ 86,933	$ 0
Total	$ 7,470,370	$ 8,497,472	$ 458,500	$ 5,585,670	$ 0

For the year ended December 31, 2010	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized *
With no related allowance recorded					
Commercial	$ 24,930	$ 61,460	$ 0	$ 106,737	$ 0
Commercial real estate	0	0	0	494,150	0
Residential real estate	1,138,290	1,527,508	0	1,186,068	0
With an allowance recorded					
Commercial	36,296	39,856	3,700	37,300	0
Commercial real estate	1,145,194	1,145,672	51,200	1,158,924	0
Residential real estate	2,081,621	2,303,744	337,800	1,661,441	0
Total					
Commercial	$ 61,226	$ 101,316	$ 3,700	$ 144,037	$ 0
Commercial real estate	$ 1,145,194	$ 1,145,672	$ 51,200	$ 1,653,074	$ 0
Residential real estate	$ 3,219,911	$ 3,831,252	$ 337,800	$ 2,847,509	$ 0
Total	$ 4,426,331	$ 5,078,240	$ 392,700	$ 4,644,620	$ 0

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

Interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

Credit Quality Grouping

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

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

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

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

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

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

The risk ratings within the loan portfolio by class were as follows:

Total Loans

December 31, 2011	**Commercial**	**Commercial Real Estate**	**Residential Real Estate - 1st Lien**	**Residential Real Estate - Jr Lien**	**Consumer**	**Total**
Group A	$ 36,971,880	$119,410,381	$153,954,603	$ 44,943,201	$ 11,459,371	$366,739,436
Group B	530,523	4,037,860	98,603	322,022	0	4,989,008
Group C	2,012,204	8,821,127	5,482,751	621,745	5,768	16,943,595
Total	$ 39,514,607	$132,269,368	$159,535,957	$ 45,886,968	$ 11,465,139	$388,672,039

Total Loans

December 31, 2010	**Commercial**	**Commercial Real Estate**	**Residential Real Estate**	**Consumer**	**Total**
Group A	$ 28,148,610	$118,056,754	$207,263,295	$ 12,997,587	$366,466,246
Group B	1,617,895	9,455,795	883,271	0	11,956,961
Group C	1,278,919	5,981,882	5,688,252	60,537	13,009,590
Total	$ 31,045,424	$133,494,431	$213,834,818	$ 13,058,124	$391,432,797

Modifications of Loans and TDRs

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

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

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

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

The Company's TDRs are principally a result of extending loan repayment terms to relieve cash flow difficulties. The Company has only, on a limited basis, reduced interest rates for borrowers below the current market rate for the borrower. The Company has not forgiven principal within the terms of original restructurings, nor has it converted variable rate terms to fixed rate terms.

The TDRs by class were as follows:

For the year ended December 31, 2011	**Number of Contracts**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**

Commercial	10	$ 985,666	$ 985,666
Commercial real estate	6	1,202,546	1,202,546
Residential real estate 1st lien	4	299,505	299,505
Residential real estate Jr lien	2	71,928	71,928
Total	22	$ 2,559,646	$ 2,559,646

The TDRs for which there was a payment default during the period were as follows:

For the year ended December 31, 2011

	Number of Contracts	Recorded Investment
Commercial	8	$ 741,090
Commercial real estate	1	401,002
Residential real estate 1st lien	2	178,492
Residential real estate Jr lien	1	34,687
Total	12	$ 1,355,271

With respect to the calculation of the allowance for loan losses, non-accrual TDRs meeting the impaired threshold are treated as other impaired loans and carry individual specific allocations. These loans are categorized as non-performing, may be past due, and are generally adversely risk rated. The TDRs that have defaulted under their restructured terms are generally in collection status and their reserve allocation is typically calculated using the fair value of collateral method.

Note 4. Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were $201,405,241 and $196,240,331 at December 31, 2011 and 2010, respectively. Net gains realized on the sale of loans amounted to $792,303 and $1,203,014 for the years ended December 31, 2011 and 2010, respectively.

The balance of capitalized servicing rights, net of valuation allowances, included in other assets at December 31, 2011 and 2010, was $1,097,442 and $1,076,708, respectively. The estimated fair value of these rights as of such dates was $1,167,808 and $1,076,708, respectively.

Changes in mortgage servicing rights for the years ended December 31 are summarized as follows:

	2011	2010
Balance at beginning of year	$ 1,076,708	$ 932,961
Mortgage servicing rights capitalized	355,730	403,026
Mortgage servicing rights amortized	(346,165)	(392,233)
Change in valuation allowance	11,169	132,954
Balance at end of year	$ 1,097,442	$ 1,076,708

Note 5. Bank Premises and Equipment

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

	2011	2010
Buildings and improvements	$ 10,668,590	$ 10,515,227
Land and land improvements	2,378,813	2,378,812
Furniture and equipment	7,011,347	6,199,355
Leasehold improvements	1,296,405	1,293,328
Capital lease	976,907	927,889
Other	17,490	89,507
	22,349,552	21,404,118
Less accumulated depreciation and amortization	(9,634,326)	(8,612,147)
	$ 12,715,226	$ 12,791,971

Depreciation and amortization included in occupancy expenses amounted to $1,022,178 and $1,035,739 for the years ended December 31, 2011 and 2010, respectively.

The Company is obligated under non-cancelable operating leases for bank premises expiring in various years through 2016, with options to renew. Minimum future rental payments for these leases with original terms in excess of one year as of December 31, 2011 for each of the next five years and in aggregate are:

2012	$	171,374
2013		171,374
2014		147,083
2015		123,028
2016		55,000
	$	667,859

Total rental expense amounted to $222,180 and $221,243 for the years ended December 31, 2011 and 2010, respectively.

Capital lease obligations

The following is a schedule by years of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of December 31, 2011:

2012	$ 123,755
2013	123,755
2014	126,255
2015	129,755
2016	129,755
Subsequent to 2016	553,913
Total minimum lease payments	1,187,188
Less amount representing interest	(353,721)
Present value of net minimum lease payments	$ 833,467

Note 6. Goodwill and Other Intangible Asset

As a result of the merger with LyndonBank on December 31, 2007, the Company recorded goodwill amounting to $11.6 million. The goodwill is not amortizable and is not deductible for tax purposes.

The Company also recorded $4.2 million of acquired identified intangible assets representing the core deposit intangible which is subject to amortization as a non-interest expense over a ten year period using a double declining method and is deductible for tax purposes.

The amortization expense related to the remaining core deposit intangible at December 31, 2011 is expected to be as follows:

2012	$ 340,869
2013	272,695
2014	272,695
2015	272,695
2016	272,695
2017	272,697
Total remaining core deposit intangible expense	$ 1,704,346

Management evaluated goodwill for impairment at December 31, 2011 and 2010 and concluded that no impairment existed as of such dates.

Note 7. Other Investments

On December 19, 2011, the Company established a single-member limited liability company (“LLC”) to facilitate the purchase of federal NMTC through an investment structure designed by a local Community Development Entity. The LLC will not conduct any business apart from its role in the NMTC financing structure. The NMTC equity investment generated $170,750 in credits against the Company’s federal income tax liability for the year ended December 31, 2011. The carrying value of the NMTC equity investment was $824,742 at December 31, 2011 and is included in other assets.

The Company has purchased from time to time interests in various limited partnerships 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 $534,076 for the year ended December 31, 2011 and $534,808 for the year ended December 31, 2010. Expenses related to amortization of the investments in the limited partnerships are recognized as a component of "other expenses", and were $479,346 and $495,592 for 2011 and 2010, respectively. The carrying values of the limited partnership investments were $3,769,898 and $2,431,244 at December 31, 2011 and 2010, respectively and are included in other assets.

The Bank has a one-third ownership interest in a nondepository trust company, 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. The Company's investment in Partners, included in other assets, amounted to $516,946 as of December 31, 2011 and $369,167 as of December 31, 2010. The Company recognized income of $147,779 for 2011 and income of $70,344 for 2010.

Note 8. Time Deposits

The following is a maturity distribution of time deposits at December 31, 2011:

2012	$ 87,473,455
2013	13,206,593
2014	10,702,203
2015	16,715,740
Thereafter	9,363,361
Total time certificates of deposit	$137,461,352

Note 9. Borrowed Funds

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

	2011	2010
Long-Term Borrowings		
FHLBB term borrowing, 2.13% fixed rate, due January 31, 2011	$ 0	$ 10,000,000
FHLBB Community Investment Program borrowing, 7.67% fixed rate,		
due November 16, 2012	10,000	10,000
FHLBB term borrowing, 1.00% fixed rate, due January 27, 2012	6,000,000	6,000,000
FHLBB term borrowing, 1.71% fixed rate, due January 28, 2013	6,000,000	6,000,000
FHLBB term borrowing, 2.72% fixed rate, due January 27, 2015	6,000,000	6,000,000
	18,010,000	28,010,000
Short-Term Advances		
FHLBB term borrowing, 0.39% fixed rate, due January 19, 2011	0	5,000,000
Total borrowings	$ 18,010,000	$ 33,010,000

The Company maintained a $500,000 IDEAL Way Line of Credit with the FHLBB at December 31, 2011 and 2010 with no outstanding advances under this line at either year-end date. Interest on these borrowings is at a rate determined daily by the FHLBB and payable monthly.

Borrowings from the FHLBB are secured by a blanket lien on qualified collateral consisting primarily of loans with first mortgages secured by 1-4 family properties. Qualified collateral for these borrowings totaled $110,950,040 and $114,000,265 as of December 31, 2011 and 2010, respectively. As of December 31, 2011 and 2010, the Company's potential borrowing capacity was $77,902,569 and $85,552,034, respectively, reduced by outstanding advances.

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 the FHLBB. At December 31, 2011, $15,950,000 in letters of credit was utilized as collateral for these deposits compared to $40,550,000 at December 31, 2010. Total fees associated with these letters of credit were $44,656 for 2011 and $50,395 for 2010.

The Company also has a borrowing line with the FRBB, which is intended to be used as a contingency funding source. For this Borrower-in-Custody arrangement, the Company pledged eligible commercial loans, commercial real estate loans and home equity loans resulting in an available line of $69,222,549 and $70,695,535 as of December 31, 2011 and 2010, respectively. Credit advances in the FRBB lending program are overnight advances with interest chargeable at the primary credit rate (generally referred to as the discount rate), which was 75 basis points as of December 31, 2011. As of December 31, 2011 and 2010, the Company had no outstanding advances against this line.

Note 10. Junior Subordinated Debentures

As of December 31, 2011 and 2010, the Company had outstanding $12,887,000 principal amount of Junior Subordinated Debentures due 2037 (the “Debentures”). The Company pays interest on the Debentures quarterly at a fixed annual rate of 7.56% through December 15, 2012, and thereafter at a floating rate equal to the 3-month London Interbank Offered Rate (LIBOR) plus 2.85%. The Debentures mature on December 15, 2037. The Debentures are subordinated and junior in right of payment to all senior indebtedness of the Company, as defined in the Indenture dated as of October 31, 2007 (the “Indenture”) between the Company and Wilmington Trust Company, as Trustee. The Debentures are first redeemable, in whole or in part, by the Company on December 15, 2012. Interest paid on the Debentures for 2011 and 2010 was $974,257 each year, and is deductible for tax purposes.

The Debentures were issued and sold to CMTV Statutory Trust I (the “Trust”). The Trust is a special purpose trust funded by a capital contribution of $387,000 from the Company, in exchange for 100% of the Trust’s common equity. The Trust was formed for the purpose of issuing corporation-obligated mandatorily redeemable Capital Securities (“Capital Securities”) in the principal amount of $12.5 million to third-party investors and using the proceeds from the sale of such Capital Securities and the Company’s initial capital contribution to purchase the Debentures. The Debentures are the sole asset of the Trust. Distributions on the Capital Securities issued by the Trust are payable quarterly at a rate per annum equal to the interest rate being earned by the Trust on the Debentures. The Capital Securities are subject to mandatory redemption, in whole or in part, upon repayment of the Debentures. The Company has entered into an agreement which, taken collectively, fully and unconditionally guarantees the Capital Securities subject to the terms of the guarantee.

The Debentures are currently includable in the Company’s Tier 1 capital up to 25% of core capital elements (see Note 20).

Note 11. Repurchase Agreements

Securities sold under agreements to repurchase amounted to $21,645,446 and $19,107,815 as of December 31, 2011 and 2010, respectively. These agreements are collateralized by U. S. GSE securities and U. S. Treasury notes with a book value of $28,236,279 and $21,271,928 and a fair value of $28,425,092 and $21,388,076 at December 31, 2011 and 2010, respectively.

The average daily balance of these repurchase agreements was $21,725,160 and $19,427,033 during 2011 and 2010, respectively. The maximum borrowings outstanding on these agreements at any month-end reporting period of the Company were $24,090,954 and $21,081,592 during 2011 and 2010, respectively. These repurchase agreements mature daily and carried a weighted average interest rate of .65% during 2011 and .92% during 2010.

