

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## Community Bancorp /VT

**Form: 10-K**

**Date Filed: 2008-03-31**

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Symbol:	CMTV
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

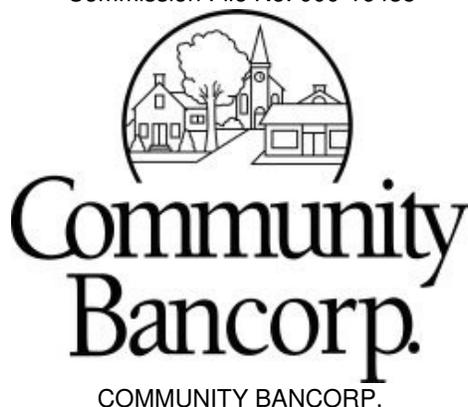
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2007

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  
(State of Incorporation)  
Address of Principal Executive Offices: 4811 US Route 5, Derby, Vermont 05829

03-0284070  
(IRS Employer Identification Number)

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

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

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

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

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

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

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

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, 2007, the aggregate market value of the voting stock held by non-affiliates of the registrant was \$55,659,562, based on a per share trade price of \$14.00, as reported on the OTC Bulletin Board® on June 28, 2007 (the date of the last reported sale prior to July 1, 2007). 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 4,399,586 shares outstanding of the issuer's class of common stock as of the close of business on March 27, 2008.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the year ended December 31, 2007 are incorporated by reference to Part II.

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held June 10, 2008

are incorporated by reference to Part III.

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FORM 10-K ANNUAL REPORT

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## PART I

### Item 1. The Business

#### Organization and Operation

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

Community National Bank was organized in 1851 as the Peoples Bank, and was subsequently reorganized as the National Bank of Derby Line in 1865. In 1975, after 110 continuous years of operation as the National Bank of Derby Line, the Bank acquired the Island Pond National Bank and changed its name to "Community National Bank." Effective December 31, 2007, the Company acquired LyndonBank, a Vermont commercial bank, located in Lyndonville, Vermont, with approximately \$127 million in assets, through the merger of LyndonBank with and into Community National Bank.

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

In 2002, the Bank transferred its trust operations to a newly formed Vermont-chartered nondepository trust and investment management affiliate, Community Financial Services Group, LLC, based in Newport, Vermont ("CFSG"). The Bank's ownership interest in CFSG is held indirectly, through Community Financial Services Partners, LLC, a Vermont limited liability company ("CFSP"), which owns 100% of the limited liability company equity interests of CFSG. Immediately following transfer of its trust operations to CFSG, the Bank sold a two-thirds interest in CFSP, equally to the National Bank of Middlebury, headquartered in Middlebury, Vermont and Guaranty Bancorp Inc., the bank holding company parent of Woodsville Guaranty Savings Bank, headquartered in Woodsville, New Hampshire. CFSG offers personal fiduciary services throughout the market area of the three owner financial institutions.

#### Competition

The Bank has five banking offices located in Orleans County, one office in Essex County, four offices in Caledonia County (including three former LyndonBank offices), two offices in Washington County, one office each in Franklin and Lamoille Counties (both former LyndonBank offices). Its primary service area is in the Town of Derby and City of Newport, Vermont in Orleans County, with approximately 40% of its total deposits derived from the Company's Derby, Derby Line and Newport offices as of December 31, 2007.

The Bank competes in all aspects of its business with other banks and credit unions in northern and central Vermont, including two of the largest banks in the state, which maintain branch offices throughout the Bank's service area. Historically, competition in Orleans and Essex Counties has come primarily from two of the largest banks in the state, the Chittenden Bank based in Burlington, Vermont and TD Banknorth, N.A. based in Portland, Maine. The Chittenden Bank maintains a branch office in Newport, and TD Banknorth, N.A. maintains branch offices in Barton, Orleans, and St. Johnsbury. The Bank also competes in Orleans County with one local bank, Passumpsic Savings Bank, based in St. Johnsbury, and with three local credit unions, Orlex Credit Union and Border Lodge Credit Union, both based in Newport, and North Country Federal Credit Union, based in South Burlington. The Bank's primary competitors in Caledonia County are Passumpsic Savings Bank and Union Bank based in Morrisville, TD Banknorth, N.A., Northern Lights Federal Credit Union, based in St. Johnsbury, Vermont State Employees Credit Union, based in Montpelier, Merchants Bank, based in Burlington and North Country Federal Credit Union. In Washington County, the Bank competes with Merchants Bank, Chittenden Bank and TD Banknorth, N.A., as well as Northfield Savings Bank based in Northfield, Key Bank based in Ohio, Citizens Bank Vermont, based in Rhode Island, Vermont State Employees Credit Union, North Country Federal Credit Union, and Granite Hills Credit Union, based in Barre. In Franklin County, the Bank competes with Peoples Trust Company based in St. Albans, TD Banknorth, N.A., Chittenden Bank, Citizens Bank Vermont, Key Bank, Merchants Bank, and Union Bank. In Lamoille County the Bank's competitors are Union Bank, TD Banknorth, Chittenden Bank and Merchants Bank.

Changes in the regulatory framework of the banking industry during the past decade or so have broadened the competition for commercial bank products such as deposits and loans to include not only traditional rivals such as the mutual savings banks, stock savings banks, and credit unions, but also many non-traditional rivals such as insurance companies, brokerage firms, mutual funds and consumer and commercial finance and leasing companies. In addition, many out-of-market nationwide banks, nonbank lenders and other financial service firms operate in the Company's market areas through mass marketing solicitations by mail, radio,

television and email. Three of the Bank's credit union competitors, including the largest state-chartered Vermont credit union, Vermont State Employees Credit Union, have converted in recent years from an employment based common bond to a community common bond, thereby significantly increasing their fields of membership in the Bank's market areas. Similarly, another of the Bank's credit union competitors, which previously had an employment based common bond, merged last year into a much larger credit union which has a community common bond. At the same time, regulatory changes in the credit union industry, including passage in 2005 of a comprehensive Vermont credit union modernization statute, have steadily increased the financial services and products that credit unions are authorized to offer, such as small business lending and products for non-profit organizations, resulting in increased competition for the Bank from this tax exempt sector of the financial services industry.

### Employees

As of December 31, 2007, the Company did not have any employees at the holding company level. However, as of such date, the Bank employed 176 full-time employees and 18 part-time employees. Management of the Bank considers its employee relations to be good.

### Regulation and Supervision

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

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

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

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

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

Community Bancorp. and its wholly-owned subsidiary, Community National Bank, as well as its non-subsiary affiliates, CFSP and CFSG, are all considered "affiliates" of each other for the purposes of Section 18(j) of the Federal Deposit Insurance Act, as amended, and Sections 23A and 23B of the Federal Reserve Act, as amended. In particular, section 23A limits loans or other extensions of credit to, asset purchases with and investments in affiliates of the Bank to 10% of the Bank's capital and surplus. In addition, such loans and extensions of credit and certain other transactions must be collateralized in specified amounts. Section 23B requires, among other things, that certain transactions between the Bank and its affiliates must be on terms substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving non-affiliated persons. Further, the Company is prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or lease or sale of any property or the furnishing of services.

Financial Modernization. In 1999 Congress enacted the federal Gramm-Leach-Bliley financial modernization act ("Gramm-Leach-Bliley"), which repealed provisions of the Glass-Steagall Act of 1933 that required separation of banking and commercial entities. Under Gramm-Leach-Bliley, eligible bank holding companies may elect to become financial holding companies and thereby affiliate with securities firms and insurance companies and engage in a broader range of activities than is otherwise permissible for bank holding companies. A bank holding company is eligible to elect to become a "financial holding company" and to engage in activities that are "financial in nature" if each of its subsidiary banks is well capitalized for regulatory capital purposes, is well managed and has at least a satisfactory rating under the Community Reinvestment Act ("CRA"). Activities which are deemed "financial in nature" under Gramm-Leach-Bliley would include activities generally permitted to bank holding companies as described above, and in addition securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; and merchant banking. Gramm-Leach-Bliley also contains similar provisions authorizing eligible national banks to engage indirectly through a "financial subsidiary" in activities that are financial in nature, other than insurance underwriting, insurance company portfolio investment, real estate development and real estate investment. In order to be considered eligible for these expanded activities, the bank must be well capitalized, well managed and have at least a satisfactory CRA rating. A national bank's investment in financial subsidiaries is subject to certain limitations under Gramm-Leach-Bliley.

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

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

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

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 requires management to undertake an assessment of the adequacy and effectiveness of the Company's internal controls over financial reporting. Beginning in 2008, the Company's external auditors will be required to attest to, and report on, management's assessment of the Company's internal controls and the operating effectiveness of these controls. 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. Results of on-going testing of key controls were used by management to assess the adequacy and effectiveness of the Company's internal controls over financial reporting. The Company has incurred, and expects to continue to incur, costs in connection with its compliance with Section 404.

More information on the Company's corporate governance practices is available on the Company's website at [www.communitybancorpvt.com](http://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 qualifies as a smaller reporting company as of its last measurement date (June 30, 2007). 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 permits a bank holding company to acquire banks in states other than its home state, without regard to the permissibility of such acquisitions under state law, but subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding company, prior to or following the proposed acquisition, controls no more than 10% of the total amount of deposits of insured depository institutions in the United States and less than 30% of such deposits in that state (or such lesser or greater amount set by state law).

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

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

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

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

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

As of December 31, 2007, both Community Bancorp. and Community National Bank were considered "well capitalized" under all applicable regulatory requirements.

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

In addition, the Company and the Bank are subject to various general regulatory policies and requirements relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The appropriate federal or state banking agency is authorized to determine under certain circumstances relating to the financial condition of a bank or bank holding company that the payment of dividends would be an unsafe or unsound practice and to prohibit such payment. The federal banking agencies

have indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsafe banking practice and that banking organizations should generally pay dividends only out of current operating earnings.

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

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

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

The CRA requires banks to define the communities they serve, identify the credit needs of those communities, collect and maintain data for each small business or small farm loan originated or purchased by the Bank, and maintain a Public File at each location. The federal banking regulators examine the institutions they regulate for compliance with the CRA and assign one of the following four ratings: "outstanding," "satisfactory," "needs to improve" or "substantial noncompliance". The rating assigned reflects the bank's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the bank. As of the Bank's last CRA examination, completed during 2005, it received a rating of "outstanding".

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.

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

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

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

requirements is to reduce the amount of the Company's interest-bearing assets.

Management reviewed and reclassified the Company's deposits during 2007, to the extent permissible under Regulation D, resulting in a reduction in required reserves.

#### Effects of Government Monetary Policy

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

#### Other Available Information

This annual report on Form 10-K is on file with SEC. The Company also files with the SEC quarterly reports on Form 10-Q and current reports on Form 8-K, as well as proxy materials for its annual meeting of shareholders. You may obtain copies of these documents by visiting the SEC's Public Reference Room at 100F Street, NE, Washington, DC 20549-0213, by calling the SEC at 1-800-SEC-0330 or by accessing the SEC's website at <http://www.sec.gov>. The Company's SEC-filed reports and proxy statements are also available on the Company's website at [www.communitybancorpvt.com](http://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

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### Item 2. Properties

Although Community Bancorp. does not itself own or lease real property, the Bank owns and leases various properties for its banking operations. The Company's administrative offices are located at the main offices of the Bank. All of the Bank's offices are located in Vermont. In addition to the main office in Derby, the Bank maintains facilities in the Cities of Newport, Montpelier and Barre; the Towns of Barton, Lyndon, Enosburg, Morristown and St. Johnsbury, and the Villages of Island Pond, Troy, Derby Line, and Lyndonville.

The Bank's main offices are located on U.S. Route 5 in Derby, Vermont, in a freshly renovated 15,000 square foot two-story brick building with a 19,000 square foot state of the art addition, which was completed in the first quarter of 2006. The addition houses 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. A remote drive-up facility and an additional ATM featuring drive-up access were also part of this major renovation project.

The Bank owns the Derby Line office located on Main Street in a renovated bank building. The facility consists of a small banking lobby of approximately 200 square feet with additional office space on the first and second floor. This office is also equipped with a walk-up ATM.

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

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

The Bank owns condominium space in the state office building on Main Street in Newport to house its Newport office. The Bank occupies approximately 3,084 square feet on the first floor of the building for a full service banking facility equipped with an ATM and a remote drive-up facility. In addition, the Bank owns approximately 4,400 square feet on the second floor, a portion of which formerly housed the Bank's trust department and is now leased to the Company's Trust Company affiliate, CFSG, with another portion leased to a law firm.

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

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 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.

The second St. Johnsbury office is a former LyndonBank office located on the southern end of Railroad Street, which consists of approximately 1,600 square feet. This is a newly constructed building that the Company leases, which opened for business in August of 2005. It 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 office space is leased in an adjacent building at 99 State Street to accommodate a residential mortgage loan originator, as well as a conference room used for loan closings. A stand-alone ATM in a Kiosk building is also located at this site.

The Barre office is a two-story, 8,000 square foot building located at 316 North Main Street. This office was built on leased land in 2003. In 2007 the Company exercised an option to buy on the land, and now owns both the building and the land. 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 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, which was formerly the main office of LyndonBank. The main part of

the building was originally constructed in 1895 and was subsequently expanded on two occasions, once in 1961 and again in the early 1970's. A portion of the building is one story with a two-story addition on the back. The building is approximately 6,200 square feet. The first floor is used for customer services while 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, which is a former LyndonBank branch, is a newly constructed full service banking facility that opened for business in August of 2006. The facility consists 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 from a neighboring business, 48 Broad Street, LLC, owned by David Stahler who is a former director of LyndonBank and is now a member of Community National Bank's Lyndon area advisory board.

The Bank owns a building on Elm Street in Lyndonville which housed the deposit and loan operations of the former LyndonBank. This is a two-story brick building with approximately 4,796 feet on each floor. The second floor of this building has not been completed for occupancy and although the building was physically fitted for an elevator one has not been installed.

The Bank also owns a vacant lot adjacent to the Elm Street operations center in Lyndonville. This lot is used for parking for bank employees of the Broad Street office.

The Bank owns a full service banking office in Enosburg, which is a former LyndonBank office, consisting of approximately 3,056 square feet. The building was constructed in 1997 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, which is a former LyndonBank office, on the easterly side of the former Charlmont Restaurant building located on Route 15 West in Morristown. The building was newly renovated for the branch office which opened for business in February of 2007. It is a one story area with a walk-up ATM in the front vestibule and a two-lane drive-up window.

The Bank owns an additional building on U.S. Route 5 in Derby, which is a former LyndonBank office. This office was consolidated with the Bank's main office, also located on U.S. Route 5, on March 24, 2008.

### 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. Submission of Matters to a Vote of Security Holders

None

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PART II.

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

Information on the trading market in, market price of, and dividends paid on, the Company's common stock is incorporated by reference to the Annual Report to Shareholders for 2007 in the section immediately following the "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Common Stock Performance by Quarter". 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).

As reported in the Company's current report on Form 8-K dated December 27, 2007, on that date the Company completed the sale of 25 shares of its Series A Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock for an aggregate sale price of \$2.5 million. The sale proceeds net of expenses of issuance were used to fund a portion of the merger consideration and related acquisition costs in connection with the Company's acquisition of LyndonBank at year end 2007. The shares were sold to three institutional investors in a private transaction in reliance on an exemption from registration under Section 4(2) of the federal Securities Act and/or SEC Regulation D.

The following table provides information as to purchases of the Company's common stock during the fourth quarter ended December 31, 2007, by the Company and by any affiliated purchaser (as defined in SEC Rule 10b-18):

	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan(2)	Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period(2)
For the month ended:				
October 1 - October 31	0	\$ 0	0	226,110
November 1 - November 30	3,150	\$ 13.82	0	226,110
December 1 - December 31	0	\$ 0	0	226,110
Total	<u>3,150</u>	<u>\$ 13.82</u>	<u>0</u>	<u>226,110</u>

(1) 3,150 shares were purchased by Community Financial Services Group, LLC ("CFSG"), which may be deemed to be an affiliate of the Company under Rule 10b-18, for the account of participants invested in the Company Stock Fund under the Company's Retirement Savings Plan. All purchases by CFSG were made in the open market in brokerage transactions and reported on the OTC Bulletin Board®.

(2) The Company's Board of Directors in April, 2000 initially authorized the repurchase from time to time of up to 205,000 shares of the Company's common stock in open market and privately negotiated transactions, in management's discretion and as market conditions may warrant. The Board extended this authorization on October 15, 2002 to repurchase an additional 200,000 shares, with an aggregate limit for such repurchases under both authorizations of \$3.5 million. The approval did not specify a termination date, and although there were no repurchases during 2007, the repurchase program is still open.

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 Operation

Incorporated by reference to the section immediately following the "Notes to Consolidated Financial Statements" of the Annual Report to Shareholders for 2007, filed as Exhibit 13 to this report.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Incorporated by reference to the section labeled "Risk Management", of Management's Discussion and Analysis of Financial Condition and Results of Operation in the Annual Report to Shareholders for 2007, filed as Exhibit 13 to this report.

Item 8. Financial Statements and Supplementary Data

The audited consolidated financial statements and related notes of Community Bancorp. and Subsidiary and the report thereon of the independent registered accounting firm of Berry, Dunn, McNeil & Parker, are incorporated herein by reference from the Annual Report to Shareholders for 2007, 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(T). 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, 2007, 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, 2007 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, 2007, 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, 2007, 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, 2007, its system of internal control over financial reporting met those criteria and is effective.

Management's report on internal control over financial reporting does not cover the internal controls and procedures of LyndonBank, which was merged into the Company's subsidiary, Community National Bank, effective December 31, 2007. The LyndonBank acquisition met the test for significance under section 3-05(b)(2)(iii) of SEC Regulation S-X.

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 was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Commission that permit the Company to provide only management's report in this Annual Report.

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## **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, 2007 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 June 10, 2008.

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

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

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

Information regarding whether a member of the Audit Committee qualifies as an audit committee financial expert under applicable SEC rules, under the caption "Corporate Governance - Board Committees."

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

### Item 11. Executive Compensation

The following is incorporated by reference to the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on June 10, 2008:

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

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

The report of the Compensation Committee under the caption "COMPENSATION COMMITTEE REPORT."

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

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

The following is incorporated by reference to the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on June 10, 2008:

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.

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### 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 June 10, 2008:

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 June 10, 2008 under the caption "ARTICLE 2- RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS - Fees Paid to Independent Auditors":

Fees paid to the principal accountant for various audit functions including, but not limited to, the audit of the annual financial statements in the Company's 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 2-01 of Regulation S-X.

## PART IV.

### Item 15. Exhibits and Financial Statement Schedules

#### (a) Financial Statements

The Company's audited consolidated financial statements and notes thereto and the report of Berry, Dunn, McNeil & Parker thereon, are incorporated by reference to the Annual Report to Shareholders for fiscal year 2007, filed as Exhibit 13 to this report.

#### (b) Exhibits

The following exhibits are incorporated by reference:

Exhibit 3(i) - Amended and Restated Articles of Association filed as Exhibit 3(i) to the Company's Form 10-Q report filed with the Commission on .

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 8-K Report filed on December 27, 2007.

Exhibit 3(iii) - Amended and Restated By-laws of Community Bancorp. as amended through April 4, 2006 filed as Exhibit 3(ii) in the Company's Form 10-K/A filed on April 13, 2006.

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 8-K Report filed on November 2, 2007.

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 8-K Report filed on November 2, 2007.

Exhibit 10(i) - Directors Deferred Compensation Plan\* is incorporated by reference to exhibit 10(i) of the Form 10-K filed with the Commission on March 31, 2000, and supplemented by the disclosure contained in the Company's Current Report on Form 8-K filed with the Commission on December 19, 2005.

Exhibit 10(ii) - Supplemental Retirement Plan\* is incorporated by reference to exhibit 10(ii) of the Form 10-K filed with the Commission on March 29, 2002.

Exhibit 10(iii) - Description of the Officer Incentive Plan\* is incorporated by reference to the section of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on June 10, 2008, under the caption "EXECUTIVE COMPENSATION - Officer Incentive Plan".

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

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 8-K Report filed on November 2, 2007.

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 8-K Report filed on November 2, 2007.

Exhibit 14 - Code of Ethics for Senior Financial Officers and the Principal Executive Officer is incorporated by reference to Exhibit 14 of the Form 10-K filed with the Commission on March 30, 2004.

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

Exhibit 13 - Portions of the Annual Report to Shareholders of Community Bancorp. for 2007, specifically incorporated by reference into this report.

Exhibit 21 - Subsidiaries of Community Bancorp.

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

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

Exhibit 31.2 - Certification from the Chief Financial Officer of the Company pursuant to section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 - Certification from the Chief Executive Officer of the Company pursuant to section 906 of the Sarbanes-Oxley Act of 2002

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

\* Denotes compensatory plan or arrangement.

\*\* 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).

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SIGNATURES

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

COMMUNITY BANCORP.

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

Date: March 31, 2008

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

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

Date: March 31, 2008

COMMUNITY BANCORP. DIRECTORS

/s/ Thomas E. Adams  
Thomas E. Adams

Date: March 31, 2008

/s/ Charles W. Bucknam, Jr.  
Charles W. Buckman, Jr.