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:

	2011	2010
Currently paid or payable	$ 348,610	$ 1,011,997
Deferred	(114,334)	(456,275)
Total income tax expense	$ 234,276	$ 555,722

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:

	2011	2010
Computed expected tax expense	$ 1,298,059	$ 1,530,588
Tax exempt interest	(382,943)	(477,502)
Disallowed interest	20,786	34,891
Partnership tax credits	(704,826)	(534,808)
Other	3,200	2,553
Total income tax expense	$ 234,276	$ 555,722

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

	2011	2010
Depreciation	$ (46,560)	$ 11,660
Mortgage servicing rights	7,050	48,874
Deferred compensation	115,239	(27,343)
Bad debts	(53,913)	(94,313)
Non-accrual loan interest	(19,867)	(40,129)
Core deposit intangible	(144,869)	(181,087)
Loan fair value	(29,648)	(23,674)
Time deposit fair value	0	(61,880)
Fannie Mae preferred stock write down	16,919	(9,532)
OREO write down	53,210	(53,210)
Other	(11,895)	(25,641)
Total deferred income tax benefit	$ (114,334)	$ (456,275)

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

	2011	2010
Components of the deferred tax asset:		
Bad debts	$ 1,147,235	$ 1,093,322
Non-accrual loan interest	99,972	80,105
Deferred compensation	222,210	337,449
Contingent liability - MPF program	42,139	38,307
Fair value adjustment on acquired securities available-for-sale	528,205	545,125
Fannie Mae preferred stock write down	251,373	251,373
OREO write down	0	53,210
Capital lease	66,995	60,101
Alternative minimum tax	59,031	59,031
Fair value adjustment on acquired premises and equipment	153,862	153,862
Other	112,310	111,141
Total deferred tax asset	2,683,332	2,783,026

Components of the deferred tax liability:

Depreciation	298,260	344,820
Limited partnerships	255,280	255,280
Mortgage servicing rights	373,130	366,080
Unrealized gain on securities available-for-sale	68,892	39,491
Core deposit intangible	579,478	724,347
Fair value adjustment on acquired loans	72,544	102,192
Total deferred tax liability	1,647,584	1,832,210
Net deferred tax asset	$ 1,035,748	$ 950,816

US GAAP provides 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.

The net deferred tax asset is included in other assets in the consolidated balance sheets.

ASC Topic 740, "Income Taxes", defines the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. Topic 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the consolidated financial statements. The Company has adopted these provisions and there was no material effect on the consolidated financial statements. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2008 through 2010.

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. The pension expense was $506,640 and $493,127 for 2011 and 2010, 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, maintained 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 $409,684 and $398,307 at December 31, 2011 and 2010, respectively. Expenses associated with these plans were $31,377 and $31,314 for the years ended December 31, 2011 and 2010, respectively.

The Company also maintains a supplemental employee retirement plan for certain key employees of the Company. Benefits accrued under this plan were $243,875 and $594,190 at December 31, 2011 and 2010, respectively. The expense associated with this plan was $30,165 and $69,108 for the years ended December 31, 2011 and 2010, respectively.

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 represented credit risk:

	Contract or -Notional Amount-	
	2011	**2010**

Unused portions of home equity lines of credit	$ 20,161,629	$ 18,936,634
Other commitments to extend credit	38,106,476	26,097,763
Residential construction lines of credit	588,290	2,044,892
Commercial real estate and other construction lines of credit	2,126,558	6,891,848
Standby letters of credit and commercial letters of credit	1,954,885	1,266,800
Recourse on sale of credit card portfolio	398,200	371,800
MPF credit enhancement obligation, net (See Note 16)	1,979,684	1,806,982

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, 2011 and 2010, the Company had binding loan commitments to sell residential mortgages at fixed rates totaling $5,623,474 and $7,014,541, respectively (see Note 16). The recourse provision under the terms of the sale of the Company's credit card portfolio in 2007 is based on total lines, not balances outstanding. Based on historical losses, the Company does not expect any significant losses from this commitment.

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 the fair value is immaterial.

In connection with its trust preferred securities financing completed on October 31, 2007, the Company guaranteed the payment obligations under the capital securities of its subsidiary, CMTV Statutory Trust I. The source of funds for payments by the Trust on its capital trust securities is payments made by the Company on its debentures issued to the Trust. The Company's obligation under those debentures is fully reflected in the Company's balance sheet, in the amount of $12,887,000 at December 31, 2011 and 2010. Of this amount, $12,500,000 represents external financing through the issuance to investors of capital trust securities by CMTV Statutory Trust I (See Note 10).

Note 16. Contingent Liability

The Company sells first lien 1-4 family residential mortgage loans under a program with FHLBB, the MPF program. Under this program the Company shares in the credit risk of each mortgage loan, while receiving fee income in return. The Company is responsible for a Credit Enhancement Obligation (CEO) based on the credit quality of these loans. FHLBB 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 FHLBB's FLA funds are then utilized, followed by the participant’s CEO, with the balance of losses absorbed by FHLBB. These loans meet specific underwriting standards of the FHLBB. As of December 31, 2011 and 2010, the Company had $54,682,000 and $50,682,743, respectively, in loans sold through the MPF program and on which the Company had a CEO. As of December 31, 2011, the notional amount of the maximum CEO related to this program was $2,103,622 compared to $1,919,649 as of December 31, 2010. The Company had accrued a contingent liability for this CEO in the amount of $123,938 and $112,667 as of December 31, 2011 and 2010, respectively, which is calculated based on the methodology used in calculating its allowance for loan losses, adjusted to reflect the risk sharing arrangements with the FHLBB. The volume of loans sold to the MPF program and the corresponding credit obligation continue to be closely monitored by management.

Note 17. Legal Proceedings

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 be material to the Company's consolidated financial condition or results of operations.

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, made 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:

	2011	2010
Balance, beginning of year	$ 7,015,993	$ 6,538,993
Loans - New Principal Officers/Directors	67,458	0
New loans to existing Officers/Directors	26,240,945	25,835,458
Retirement of Director	(175,388)	0
Repayment*	(27,150,252)	(25,358,458)
Balance, end of year	$ 5,998,756	$ 7,015,993

*Includes loans sold to the secondary market.

Total deposits with related parties were $6,591,585 and $4,845,646 at December 31, 2011 and 2010, respectively.

The Company leases approximately 2,253 square feet of condominium space in the state office building on Main Street in Newport to its trust company affiliate, CFSG, for its principal offices. CFSG also leases offices in the Company's Barre and Lyndonville branches. The amount of rental income received from CFSG for the years ended December 31, 2011 and 2010 was $33,950 and $31,182, respectively.

The Company utilizes the services of CFSG as an investment advisor for the 401(k) plan. The Human Resources committee of the Board of Directors is the Trustee of the plan, and CFSG provides 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 years ended December 31, 2011 and 2010 was $38,982 and $37,797, respectively.

Note 19. Restrictions on Cash and Due From Banks

The Company is required to maintain reserve balances in cash with the FRBB. At December 31, 2011 and 2010, the reserve requirement was $0.

In the ordinary course of business the Company may, from time to time, maintain amounts due from correspondent banks that exceed federally insured limits. However. no losses have been experienced in these accounts and the Company believes it is not exposed to any significant risk with respect to such accounts. The Company was required to maintain contracted balances with other correspondent banks of $462,500 at December 31, 2011 and $225,000 at December 31, 2010. Of the $462,500 balance at December 31, 2011, $262,500 was a separate agreed upon "impressed" balance to avoid monthly charges on the Company's current fed funds liquidity line.

Note 20. Regulatory Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). The Company's Series A preferred stock ($2.5 million liquidation preference) is includable without limitation in its Tier 1 capital. For 2010 and prior annual and quarterly periods the Company's trust preferred junior subordinated debentures were includable in Tier 1 capital up to 25% of core capital elements, with the balance includable in Tier 2 capital. In accordance with changes in the regulatory requirements for calculating capital ratios, beginning with the quarter ended March 31, 2011, the Company deducts the amount of goodwill, net of deferred tax liability ($2,061,772 at December 31, 2011 and 2010), for purposes of calculating the amount of trust preferred junior subordinated debentures includable in Tier 1 capital. Management believes, as of December 31, 2011, that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2011, 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 following table shows the regulatory capital ratios for the Company and the Bank as of year end 2011 and 2010:

	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, 2011:						
Total capital (to risk-weighted assets)						
Company	$46,351	12.50%	$29,660	8.00%	N/A	N/A
Bank	$45,772	12.37%	$29,596	8.00%	$36,995	10.00%
Tier I capital (to risk-weighted assets)						
Company	$39,980	10.78%	$14,830	4.00%	N/A	N/A
Bank	$41,830	11.31%	$14,798	4.00%	$22,197	6.00%
Tier I capital (to average assets)						
Company	$39,980	7.28%	$21,965	4.00%	N/A	N/A
Bank	$41,830	7.63%	$21,935	4.00%	$27,419	5.00%

	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, 2010:						
Total capital (to risk-weighted assets)						
Company	$43,942	12.33%	$28,505	8.00%	N/A	N/A
Bank	$43,364	12.20%	$28,439	8.00%	$35,549	10.00%
Tier I capital (to risk-weighted assets)						
Company	$40,187	11.28%	$14,253	4.00%	N/A	N/A
Bank	$39,610	11.14%	$14,220	4.00%	$21,329	6.00%
Tier I capital (to average assets)						
Company	$40,187	7.52%	$21,376	4.00%	N/A	N/A
Bank	$39,610	7.42%	$21,345	4.00%	$26,681	5.00%

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

ASC Topic 820-10-20, Fair Value Measurements and Disclosures, provides a framework for measuring and disclosing fair value under US GAAP. ASC Topic 820-10-20 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820-10-20 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. For example, this category generally includes certain private equity investments, retained residual interest in securitizations, and highly-structured or long-term derivative contracts.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Assets measured at fair value on a recurring basis at December 31 are summarized below:

December 31, 2011	Level 1	Level 2	Total

Assets: (market approach)			
U.S. GSE debt securities	$ 0	$ 60,963,239	$ 60,963,239
U.S. Government securities	5,043,555	0	5,043,555
U.S. GSE preferred stock	92,123	0	92,123
December 31, 2010			
Assets: (market approach)			
U.S. GSE debt securities	$ 0	$ 16,313,390	$ 16,313,390
U.S. Government securities	4,038,740	1,035,946	5,074,686
U.S. GSE preferred stock	42,360	0	42,360

Assets measured at fair value on a nonrecurring basis and reflected in the balance sheet at December 31 are summarized below:

December 31, 2011	**Level 2**
Assets: (market approach)	
Residential mortgage servicing rights	$ 1,167,808
Impaired loans, net of related allowance	3,463,539
OREO	90,000
December 31, 2010	
Assets: (market approach)	
Residential mortgage servicing rights	$ 1,076,708
Impaired loans, net of related allowance	2,870,411
OREO	1,210,300

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: The fair value of securities available for sale equals quoted market prices, if available. If quoted market prices are not available, fair value is determined using quoted market prices for similar securities. Level 1 securities include certain U.S. Government securities and US GSE preferred stock. Level 2 securities include asset-backed securities, including obligations of U.S. GSEs and certain U.S Government securities.

Restricted equity securities: Restricted equity securities are comprised of FRBB stock and FHLBB stock. These securities are carried at cost, which is believed to approximate fair value, based on the redemption provisions of the FRBB and the FHLBB. The stock is nonmarketable, and redeemable at par value, subject to certain conditions, and, in the case of FHLBB stock, a moratorium on redemptions.

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

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

Mortgage servicing rights: Mortgage servicing rights are evaluated regularly for impairment based upon the fair value of the servicing rights as compared to their amortized cost. The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated net servicing income, with loans divided into strata for valuation purposes based on their rates, terms and other features. The Company obtains a third party valuation based upon loan level data, including note rate, type and term. The model utilizes a variety of observable inputs for its assumptions, the most significant of which are loan prepayment assumptions and the discount rate used to discount future cash flows. Mortgage servicing rights are subject to measurement at fair value on a nonrecurring basis and are classified as Level 2 assets.

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

Junior subordinated debentures: Fair value is estimated using current rates for debentures of similar maturity.

Capital lease obligations: Fair value is determined using a discounted cash flow calculation using current rates. Based on current rates, carrying value approximates fair value.

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

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.

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

	December 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in Thousands)			
Financial assets:				
Cash and cash equivalents	$ 23,465	$ 23,465	$ 51,448	$ 51,448
Securities held-to-maturity	29,702	30,289	37,441	38,157
Securities available-for-sale	66,099	66,099	21,430	21,430
Restricted equity securities	4,309	4,309	4,309	4,309
Loans and loans held-for-sale, net	384,793	395,386	387,631	397,123
Mortgage servicing rights	1,097	1,168	1,077	1,056
Accrued interest receivable	1,701	1,701	1,790	1,790
Financial liabilities:				
Deposits	454,393	457,347	438,192	440,913
Federal funds purchased and other borrowed funds	18,010	18,404	33,010	33,250
Repurchase agreements	21,645	21,645	19,108	19,108
Capital lease obligations	833	833	835	835
Subordinated debentures	12,887	11,691	12,887	13,155
Accrued interest payable	150	150	192	192

The estimated fair values of commitments to extend credit and letters of credit were immaterial at December 31, 2011 and 2010.

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, 2011 and 2010

Assets	**2011**	**2010**
Cash	$ 196,945	$ 123,116
Investment in subsidiary - Community National Bank	53,226,506	51,436,841
Investment in Capital Trust	387,000	387,000
Income taxes receivable	416,781	441,802
Total assets	$ 54,227,232	$ 52,388,759
Liabilities and Shareholders' Equity		
Liabilities		
Junior subordinated debentures	$ 12,887,000	$ 12,887,000
Dividends payable	421,823	374,090
Total liabilities	13,308,823	13,261,090
Shareholders' Equity		
Preferred stock, 1,000,000 shares authorized 25 shares issued and outstanding at December 31, 2011 and 2010 ($100,000 liquidation value)	2,500,000	2,500,000
Common stock - $2.50 par value; 10,000,000 shares authorized at December 31, 2011 and 2010, and 4,938,262 and 4,834,615 shares issued at December 31, 2011 and 2010, respectively (including 24,324 and 19,312 shares issued February 1, 2012 and 2011, respectively)	12,345,655	12,086,538
Additional paid-in capital	27,410,049	26,718,403
Retained earnings	1,151,751	368,848
Accumulated other comprehensive income	133,731	76,657
Less: treasury stock, at cost; 210,101 shares at December 31, 2011 and 2010	(2,622,777)	(2,622,777)
Total shareholders' equity	40,918,409	39,127,669

Total liabilities and shareholders' equity	$ 54,227,232	$ 52,388,759

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, 2011 and 2010

	2011	2010
Income		
Bank subsidiary distributions	$ 2,660,000	$ 2,527,000
Dividends on Capital Trust	29,257	29,257
Total income	2,689,257	2,556,257
Expense		
Interest on junior subordinated debentures	974,257	974,257
Administrative and other	280,826	354,416
Total expense	1,255,083	1,328,673
Income before applicable income tax benefit and equity in undistributed net income of subsidiary	1,434,174	1,227,584
Applicable income tax benefit	416,781	441,802
Income before equity in undistributed net income of subsidiary	1,850,955	1,669,386
Equity in undistributed net income of subsidiary	1,732,591	2,276,622
Net income	$ 3,583,546	$ 3,946,008

Community Bancorp. (Parent Company Only)
Condensed Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Net income	$ 3,583,546	$ 3,946,008
Adjustments to reconcile net income to net cash provided by operating activities		
Equity in undistributed net income of subsidiary	(1,732,591)	(2,276,622)
Decrease in income taxes receivable	25,021	922
Net cash provided by operating activities	1,875,976	1,670,308
Cash Flows from Financing Activities		
Dividends paid on preferred stock	(187,500)	(187,500)
Dividends paid on common stock	(1,614,647)	(1,485,659)
Net cash used in financing activities	(1,802,147)	(1,673,159)
Net increase (decrease) in cash	73,829	(2,851)
Cash		
Beginning	123,116	125,967
Ending	$ 196,945	$ 123,116
Cash Received for Income Taxes	$ 441,802	$ 442,724
Cash Paid for Interest	$ 974,257	$ 974,257
Dividends paid:		
Dividends declared	$ 2,613,143	$ 2,197,251
(Increase) decrease in dividends payable attributable to dividends declared	(47,733)	1,207
Dividends reinvested	(950,763)	(712,799)
	$ 1,614,647	$ 1,485,659

Note 23. Quarterly Financial Data (Unaudited)

A summary of financial data for the four quarters of 2011 and 2010 is presented below:

	Quarters in 2011 ended			
	March 31,	June 30,	Sept. 30,	Dec. 31,
Interest income	$ 5,677,112	$ 5,740,797	$ 5,681,164	$ 5,645,290
Interest expense	1,511,470	1,421,507	1,344,414	1,318,237
Provision for loan losses	187,500	237,500	287,500	287,500
Non-interest income	1,459,469	1,279,195	1,114,448	1,349,057
Non-interest expense	4,349,514	4,386,659	4,252,653	4,544,256
Net income	944,868	871,318	820,624	946,736
Earnings per common share	0.19	0.18	0.17	0.19
	Quarters in 2010 ended			
	March 31,	June 30,	Sept. 30,	Dec. 31,
Interest income	$ 5,887,239	$ 5,899,121	$ 5,951,639	$ 5,948,984
Interest expense	1,644,096	1,680,487	1,610,258	1,592,896
Provision for loan losses	125,001	299,999	433,334	158,334
Non-interest income	1,231,801	1,186,432	1,230,782	1,992,287
Non-interest expense	4,288,821	4,360,458	4,326,559	4,306,312
Net income	938,912	732,533	787,805	1,486,758
Earnings per common share	0.20	0.15	0.16	0.31

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 either of the two years disclosed are as follows:

	2011	2010
Income		
Loan documentation fees	$ 569,891	$ 652,876
Loan servicing fees	524,062	471,907
Expenses		
Marketing	$ 318,761	$ 315,000
State deposit tax	484,540	476,315
Amortization of limited partnerships	479,346	495,592
ATM fees	338,327	292,328
Telephone	332,496	247,739
Collection and non-accrual loan expense	431,186	231,991

Note 25. Subsequent Events

Declaration of Cash Dividend

On December 13, 2011, the Company declared a cash dividend of $0.14 per share payable February 1, 2012 to shareholders of record as of January 15, 2012. This dividend has been recorded as of the declaration date, including shares issuable under the DRIP plan.

For purposes of accrual or disclosure in these financial statements, the Company has evaluated subsequent events through the date of issuance of these financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the Years Ended December 31, 2011 and 2010

The following discussion analyzes the consolidated financial condition of Community Bancorp. (the "Company") and its wholly-owned subsidiary, Community National Bank, as of December 31, 2011 and 2010, and its consolidated results of operations for the years then ended. The Company is considered a "smaller reporting company" under applicable regulations of the Securities and Exchange Commission (SEC) and is therefore eligible for relief from certain disclosure requirements. In accordance with such provisions, the Company has elected to provide its audited consolidated statements of income, cash flows and changes in shareholders' equity for two, rather than three, years.

The following discussion should be read in conjunction with the Company's audited consolidated financial statements and related notes.

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 subsidiary. 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 loan portfolio and its participation in the Federal Home Loan Bank of Boston (FHLBB) Mortgage Partnership Finance (MPF) program, and management's general outlook for the future performance of the Company, 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 undue reliance on such statements as they speak only as of the date they are made. The Company does not undertake, and disclaims any obligation, to revise or update any forward-looking statements to reflect the occurrence or anticipated occurrence of events or circumstances after the date of this Report, except as required by applicable law. The Company claims the protection of the safe harbor for forward-looking statements provided in the Private Securities Litigation Reform Act of 1995.

Factors that may cause actual results to differ materially from those contemplated by these forward-looking statements include, among others, the following possibilities: (1) general economic conditions, either nationally, regionally or locally continue to deteriorate, resulting in a decline in credit quality or a diminished demand for the Company's products and services; (2) competitive pressures increase among financial service providers in the Company's northern New England market area or in the financial 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; (3) interest rates change in such a way as to reduce the Company's margins; (4) changes in laws or government rules, or the way in which courts and government agencies interpret or implement those laws or rules, increase our costs of doing business or otherwise adversely affect the Company's business; (5) changes in federal or state tax policy; (6) changes in the level of nonperforming assets and charge-offs; (7) changes in estimates of future reserve requirements based upon relevant regulatory and accounting requirements; (8) changes in consumer and business spending, borrowing and savings habits; and (9) the effect of and changes in the United States monetary and fiscal policies, including the interest rate policies, regulation of the money supply by the Federal Reserve Board, and adverse changes in the credit rating of U.S. government debt.

NON-GAAP FINANCIAL MEASURES

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

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

OVERVIEW

The Company ended the year on December 31, 2011 with total assets of $552,905,517 compared to $545,932,649 on December 31, 2010, an increase of 1.3%. Deposits increased to $454,393,309 as of December 31, 2011, an increase of $16,201,046 from the prior year end. Payments and maturities on loans exceeded new originations, resulting in a decrease in gross loans of $2,760,758 year over year. The held-to-maturity portfolio, which consists only of municipal investments, decreased by $7,738,555 during the year, due to increased competition for these investments. Throughout the year as deposits increased and loans decreased, the Company increased its cash position. With this excess cash, the Company paid off $15,000,000 in long-term borrowings and changed the mix of the balance sheet by deploying excess cash into the bond portfolio, increasing the available-for-sale portfolio $44,668,481 year over year. At December 31, 2011, the Company's OREO consisted of one commercial property with a carrying value of $90,000. OREO properties totaling $1,210,300 at December 31, 2010 were sold during the year, including the former LyndonBank branch property in Derby, Vermont. In December, the Company funded an equity investment in a federal New Market Tax Credit (NMTC) structure designed by a local Community Development Entity. The investment was $961,260 and is expected to generate tax credits of $1,331,850 over the course of the next seven years and is designed to provide the Company with an estimated after-tax internal rate of return of 10.62%.

There was also a change in the mix of liabilities on the balance sheet as certificates of deposit (CD) and money market funds decreased $8,333,405, while non-interest bearing checking accounts, NOW accounts and savings accounts increased $24,534,451. In addition, repurchase agreements increased $2,537,631. The Company considers these increases in core deposits as significant to the overall balance sheet as a stable source of funding to support asset growth and is positioned to respond to increases in loan demand should the local economy improve. However, management believes that the low interest rates being paid on CDs and other investment products is likely causing some depositors to place their money in non maturing products such as demand and savings accounts awaiting an improvement in interest rates and market conditions.

Interest rates have remained at historically low levels for several years and have contributed to the slight decline in net interest income for 2011 compared to 2010. Although average earning assets increased $23,664,886 in 2011, tax–equivalent interest income decreased $1,090,838 year over year due to a decrease in average yields on earning assets of 47 basis points. While average interest bearing liabilities increased $13,196,575, the rates paid on these liabilities decreased by 26 basis points resulting in a decrease in interest expense of $932,109. The decrease in the average yield on interest earning assets is due to the change in the mix of the assets with growth coming from the bond portfolio which is conservatively invested, therefore providing lower yields than the loan portfolio. Contributing to the decrease in the average rate paid on the interest bearing liabilities was the payoff of the $15,000,000 in borrowings at a weighted average rate of 1.15% and the shift of customer funds out of higher yielding CDs and money market funds to lower yielding demand and savings accounts. The combined effects of these changes resulted in a decrease of $158,729 in tax-equivalent net interest income. With the recent news from the Federal Open Market Committee (FOMC) stating that due to current economic conditions and a subdued outlook for inflation, policy makers are likely to keep interest rates low through late 2014, maintaining current levels of net interest income will remain a challenge.

Net income for 2011 was $3,583,546, or $0.73 per common share, compared to $3,946,008, or $0.82 per common share in 2010. Total non-interest income was $5,202,169 in 2011 compared to $5,641,302 in 2010, a decrease of 7.8%. One of the components of non-interest income is income generated from selling loans in the secondary market. The Federal Reserve's continued effort to stimulate the real estate market by keeping mortgage interest rates low has provided for several refinancing bubbles which continued throughout 2011. Though not at the same level as 2009 and 2010, strong mortgage refinancing activity resulted in originations of $40,977,123 in 2011 compared to $54,383,760 in 2010. The Company reported net gains from the sales of these mortgages of $792,303 in 2011 compared to $1,203,014 in 2010. This decrease accounted for most of the difference in non-interest income year over year.

Non-interest expense in 2011 was $17,533,082 compared to $17,282,150 in 2010, an increase of 1.5%. Increases in occupancy expense were driven partly by higher costs for service contracts on software and equipment. These contracts are largely related to supporting new and existing technology. The Company upgraded several new software applications during 2011 including a new teller system and a new account opening platform. Upgrades were also made to the Company's ATM network, including replacement of four new machines and upgrading the operating systems for the remaining machines to comply with certain Americans with Disabilities Act (ADA) requirements. Equipment and software was also purchased to implement document imaging technology. Decisions to implement new systems are based on improving the customer service experience and efficiencies. The variance in other expenses was driven by an increase in expenses related to the collection of non performing loans of $199,195 year over year, or 85.9%. Decreases were noted in FDIC insurance and amortization of the core deposit intangible. FDIC insurance expense decreased by $193,737 year over year due to a new insurance premium calculation method implemented in the third quarter of 2011 and the amortization of the core deposit intangible decreased $106,522. Losses from external fraud related to debit card transactions were $70,875 in 2011, compared to $108,661 in 2010. Though these fraud losses decreased year over year, debit card fraud nevertheless is generally on the rise and most often results in the financial institution, rather than the customer, the merchant or the processor bearing the loss.

The Company declared dividends of $0.56 per common share in 2011, compared to $0.48 per common share in 2010. Earnings in 2011 resulted in retained earnings of $1,151,751 as of December 31, 2011 compared to $368,848 as of December 31, 2010 and an increase in total shareholders' equity of $1,790,740.

The national economy is showing signs of a gradual recovery from the recent recession; however the pace of the recovery has been slow. Spending, production and job market activity indicate the economy is expanding moderately, yet these gains are overshadowed by a widening federal budget deficit and global economic turbulence from the European debt crisis which leaves the economy vulnerable to shocks. The FOMC recently indicated that they expect somewhat stronger growth in 2012 than in 2011; however the outlook remains uncertain, and close monitoring of economic developments will remain necessary. More locally, economic indicators in Vermont, such as the unemployment rate and employment by industry, are more positive. The unemployment rate in Vermont in December 2011 was lower by .07 percentage points compared to the prior year. Conditions are generally better than in 2010, although some pockets of the state are still dealing with the aftermath of the destruction left by Tropical Storm Irene in August 2011. The southern part of Vermont was impacted to a greater degree by the storm with flooding, resulting in serious damage to infrastructure, homes, farms and businesses. The Company's customer base was left somewhat unscathed with the exception of a handful of businesses and homeowners, principally in Central Vermont. One loan in the amount of $1 million was subsequently placed in non-accrual status as a result of the damage from the flooding and due to a disruption in business activity. Most borrowers were insured and able to work through the situation. In some instances the Company assisted borrowers, including some municipalities, with temporary funding in anticipation of flood relief payments and insurance settlements. According to industry statistics, real estate sales activity increased in 2011. Vermont's residential real estate market improved slowly since the lows of 2009 – 2010, with a gradual increase in median sale prices across most counties. New construction remains sluggish with the relative cost of existing homes much less than building construction. In the farming sector, average milk prices in 2011 exceeded the average price for 2010 and are projected to decrease only slightly in 2012. Employers in the manufacturing, professional and business services and tourism industries are reporting significant over-the-year increases in employment. Tourism activity during the fall foliage season and early winter was good with local hotels reporting stable bookings; however lack of snowfall has had a negative impact on hotels, restaurants and convenience stores that rely on those who travel to the area for skiing and snowmobiling. A positive addition to Northern Vermont is a multi-phase expansion project of a local ski area, where construction of two hotels, a hockey arena, an indoor water park and a golf clubhouse has transformed the ski resort to a year-round indoor and outdoor recreation destination resort. This project has injected nearly $100 million of construction funding into the local economy over the last two years utilizing Federal EB5 program capital from foreign investors. The indoor water park opened before the holidays helping to attract visitors in spite of the lack of natural snow. The resort has created many jobs for the area.