Date: March 31, 2008

/s/ Aminta K. Conant  
Aminta K. Conant

Date: March 31, 2008

/s/ Jacques R. Couture  
Jacques R. Couture

Date: March 31, 2008

/s/ Elwood G. Duckless  
Elwood G. Duckless

Date: March 31, 2008

/s/ Rosemary M. Lalime  
Rosemary M. Lalime

Date: March 31, 2008

/s/ Marcel Locke  
Marcel Locke

Date: March 31, 2008

/s/ Stephen P. Marsh  
Stephen P. Marsh

Date: March 31, 2008

/s/ Dorothy R. Mitchell  
Dorothy R. Mitchell

Date: March 31, 2008

/s/ Anne T. Moore  
Anne T. Moore

Date: March 31, 2008

/s/ Peter J. Murphy  
Peter J. Murphy

Date: March 31, 2008

/s/Richard C. White  
Richard C. White

Date: March 31, 2008

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

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of Community Bancorp. and Subsidiary as of December 31, 2007 and 2006 and the related consolidated statements of income, 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 did not audit the 2007 and 2006 financial statements of LyndonBank (prior to merger), which statements reflect total assets of \$148.6 million as of December 31, 2007 (prior to merger) and revenues of \$10.8 million and \$10.1 million for the years ended December 31, 2007 and 2006 (prior to merger), respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for LyndonBank for 2007 and 2006 (prior to merger), is based solely on the report of other auditors.

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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, 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, 2007 and 2006, 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.

/s/Berry, Dunn, McNeil & Parker

Portland, Maine  
March 31, 2008  
Vermont Registration No. 92-0000278

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**COMMUNITY BANCORP. AND SUBSIDIARY**  
**Consolidated Balance Sheets**

	<b>December 31 2007</b>	<b>December 31 2006</b>
<b>Assets</b>		
Cash and due from banks	\$ 17,486,535	\$ 11,292,831
Federal funds sold and overnight deposits	2,785,988	8,173,779
<b>Total cash and cash equivalents</b>	<u>20,272,523</u>	<u>19,466,610</u>
Securities held-to-maturity (fair value \$34,273,000 at 12/31/07 and \$21,301,000 at 12/31/06)	34,310,833	21,069,866
Securities available-for-sale	46,876,771	22,612,207
Restricted equity securities, at cost	3,456,850	2,828,250
Loans held-for-sale	685,876	566,300
Loans	355,885,207	268,729,726
Allowance for loan losses	(3,026,049)	(2,267,821)
Unearned net loan fees	(443,372)	(632,105)
Net loans	<u>352,415,786</u>	<u>265,829,800</u>
Bank premises and equipment, net	16,361,152	12,334,024
Accrued interest receivable	2,304,055	1,667,135
Bank owned life insurance	3,559,376	0
Core deposit intangible	4,161,000	0
Goodwill	10,347,455	0
Other assets	7,279,941	5,440,350
<b>Total assets</b>	<u><b>\$502,031,618</b></u>	<u><b>\$351,814,542</b></u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Demand, non-interest bearing	\$ 64,019,707	\$ 47,402,628
NOW and money market accounts	120,993,657	81,402,928
Savings	46,069,943	38,471,441
Time deposits, \$100,000 and over	58,860,374	33,835,057
Other time deposits	126,276,429	99,876,140
<b>Total deposits</b>	<u><b>416,220,110</b></u>	<u><b>300,988,194</b></u>
Federal funds purchased and other borrowed funds	13,760,000	40,000
Repurchase agreements	17,444,933	17,083,946
Junior subordinated debentures	12,887,000	0
Capital lease obligations	943,227	0
Accrued interest and other liabilities	5,855,988	2,971,591
<b>Total liabilities</b>	<u><b>467,111,258</b></u>	<u><b>321,083,731</b></u>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Notes 6, 15,16,17 and 20)</b>		
<b>Shareholders' Equity</b>		
Preferred stock, 1,000,000 shares authorized, 25 shares issued and outstanding at December 31, 2007 and no shares issued and outstanding at December 31, 2006	2,500,000	0
Common stock - \$2.50 par value; 10,000,000 and 6,000,000 shares authorized at December 31, 2007 and 2006, respectively; and 4,609,268 and 4,339,619 shares issued at December 31, 2007 and 2006, respectively (including 16,408 and 15,222 shares issued February 1, 2008 and 2007, respectively)	11,523,171	10,849,048
Additional paid-in capital	25,006,439	22,006,492
Retained earnings (accumulated deficit)	(1,597,682)	760,667
Accumulated other comprehensive income (loss)	111,209	(270,664)
Less: treasury stock, at cost; 210,101 shares at December 31, 2007 and 209,510 shares at December 31, 2006	(2,622,777)	(2,614,732)
<b>Total shareholders' equity</b>	<u><b>34,920,360</b></u>	<u><b>30,730,811</b></u>
<b>Total liabilities and shareholders' equity</b>	<u><b>\$502,031,618</b></u>	<u><b>\$351,814,542</b></u>

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

**COMMUNITY BANCORP. AND SUBSIDIARY**

**Consolidated Statements of Income**

**For the Year Ended December 31,**

	<b>2007</b>	<b>2006</b>
<b>Interest income</b>		
Interest and fees on loans	\$ 19,118,655	\$ 18,471,445
Interest on debt securities		
Taxable	877,497	1,082,241
Tax-exempt	1,045,524	1,079,573
Dividends	170,001	176,610
Interest on federal funds sold and overnight deposits	481,262	165,975
<b>Total interest income</b>	<b><u>21,692,939</u></b>	<b><u>20,975,844</u></b>
<b>Interest expense</b>		
Interest on deposits	7,974,061	6,684,827
Interest on federal funds purchased and other borrowed funds	91,817	693,113
Interest on repurchase agreements	303,472	325,148
Interest on junior subordinated debentures	121,782	0
<b>Total interest expense</b>	<b><u>8,491,132</u></b>	<b><u>7,703,088</u></b>
<b>Net interest income</b>	<b>13,201,807</b>	<b>13,272,756</b>
<b>Provision for loan losses</b>	<b><u>147,500</u></b>	<b><u>137,500</u></b>
<b>Net interest income after provision</b>	<b><u>13,054,307</u></b>	<b><u>13,135,256</u></b>
<b>Non-interest income</b>		
Service fees	1,417,067	1,322,360
Gain on sale of stock	0	56,875
Other income	2,030,745	1,744,941
<b>Total non-interest income</b>	<b><u>3,447,812</u></b>	<b><u>3,124,176</u></b>
<b>Non-interest expense</b>		
Salaries and wages	4,525,000	4,562,000
Employee benefits	1,794,175	1,699,405
Occupancy expenses, net	2,303,417	2,180,336
Other expenses	3,853,442	3,712,629
<b>Total non-interest expense</b>	<b><u>12,476,034</u></b>	<b><u>12,154,370</u></b>
<b>Income before income taxes</b>	<b>4,026,085</b>	<b>4,105,062</b>
<b>Applicable income taxes</b>	<b><u>668,755</u></b>	<b><u>729,614</u></b>
<b>Net Income</b>	<b><u>\$ 3,357,330</u></b>	<b><u>\$ 3,375,448</u></b>
<b>Earnings per share</b>	<b>\$ 0.77</b>	<b>\$ 0.78</b>
<b>Weighted average number of common shares used in computing earnings per common share</b>	<b>4,365,378</b>	<b>4,302,456</b>
<b>Dividends declared per common share</b>	<b>\$ 0.67</b>	<b>\$ 0.64</b>
<b>Book value per share on common shares outstanding at December 31,</b>	<b>\$ 7.94</b>	<b>\$ 7.09</b>

**All share and per share data for prior periods has been restated to reflect a 5% stock dividend declared in June 2007.**

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

**COMMUNITY BANCORP. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**Years Ended December 31, 2007 and 2006**

	---Common Stock---		---Preferred Stock---	
	Shares	Amount	Shares	Amount
Balances, December 31, 2005	4,070,374	\$ 10,699,709	0	\$ 0
Comprehensive income, net of taxes				
Net income	0	0	0	0
Net unrealized holding gain on securities available-for-sale, net of tax, \$93,477	0	0	0	0
Total comprehensive income				
Dividends declared	0	0	0	0
Issuance of common stock	59,736	149,339	0	0
Purchase of treasury stock (fractional share redeemed)	(1)	0	0	0
Balances, December 31, 2006	<u>4,130,109</u>	<u>10,849,048</u>	<u>0</u>	<u>0</u>
Comprehensive income, net of taxes				
Net income	0	0	0	0
Net unrealized holding gain on securities available-for-sale, net of tax, \$196,723	0	0	0	0
Total comprehensive income				
Issuance of preferred stock	0	0	25	2,500,000
Dividends declared	0	0	0	0
5% stock dividend	207,252	518,130	0	0
Issuance of common stock	62,397	155,993	0	0
Purchase of treasury stock	(591)	0	0	0
Balances, December 31, 2007	<u>4,399,167</u>	<u>\$ 11,523,171</u>	<u>25</u>	<u>\$ 2,500,000</u>

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

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<b>Additional paid-in Capital</b>	<b>Retained earnings (Accumulated deficit)</b>	<b>Accumulated other comprehensive income (loss)</b>	<b>Treasury stock</b>	<b>Total shareholders' equity</b>
\$ 21,324,481	\$ 165,983	\$ (452,118)	\$ (2,614,721)	\$ 29,123,334
0	3,375,448	0	0	3,375,448
0	0	181,454	0	<u>181,454</u>
				<u>3,556,902</u>
0	(2,780,764)	0	0	(2,780,764)
682,011	0	0	0	831,350
<u>0</u>	<u>0</u>	<u>0</u>	<u>(11)</u>	<u>(11)</u>
<u>22,006,492</u>	<u>760,667</u>	<u>(270,664)</u>	<u>(2,614,732)</u>	<u>30,730,811</u>
0	3,357,330	0	0	3,357,330
0	0	381,873	0	<u>381,873</u>
				<u>3,739,203</u>
0	0	0	0	2,500,000
0	(2,894,359)	0	0	(2,894,359)
2,303,190	(2,821,320)	0	0	0
696,757	0	0	0	852,750
<u>0</u>	<u>0</u>	<u>0</u>	<u>(8,045)</u>	<u>(8,045)</u>
<u>\$ 25,006,439</u>	<u>\$ (1,597,682)</u>	<u>\$ 111,209</u>	<u>\$ (2,622,777)</u>	<u>\$ 34,920,360</u>

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**COMMUNITY BANCORP. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2007 and 2006**

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 3,357,330	\$ 3,375,448
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	936,847	874,564
Provision for loan losses	147,500	137,500
Provision for deferred income taxes	(33,081)	(28,349)
Net gain on sale of securities	0	(56,875)
Net gain on sale of loans	(300,119)	(314,850)
Loss on disposal or sale of bank premises and equipment	13,127	6,589
Gain on Trust LLC	(128,709)	(60,409)
Amortization of bond premium, net	15,925	84,650
Proceeds from sales of loans held for sale	28,146,040	30,058,562
Originations of loans held for sale	(27,835,497)	(28,723,430)
(Increase) decrease in interest receivable	(115,230)	122,116
Increase in mortgage servicing rights	(73,211)	(166,799)
Increase in other assets	(730,335)	(210,815)
Amortization of limited partnerships	381,588	354,156
Decrease in unamortized loan fees	(188,733)	(52,001)
(Decrease) increase in taxes payable	(98,164)	7,963
(Decrease) increase in interest payable	(53,682)	128,579
(Decrease) increase in accrued expenses	(40,657)	4,140
Increase in other liabilities	65,027	95,410
	<u>3,465,966</u>	<u>5,636,149</u>
Net cash provided by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Securities held-to-maturity		
Maturities and paydowns	23,897,224	43,144,522
Purchases	(37,138,191)	(35,822,723)
Securities available-for-sale		
Sales and maturities	6,000,000	15,089,375
Purchases	(6,160,000)	(1,000,000)
Proceeds from redemption of restricted equity securities	378,100	423,900
Investment in Capital Trust	(387,000)	0
Decrease in limited partnership contributions payable	(236,094)	(301,625)
Decrease (increase) in loans, net	8,153,286	(18,234,097)
Capital expenditures, net	(617,587)	(1,598,059)
Investments in limited partnerships, net	(264,800)	0
Cash paid for acquisition of LyndonBank, net of cash received	(14,638,059)	0
Recoveries of loans charged off	70,945	68,460
	<u>(20,942,176)</u>	<u>1,769,753</u>
Net cash (used in) provided by investing activities		