While the trends in 2011 created some welcome distance from the recent recession, the rising price of fuel and other consumer goods will continue to impact adversely the consumer and all sectors of the economy, particularly as it relates to credit performance, which tends to lag economic cycles. Management considers these economic factors, among others, in assessing the level of the Company's reserve for loan losses in an effort to adequately reserve for probable losses due to consequences of the recession. The Company recorded a provision for loan losses of $1,000,000 in 2011 compared to $1,016,668 in 2010.

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

CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared according to US GAAP. 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 SEC has defined a company's critical accounting policies as those 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.

Allowance for Loan Losses - 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 qualitative factors, including the effect of current economic indicators and their probable impact on borrowers and collateral, trends in delinquent and non-performing loans, trends in criticized and classified assets, concentrations of credit, levels of exceptions, and the impact of competition in the market. 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.

Other Real Estate Owned - Occasionally, the Company acquires property in connection with foreclosures or in satisfaction of debts previously contracted, other real estate owned (OREO). Such properties are carried at fair value, which is the market value less estimated cost of disposition, i.e. sales commissions and costs associated with the sale. Fair value is defined as the cash price that might reasonably be anticipated in a current sale that is within 12 months, under all conditions requisite to a fair sale. A fair sale means that a buyer and seller are each acting prudently, knowledgeably, and under no necessity to buy or sell. Fair value is determined, as appropriate, either by obtaining a current appraisal or evaluation prepared by an independent, qualified appraiser, by obtaining a Market Value Analysis, and finally, if the Company has limited exposure and limited risk of loss, by the opinion of management as supported by an inspection of the property and its most recent tax valuation. If the Company has a valid appraisal or an appropriate evaluation obtained in connection with the real estate loan, and there has been no obvious and material change in market conditions or physical aspects of the property, then the Company need not obtain another appraisal or evaluation when it acquires ownership of the property. Under recent and current market conditions, and periods of declining market values, the Company will generally obtain a new appraisal or evaluation.

The amount, if any, by which the recorded amount of the loan exceeds the fair value, less cost to sell, is a loss which is charged to the allowance for loan losses at the time of foreclosure or repossession. The recorded amount of the loan is the loan balance adjusted for any unamortized premium or discount and unamortized loan fees or costs, less any amount previously charged off, plus recorded accrued interest.

Investment Securities - The Company performs quarterly reviews of individual debt and equity securities in the investment portfolio to determine whether a decline in the fair value of a security is other than temporary. A review of other-than-temporary impairment requires companies to make certain judgments regarding the materiality of the decline and the probability, extent and timing of a valuation recovery, the company's intent to continue to hold the security and, in the case of debt securities, the likelihood that the company will not have to sell the security before recovery of its cost basis. Management assesses fair value declines to determine the extent to which such changes are attributable to fundamental factors specific to the issuer, such as financial condition and business prospects, or to market-related or other factors, such as interest rates, and in the case of debt securities, the extent to which the impairment relates to credit losses of the issuer, as compared to other factors. Declines in the fair value of securities below their cost that are deemed to be other than temporary, and declines in fair value of debt securities below their cost that are related to credit losses, are recorded in earnings as realized losses. The non-credit loss portion of an other than temporary decline in the fair value of debt securities below their cost basis (generally, the difference between the fair value and the estimated net present value of the debt security) is recognized in other comprehensive income as an unrealized loss.

Mortgage Servicing Rights - Mortgage servicing rights associated with loans originated and sold, where servicing is retained, are required to be initially capitalized at fair value and subsequently accounted for using the "fair value method" or the "amortization method". Capitalized mortgage servicing rights are included in other assets in the consolidated balance sheets. 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. The value of capitalized servicing rights represents the estimated 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 estimated fair value compared to amortized cost, and impairment, if any, is recognized through a valuation allowance and is recorded as amortization of other assets. Subsequent improvement (if any) in the estimated fair value of impaired mortgage servicing rights is reflected in a positive valuation adjustment and is recognized in other income up to (but not in excess of) the amount of the prior impairment. 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. Factors that may significantly affect the estimates used are changes in interest rates and the payment performance of the underlying loans. The Company analyzes and accounts for the value of its servicing rights with the assistance of a third party consultant.

Goodwill - Management utilizes numerous techniques to estimate the value of various assets held by the Company, including methods to determine the appropriate carrying value of goodwill. Goodwill from a purchase acquisition is subject to ongoing periodic impairment tests, which include an evaluation of the ongoing assets, liabilities and revenues from the acquisition and an estimation of the impact of business conditions.

Other - Management utilizes numerous techniques to estimate the carrying value of various assets held by the Company, including, but not limited to, bank premises 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. The use of different estimates or assumptions could produce different estimates of carrying values and those differences could be material in some circumstances.

RESULTS OF OPERATIONS

The Company's net income of $3,583,546 for the year ended December 31, 2011 decreased $362,462 or 9.2% from net income of $3,946,008 for the year ended December 31, 2010, resulting in earnings per common share of $0.73 and $0.82, respectively. A decrease of $10,511 or 0.1% is noted in net interest income for 2011 compared to 2010. Interest income decreased $942,620 or 4.0% in 2011, while interest expense decreased $932,109 or 14.3%. Both decreases are attributable to the low interest rate environment which continues to put pressure on the net interest spread and net interest margin. Non-interest income decreased $439,133 or 7.8%, while non-interest expense increased $250,932 or 1.5%. A decrease of $410,711 or 34.1% in income from the sale of loans to the secondary market accounted for a major portion of the decrease in non-interest income. Decreases in FDIC insurance expense and amortization of the core deposit intangible were $193,737 or 30.6% and $106,522 or 20.0%, respectively, accounting for the two largest decreases in non-interest expense. These decreases were partially offset by an increase of $446,168 or 8.7% in other expenses. Components of other expenses that increased significantly year over year included ATM fees which increased $45,999 or 15.7% due to higher transactional volume, audit fees which increased $130,140 or 91.6% due to outsourcing of the internal audit functions, loss on limited partnership which increased $120,272, or 24.3%, other taxes which increased $74,804, from $3,630 to $78,434 as a result sales and use taxes due to the State of Vermont, telephone expense which increased $84,757 or 34.2% and expenses associated with non-performing loans which increased $199,195 or 85.9%. The Company has experienced an increase in past due and non-accrual loans during 2011 resulting in the increase in expenses associated with these portfolios.

The Company's average assets, as presented in the table labeled "Distribution of Assets, Liabilities and Shareholders' Equity", increased approximately $20.0 million or 3.8% in 2011, with total average assets of $541.0 million during 2011, compared to average assets of $521.1 million during 2010. The average loan portfolio increased $4.1 million or 1.1%, from 2010 to 2011 and overnight deposits, primarily funds held at the Federal Reserve Bank of Boston (FRBB), increased $18.1 million, from an average volume of $15.2 million in 2010 to $33.3 million in 2011. Taxable investments increased $10.3 million or 45.3% in average volume while tax exempt investments decreased $12.4 million or 25.8% year over year.

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 two fiscal years:

	December 31,	
	2011	**2010**
Return on average assets	0.66%	0.76%
Return on average equity	8.91%	10.43%
Dividend payout ratio (1)	76.71%	58.54%
Average equity to average assets ratio	7.43%	7.26%

(1) Dividends declared per common share divided by earnings per common share.

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 (1)

(Not covered by Report of Independent Registered Public Accounting Firm)

Years Ended December 31,	**2011**	**2010**	**2009**	**2008**	**2007(1)**
Consolidated Statements of Income Data					
Total interest income	$ 22,744,363	$ 23,686,983	$ 24,119,272	$ 27,087,650	$ 21,692,939
Less:					
Total interest expense	5,595,628	6,527,737	7,684,480	10,503,016	8,491,132
Net interest income	17,148,735	17,159,246	16,434,792	16,584,634	13,201,807
Less:					
Provision for loan losses	1,000,000	1,016,668	625,004	499,163	147,500
Non-interest income	5,202,169	5,641,302	5,656,433	4,036,325	3,447,812
Less:					
Non-interest expense	17,533,082	17,282,150	18,033,678	18,245,072	12,476,034
Income before income taxes	3,817,822	4,501,730	3,432,543	1,876,724	4,026,085
Less:					
Applicable income tax expense (benefit)(2)	234,276	555,722	(315,319)	(324,622)	668,755
Net Income	**$ 3,583,546**	**$ 3,946,008**	**$ 3,747,862**	**$ 2,201,346**	**$ 3,357,330**
Consolidated Balance Sheet Data					
Net loans	$384,792,788	$387,630,511	$378,656,376	$362,459,591	$353,101,662
Total assets	552,905,517	545,932,649	505,287,097	487,799,232	502,031,618
Total deposits	454,393,309	438,192,263	418,785,730	402,240,780	416,220,110
Borrowed funds	18,010,000	33,010,000	13,411,000	12,572,000	13,760,000
Total liabilities	511,987,108	506,804,980	468,397,259	452,526,340	467,111,258
Total shareholders' equity	40,918,409	39,127,669	36,889,838	35,272,892	34,920,360
Per Share Data					
Earnings per common share	$ 0.73	$ 0.82	$ 0.79	$ 0.46	$ 0.77
Dividends declared per common share	$ 0.56	$ 0.48	$ 0.48	$ 0.68	$ 0.67
Book value per common shares outstanding	$ 8.13	$ 7.92	$ 7.56	$ 7.33	$ 7.37
Weighted average number of common shares outstanding	4,674,806	4,584,145	4,504,943	4,430,657	4,365,378
Number of common shares outstanding	4,728,161	4,624,514	4,549,812	4,469,105	4,399,167

(1) Income statement and earnings per share data for 2007 do not include LyndonBank, acquired December 31, 2007.
(2) Applicable income tax expense (benefit) above includes the income tax effect, assuming a 34% tax rate, on securities gains which totaled $0 in 2011and 2010, $160,159 in 2009, $0 in 2008 and 2007.

INTEREST INCOME VERSUS INTEREST EXPENSE (NET INTEREST INCOME)

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

Tax-exempt income is derived from municipal investments, which comprised the entire held-to-maturity portfolio of $29,702,159 and $37,440,714, at December 31, 2011 and 2010, respectively.

The following table provides the reconciliation between net interest income presented in the statements of income and the tax equivalent net interest income presented in the table immediately following for the 12 month comparison periods of 2011 and 2010.

For the Years Ended December 31,	2011	2010
Net interest income as presented	$ 17,148,735	$ 17,159,246
Effect of tax-exempt income	513,290	661,508
Net interest income, tax equivalent	$ 17,662,025	$ 17,820,754

The following table presents average earning assets and average interest-bearing liabilities supporting earning assets. Interest income (excluding interest on non-accrual loans) and interest expense are both expressed on a tax equivalent basis, both in dollars and as a rate/yield for the 2011 and 2010 comparison periods.

	For the Years Ended December 31,					
	2011			2010		
	Average Balance	Income/ Expense	Average Rate/ Yield	Average Balance	Income/ Expense	Average Rate/ Yield
Interest-Earning Assets						
Loans (1)	$391,330,296	$ 21,242,577	5.43%	$387,267,510	$ 21,975,775	5.67%
Taxable investment securities	32,904,178	357,437	1.09%	22,681,235	343,596	1.51%
Tax-exempt investment securities	35,627,173	1,509,677	4.24%	48,030,874	1,945,612	4.05%
Sweep and interest earning accounts	33,267,247	72,493	0.22%	15,204,789	18,952	0.12%
Other investments (4)	4,695,550	75,469	1.61%	975,150	64,556	6.62%
Total	$497,824,444	$ 23,257,653	4.67%	$474,159,558	$ 24,348,491	5.14%
Interest-Bearing Liabilities						
NOW	$110,724,419	$ 468,903	0.42%	$ 86,975,699	$ 430,509	0.49%
Money market accounts	72,476,376	756,783	1.04%	66,697,886	917,865	1.38%
Savings deposits	60,285,394	109,893	0.18%	56,027,265	163,558	0.29%
Time deposits	141,396,999	2,728,478	1.93%	149,528,351	3,246,174	2.17%
Federal funds purchased and other borrowed funds	19,094,932	349,878	1.83%	33,805,951	547,344	1.62%
Repurchase agreements	21,725,160	141,667	0.65%	19,427,033	178,745	0.92%
Capital lease obligations	809,670	65,769	8.12%	854,190	69,285	8.11%
Junior subordinated debentures	12,887,000	974,257	7.56%	12,887,000	974,257	7.56%
Total	$439,399,950	$ 5,595,628	1.27%	$426,203,375	$ 6,527,737	1.53%
Net interest income		$ 17,662,025			$ 17,820,754	
Net interest spread (2)			3.40%			3.61%
Net interest margin (3)			3.55%			3.76%

(1) Included in gross loans are non-accrual loans with an average balance of $5,715,680 and $4,426,331 for the years ended December 31, 2011 and 2010, respectively. Loans are stated before deduction of unearned discount and allowance for loan losses.

(2) Net interest spread is the difference between the average yield on average earning assets and the average rate paid on average interest-bearing liabilities.
(3) Net interest margin is net interest income divided by average earning assets.
(4) Included in other investments is the Company's FHLBB Stock with an average balance of $3,720,400 and a dividend payout rate of approximately 0.31% per quarter.

Interest income from loans of $21,242,577 accounts for 91.3% of total tax-equivalent interest income for 2011, compared to $21,975,775 or 90.3% for 2010, with average yields of 5.43% and 5.67%, respectively. The average volume of loans increased $4,062,786, or 1.1% from 2010 to 2011, while the average rate earned on these assets decreased 24 basis points from 2010 to 2011, reflecting the prevailing low interest rate environment. Interest income on taxable investment securities increased $13,841 while the average yield on these earning assets decreased 42 basis points from 2010 to 2011. As these investments matured, the Company replaced them, but at considerably lower yields, contributing to the decrease in the average yield. Sweep and interest earning assets consists primarily of excess funds held in the Company's account at the FRBB. The average volume of these investments increased from $15,204,789 to $33,267,247 from 2010 to 2011, while the average rate paid increased 10 basis points. The FRBB began paying interest to financial institutions on balances left in their accounts overnight at a slightly higher rate than that of the Company's other correspondent banks, causing the Company to leave the funds in this account rather than selling the funds overnight to the other correspondent banks.

Interest expense on time deposits represents 48.8% of total interest expense for 2011, compared to 49.7% for 2010, with interest expense totaling $2,728,428 and $3,246,174, respectively, and average rates paid of 1.93% and 2.17%, respectively. The average volume of time deposits decreased $8,131,352 or 5.4%, and the average rate paid on such deposits decreased 24 basis points from 2010 to 2011. The average volume of the capital lease obligation decreased $44,520 or 5.2% from 2010 to 2011, which, due to the nature of the obligation will continue to decrease throughout its term. Average balances of federal funds purchased and other borrowed funds are made up entirely of funds from FHLBB. The average volume decreased $14,711,019 or 43.5% as a result of maturities during 2011. Increases are noted in the average volumes of all other components of interest-bearing liabilities, with NOW accounts reporting the largest increase of $23,748,720 or 27.3% in average volume, followed by money market funds with an increase of $5,778,490 or 8.7%. The increase in NOW accounts was mostly due to an increase in municipal deposit accounts. The average rate paid on NOW accounts decreased seven basis points to 0.42% for 2011 compared to 0.49% for 2010. The prolonged low-rate environment was a significant factor to the decrease in the net interest spread of 21 basis points, with a spread of 3.40% for 2011, compared to last year's spread of 3.61%.

The Company uses a deposit reclassification computing program as an additional means to increase spread income. The reclassification program assists management in performing permitted reclassification of certain transactional account balances to non-transactional accounts for the purposes of calculating the daily cash reserve balances required to be maintained at the FRBB. At December 31, 2011 and 2010, the Company's reserve requirement was $0. Under amendments to the Federal Reserve Act adopted in 2006 and further amended by the Emergency Economic Stabilization Act of 2008, the FRBB began paying interest on required reserve balances in October 2008 at a rate equal to the average targeted federal funds rate less 10 basis points, and as mentioned above, FRBB now pays interest on all balances at competitive interest rates.

The following table summarizes the variances in income for the years 2011 and 2010 resulting from volume changes in assets and liabilities and fluctuations in rates earned and paid.

Changes in Interest Income and Interest Expense

	Variance Due to Rate (1)	Variance Due to Volume (1)	Total Variance
Average Interest-Earning Assets			
Loans	$ (963,558)	$ 230,360	$ (733,198)
Taxable investment securities	(140,525)	154,366	13,841
Tax-exempt investment securities	89,982	(525,917)	(435,935)
Sweep and interest earning accounts	31,866	21,675	53,541
Other investments	(235,377)	246,290	10,913
Total	$ (1,217,612)	$ 126,774	$ (1,090,838)
Average Interest-Bearing Liabilities			
NOW	$ (77,975)	$ 116,369	$ 38,394
Money market accounts	(240,825)	79,743	(161,082)
Savings deposits	(66,014)	12,349	(53,665)
Time deposits	(360,761)	(156,935)	(517,696)
Federal funds purchased and other borrowed funds	71,746	(269,212)	(197,466)
Repurchase agreements	(58,221)	21,143	(37,078)

Capital lease obligations	99	(3,615)	(3,516)
Junior subordinated debentures	0	0	0
Total	$ (731,951)	$ (200,158)	$ (932,109)
Changes in net interest income	$ (485,661)	$ 326,932	$ (158,729)

(1) Items which have shown a year-to-year increase in volume have variances allocated as follows:

Variance due to rate = Change in rate x new volume

Variance due to volume = Change in volume x old rate

Items which have shown a year-to-year decrease in volume have variances allocated as follows:

Variance due to rate = Change in rate x old volume

Variances due to volume = Change in volume x new rate

NON-INTEREST INCOME AND NON-INTEREST EXPENSE

Non-interest Income: The Company's non-interest income decreased $439,133 or 7.8% to $5,201,169 in 2011 from $5,641,302 in 2010. Secondary market residential mortgage sales volume was lower in 2011 compared to 2010 with originations of loans sold to the secondary market of $40,977,123 in 2011 and $54,383,760 in 2010. This resulted in a decrease in income from sold loans of $410,711 or 34.1%. In 2010, the Company recorded improvements to the valuation allowance for mortgage servicing rights of $132,954, compared to $11,169 in 2011 accounting for $121,785 of the decrease in the income from sold loans between periods. Other income decreased $92,126 or 4.5% from 2010 to 2011 due in part to a decrease of $32,090 or 27.4% in income earned from insurance companies through the sale of credit life and disability insurance. Commercial loan documentation fees, another component of other income, decreased $61,416 or 19.4%, with income of $254,880 for 2011 compared to $316,296 for 2010. This decrease was the result of a decrease in volume of new commercial loans.

Non-interest Expense: The Company's non-interest expense increased 1.5% to $17,533,082 for 2011 compared to $17,282,150 for 2010. Occupancy expense increased $96,653 or 3.3% for 2011 compared to 2010. Service contracts on equipment increased $32,491 or 4.7%, followed by maintenance on buildings which increased $29,108 or 9.5% for 2011 compared to 2010. The Company is focused on investing in new technology, including among others, digital imaging, requiring more sophisticated software which entails new service contracts. Other expenses increased $446,168 or 8.7% from $5,141,136 in 2010 to $5,587,304 in 2011. The components of other expenses noting substantial increases were collections and non-accrual loan expenses, with an increase of $199,195 or 85.9%, loss on limited partnerships with an increase of $120,272 or 24.3%, followed by telephone expenses with an increase of $84,757 or 34.2%. The Company's non-performing loans increased during 2011, accounting for the increase in expense for these assets. A decrease of $193,737 or 30.6% is noted in FDIC insurance premiums due in part to the new calculation method implemented in the second half of 2011. The Company reported premiums of $633,043 for 2010 compared to $439,306 for 2011. The amortization of the Company's core deposit intangible from the LyndonBank acquisition (see Note 6) was $426,086 for 2011 compared to $532,608 for 2010, resulting in a decrease in expense of $106,522 or 20.0%.

Total losses relating to various limited partnership investments for affordable housing in our market area constitute a notable portion of other expenses. These losses amounted to $479,346 or 8.6% of other expenses in 2011 compared to $495,592 or 9.6% in 2010. These investments provide tax benefits, including tax credits, and are designed to yield between 8% and 10%.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. The Company's exposure to the limited partnerships was $3,769,898 and $2,431,244, at December 31, 2011 and 2010, respectively.

The Company entered into a new limited partnership in 2011 and made a NMTC investment as discussed in the Overview. This investment is carried at cost and amortized using the effective yield method. The tax credit from the NMTC investment was $170,750 for the year ended December 31, 2011, with amortization of $136,518 for the year ended December 31, 2011. The carrying value of this investment was $824,742 and is recorded in other assets.

APPLICABLE INCOME TAXES

The provision for income taxes decreased from $555,722 in 2010 to $234,276 in 2011, a decrease of $321,446 or 57.8%. Income before taxes decreased $683,908 or 15.2%, accounting for the decrease in the provision for income taxes for 2011 compared to 2010.

CHANGES IN FINANCIAL CONDITION

The following discussion refers to the volume of average assets, liabilities and shareholders' equity in the table labeled "Distribution of Assets, Liabilities and Shareholders' Equity" on the following page.

Average assets increased $20.0 million or 3.8% from December 31, 2010 to December 31, 2011. The average volume of loans increased $4.1 million or 1.1%, due in part to the prevailing low-rate interest environment throughout the comparison periods. The interest-bearing balance at the FRBB makes up the entire average volume of federal funds sold and overnight deposits in 2011 and 2010. The interest rate earned on the FRBB account was more favorable than the federal funds sold rates at other financial institutions thereby accounting for the increase of $18.1 million in the average volume on these funds. The average volume of taxable investments increased $10.3 million, or 45.3% during 2011, while the average volume of the tax-exempt portfolio decreased $12.4 million or 25.8% year over year. The Company slowly increased its taxable investment portfolio throughout 2011 with U.S. government sponsored enterprise securities, as deposit funding increased without commensurate loan growth. The tax-exempt portfolio is made up of local municipal accounts and decreased due to competitive pricing by other area financial institutions.

Average liabilities increased $17.6 million or 3.6% from December 31, 2010 to December 31, 2011. The average volume of time deposits decreased $8.1 million or 5.4% from 2010 to 2011. All other deposits increased with NOW accounts increasing $23.8 million in average volume or 27.3% and money market funds increasing $5.8 million or 8.7% year over year, accounting for the two largest increases within the deposit accounts. The average volume of borrowed funds decreased $14.7 million or 43.5% from 2010 to 2011 through maturities of long-term borrowings. The funds that the Company has on deposit at the FRBB are being used to cover maturities on these borrowings and the maturing time deposits. The Company still strives to keep its core customers but is not placing much emphasis on attracting rate shoppers as it has sufficient liquidity to meet loan demand and other requirements. The increase in NOW accounts is partly attributable to the account established in 2010 with the Company's trust affiliate CFSG with a reported average volume of $13.2 million in 2010 compared to $27.9 million in 2011. During 2010 the Company began offering an insured cash sweep account (ICS) through Promontory Interfinancial Network (PIN). The ICS is a money market account that is fully insured by the Federal Deposit Insurance Corporation (FDIC), provided through PIN's reciprocal deposit sweep service. The average volume on this product was $9.2 million in 2011 compared to $1.8 million in 2010.

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 Assets, Liabilities and Shareholders' Equity

	Year ended December 31,					
	2011		2010		2009	
	Balance	%	Balance	%	Balance	%
Average Assets			(Dollars in Thousands)			
Cash and due from banks						
Non-interest bearing	$ 3,882	0.72%	$ 3,588	0.69%	$ 8,672	1.76%
Federal funds sold and overnight deposits	33,292	6.15%	15,205	2.92%	170	0.03%
Taxable investment securities(1)	33,040	6.11%	22,739	4.36%	25,344	5.13%
Tax-exempt investment securities(1)	35,627	6.59%	48,031	9.22%	46,299	9.38%
Other securities(1)	4,309	0.80%	3,989	0.77%	3,907	0.79%
Total investment securities	72,976	13.50%	74,759	14.35%	75,550	15.30%
Gross loans	391,330	72.33%	387,268	74.32%	370,527	75.03%
Reserve for loan losses and accrued fees	(3,876)	-0.72%	(3,655)	-0.70%	(3,624)	-0.73%
Premises and equipment	12,749	2.36%	13,118	2.52%	14,286	2.89%
Other real estate owned	376	0.07%	919	0.18%	435	0.09%
Investment in Capital Trust	387	0.07%	332	0.06%	387	0.08%
Bank owned life insurance	3,993	0.74%	3,869	0.74%	3,748	0.76%
Core deposit intangible	1,909	0.35%	2,383	0.46%	2,980	0.60%
Goodwill	11,574	2.14%	11,574	2.22%	11,574	2.34%
Other assets	12,438	2.29%	11,699	2.24%	9,135	1.85%
Total average assets	$ 541,030	100%	$ 521,059	100%	$ 493,840	100%
Average Liabilities						
Demand deposits	$ 58,388	10.79%	$ 54,115	10.39%	$ 51,989	10.53%
Now	110,725	20.47%	86,976	16.69%	67,359	13.64%
Money market funds	72,476	13.40%	66,698	12.80%	59,010	11.95%
Savings accounts	60,285	11.14%	56,027	10.75%	53,218	10.77%
Time deposits	141,397	26.13%	149,528	28.70%	169,267	34.28%
Total average deposits	443,271	81.93%	413,344	79.33%	400,843	81.17%
Other borrowed funds	19,095	3.53%	33,806	6.49%	22,083	4.47%
Repurchase agreements	21,725	4.02%	19,427	3.73%	18,401	3.73%
Junior subordinated debentures	12,887	2.38%	12,887	2.47%	12,887	2.61%
Other liabilities	3,835	0.71%	3,778	0.72%	3,721	0.75%
Total average liabilities	500,813	92.57%	483,242	92.74%	457,935	92.73%
Average Shareholders' Equity						
Preferred stock	2,500	0.46%	2,500	0.48%	2,500	0.50%
Common stock	12,168	2.25%	11,919	2.29%	11,787	2.39%
Additional paid-in capital	26,980	4.98%	26,299	5.05%	25,892	5.24%
Retained earnings	1,052	0.19%	(397)	-0.08%	(1,896)	-0.38%
Less: Treasury stock	(2,623)	-0.48%	(2,623)	-0.50%	(2,623)	-0.53%
Accumulated other comprehensive income(1)	140	0.03%	119	0.02%	245	0.05%
Total average shareholders' equity	40,217	7.43%	37,817	7.26%	35,905	7.27%
Total average liabilities and shareholders' equity	$ 541,030	100%	$ 521,059	100%	$ 493,840	100%

(1) In accordance with accounting for investments, securities classified as held-to-maturity are carried at book value and securities classified as available-for-sale are carried at fair value with the unrealized gain (loss), net of applicable income taxes, reported as a net amount in accumulated other comprehensive income. The Company does not carry, nor does it intend to carry, securities classified as trading.