	2007	2006
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in demand, NOW, savings, and money market accounts	7,096,201	(23,932,373)
Net (decrease) increase in time deposits	(1,989,977)	30,608,156
Net decrease in repurchase agreements	(5,908,924)	(263,194)
Net increase (decrease) in short-term borrowings	5,750,000	(2,000,000)
Advances in long-term borrowings	0	20,000,000
Repayments in long-term borrowings	(30,000)	(28,000,000)
Proceeds from issuance of junior subordinated debentures	12,887,000	0
Proceeds from issuance of preferred stock	2,500,000	0
Purchase of treasury stock	(8,045)	(11)
Dividends paid	<u>(2,014,132)</u>	<u>(1,926,809)</u>
Net cash provided by (used in) financing activities	<u>18,282,123</u>	<u>(5,514,231)</u>
Net increase in cash and cash equivalents	805,913	1,891,671
Cash and cash equivalents		
Beginning	<u>19,466,610</u>	<u>17,574,939</u>
Ending	<u>\$ 20,272,523</u>	<u>\$ 19,466,610</u>
<b>SUPPLEMENTAL SCHEDULE OF CASH PAID DURING THE YEAR</b>		
Interest	<u>\$ 8,666,596</u>	<u>\$ 7,574,509</u>
Income taxes	<u>\$ 800,000</u>	<u>\$ 750,000</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Change in unrealized gain on securities available-for-sale	<u>\$ 578,596</u>	<u>\$ 274,931</u>
Dividends paid:		
Dividends declared	\$ 2,894,359	\$ 2,780,764
Increase in dividends payable attributable to dividends declared	(27,477)	(7,585)
Dividends reinvested	<u>(852,750)</u>	<u>(846,370)</u>
	<u>\$ 2,014,132</u>	<u>\$ 1,926,809</u>
Stock dividend	<u>\$ 2,821,320</u>	<u>\$ 0</u>

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## COMMUNITY BANCORP. & SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Note 1. Significant Accounting Policies

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

#### Recent acquisition

On December 31, 2007, the Company completed a merger with LyndonBank and simultaneously sold the Vergennes branch of LyndonBank, located in Addison County, to the National Bank of Middlebury.

#### 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 balance sheet data includes the assets and liabilities of LyndonBank acquired on December 31, 2007; however, the statement of income data does not reflect LyndonBank's activity prior to the merger.

FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46R") in part, addresses limited purpose trusts formed to issue trust preferred securities. FIN 46R establishes the criteria used to identify variable interest entities and to determine whether or not to consolidate a variable interest entity. Pursuant to the criteria established by FIN 46R, the Company has not consolidated the trust which it formed 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. CMTV Statutory Trust I is considered an affiliate (see Note 11).

#### Nature of operations

The Company provides a variety of financial services to individuals, municipalities, and corporate customers through its branches, ATMs, and telephone and internet banking capabilities in 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, most of its lending activities are conducted within the geographic area where it is located. As a result, the Company and its borrowers may be especially vulnerable to the consequences of changes in the local economy. In addition, a substantial portion of the Company's loans are secured by real estate, which could experience a decline in value, especially during times of adverse economic conditions.

#### Use of estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management generally obtains independent appraisals for significant properties. While the allowances for loan losses and foreclosed real estate represent management's best

estimate of probable loan and foreclosure losses as of the balance sheet date, the ultimate collectibility of a substantial portion of the Company's loan portfolio and the recovery of a substantial portion of the carrying amount of foreclosed real estate are susceptible to changes in a number of factors, especially local market conditions. The amount of the change that is reasonably possible cannot be estimated.

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

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

Management utilizes numerous techniques to estimate the carrying value of various assets held by the Company, including, but not limited to, 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 requires the application of the purchase method of accounting. Under the purchase method, the Company is required to record the net assets and liabilities acquired through the merger 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. Management acknowledges the determination of fair value requires the use of 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**

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

### **Other investments**

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

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

### **Restricted equity securities**

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

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

### **Loans held-for-sale**

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

### **Loans**

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

Loan interest income is accrued daily on the outstanding balances. The accrual of interest is discontinued when a loan is specifically determined to be impaired or when the loan is delinquent 90 days and management believes, after considering collection efforts and other factors, that the borrower's financial condition is such that collection of interest is doubtful. Any unpaid interest previously accrued on those loans is reversed from income. Interest income is generally not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are generally applied as a reduction of the loan principal balance. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received. Loans are returned to accrual status when principal and interest payments are brought current and the customer has proven the ability to make future payments on a timely basis. Loans are charged off when collection of principal is considered doubtful. Past due status is determined on a contractual basis.

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

Loan premium on loans acquired from LyndonBank is amortized as an adjustment to yield over the life of the loans.

### **Allowance for loan losses**

The allowance for loan losses is established as losses are estimated to have occurred 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 confirmed. Subsequent recoveries, if any are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it required estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to the loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discount cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loan and is based on historical loss experience adjusted for qualitative factors. 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.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines 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 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 for commercial and construction loans 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not

separately identify individual consumer and residential loans for impairment disclosures, unless such loans are subject to a restructuring agreement.

### **Bank premises and equipment**

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

### **Other real estate owned**

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

### **Intangible assets**

Intangible assets include the excess of the purchase price over the fair value of net assets acquired (goodwill) in the acquisition of LyndonBank as well as a core deposit intangible related to the deposits acquired of LyndonBank (see Note 7). 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 upon the occurrence of certain events.

### **Income taxes**

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

### **Foreign currency transactions**

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

### **Mortgage servicing**

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

### **Pension costs**

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

### **Advertising costs**

The Company expenses advertising costs as incurred.

### **Comprehensive income**

Accounting principles generally require recognized revenue, expenses, gains, and losses to be included in net income. Certain changes in assets and liabilities, such as the after-tax effect of unrealized gains and losses on available-for-sale securities, are not reflected in the statement of income, but the cumulative effect of such items from period-to-period is reflected as a separate component of the equity section of the balance sheet (accumulated other comprehensive income or loss). Other comprehensive income or loss, along with net income, comprises the Company's total comprehensive income.

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

	2007	2006
Net income	\$ 3,357,330	\$ 3,375,448
Other comprehensive income, net of tax:		
Change in unrealized holding losses on available-for-sale securities arising during the period	578,596	331,806
Reclassification adjustment for gains realized in income	<u>0</u>	<u>(56,875)</u>
Net unrealized gain	578,596	274,931
Tax effect	<u>(196,723)</u>	<u>(93,477)</u>
Other comprehensive income, net of tax	<u>381,873</u>	<u>181,454</u>
Total comprehensive income	<u>\$ 3,739,203</u>	<u>\$ 3,556,902</u>

### 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 preferred stock agreement, the Company will pay non-cumulative cash dividends quarterly, when, as and if declared by the Board of Directors. Dividends will accrue at a fixed rate of 7.50% per annum for the first five years, followed by 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 payable through dividends declared (retroactively adjusted for 5% stock dividends declared in June 2007) and reduced for shares held in treasury. No dividends were declared on preferred stock; therefore, net income as reported represents net income available to holders of common stock.

### Off-balance-sheet financial instruments

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

### Fair values of financial instruments

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

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

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

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

**Loans and loans held-for-sale:** For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans (for example, fixed rate residential, commercial real estate, and rental property mortgage loans, and commercial and industrial loans) are estimated using discounted cash flow 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 market values. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

**Bank owned life insurance:** The carrying value of life insurance policies approximates their fair value.

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

**Short-term borrowings:** The fair value is estimated using current interest rates on borrowings of similar maturity.

**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.

### **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 2006 financial statements have been reclassified to conform to the current year presentation.

### **Impact of recently issued accounting standards:**

In March 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 156, "Accounting for Servicing of Financial Assets-an Amendment to FASB Statement No. 140". SFAS No. 156 requires mortgage servicing rights associated with loans originated and sold, where servicing is retained, to be initially capitalized at fair value and subsequently accounted for using the "fair value method" or the "amortization method". The Company is using the amortization method for subsequent reporting. Mortgage servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. The Company implemented changes to its valuation analysis, with the assistance of a specialized valuation consulting firm, during the first quarter of 2007. The model used to value the mortgage servicing rights utilizes prepayment assumptions based on the Bond Market Association prepayment survey. The discount rate applied is at the lower end of the observed industry range. Other assumptions include delinquency rates, servicing cost inflation, and annual unit loan cost. All assumptions are adjusted periodically to reflect current circumstances. SFAS No. 156 was effective January 1, 2007. Implementation of SFAS No. 156 did not have a material effect on the financial statements of the Company.

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

In September 2006, FASB issued SFAS No. 157, "Fair Value Measurements", which provides enhanced guidance for using fair value to measure assets and liabilities. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Although SFAS No. 157 did not have any impact on the financial statements of the Company in 2007, it could impact the notes to the financial statements in the future.

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities", which gives entities the option to measure eligible financial assets and financial liabilities at fair value on an instrument by instrument basis. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability. Subsequent changes in fair value must be recorded in earnings. SFAS No. 159 contains provisions to apply the fair value option to existing eligible financial instruments at the date of adoption. This statement is effective as of the beginning of an entity's first fiscal year after November 15, 2007, with provisions for early adoption. The Company did not apply the fair value option to any financial instruments; therefore, SFAS No. 159 has not had any impact on the financial statements.

In November 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings*, in which the SEC Staff expresses its views concerning written loan commitments accounted for as derivatives or at fair value through earnings, as permitted by SFAS No. 159. It is the Staff's position that expected net future cash flows from servicing a loan should be included in the fair value measurement of a loan commitment when it qualifies for derivative accounting under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", or at fair value through earnings, as permitted by SFAS No. 159. Implementation of SAB No. 109 did not have a material effect on the financial condition or results of operations of the Company.