CERTAIN TIME DEPOSITS

Increments of maturity of time certificates of deposit and other time deposits of $100,000 or more outstanding on December 31, 2011 are summarized as follows:

Maturity Date	
3 months or less	$ 9,328,823
Over 3 through 6 months	7,816,099
Over 6 through 12 months	15,455,512
Over 12 months	18,772,348
Total	$ 51,372,782

RISK MANAGEMENT

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

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

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

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

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 of December 31, 2011.

One Year Horizon		Two Year Horizon	
Rate Change	**Percent Change in NII**	**Rate Change**	**Percent Change in NII**
Down 100 basis points	-0.70%	Down 100 basis points	-7.50%
Up 200 basis points	2.00%	Up 200 basis points	8.20%

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 and factors, some of which are outside the Company's control, 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.

Credit Risk - A primary challenge of management is to reduce the exposure to credit loss within the loan portfolio.Management follows established underwriting guidelines, and exceptions to the policy must be approved in accordance with limits prescribed by the Board of Directors. The adequacy of the loan loss coverage is reviewed quarterly by the risk management committee of the Board of Directors and then presented to the full Board of Directors for approval. 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 loan review firm in order to assure accuracy of the Company's internal risk ratings and compliance with various internal policies and procedures and regulatory guidance. The Company maintains a Credit Administration department whose function includes credit analysis and monitoring and reporting on the status of the loan portfolio including delinquent and non-performing loans. The Company also monitors concentration of credit risk in a variety of areas, including portfolio product mix, the level of loans to individual borrowers and their related interest, loans to industry segments, and the geographic distribution of commercial real estate loans. The Company has seen an increase in commercial loans as a percent of the total loan portfolio. The Company's strategy is to continue in this direction and it is committed to adding additional resources to the commercial credit function to manage the risk as this growth materializes. However, achieving significant increases in commercial loans remains a challenge in light of the prolonged weak economy and slow recovery.

The following table reflects the composition of the Company's loan portfolio as of December 31,

Composition of Loan Portfolio(1)

	2011		2010		2009		2008		2007	
	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	$ 12,589	3.24%	$ 19,126	4.89%	$ 16,869	4.41%	$ 15,204	4.15%	$ 12,896	3.62%
Farm land	10,223	2.63%	10,556	2.70%	10,039	2.63%	8,534	2.33%	9,646	2.70%
1-4 Family residential - 1st lien	159,536	41.05%	166,475	42.53%	169,476	44.33%	166,178	45.41%	163,975	45.99%
1-4 Family residential - Jr lien	45,887	11.81%	47,360	12.10%	46,982	12.29%	47,101	12.87%	31,870	8.94%
Commercial	109,458	28.16%	103,813	26.52%	97,620	25.54%	88,547	24.19%	85,576	24.00%
Loans to finance agricultural production	1,282	0.33%	1,158	0.29%	952	0.25%	884	0.24%	2,431	0.68%
Commercial & industrial	38,232	9.84%	29,887	7.63%	26,496	6.93%	23,307	6.37%	31,258	8.77%
Consumer and all other loans	11,465	2.95%	13,058	3.34%	13,825	3.62%	16,239	4.44%	18,920	5.31%
Gross loans	388,672	100%	391,433	100%	382,259	100%	365,994	100%	356,572	100%
Less:										
Allowance for loan losses and unearned fees	(3,880)		(3,802)		(3,603)		(3,534)		(3,469)	
Net loans	$384,792		$387,631		$378,656		$362,460		$353,103	

(1) Includes loans held for sale and the loan portfolio of the acquired LyndonBank at fair value. At December 31, 2007, the breakdown for LyndonBank
1st lien and Jr lien loans was not readily available, so the entire balance of $39.8 million is included in the 1st lien total for 2007 only.

The following table shows the estimated maturity of the Company's commercial loan portfolio as of December 31, 2011.

Maturity Schedule

	Fixed Rate Loans				Variable Rate Loans			
	Within 1 Year	**2 - 5 Years**	**After 5 Years**	**Total**	**Within 1 Year**	**2 - 5 Years**	**After 5 Years**	**Total**
				(Dollars in Thousands)				

Real estate								
Construction & land development	$ 2,808	$ 211	$ 4,101	$ 7,120	$ 2,845	$ 2,624	$ 0	$ 5,469
Secured by farm land	65	217	2,043	2,325	4,813	2,544	541	7,898
Commercial real estate	2,314	1,719	6,680	10,713	38,334	60,104	307	98,745
Loans to finance agricultural production	230	121	120	471	650	161	0	811
Commercial & industrial	5,921	7,900	1,143	14,964	18,956	4,312	0	23,268
Total	$ 11,338	$ 10,168	$ 14,087	$ 35,593	$ 65,598	$ 69,745	$ 848	$ 136,191

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

When establishing the allowance each quarter the Company applies a combination of historical loss factors and qualitative factors to loan classes including residential first and junior lien mortgages, commercial real estate, commercial and industrial, and consumer loan and overdraft portfolios. During the fourth quarter of 2011 the Company changed its allowance methodology by segmenting the classes of the residential real estate portfolio into first lien residential mortgages and junior lien residential mortgages, also known as home equity loans. The change was made to allow the Company to closely monitor and appropriately reserve for the risk inherent with home equity lending, given the modest repayment requirements, relaxed documentation and higher loan to value ratios characteristic of home equity lending, and the recent decline of home property values. No other changes in the Company's policies or methodology pertaining to the general component for loan losses were made since December 31, 2010. The Company will shorten or lengthen its look back period for determining average portfolio historical loss rates as the economy either contracts or expands; during a period of economic contraction a shortening of the look back period may more conservatively reflect the current economic climate. In light of the recent recession, in late 2008 the Company modified its allowance methodology by shortening its historical look back period from five years to one to two years, and by also comparing loss rates to losses experienced during the last economic downturn, from 1999 to 2002. The highest loss rates experienced for these look back periods are applied to the various classes in establishing the allowance.

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

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

Summary of Loan Loss Experience(1)

December 31,	**2011**	**2010**	**2009**	**2008**	**2007**
			(Dollars in Thousands)		
Loans outstanding, end of year	$ 388,672	$ 391,433	$ 382,259	$ 365,994	$ 356,572
Average loans outstanding during year	$ 391,330	$ 387,268	$ 370,527	$ 358,127	$ 263,597
Non-accruing loans, end of year	$ 7,949	$ 4,426	$ 3,844	$ 2,119	$ 1,338
Loan loss reserve, beginning of year	$ 3,728	$ 3,451	$ 3,233	$ 3,026	$ 2,268
Loans charged off:					
Residential real estate - 1st lien	(522)	(512)	(86)	(162)	0
Residential real estate - Jr lien	(97)	(54)	(24)	0	0
Commercial real estate	(197)	(149)	(80)	(16)	(51)
Commercial	(22)	(32)	(140)	(109)	(25)
Consumer	(103)	(106)	(146)	(115)	(172)
Total	(941)	(853)	(476)	(402)	(248)
Recoveries:					
Residential real estate - 1st lien	43	28	2	7	14
Residential real estate - Jr lien	0	2	0	0	0
Commercial real estate	8	8	18	2	12
Commercial	13	42	12	21	3
Consumer	36	33	37	80	42
Total	100	113	69	110	71
Net loans charged off	(841)	(740)	(407)	(292)	(177)
Provision charged to income	1,000	1,017	625	499	148
Allowance for loan loss of acquired bank	0	0	0	0	787
Loan loss reserve, end of year	$ 3,887	$ 3,728	$ 3,451	$ 3,233	$ 3,026
Net charge offs to average loans outstanding	0.21%	0.19%	0.11%	0.08%	0.07%
Provision charged to income as a percent					
of average loans	0.26%	0.26%	0.17%	0.14%	0.06%
Loan loss reserve to average loans outstanding	0.99%	0.96%	0.93%	0.90%	1.15%
Loan loss reserve to non-accruing loans(2)	48.90%	84.23%	89.78%	152.57%	226.16%

(1) Does not include the loan loss experience for the acquired LyndonBank for 2007.

(2) The percentages for 2011 and 2010 include loans in non-accrual status that carry varying degrees of federal government guarantees, with an aggregate carrying amount of $2,564,233 and $1,043,987, respectively, which, if deducted, would increase the loan loss reserve coverage to 72.2% and 110.2%, respectively, as of December 31, 2011 and 2010.

Specific allocations to the reserve are made for certain impaired loans. A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due, including interest and principal, according to the contractual terms of the loan agreement. Impaired loans are loans to a borrower that in aggregate are greater than $100,000 and that are in non-accrual status, including troubled debt restructurings (TDR). The Company will review all the facts and circumstances surrounding non-accrual and TDR loans and on a case-by-case basis may consider loans below the threshold as impaired when such treatment is material to the financial statements. The Company reviews all the facts and circumstances surrounding non-accrual and TDR loans and on a case-by-case basis may consider loans below the threshold as impaired when such treatment is material to the Company's financial statements. Commercial and commercial real estate loans are generally placed on non-accrual status when there is deterioration in the financial position of the borrower, payment in full of principal and interest is not expected, and/or principal or interest has been in default for 90 days or more. However, such a loan need not be placed in non-accrual status if it is both well secured and in the process of collection. Residential mortgages and home equity loans are considered for non-accrual status at 90 days past due and are evaluated on a case by case basis to assure that the Company's net income is not materially overstated. The Company obtains current property appraisals or market value analyses and considers the cost to carry and sell collateral in order to assess the level of specific allocations required. Consumer loans are generally not placed in non-accrual but are charged off by the time they reach 120 days past due.

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

The following table shows the allocation of the allowance for loan losses, as well as the percent of loans in each category to total loans:

Allocation of Allowance for Loan Losses (1)

December 31,	2011	%	2010	%	2009	%	2008	%	2007	%
					(Dollars in Thousands)					
Domestic										
Residential real estate	$ 1,910	53%	$ 1,831	55%	$ 1,589	57%	$ 1,404	58%	$ 1,258	55%
Commercial (2)	1,728	44%	1,694	42%	1,616	40%	1,497	37%	1,486	40%
Consumer	125	3%	152	3%	182	3%	255	5%	248	5%
Unallocated	124	0%	51	0%	64	0%	77	0%	34	0%
Total	$ 3,887	100%	$ 3,728	100%	$ 3,451	100%	$ 3,233	100%	$ 3,026	100%

(1) Does not include loan loss allowance information for the acquired LyndonBank for 2007.
(2) Includes commercial loans secured by real estate, as well as unsecured commercial loans and those secured by other types of collateral.

As a result of the recession that began in 2008, the Company experienced increasing delinquencies and collection activity throughout 2009, 2010 and 2011. The Company works actively with customers early in the delinquency process to help them to avoid default and foreclosure. During the same period the Company experienced increasing trends in the levels of non-performing loans and criticized and classified assets, which is consistent with the length and depth of the economic recession and the current measured recovery. Accordingly, during 2009 the Company had carried the maximum qualitative factor adjustment for economic conditions and is now slowly decreasing that factor as the recovery progresses. The factors for trends in delinquency and non-accrual loans and criticized and classified assets were similarly increased. With the economic recovery slowly underway, the levels of the less severely rated Group B criticized loans have shown improvement. However, several weaker Group C loans have deteriorated further and become non-performing loans. The sluggish pace of the economic recovery and the lack of national economic stimulus funding in 2011 translated into slow and measured improvement of the negative trends experienced in the loan portfolio since the onset of the 2008 recession.