## 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, 2007				
U. S. Government sponsored enterprise securities	\$ 22,170,488	\$ 125,655	\$ 29,869	\$ 22,266,274
U. S. Government securities	3,973,849	72,713	0	4,046,562
States and political subdivisions	1,157,042	0	0	1,157,042
Mortgage-backed securities	17,868,386	0	0	17,868,386
Preferred stock	1,538,507	0	0	1,538,507
	<u>\$ 46,708,272</u>	<u>\$ 198,368</u>	<u>\$ 29,869</u>	<u>\$ 46,876,771</u>
December 31, 2006				
U. S. Government sponsored enterprise securities	\$ 19,030,313	\$ 0	\$ 382,168	\$ 18,648,145
U. S. Government securities	3,991,991	5,068	32,997	3,964,062
	<u>\$ 23,022,304</u>	<u>\$ 5,068</u>	<u>\$ 415,165</u>	<u>\$ 22,612,207</u>
<b>Securities HTM</b>				
December 31, 2007				
States and political subdivisions	<u>\$ 34,310,833</u>	<u>\$ 0</u>	<u>\$ 37,833</u>	<u>\$ 34,273,000</u>
December 31, 2006				
States and political subdivisions	<u>\$ 21,069,866</u>	<u>\$ 231,134</u>	<u>\$ 0</u>	<u>\$ 21,301,000</u>

Included under the "Securities HTM" section in the caption "States and Political Subdivisions" are securities of local municipalities carried at \$34,310,833 and \$21,069,866 at December 31, 2007 and 2006, respectively, which are attributable to private financing transactions arranged by the Company. The current fair value of these securities is an estimation based on an analysis that takes into account future maturities and scheduled future repricing. The Company anticipates no losses on these securities and expects to hold them until their maturity.

Investment securities with a book value of \$24,203,854 and \$21,022,304 and a fair value of \$24,291,982 and \$20,645,566 at December 31, 2007 and 2006, respectively, were pledged as collateral for larger dollar repurchase agreement accounts and for other purposes as required or permitted by law.

Proceeds from the maturities, call or sale of securities available-for-sale amounted to \$6,000,000 in 2007 and \$15,089,375 in 2006. Realized gains from sales of investments available-for-sale were \$0 in 2007 and \$56,875 in 2006. There were no realized losses during 2007 or 2006.

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

The scheduled maturities of debt securities available-for-sale at December 31, 2007 were as follows:

	Amortized Cost	Fair Value
Due in one year or less	\$ 10,003,765	\$ 9,977,521
Due from one to five years	14,156,218	14,350,961
Due from five to ten years	1,984,354	1,984,354
Due after ten years	1,157,042	1,157,042
Mortgage-backed securities	17,868,386	17,868,386
	<u>\$ 45,169,765</u>	<u>\$ 45,338,264</u>

The scheduled maturities of debt securities held-to-maturity at December 31, 2007 were as follows:

	Amortized Cost	Fair Value*
Due in one year or less	\$ 29,716,589	\$ 29,717,000
Due from one to five years	1,698,920	1,689,000
Due from five to ten years	2,290,116	2,281,000
Due after ten years	605,208	586,000
	<u>\$ 34,310,833</u>	<u>\$ 34,273,000</u>

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

All investments with unrealized losses are presented either as those with a continuous loss position less than 12 months or as those with a continuous loss position for 12 months or more. Investments with unrealized losses at December 31, 2007 and 2006 were as follows:

December 31, 2007	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government sponsored enterprise securities	\$ 0	\$ 0	\$ 8,980,624	\$ 29,869	\$ 8,980,624	\$ 29,869
States and political subdivisions	34,273,000	37,833	0	0	34,273,000	37,833
	<u>\$ 34,273,000</u>	<u>\$ 37,833</u>	<u>\$ 8,980,624</u>	<u>\$ 29,869</u>	<u>\$ 43,253,624</u>	<u>\$ 67,702</u>
 December 31, 2006	 Less than 12 months		 12 months or more		 Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government sponsored enterprise securities	\$ 999,836	\$ 163	\$ 17,648,309	\$ 382,005	\$ 18,648,145	\$ 382,168
U.S. Government securities	993,438	4,841	1,968,437	28,156	2,961,875	32,997
	<u>\$ 1,993,274</u>	<u>\$ 5,004</u>	<u>\$ 19,616,746</u>	<u>\$ 410,161</u>	<u>\$ 21,610,020</u>	<u>\$ 415,165</u>

The unrealized losses are a result of increases in market interest rates and not of deterioration in the creditworthiness of the issuer. At December 31, 2007 there were 9 U.S. Government sponsored enterprise securities in the investment portfolio that were in an unrealized loss position compared to 22 securities in an unrealized loss position at December 31, 2006. These unrealized losses were principally attributable to changes in current interest rates for similar types of securities. Changes in interest rates have also contributed to the decrease in value of the Company's municipal investments.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns, or adverse developments relating to the issuer, warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary at December 31, 2007 and 2006.

### Note 3. Loans

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

	2007	2006
Commercial	\$ 33,688,665	\$ 22,217,047
Real estate – Construction	12,896,803	11,889,203
Real estate – Mortgage	290,380,076	213,894,135
Installment and other	18,920,860	20,729,341
	<u>355,886,404</u>	<u>268,729,726</u>
Deduct:		
Allowance for loan losses	3,026,049	2,267,821
Unearned net loan fees	443,372	632,105
	<u>3,469,421</u>	<u>2,899,926</u>
	<u>\$352,415,786</u>	<u>\$265,829,800</u>

The total recorded investment in impaired loans as determined in accordance with accounting principles generally accepted in the United States of America was \$674,586 and \$508,571 at December 31, 2007 and 2006, respectively. The allowance for loan losses allocated to these loans amounted to \$79,643 and \$68,229 at December 31, 2007 and 2006, respectively. The average recorded investment in impaired loans amounted to \$626,896 and \$643,307 for the years ended December 31, 2007 and 2006, respectively. Interest income recognized on impaired loans was \$37,954 for 2007 and \$90,829 for 2006, all of which was on a cash basis.

The Company had non-accrual loans of \$1,337,641 and \$720,587 at December 31, 2007 and 2006, respectively. If interest on non-accrual loans had been recognized at the original interest rates, interest income would have increased approximately \$45,253 and \$61,718, for the years ended December 31, 2007 and 2006, respectively. The total recorded investment in loans past due ninety days or more and still accruing interest was \$137,742 and \$205,801 at December 31, 2007 and 2006, respectively.

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

### Note 4. Loan Servicing

Commercial and mortgage loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of commercial and mortgage loans serviced for others were \$153,873,017 and \$144,573,102 at December 31, 2007 and 2006, respectively. Net gains realized on the sale of loans amounted to \$300,119 and \$314,850 for the years ended December 31, 2007 and 2006, respectively. The balance of capitalized servicing rights, net of valuation allowances, included in other assets at December 31, 2007 and 2006, was \$1,186,818 and \$1,113,607, respectively. The fair values of these rights were \$1,237,858 and \$1,463,324, respectively. In 2007, the Company adopted SFAS No. 156, "Accounting for Servicing of Financial Assets – an Amendment to FASB Statement No. 140", which is discussed in more detail in Note 1 above, under the heading "Impact of Recently Issued Accounting Standards". As a result of this adoption, the Company implemented changes to its valuation analysis, with the assistance of a specialized valuation consulting firm. The model used to value the mortgage servicing rights utilizes prepayment assumptions based on the Bond Market Association prepayment survey. The discount rate applied is at the lower end of the observed industry range. Other assumptions include delinquency rates, servicing cost inflation, and annual unit loan cost.

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

	Years Ended December 31,	
	2007	2006
Mortgage servicing rights capitalized	\$ 290,113	\$ 447,939
Mortgage servicing rights amortized	<u>\$ 216,902</u>	<u>\$ 281,140</u>

### Note 5. Allowance for Loan Losses

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

	2007	2006
Balance, beginning of year	\$ 2,267,821	\$ 2,189,187
Provision for loan losses	147,500	137,500

Recoveries of amounts charged off	70,945	68,460
	<u>2,486,266</u>	<u>2,395,147</u>
Amounts charged off	(247,390)	(127,326)
Allowance for loan losses acquired through Merger	787,173	0
Balance, end of year	<u>\$ 3,026,049</u>	<u>\$ 2,267,821</u>

## Note 6. Bank Premises and Equipment

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

	2007	2006
Land and land improvements	\$ 2,546,615	\$ 2,315,414
Buildings and improvements	11,710,364	9,746,666
Furniture and equipment	6,208,835	5,282,007
Leasehold improvements	1,196,525	623,621
Capital lease	927,889	0
Other prepaid assets	121,295	94,688
	<u>22,711,523</u>	<u>18,062,396</u>
Less accumulated depreciation and amortization	(6,350,371)	(5,728,372)
	<u>\$ 16,361,152</u>	<u>\$ 12,334,024</u>

Depreciation included in occupancy expenses amounted to \$936,847 and \$878,645 for the years ended December 31, 2007 and 2006, respectively.

The Company is obligated under non-cancelable operating leases for bank premises expiring in various years through 2022 with options to renew. Minimum future rental payments for these leases with original terms in excess of one year as of December 31, 2007 for each of the next five years and in aggregate are:

2008	\$ 226,022
2009	227,371
2010	200,601
2011	181,574
2012	182,074
Subsequent to 2012	707,013
	<u>\$ 1,724,655</u>

Total rental expense amounted to \$187,478 and \$198,370 for the years ended December 31, 2007 and 2006, 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, 2007:

2008	\$ 107,482
2009	110,983
2010	110,983
2011	113,482
2012	116,982
Subsequent to 2012	1,001,300
Total minimum lease payments	<u>1,561,212</u>
Less amount representing interest	(617,985)
Present value of net minimum lease payments	<u>\$ 943,227</u>

## Note 7. Merger and Intangible Assets

Community National Bank ("the Bank") and LyndonBank entered into an Agreement and Plan of Merger on August 1, 2007. The merger agreement provided for the merger of LyndonBank with and into the Bank, with the Bank being the surviving corporation. The merger received approval from the shareholders of LyndonBank and the regulatory agencies, and was consummated on December 31, 2007. On that date, the Bank acquired 100% of the outstanding common stock of LyndonBank. The operating results of LyndonBank have been included with those of the Bank and its parent company Community Bancorp. ("the Company") since that date. The acquisition brings together two vibrant community banking institutions, and provides the Bank with a wider customer service

base extending into the counties of Franklin and Lamoille, Vermont.

The aggregate purchase price, including transaction costs, was approximately \$26.7 million of cash for all the shares of LyndonBank. To finance the acquisition, the Company issued \$12.5 million of trust preferred securities and 25 shares of non-cumulative perpetual preferred stock valued at \$2.5 million.

The purchase price has been allocated to assets acquired and liabilities assumed based on estimates of fair value at the date of acquisition. The excess of purchase price over the fair value of net tangible and intangible assets acquired has been recorded as goodwill. The Bank continues to work with third-party experts on the valuations of certain intangible assets; thus, the following allocation of the purchase price is subject to refinement.

	<b>At December 31, 2007</b>
Cash and cash equivalents	\$ 12,079,764
FHLB Stock	1,006,700
Investments	23,541,893
Loans, net	94,898,984
Bank premises and equipment	4,359,515
Prepaid expenses and other assets	4,785,076
Identified intangible assets	4,161,000
Goodwill	10,347,455
Deposits	(110,125,692)
Borrowings	(14,269,911)
Long-term debt	(943,227)
Accrued expenses and other liabilities	(3,123,734)
Total acquisition cost	<u>\$ 26,717,823</u>

The \$4.2 million of acquired intangible assets is the core deposit intangible and is subject to amortization over the weighted-average life of the core deposit base which was determined to be approximately 10 years.

The goodwill is not deductible for tax purposes.

The following table presents pro forma combined statements of income for the Company and LyndonBank as if the Company and LyndonBank were merged as of the period beginning on January 1, for each year presented. This information has been prepared by combining certain selected historical information about the Company and LyndonBank. This pro forma information has been prepared for illustrative purposes only and should not be viewed as being indicative of the financial results the combined company would have achieved if the merger had already been completed or will achieve in the future. This information should be read in conjunction with the respective consolidated financial statements of the Company and LyndonBank, and the respective related notes.

	<b>For the Years Ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
Interest income		
Loans, including fees	\$ 27,056,470	\$ 25,630,764
Investment income	4,068,404	4,177,072
Total interest income	<u>31,124,874</u>	<u>29,807,836</u>
Interest expense		
Deposits	12,224,430	10,351,760
Other borrowings	2,581,098	2,799,489
Total interest expense	<u>14,805,528</u>	<u>13,151,249</u>
Net interest income	16,319,346	16,656,587
Provision for loan losses	197,500	137,500
Net interest income after provision	<u>16,121,846</u>	<u>16,519,087</u>
Non-interest income		
Service charges on deposit accounts	1,951,901	1,884,713
Securities gains, net	51,449	56,875
Increase in cash surrender value of bank owned life insurance	127,555	118,956
Other income	2,497,787	2,119,402
Total non-interest income	<u>4,628,692</u>	<u>4,179,946</u>
Non-interest expense		
Salaries and employee benefits	10,348,493	9,419,174

Occupancy and equipment expense	3,649,653	3,243,015
Other operating expenses	6,114,021	5,241,047
Total non-interest expense	<u>20,112,167</u>	<u>17,903,236</u>
Income before income taxes	638,371	2,795,797
Income tax (benefit) expense	(465,536)	18,576
Net income	<u>\$ 1,103,907</u>	<u>\$ 2,777,221</u>
Earnings per share	\$ 0.25	\$ 0.65
Weighted average shares outstanding	4,365,378	4,302,456

Amortization expense related to core deposit intangible is expected to be as follows:

2008	\$ 832,200
2009	665,760
2010	532,608
2011	426,086
2012	340,869
Thereafter	<u>1,363,477</u>
Total core deposit intangible expense	<u>\$ 4,161,000</u>

### Note 8. Other Investments

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

The tax credits from these investments were estimated at \$390,965 and \$345,522 for the years ended December 31, 2007 and 2006, respectively, and recorded as a reduction of income tax expense. Expenses related to amortization of the investments in the limited partnerships are recognized as a component of "other expenses", and were \$381,588 and \$354,156 for 2007 and 2006, respectively. The carrying values of these investments, which are included in other assets, were \$2,053,265 and \$2,170,053 at December 31, 2007 and 2006, respectively.

The Bank has a one-third ownership interest in a nondepository trust company, Community Financial Services Group, LLC ("CFSG") based in Newport, Vermont, which is held indirectly through Community Financial Services Partners, LLC, ("Partners") a Vermont limited liability company that owns 100% of the limited liability company equity interests of CFSG. The Bank accounts for its investment in Partners under the equity method of accounting. As of December 31, 2007, the Company's investment in Partners amounted to \$299,136 with income for 2007 of \$108,009, compared to an investment of \$170,427 as of December 31, 2006 with income of \$72,109 for 2006.

### Note 9. Deposits

The following is a maturity distribution of time certificates of deposit at December 31, 2007:

2008	\$ 159,243,480
2009	13,194,517
2010	4,235,293
2011	6,824,824
2012	<u>1,638,689</u>
Total	<u>\$ 185,136,803</u>

### Note 10. Borrowed Funds

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

	2007	2006
FHLB term borrowing, 5.05% fixed rate, payable March 28, 2008	\$ 8,000,000	\$ 0
Community Investment Program borrowing, 7.57% fixed rate, payable November 16, 2007	0	30,000
Community Investment Program borrowing, 7.67% fixed rate, payable November 16, 2012	<u>10,000</u>	<u>10,000</u>
	<u>8,010,000</u>	<u>40,000</u>

Federal Funds Purchased (FHLB), 4.10%	3,750,000	0
Federal Funds Purchased (BOA), 4.50%	<u>2,000,000</u>	<u>0</u>
	<u>5,750,000</u>	<u>0</u>
 Total Borrowings	 <u>\$ 13,760,000</u>	 <u>\$ 40,000</u>

Principal maturities of borrowed funds as of December 31, 2007 were as follows:

2008	\$ 8,000,000
2012	<u>10,000</u>
	<u>\$ 8,010,000</u>

The Company maintains a \$1,000,000 IDEAL Way Line of Credit with FHLB. As of December 31, 2007 and 2006, there were no outstanding advances under this line. Interest on these borrowings is at a rate determined daily by FHLB and payable monthly.

Borrowings from FHLB are secured by a blanket lien on qualified collateral consisting primarily of loans with first mortgages secured by one to four family properties and other qualified assets. Qualified collateral for these borrowings approximated \$105,766,000 and \$110,574,000 as of December 31, 2007 and 2006, respectively.

Under a separate agreement, the Company has the authority to collateralize public unit deposits, up to its available borrowing capacity, with letters of credit issued by FHLB. As of December 31, 2007, the Company's potential borrowing capacity was \$79,331,867, reduced by outstanding advances. At December 31, 2007, \$63,500,000 in letters of credit was pledged as collateral for these deposits. A fee is charged to the Company, quarterly, based on the average daily balance outstanding at a rate of 20 basis points. The average daily balance for the fourth quarter of 2007 was \$31,300,000.

#### Note 11. Junior Subordinated Debentures

On October 31, 2007, the Company completed a \$12,500,000 trust preferred securities financing for the purpose of funding a portion of the merger consideration for the LyndonBank acquisition. The trust preferred securities were issued by a newly established subsidiary of the Company, CMTV Statutory Trust I (the "Trust"), a Delaware statutory business trust, to a pooling vehicle sponsored by FTN Financial Capital Markets and Keefe, Bruyette & Woods, Inc. The Company owns all the common securities of the Trust. The proceeds of the trust preferred and common securities issuances were loaned to the Bank under junior subordinated debentures issued by the Company to the Trust. The trust preferred securities, which qualify as Tier I capital for regulatory purposes up to applicable regulatory limits, bear a fixed rate of interest of 7.56% per year for the first five years, followed by a floating rate, adjusted quarterly, equal to the three-month London Interbank Offered Rate ("LIBOR") plus 2.85% and are redeemable at par by the Company in whole or in part after five years (December 15, 2012), or earlier under certain circumstances, with a maturity date of December 15, 2037. Interest payments on the debentures for 2007 amounted to \$121,782, and are deductible for tax purposes.

#### Note 12. Repurchase Agreements

Securities sold under agreements to repurchase amounted to \$17,444,933 and \$17,083,946 as of December 31, 2007 and 2006, respectively. These agreements are collateralized by U. S. government sponsored enterprise securities and U. S. Treasury notes with a book value of \$23,203,854 and \$20,022,304 and a fair value of \$23,295,051 and \$19,667,030 at December 31, 2007 and 2006, respectively.

The average daily balance of these repurchase agreements approximated \$13,824,571 and \$15,687,663 during 2007 and 2006, respectively. The maximum borrowings outstanding on these agreements at any month-end reporting period of the Company were \$17,444,933 and \$17,536,357 in 2007 and 2006, respectively. These repurchase agreements mature daily and carried a weighted average interest rate of 2.20% during 2007, compared to 2.07% during 2006.

#### Note 13. 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:

	2007	2006
Currently paid or payable	\$ 701,836	\$ 757,963
Deferred	<u>(33,081)</u>	<u>(28,349)</u>

\$ 668,755      \$ 729,614

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:

	<b>2007</b>	<b>2006</b>
Computed expected tax expense	\$ 1,368,869	\$ 1,395,721
Tax exempt interest	(355,478)	(367,055)
Disallowed interest	42,170	42,257
Partnership tax credits	(390,965)	(345,522)
Other	4,159	4,213
	<u>\$ 668,755</u>	<u>\$ 729,614</u>

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

	<b>2007</b>	<b>2006</b>
Depreciation	\$ (32,853)	\$ (20,178)
Loan fees	1,430	1,814
Mortgage servicing	24,892	56,711
Deferred compensation	(27,031)	(36,458)
Bad debts	9,841	(26,735)
Non-accrual loan interest	(7,869)	(8,661)
Other	(1,491)	5,158
	<u>\$ (33,081)</u>	<u>\$ (28,349)</u>

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

	<b>2007</b>	<b>2006</b>
Components of the deferred tax asset:		
Bad debts	\$ 854,680	\$ 596,883
Nonaccrual loan interest	41,163	11,003
Deferred compensation	393,956	366,925
Contingent liability – Mortgage Partnership Finance (MPF) program	31,167	31,167
Fair value acquired securities available-for-sale	341,689	139,433
Accrued stay on bonuses	44,098	0
Alternative minimum tax	59,031	0
Other	127,411	68,268
Total deferred tax asset	<u>1,893,195</u>	<u>1,213,679</u>
Components of the deferred tax liability:		
Depreciation	316,292	284,941
Limited partnerships	255,280	255,280
Mortgage servicing rights	403,518	378,627
Unrealized gain on securities available-for-sale	57,290	139,433
Core deposit intangibles	1,414,740	0
Fair value on acquired loans	265,656	0
Fair value on acquired deposits	238,680	0
Other	2,436	0
Total deferred tax liability	<u>2,953,892</u>	<u>918,848</u>
Net deferred tax (liability) asset	<u>\$ (1,060,697)</u>	<u>\$ 294,831</u>

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

The net deferred tax liability at December 31, 2007 is included in the caption "Other Liabilities" and the net deferred tax asset at December 31, 2006 is included in the caption "Other Assets" in the balance sheets.

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

The Company has a defined contribution plan covering all employees who meet certain age and service requirements. Due to the

fact that the plan is a defined contribution plan, rather than a defined benefit plan, there is no unfunded past service liability. The provisions for pension expense were \$411,668 and \$448,784, for 2007 and 2006, respectively. These amounts represent discretionary matching contributions of a portion of the voluntary employee salary deferrals under the 401(k) plan and discretionary profit-sharing contributions under the plan.

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

The Company maintains a directors' deferred compensation plan and, prior to 2005, a retirement plan for its directors. Participants are general creditors of the Company with respect to these benefits. The benefits accrued under these plans were \$596,947 and \$601,951 at December 31, 2007 and 2006, respectively. Expenses associated with these plans were \$35,997 and \$35,013, for the years ended December 31, 2007 and 2006, respectively.