The Company's non-performing assets increased $2.3 million or 32.7% for 2011 compared to 2010, $1.8 million or 35.9% for 2010 compared to 2009, and $2.6 million or 101.7% for 2009 compared to 2008. The non-performing loan increase for 2011 is attributable in large part to an increase in non-accrual commercial real estate loans. Two commercial real estate loans to one borrower totaling just over $1.0 million moved into non-accrual as a result of diminished cash flow due to the devastation caused by Tropical Storm Irene. Four other commercial real estate loan relationships moved into non-performing status as a result of the inability to weather the economic recession. Foreclosure actions are in process on 18 non-performing loans to 13 borrowing relationships with balances totaling approximately $3.7 million; those foreclosures and claims on related government guarantees are expected to reduce non performing loans during 2012. The $9.2 million of non-performing loans at December 31, 2011 carry $2.6 million in federal government guarantees, making the non-performing loans net of guarantee $6.6 million. At December 31, 2010, of the $5.8 million in non-performing loans, $1.1 million carried federal government guarantees, resulting in non-performing loans net of guarantee of $4.7 million. The increase in non-performing assets for 2010 was due largely to an increase in residential real estate loans past due 90 days or more as well as the addition of three residential and one commercial properties to the Company's OREO portfolio. The increase for 2009 was attributable primarily to three 1-4 family residential mortgage loans of substantial size, one of which had a carrying value of $1.3 million and a commercial mortgage loan with a carrying value of $318,957 at December 31, 2010 that were changed to a non-accrual status. Foreclosure of the noted large residential mortgage is expected to be completed during 2012.

When a loan is placed in non-accrual status, the Company's policy is to reverse the accrued interest against current period income and to discontinue the accrual of interest until the borrower clearly demonstrates the ability and intention to resume normal payments, typically demonstrated by regular timely payments for a period of not less than six months. Interest payments received on non-accrual or impaired loans are generally applied as a reduction of the loan principal balance. Deferred taxes are calculated monthly, based on interest amounts that would have accrued through the normal accrual process. As of December 31, for each respective year, this interest amounted to $294,034 for 2011, $235,602 for 2010, $117,575 for 2009, $72,954 for 2008, and $55,507 for 2007.

Non-performing assets were made up of the following:

Non-Performing Assets					
December 31,	2011	2010	2009	2008	2007
	(Dollars in Thousands)				
Accruing loans past due 90 days or more:					
Consumer	$ 1	$ 38	$ 20	$ 2	$ 11
Commercial	60	29	0	0	0
Commercial real estate	99	95	0	0	70
Residential real estate - 1st lien	969	1,055	436	216	41
Residential real estate - Jr. lien	111	140	102	29	16
Total past due 90 days or more	1,240	1,357	558	247	138
Non-accrual loans:					
Consumer	0	0	0	274	0
Commercial	1,067	61	201	470	45
Commercial real estate	3,714	1,146	1,161	120	707
Residential real estate - 1st lien	2,704	2,831	2,482	944	396
Residential real estate - Jr. lien	464	388	0	311	190
Total non-accrual loans	7,949	4,426	3,844	2,119	1,338
Total non-accrual and past due loans	9,189	5,783	4,402	2,366	1,476
Other real estate owned	90	1,210	743	185	0
Total non-performing assets	$ 9,279	$ 6,993	$ 5,145	$ 2,551	$ 1,476
Percent of gross loans	2.39%	1.79%	1.35%	0.70%	0.41%
Reserve coverage of non-performing assets	41.89%	53.31%	67.07%	126.73%	205.01%

The Company's impaired loans increased approximately $3.1 million during 2011 from $4.4 million at December 31, 2010 to approximately $7.5 million as of December 31, 2011. Specific allocations to the reserve increased for the same period, from $392,700 to $458,500. Three of the impaired loans to one borrower, approximately $1.0 million at December 31, 2008, were rewritten through a TDR in 2009 and as of December 31, 2011, the book balance was $481,355 and the loan is paying according to terms. Two other loans to one borrower totaling $1.3 million at December 31, 2009 were rewritten through a TDR in 2010 and as of December 31, 2011 the book balance was just over $1.1 million; the subject loans are now in the foreclosure process. Two other non-performing loans with balances of approximately $1.0 million at December 31, 2011 were restructured in January 2012 to allow for tropical storm Irene flood related remediation. The impaired portfolio as of December 31, 2011 includes approximately 32% residential first mortgages, 6% junior lien home equity loans, 49% commercial real estate, with the balance of 13% in commercial or installment loans not secured by real estate. This compares to the impaired portfolio as of December 31, 2010 at approximately 73% residential real estate, 26% commercial real estate, with the 1% balance in commercial or installment loans not secured by real estate, compared to 65%, 30%, and 5%, respectively in 2009.

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

The Company's OREO portfolio totaling $90,000 at December 31, 2011 consisted of one commercial property acquired late in 2011 through the normal foreclosure process. During 2011 the Company sold all $1.2 million of other real estate owned assets that were recorded at December 31, 2010. The former LyndonBank branch property in Derby, Vermont, which was placed in OREO a short time after the merger, was sold during the first half of 2011 for $525,000.

The Company is committed to a conservative lending philosophy and maintains high credit and underwriting standards. As of December 31, 2011, the Company maintained a residential loan portfolio of $205.4 million compared to $213.8 million as of December 31, 2010 and a commercial real estate portfolio (including construction, land development and farm land loans) of $132.3 million as of December 31, 2011 and $133.5 million as of December 31, 2010, together accounting for 86.9% and 88.7%, respectively, of the total loan portfolio for 2011 and 2010.

The residential mortgage portfolio makes up the largest segment of the loan portfolio and as a result of the severity and depth of the recent recession it has recently seen the greatest degree of collection and foreclosure activity and losses. The Company however, has not experienced delinquencies and losses to the extent of national peers as the Company maintains a mortgage loan portfolio of traditional mortgage products and has not engaged in higher risk loans such as option ARM products, high loan-to-value products, interest only mortgages, subprime loans and products with deeply discounted teaser rates. In areas of the country where such risky products were originated, borrowers with little or no equity in their property have been defaulting on mortgages they can longer afford, and walking away from those properties as real estate values have fallen precipitously. While real estate values have declined in the Company's market area, the sound underwriting standards historically employed by the Company have mitigated the trends in defaults and property surrenders experienced elsewhere. Residential mortgages with loan-to-values exceeding 80% are generally covered by private mortgage insurance (PMI). A 90% loan-to-value residential mortgage product without PMI is only available to borrowers with excellent credit and low debt-to-income ratios and has not been widely originated. Junior lien home equity products make up 22% of the residential mortgage portfolio with maximum loan-to-value ratios (including prior liens) of 80%. The residential mortgage portfolio has had satisfactory performance in light of the depth of the recent recession and the slow recovery.

Risk in the Company's commercial and commercial real estate loan portfolios is mitigated in part by using government guarantees issued by federal agencies such as the US Small Business Administration and USDA Rural Development. At December 31, 2011, the Company had $22.9 million in guaranteed loans, compared to $22.1 million at December 31, 2010.

Net loan losses increased throughout the comparison period from 2007 through 2011. Given these trends, the depth of the recent recession and the measured recovery, management increased its provisions for loan losses to $1.0 million for 2011 and just under $1.1 million for 2010, compared to $625,004 for 2009, and believes this is directionally consistent with the trends and risk in the loan portfolio and with the growth of the loan portfolio. The Company has an experienced collections department that continues to work actively with borrowers to resolve problem loans, and management continues to monitor the loan portfolio closely.

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

INVESTMENT SECURITIES

The Company maintains an investment portfolio of various securities to diversify its revenues, as well as provide interest rate risk and credit risk diversification and to provide for its liquidity and funding needs. The Company's portfolio of available-for-sale securities increased $44,668,481 in 2011, from $21,430,436 at December 31, 2010 to $66,098,917 at December 31, 2011. During the beginning of 2011, as investments matured, the Company replaced these investments with similar bonds but with much lower yields. Although rates have not improved throughout 2011, most yields were more favorable than those at correspondent banks such as the FRBB. The Company was anticipating a more favorable increase in its loan portfolio, but as the year progressed, the loan volume did not increase as anticipated. With this in mind, the Company chose to deploy excess cash to its investment portfolio, primarily U.S. Government sponsored enterprise (GSE) debt securities, with maturities designed to provide liquidity through laddered future cash flow. The Company's held-to-maturity portfolio consisted entirely of obligations of state and political subdivisions with a book value of $29,702,159 as of December 31, 2011, compared to $37,440,714 as of December 31, 2010. This decrease was due in part to competitive interest rates within the Company's servicing area as well as the maturity of a few municipal investments that had not renewed as of year end. During the first few weeks following year end the portfolio increased $2,378,481 with renewals and new obligations.

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 recorded at book value, subject to adjustment for other-than-temporary impairment. Securities classified as available-for-sale are marked to market with any gain or loss after taxes charged to shareholders' equity in the consolidated balance sheets. These adjustments in the available-for-sale portfolio resulted in an accumulated unrealized gain after taxes of $133,731 at December 31, 2011, up from $76,657 at December 31, 2010. This increase of $57,074 was due to a combination of the increase in the average volume of the portfolio, as well as a change in the interest rate environment. As of December 31, 2011, investments purchased during the first quarter of 2011 or prior to 2011 were mostly in an unrealized gain position, while those purchased during the fourth quarter of 2011 were mostly in an unrealized loss position as a result of market conditions. Although classified as available-for-sale, these securities are short term and we anticipate keeping them until maturity. The unrealized loss positions within the investment portfolio as of December 31, 2011 and 2010 are considered to be temporary.

At December 31, 2011 and 2010, the Company's available-for-sale portfolio included two classes of Fannie Mae preferred stock with an aggregate cost basis of $42,360. Prior to 2011, the Company recorded other-than-temporary impairment write downs on the investment in prior periods, including $25,804 in 2010. The fair value of the Fannie Mae preferred stock as of December 31, 2011 was $92,123, an increase of $49,763 from the December 31, 2010 fair value of $42,360. The value of the stock had declined shortly before the end of the second quarter of 2010, after the Federal Housing Finance Agency ordered Fannie Mae to delist its common and preferred stock from the New York Stock Exchange. There was improvement in the stock's market value during the third quarter of 2010, but a decrease was then noted during the fourth quarter causing management to reevaluate its holdings and record the other-than-temporary impairment charge noted above for the quarter ended December 31, 2010.

The restricted equity securities comprise the Company's membership stock in the FRBB and FHLBB. On December 31, 2011 and 2010 the Company held $588,150 in FRBB stock and $3,720,400 in FHLBB stock. Membership in FRBB and FHLBB requires the purchase of their stock in specified amounts. The stock is typically held for an extended period of time and can only be sold back to the issuer, or in the case of FHLBB, a member institution. Restricted equity stock is sold and redeemed at par. Due to the unique nature of the restricted equity stock, including the non-investment purpose for owning it, the ownership structure and the absence of a real "market" for the stock, these securities are not marked to market, but carried at par.

Some of the Company's investment securities have a call feature, meaning that the issuer may call in the investment, before maturity, at predetermined call dates and prices. In 2011, no investments with such call features were exercised, compared to one during 2010.

The Company's investment portfolios as of December 31 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2011				
Available-for-Sale				
U.S. GSE debt securities	$ 60,846,954	$ 215,595	$ 99,310	$ 60,963,239
U.S. Government securities	5,006,979	37,424	848	5,043,555
U.S. GSE preferred stock	42,360	49,763	0	92,123
	$ 65,896,293	$ 302,782	$ 100,158	$ 66,098,917
Held-to-Maturity				
States and political subdivisions	$ 29,702,159	$ 586,841	$ 0	$ 30,289,000
Restricted Equity Securities (1)	$ 4,308,550	$ 0	$ 0	$ 4,308,550
Total	$ 99,907,002	$ 889,623	$ 100,158	$100,696,467
December 31, 2010				
Available-for-Sale				
U.S. GSE debt securities	$ 16,234,676	$ 88,091	$ 9,377	$ 16,313,390
U.S. Government securities	5,037,252	37,666	232	5,074,686
U.S. GSE preferred stock	42,360	0	0	42,360
	$ 21,314,288	$ 125,757	$ 9,609	$ 21,430,436
Held-to-Maturity				
States and political subdivisions	$ 37,440,714	$ 716,286	$ 0	$ 38,157,000
Restricted Equity Securities (1)	$ 4,308,550	$ 0	$ 0	$ 4,308,550
Total	$ 63,063,552	$ 842,043	$ 9,609	$ 63,895,986

(1) Required equity purchases for membership in the Federal Reserve System and Federal Home Loan Bank System.

In 2011 and 2010 there were no sales of investments from the available-for-sale portfolio. The write down of $25,804 in 2010 on the Fannie Mae preferred stock was recorded as a separate component of non-interest expense through the consolidated statements of income.

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,	2011		2010		2009	
	Fair Value(1)	Weighted Average Yield(2)	Fair Value(1)	Weighted Average Yield(2)	Fair Value(1)	Weighted Average Yield(2)
Available-for-Sale						
U.S. Treasury & Agency Obligations						
Due in one year or less	$ 5,035,711	1.12%	$ 14,248,432	1.34%	$ 8,310,668	3.17%
Due from one to five years	58,970,925	0.95%	7,139,643	1.01%	15,592,674	1.40%
Due from five to ten years	2,000,158	1.28%	0	0.00%	0	0.00%
Total	$ 66,006,794	0.98%	$ 21,388,075	1.23%	$ 23,903,342	2.01%
FRBB Stock (3)	$ 588,150	6.00%	$ 588,150	6.00%	$ 588,150	6.00%
FHLBB Stock (3)	$ 3,720,400	0.29%	$ 3,720,400	0.00%	$ 3,318,700	0.00%
Preferred Stock	$ 92,123	0.00%	$ 42,360	0.00%	$ 71,488	0.00%
Held-to-Maturity						
Obligations of State & Political Subdivisions						
Due in one year or less	$ 20,589,247	3.26%	$ 28,468,783	3.48%	$ 35,864,578	3.31%
Due from one to five years	4,534,944	4.16%	4,253,527	4.54%	4,034,674	5.01%
Due from five to ten years	822,735	4.70%	789,962	5.52%	1,483,336	5.59%
Due after ten years	3,755,233	7.17%	3,928,442	7.21%	3,383,662	8.03%
Total	$ 29,702,159	3.93%	$ 37,440,714	4.04%	$ 44,766,250	3.89%

(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) The yield on obligations of state and political subdivisions is calculated on a tax equivalent basis assuming a 34 percent tax rate.
(3) Required equity purchases for membership in the Federal Reserve System and Federal Home Loan Bank System.