The Company also maintains a supplemental employee retirement plan for key employees of the Company. Benefits accrued under this plan were \$561,748 and \$477,241 at December 31, 2007 and 2006, respectively. The expense associated with this plan was \$84,507 and \$84,216 for the years ended December 31, 2007 and 2006, respectively.

It was anticipated that certain provisions of these plans would be amended during 2006 to ensure compliance with Internal Revenue Code section 409A; however, the deadline was extended to December 2007, and has again been extended to December 2008, pending the issuance of final Internal Revenue Service regulations. Such amendments are not expected to have any material impact upon the Company's financial obligations under the plans.

The former LyndonBank entered into Change in Control Agreements ("Agreements") with certain executive officers of LyndonBank. In accordance with the Agreements, in the event of a change in control, as defined in the Agreements, the executive officer shall be entitled to a termination payment equal to a multiple of his/her average annual income from LyndonBank over the preceding five taxable years. As a result of the acquisition by the Bank on December 31, 2007, LyndonBank recorded a liability in the amount of \$744,000. The Company has assumed this liability.

#### **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 represents credit risk:

	<b>Contract or --Notional Amount--</b>	
	<b>2007</b>	<b>2006</b>
Unused portions of construction lines of credit	\$ 4,232,061	\$ 4,011,034
Unused portions of home equity lines of credit	<u>14,673,608</u>	<u>11,212,136</u>
Other commitments to extend credit	<u>31,110,697</u>	<u>19,087,572</u>
Standby letters of credit and commercial letters of credit	<u>580,400</u>	<u>1,004,200</u>
Credit card arrangements	<u>0</u>	<u>9,086,665</u>
MPF credit enhancement obligation, net (See Note 16)	<u>1,280,817</u>	<u>1,130,949</u>

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, 2007 and 2006, the Company had binding loan commitments to sell residential mortgages at fixed rates approximating \$323,000 and \$0, respectively, which are included in other commitments to extend credit.

The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the counter-party. Collateral held

varies but may include real estate, accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The fair value of standby letters of credit has not been included in the balance sheets as required by Financial Accounting Standards Board Interpretation No. 45 as the fair value is immaterial.

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 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, 2007.

#### **Note 16. Contingent Liability**

The Company sells 1-4 family residential loans under a program with FHLB, the Mortgage Partnership Finance program (MPF). Under this program the Company shares in the credit risk of each mortgage, while receiving fee income in return. The Company is responsible for a Credit Enhancement Obligation (CEO) based on the credit quality of these loans. FHLB funds a First Loss Account (FLA) based on the Company's outstanding MPF mortgage balances. This creates a ladder approach to sharing in any losses. In the event of default, homeowner's equity and Private Mortgage Insurance, if any, are the first sources of repayment; the FHLB's FLA funds are then utilized, followed by the member's CEO, with the balance picked up by FHLB. These loans meet specific underwriting standards of the FHLB. As of December 31, 2007 and 2006, the Company had \$49,003,840 and \$45,684,064, respectively, in loans sold through the MPF program. The Company carries a contingent liability of \$91,667 as of December 31, 2007 and 2006, which is calculated on the same methodology used in calculating its allowance for loan loss, adjusted to reflect the risk sharing arrangements with the FHLB. The volume of loans sold to the MPF program and the corresponding credit obligation continue to be closely monitored by management. As of December 31, 2007, the notional amount of the maximum contingent contractual liability related to this program was \$1,372,484 compared to \$1,222,616 as of December 31, 2006.

#### **Note 17. Legal Contingencies**

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

#### **Note 18. Transactions with Related Parties**

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

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

	<b>2007</b>	<b>2006</b>
Balance, beginning	\$ 1,385,497	\$ 520,675
Loans – New Directors	2,795,713	749,441
New loans	500,741	784,933
Retirement of Director	(306,883)	0
Repayment*	(844,757)	(669,552)
Balance, ending	<u>\$ 3,530,311</u>	<u>\$ 1,385,497</u>

\*Includes loan sold to secondary market

Total deposits with related parties approximated \$4,085,566 and \$1,234,207 at December 31, 2007 and 2006, respectively.

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

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

Newport	\$ 22,099	\$ 18,635
Barre	2,375	2,313
Total	<u>\$ 24,474</u>	<u>\$ 20,948</u>

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

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

	<b>2007</b>	<b>2006</b>
Management fees	<u>\$ 37,717</u>	<u>\$ 36,841</u>

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

The Company is required to maintain reserve balances in cash with the Federal Reserve Bank. During the first quarter of 2007, the Company implemented a process called "Deposit Reclassification" which allows the Bank to reclassify certain balances of transactional accounts to non-transactional accounts for the purposes of calculating the daily non-interest bearing cash reserve balances required to be maintained at the Federal Reserve Bank. As a result of this process, the Company is now required to maintain reserve balances of not more than \$500,000 or as little as \$0 depending on the reclassifications for the reporting period. The required reserve balance using the new method was \$0 on December 31, 2007, and under the old method, the reserve balance as of December 31, 2006 was approximately \$3,024,000.

The nature of the Company's business requires that it maintain amounts due from correspondent banks that, at times, may exceed federally insured limits. No losses have been experienced in these accounts. The Company believes it is not exposed to any significant risk with respect to these accounts. The Company was required to maintain contracted clearing balances with other correspondent banks of \$225,000 and \$50,000 at December 31, 2007 and 2006, respectively.

#### **Note 20. Regulatory Matters**

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2007, that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2007, 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.

As of December 31, 2007, the Federal Deposit Insurance Corporation categorized the former LyndonBank as well capitalized under the regulatory framework for prompt corrective action.

The Company's, the Bank's, and the former LyndonBank's actual capital amounts (in thousands) and ratios are also presented in the table.

	Actual		Minimum For Capital Adequacy Purposes:		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2007:</b>						
Total capital (to risk-weighted assets)						
Consolidated*	\$36,975	15.48%	\$19,104	8.0%	N/A	N/A
Community National Bank	\$48,506	20.41%	\$19,013	8.0%	\$23,766	10.0%
Former LyndonBank	\$13,536	12.94%	\$ 8,365	8.0%	\$10,457	10.0%
Tier I capital (to risk-weighted assets)						
Consolidated*	\$34,736	14.55%	\$ 9,552	4.0%	N/A	N/A
Community National Bank	\$46,267	19.47%	\$ 9,506	4.0%	\$14,260	6.0%
Former LyndonBank	\$12,749	12.19%	\$ 4,183	4.0%	\$ 6,274	6.0%
Tier I capital (to average assets)						
Consolidated*	\$34,736	9.40%	\$14,785	4.0%	N/A	N/A
Community National Bank	\$46,267	12.54%	\$14,752	4.0%	\$18,440	5.0%
Former LyndonBank	\$12,749	8.26%	\$ 6,153	4.0%	\$ 7,691	5.0%
<b>As of December 31, 2006:</b>						
Total capital (to risk-weighted assets)						
Consolidated	\$33,270	14.10%	\$18,879	8.0%	N/A	N/A
Bank	\$33,047	14.01%	\$18,872	8.0%	\$23,590	10.0%
Tier I capital (to risk-weighted assets)						
Consolidated	\$31,002	13.14%	\$ 9,439	4.0%	N/A	N/A
Bank	\$30,779	13.05%	\$ 9,436	4.0%	\$14,154	6.0%
Tier I capital (to average assets)						
Consolidated	\$31,002	8.59%	\$14,434	4.0%	N/A	N/A
Bank	\$30,779	8.53%	\$14,430	4.0%	\$18,038	5.0%

\*Consolidated refers to Community Bancorp. and Community National Bank before consolidation of the former LyndonBank assets. The Federal Regulators approved the filing of separate Call Reports for Community National Bank and the former LyndonBank; therefore, numbers presented in the table above are as filed with the applicable reporting agencies at December 31, 2007.

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

## Note 21. Fair Value of Financial Instruments

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

	December 31, 2007		December 31, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Financial assets:				
Cash and cash equivalents	\$ 20,273	\$ 20,273	\$ 19,467	\$ 19,467
Securities held-to-maturity	34,311	34,273	21,070	21,301
Securities available-for-sale	46,877	46,877	22,612	22,612
Restricted equity securities	3,457	3,457	2,828	2,828
Loans and loans held-for-sale, net	353,102	360,088	266,396	266,361
Accrued interest receivable	2,304	2,304	1,667	1,667
Bank owned life insurance	3,559	3,559	0	0
Financial liabilities:				
Deposits	416,220	411,718	300,988	299,670
Federal funds purchased and other borrowed funds	13,760	13,762	40	42
Repurchase agreements	17,445	17,445	17,084	17,072
Subordinated debentures	12,887	12,242	0	0
Capital lease obligations	943	943	0	0
Accrued interest payable	291	291	345	345

The estimated fair values of commitments to extend credit and letters of credit were immaterial at December 31, 2007 and 2006.

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**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, 2007 AND 2006**

<b>ASSETS</b>	<b>2007</b>	<b>2006</b>
Cash	\$ 739,883	\$ 635,250
Investment in subsidiary - Community National Bank	46,451,386	30,507,941
Investment in Capital Trust	387,000	0
Other assets	754,680	85,732
Total assets	<u>\$ 48,332,949</u>	<u>\$ 31,228,923</u>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities		
Junior subordinated debentures	\$ 12,887,000	\$ 0
Dividends payable	525,589	498,112
Total liabilities	<u>13,412,589</u>	<u>498,112</u>
Shareholders' equity		
Preferred stock, 1,000,000 shares authorized at December 31, 2007, 25 shares issued and outstanding at December 31, 2007 and no shares issued and outstanding at December 31, 2006	2,500,000	0
Common stock - \$2.50 par value; 10,000,000 and 6,000,000 shares authorized at December 31, 2007 and 2006, respectively; and 4,609,268 and 4,339,619 shares issued at December 31, 2007 and 2006, respectively (including 16,408 and 15,222 shares issued February 1, 2008 and 2007, respectively)	11,523,171	10,849,048
Additional paid-in capital	25,006,439	22,006,492
Retained earnings (accumulated deficit)	(1,597,682)	760,667
Accumulated other comprehensive income (loss)	111,209	(270,664)
Less treasury stock, at cost (2007 - 210,101 shares; 2006 - 209,510 shares)	<u>(2,622,777)</u>	<u>(2,614,732)</u>
Total shareholders' equity	<u>34,920,360</u>	<u>30,730,811</u>
Total liabilities and shareholders' equity	<u>\$ 48,332,949</u>	<u>\$ 31,228,923</u>

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.