BANK PREMISES AND EQUIPMENT

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

	2011	2010
Buildings and improvements	$ 10,668,590	$ 10,515,227
Land and land improvements	2,378,813	2,378,812
Furniture and equipment	7,011,347	6,199,355
Leasehold improvements	1,296,405	1,293,328
Capital lease	976,907	927,889
Other prepaid assets	17,490	89,507
	22,349,552	21,404,118
Less accumulated depreciation and amortization	(9,634,326)	(8,612,147)
	$ 12,715,226	$ 12,791,971

Depreciation included in occupancy and equipment expense amounted to $1,022,178 and $1,035,739, for the years ended December 31, 2011 and 2010, respectively.

The Company leases seven of its fourteen banking office locations, including two under capital lease arrangements. The leases for these seven locations expire in various years through 2022 with options to renew.

COMMITMENTS, CONTINGENCIES AND OFF-BALANCE-SHEET ARRANGEMENTS

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and risk-sharing commitments on certain sold loans. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. From December 31, 2010 to December 31, 2011, 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 were as follows:

	Contract or -Notional Amount-	
	2011	**2010**
Unused portions of home equity lines of credit	$ 20,161,629	$ 18,936,634
Other commitments to extend credit	38,106,476	26,097,763
Residential construction lines of credit	588,290	2,044,892
Commercial real estate and other construction lines of credit	2,126,558	6,891,848
Standby letters of credit and commercial letters of credit	1,954,885	1,266,800
Recourse on sale of credit card portfolio	398,200	371,800
MPF credit enhancement obligation, net (See Note 16)	1,979,684	1,806,982

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

In connection with its trust preferred securities financing completed on October 31, 2007, the Company guaranteed the payment obligations under the $12,500,000 of capital securities of its subsidiary, CMTV Statutory Trust I. The source of funds for payments by the Trust on its capital securities is payments made by the Company on its debentures issued to the Trust. The Company's obligation under those debentures is fully reflected in the Company's balance sheet, in the gross amount of $12,887,000 at both December 31, 2011 and 2010, of which $12,500,000 represents external financing.

During 2011, an audit conducted by the Vermont Tax Department resulted in a sales and use tax assessment, including interest and penalties, of $171,563, which was subsequently reduced to $118,506. The Company disputes various portions of the adjusted assessment and has filed a notice of appeal. As of December 31, 2011, the Company had accrued a liability in the amount of $65,000 relating to this matter.

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. During the recent economic downturn, the capital and credit markets have been experiencing significant volatility and disruption, with the federal government taking unprecedented steps to deal with the economic situation. These measures include significant deficit spending as well as quantitative easing of the money supply by the FRBB, which could result in inflation in future periods.

The impact of inflation on the Company's financial results is affected by 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 order to attract deposits, the Company has from time to time 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 recognizes that at times when loan demand exceeds deposit growth, it may at times be desirable to utilize alternative sources of deposit funding to augment retail deposits and borrowings. One-way deposits purchased through the Certificate of Deposit Account Registry Service (CDARS) of Promontory Interfinancial Network provide an alternative funding source when needed. Such deposits are generally considered a form of brokered deposits. The Company had $0 and $102,941 in one-way funds on December 31, 2011 and 2010, respectively. In addition, two-way CDARS deposits allow the Company to provide FDIC deposit insurance to its customers in excess of account coverage limits by exchanging deposits with other CDARS members. At December 31, 2011, the Company reported $1,121,632 in CDARS deposits representing exchanged deposits with other CDARS participating banks compared to $1,313,834 at December 31, 2010. The balance in ICS deposits discussed in the Statement of Financial Condition section of this discussion was $10,872,204 at December 31, 2011, compared to $7,911,946 at December 31, 2010.

Anticipating a possible increase in long-term rates due to a steepening yield curve, during the first quarter of 2010 the Company extended $18.0 million of short-term funding into longer-term FHLBB advances with two, three and five year maturities. Management believes this will help protect the balance sheet from interest-rate risk in the event of a rising rate environment.

The Company has a Borrower-in-Custody arrangement with the FRBB secured by eligible commercial loans, commercial real estate loans and home equity loans, resulting in an available line of $69,222,549 and $70,695,535, respectively at December 31, 2011 and 2010. Credit advances in the FRBB lending program are overnight advances with interest chargeable at the primary credit rate (generally referred to as the discount rate), currently 75 basis points. At December 31, 2011 and 2010, the Company had no outstanding advances against this line.

The Company has an unsecured Federal Funds line with the FHLBB with an available balance of $500,000 at December 31, 2011 and 2010. Interest is chargeable at a rate determined daily approximately 25 basis points higher than the rate paid on federal funds sold. In addition, at December 31, 2011 and 2010, additional borrowing capacity of approximately $77,902,569 and $85,552,034, respectively, was available through the FHLBB secured by the Company's qualifying loan portfolio (generally, residential mortgages).

At December 31, 2011 and 2010, the Company had advances against the respective lines, consisting of the following:

	2011	2010
Long-Term Borrowings		
FHLBB term borrowing, 2.13% fixed rate, due January 31, 2011	$ 0	$ 10,000,000
FHLBB Community Investment Program borrowing, 7.67% fixed rate,		
due November 16, 2012	10,000	10,000
FHLBB term borrowing, 1.00% fixed rate, due January 27, 2012	6,000,000	6,000,000
FHLBB term borrowing, 1.71% fixed rate, due January 28, 2013	6,000,000	6,000,000
FHLBB term borrowing, 2.72% fixed rate, due January 27, 2015	6,000,000	6,000,000
	18,010,000	28,010,000
Short-Term Advances		
FHLBB term borrowing, 0.39% fixed rate, due January 19, 2011	0	5,000,000
Total borrowings	$ 18,010,000	$ 33,010,000

Under a separate agreement, the Company has the authority to collateralize public unit deposits up to its FHLBB borrowing capacity ($77,902,569 and $85,552,034, respectively, less outstanding advances) with letters of credit issued by the FHLBB. The Company offers a Government Agency Account to the municipalities collateralized with these FHLBB letters of credit. At December 31, 2011 and 2010, approximately $15,950,000 and $40,550,000, respectively, of qualifying residential real estate loans was pledged as collateral to the FHLBB for these collateralized governmental unit deposits. Total fees associated with these letters of credit were $44,656 for 2011 and $50,395 for 2010.

Total cash dividends of $0.56 and $0.48 per common share were declared during 2011 and 2010, respectively. In December, 2011, the Company declared a $0.14 per common share cash dividend, payable February 1, 2012 to shareholders of record as of January 15, 2012, requiring the Company to accrue a liability of $658,537 for this dividend in the fourth quarter of 2011.

The following table illustrates the changes in shareholders' equity from December 31, 2010 to December 31, 2011:

Balance at December 31, 2010 (book value $7.92 per common share)	$ 39,127,669
Net income	3,583,546
Issuance of stock through the Dividend Reinvestment Plan	950,763
Dividends declared on common stock	(2,613,143)
Dividends declared on preferred stock	(187,500)

Change in unrealized gain on available-for-sale securities, net of tax	57,074
Balance at December 31, 2011 (book value $8.13 per common share)	$ 40,918,409

In February 2009, the FRBB issued supervisory guidance on the payment of dividends and redemption and repurchases of stock by bank holding companies. The guidance heightened expectations that a bank holding company will inform and consult with FRBB supervisory staff in advance of declaring and paying any dividend that could raise safety and soundness concerns, such as a dividend exceeding current period earnings; redeeming or repurchasing regulatory capital instruments when the bank holding company is experiencing financial weaknesses; or redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. The guidance provides that a bank holding company should eliminate, defer or severely limit dividends if net income for the past four quarters is not sufficient to fully fund dividends; the prospective rate of earnings retention is not consistent with the holding company's capital needs and overall current and prospective financial condition; or the holding company will not meet, or is in danger of not meeting, its minimum regulatory capital ratios. The Company would be required to consult with, and obtain the approval of, FRBB staff for payment of any dividends, including regular quarterly cash dividends, in future periods that are in excess of earnings for the applicable quarterly period. The Company reported dividend payout ratios of 76.71% in 2011 and 58.54% in 2010.

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

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). The Company's Series A preferred stock ($2.5 million liquidation preference) is includable without limitation in its Tier 1 capital. For 2010 and prior annual and quarterly periods the Company's trust preferred junior subordinated debentures were includable in Tier 1 capital up to 25% of core capital elements, with the balance includable in Tier 2 capital. In accordance with changes in the regulatory requirements for calculating capital ratios, beginning with the quarter ended March 31, 2011, the Company deducts the amount of goodwill, net of deferred tax liability ($2,061,772 at December 31, 2011 and 2010), for purposes of calculating the amount of trust preferred junior subordinated debentures includable in Tier 1 capital. Management believes, as of December 31, 2011, that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2011 the Bank was considered well capitalized under the regulatory capital framework for Prompt Corrective Action and the Company exceeded applicable consolidated regulatory capital guidelines.

The following table shows the regulatory capital ratios for the Company and the Bank as of year end 2011 and 2010.

	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, 2011:						
Total capital (to risk-weighted assets)						
Company	$46,351	12.50%	$29,660	8.00%	N/A	N/A
Bank	$45,772	12.37%	$29,596	8.00%	$36,995	10.00%
Tier I capital (to risk-weighted assets)						
Company	$39,980	10.78%	$14,830	4.00%	N/A	N/A
Bank	$41,830	11.31%	$14,798	4.00%	$22,197	6.00%

Tier I capital (to average assets)						
Company	$39,980	7.28%	$21,965	4.00%	N/A	N/A
Bank	$41,830	7.63%	$21,935	4.00%	$27,419	5.00%

	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, 2010:						
Total capital (to risk-weighted assets)						
Company	$43,942	12.33%	$28,505	8.00%	N/A	N/A
Bank	$43,364	12.20%	$28,439	8.00%	$35,549	10.00%
Tier I capital (to risk-weighted assets)						
Company	$40,187	11.28%	$14,253	4.00%	N/A	N/A
Bank	$39,610	11.14%	$14,220	4.00%	$21,329	6.00%
Tier I capital (to average assets)						
Company	$40,187	7.52%	$21,376	4.00%	N/A	N/A
Bank	$39,610	7.42%	$21,345	4.00%	$26,681	5.00%

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

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

Common Stock Performance by Quarter*

	2011				2010			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Trade Price								
High	$ 11.00	$ 10.00	$ 11.00	$ 9.75	$ 12.20	$ 12.00	$ 10.05	$ 8.99
Low	$ 8.14	$ 9.00	$ 9.06	$ 9.50	$ 8.12	$ 8.75	$ 8.63	$ 7.50
Cash Dividends Declared	$ 0.14	$ 0.14	$ 0.14	$ 0.14	$ 0.12	$ 0.12	$ 0.12	$ 0.12

* There is no active public trading market for the Company's common stock. However, several brokerage firms follow the stock and execute trades in the stock for their customers. Trade price information in the table is based on high and low trade prices reported by participating brokers in the OTC Bulletin Board® maintained by the Financial Industry Regulatory Authority, Inc. (FINRA), and may not represent all trades effected during the relevant periods. Participating brokers also report bid and trade information for the Company's common stock through OTC Link® maintained by the OTC Market Group. Bid information for 2011 was not readily available due to minimal trading activity. The OTC trading symbol for the Company's common stock is CMTV.

As of February 1, 2012, there were 4,727,721 shares of the Corporation's common stock ($2.50 par value) outstanding, owned by approximately 930 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 & CEO
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 2012 Annual Shareholders' Meeting will be held at 5:30 p.m., May 15, 2012, at the Elks Club in Derby. We hope to see many of our shareholders there.

Subsidiaries of the Company

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

The unconsolidated subsidiary of Community Bancorp. is CMTV Statutory Trust I, a Delaware statutory business trust.

BerryDunn

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the inclusion in this Annual Report (Form 10-K) of Community Bancorp. of our report dated March 27, 2012, with respect to the consolidated financial statements included in the 2011 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. 333-133631) pertaining to the Community Bancorp. Retirement Savings Plan of our report dated March 27, 2012, with respect to the consolidated financial statements incorporated therein by reference of Community Bancorp. included in the Annual Report (Form 10-K) for the year ended December 31, 2011.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
March 27, 2012
Vermont Registration No. 92-0000278

Exhibit 31.1

CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K of Community Bancorp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (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 27, 2012

/s/ Stephen P. Marsh
Chairman, President and Chief Executive Officer

CERTIFICATION

I, Louise M. Bonvechio, Treasurer (Principal 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (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 27, 2012

/s/Louise M. Bonvechio
Treasurer
(Principal 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, 2011, filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Principal 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/ Stephen P. Marsh
Stephen P. Marsh,
Chairman, President & Chief Executive Officer

March 27, 2012

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, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Principal 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/ Louise M. Bonvechio
Louise M. Bonvechio, Treasurer
(Principal Financial Officer)

March 27, 2012