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**COMMUNITY BANCORP. (PARENT COMPANY ONLY)**  
**CONDENSED STATEMENTS OF INCOME**  
**Years Ended December 31, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
Interest income		
Interest on Capital Trust	\$ 3,657	\$ 0
Interest expense		
Interest on junior subordinated debentures	121,782	0
Net interest expense	<u>(118,125)</u>	<u>0</u>
Revenues		
Dividends		
Bank subsidiary - Community National Bank	3,150,000	2,611,000
Other dividend income	0	300
Total revenues	<u>3,150,000</u>	<u>2,611,300</u>
Other non-interest income		
Gain on sale of stock	0	56,875
Total non-interest income	<u>0</u>	<u>56,875</u>
Expenses		
Administrative and other	418,604	309,329
Total expenses	<u>418,604</u>	<u>309,329</u>
Income before applicable income tax and equity in undistributed net income of subsidiary	2,613,271	2,358,846
Applicable income tax benefit	<u>182,488</u>	<u>85,732</u>
Income before equity in undistributed net income of subsidiary	2,795,759	2,444,578
Equity in undistributed net income of subsidiary	<u>561,571</u>	<u>930,870</u>
Net income	<u>\$ 3,357,330</u>	<u>\$ 3,375,448</u>

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**COMMUNITY BANCORP. (PARENT COMPANY ONLY)**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 3,357,330	\$ 3,375,448
Adjustments to reconcile net income to net cash provided by operating activities		
Equity in undistributed net income of subsidiary	(561,571)	(930,870)
Net gain on sale of investments	0	(56,875)
Increase in prepaid assets	(120,133)	0
Increase in income taxes receivable	(96,756)	(28,975)
Net cash provided by operating activities	<u>2,578,870</u>	<u>2,358,728</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in subsidiary – Community National Bank	(15,000,000)	0
Increase in other assets	(452,060)	0
Investment in Capital Trust	(387,000)	0
Proceeds from sale of investments available-for-sale	0	89,375
Net cash (used in) provided by investing activities	<u>(15,839,060)</u>	<u>89,375</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of junior subordinated debentures	12,887,000	0
Proceeds from issuance of preferred stock	2,500,000	0
Purchase of treasury stock	(8,045)	(11)
Dividends paid	(2,014,132)	(1,926,809)
Net cash provided by (used in) financing activities	<u>13,364,823</u>	<u>(1,926,820)</u>
Net increase in cash	104,633	521,283
<b>Cash</b>		
Beginning	635,250	113,967
Ending	<u>\$ 739,883</u>	<u>\$ 635,250</u>
<b>CASH RECEIVED FOR INCOME TAXES</b>	<u>\$ 85,732</u>	<u>\$ 56,757</u>
<b>CASH PAID FOR INTEREST</b>	<u>\$ 121,782</u>	<u>\$ 0</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Change in unrealized gain on securities available-for-sale	<u>\$ 578,596</u>	<u>\$ 274,931</u>
Dividends paid:		
Dividends declared	\$ 2,894,359	\$ 2,780,764
Increase in dividends payable attributable to dividends declared	(27,477)	(7,585)
Dividends reinvested	(852,750)	(846,370)
	<u>\$ 2,014,132</u>	<u>\$ 1,926,809</u>
Stock dividend	<u>\$ 2,821,320</u>	<u>\$ 0</u>

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

A summary of financial data for the four quarters of 2007 and 2006 is presented below:

**COMMUNITY BANCORP. AND SUBSIDIARY**

	Quarters in 2007 ended			
	March 31,	June 30,	Sept. 30,	Dec. 31,
Interest income	\$ 5,259,958	\$ 5,362,011	\$ 5,424,004	\$ 5,646,966
Interest expense	1,993,189	2,012,453	2,100,145	2,385,345
Provision for loan losses	37,500	37,500	47,500	25,000
Non-interest income	703,346	894,482	1,110,358	739,626
Non-interest expense	3,149,994	3,155,671	3,247,046	2,923,323
Net income	675,256	857,883	927,172	897,019
Earnings per common share*	0.16	0.20	0.21	0.20
	Quarters in 2006 ended			
	March 31,	June 30,	Sept. 30,	Dec. 31,
Interest income	\$ 4,874,446	\$ 5,188,141	\$ 5,293,321	\$ 5,619,936
Interest expense	1,616,977	1,847,419	2,078,793	2,159,899
Provision for loan losses	37,500	37,500	37,500	25,000
Securities gains	0	0	0	56,875
Non-interest income	669,624	838,393	791,409	824,750
Non-interest expense	3,113,226	3,120,224	3,061,570	2,859,350
Net income	665,942	832,100	764,064	1,113,342
Earnings per common share*	0.16	0.19	0.18	0.25

\*All per share data for prior periods has been restated to reflect a 5% stock dividend declared in June 2007.

**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:

	2007	2006
Income		
Income from sold loans, net of amortization	\$ 373,330	\$ 481,649
Income from sale of credit card portfolio	257,836	0
Expenses		
State deposit tax	\$ 327,996	\$ 280,805
Loss on limited partnerships	381,588	354,156

**Note 25. Subsequent Event**

Effective December 12, 2007, the Company declared a cash dividend of \$0.17 per share payable February 1, 2008 to shareholders of record as of January 15, 2008. This dividend has been recorded as of the declaration date including shares issuable under the DRIP plan.

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

For the Years Ended December 31, 2007 and 2006

## FORWARD-LOOKING STATEMENTS

The Company's Management's Discussion and Analysis of Financial Condition and Results of Operations contains certain forward-looking statements about the results of operations, financial condition and business of the Company and its subsidiaries. When used therein, the words "believes," "expects," "anticipates," "intends," "estimates," "plans," "predicts," or similar expressions, indicate that management of the Company is making forward-looking statements.

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

Factors that may cause actual results to differ materially from those contemplated by these forward-looking statements include, among others, the following possibilities: (1) competitive pressures increase among financial service providers in the Company's northern New England market area or in the financial service industry generally, including competitive pressures from non-bank financial service providers, from increasing consolidation and integration of financial service providers, and from changes in technology and delivery systems; (2) interest rates change in such a way as to reduce the Company's margins; (3) general economic or monetary conditions, either nationally or regionally, are less favorable than expected, resulting in a deterioration in credit quality or a diminished demand for the Company's products and services; (4) changes in laws or government rules, or the way in which courts interpret those laws or rules, adversely affect the Company's business; and (5) changes in federal or state tax policy.

## OVERVIEW

On December 31, 2007, the Company completed a merger with LyndonBank and simultaneously sold the Vergennes branch of LyndonBank, located in Addison County, to the National Bank of Middlebury. The balance sheet information contained in this report reflects the consolidation of the balance sheets of the two banks, less the assets and liabilities of the branch that was sold. At year end, the Company's pre-merger assets were \$373,569,054 compared to total assets of \$351,814,542 at December 31, 2006. The merger resulted in total assets of \$502,031,618. The assets and liabilities acquired have been adjusted to fair value based on current appraised values and resulted in \$10,335,287 of Goodwill.

On October 31, 2007, the Company completed a \$12.5 million trust preferred securities financing for the purpose of funding a portion of the merger consideration for the LyndonBank acquisition. The trust preferred securities were issued by a newly established subsidiary of the Company, CMTV Statutory Trust I (the Trust), a Delaware statutory business trust, to a pooling vehicle sponsored by FTN Financial Capital Markets and Keefe, Bruyette & Woods, Inc. The proceeds of that sale were loaned to the Company under junior subordinated debentures issued by the Company to the Trust. The trust preferred securities, which qualify as Tier I capital for regulatory purposes up to applicable regulatory limits, bear a fixed rate of interest of 7.56% per year for the first five years, followed by a floating rate, adjusted quarterly, equal to the three-month London Interbank Offered Rate ("LIBOR") plus 2.85% and are redeemable at par by the Company in whole or in part after five years, or earlier under certain circumstances. Interest payments on the debentures are expected to be deductible for tax purposes.

Additional funding was generated by the issuance of 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. The Company will pay non-cumulative cash dividends quarterly, when, as and if declared by the Board of Directors. Dividends will accrue at a fixed rate of 7.50% per annum for the first five years, followed by a variable dividend rate at the Wall Street Journal Prime Rate in effect on the first business day of each quarterly dividend period. For additional information about the terms of the preferred stock refer to the Company's Current Report on Form 8-K dated December 27, 2007 and filed with the Securities and Exchange Commission on December 31, 2007.

Earnings information in this report is reflective of the Company's activities prior to the merger and do not include LyndonBank information. Earnings for 2007 were \$3,357,330 or \$0.77 per share compared to \$3,375,448 or \$0.79 per share. The Company experienced a .5% decrease in net interest income in 2007 compared to 2006 due to the declining interest rates. For the first three quarters of 2007, short-term interest rates were higher than in 2006. The effect of the rate increase on short-term liabilities out paced the effect on assets. Also contributing to the higher interest expense was the interest paid on the Junior Subordinated Debentures, partially off-set by the yield on the resulting earning assets.

Loan activity during the first three quarters of 2007 was lower than in the previous year from a lack of demand for commercial and residential real estate loans. This decline reflects a nationwide pattern in the banking industry due to an unsettled economy and the fall out of the sub-prime lending activity. The Company has not offered any deeply discounted adjustable rate mortgages, nor engaged in any other form of sub-prime lending practices. Therefore, the Company should not be adversely affected by the sub-prime lending fiasco beyond the weakened real estate market. The recent 75 basis point decrease in the prime rate has spurred some activity in demand from the commercial sector, however the competition is fierce.

Non-interest income includes a one time gain of \$257,836 from the sale of the Company's credit card portfolio. This gain helped to offset the increase in non-interest expenses. Most increases were normal increases in the cost of doing business; however, contributing to the increase in expenses was an increase in employee benefits due to increases in the cost of the Company's health insurance program and the consulting fees associated with the implementation of Section 404 of Sarbanes Oxley, which was completed by year end 2007.

The following pages describe the financial results of our year in much more detail. Please take the time to read them to more fully understand 2007 in relation to other recent years. The discussion below should be read in conjunction with the Consolidated Financial Statements of the Company and related notes. This report includes forward-looking statements within the meaning of the Securities and Exchange Act of 1934 (the "Exchange Act").

#### CRITICAL ACCOUNTING POLICIES

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

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

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

Companies are required to perform periodic reviews of individual securities in their investment portfolios to determine whether decline in the 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, its effect on the financial statements and the probability, extent and timing of a valuation recovery and the company's intent and ability to hold the security. Pursuant to these requirements, management assesses valuation declines to determine the extent to which such changes are attributable to fundamental factors specific to the issuer, such as financial condition, business prospects or other factors or market-related factors, such as interest rates. Declines in the fair value of securities below their cost that are deemed to be other than temporary are recorded in earnings as realized losses.

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

Accounting for a business combination requires the application of the purchase method of accounting. Under the purchase method, the Company is required to record the net assets and liabilities acquired through the merger 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. Management acknowledges the determination of fair value requires the use of assumptions, including discount rates, changes in which could significantly affect fair values.

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. Management acknowledges that the use of different estimates or assumptions could produce different estimates of carrying values.

## RESULTS OF OPERATIONS

This section, which discusses the net income and average assets of the Company, does not include any amounts for the recently acquired LyndonBank. Due to an acquisition date of "After the close of business on December 31, 2007", no income was generated by LyndonBank for the Company, and average assets are not affected for the year 2007.

The Company's net income of \$3.36 million for the year ended December 31, 2007 represented a decrease of 0.5% from \$3.38 million for 2006. A decrease of \$70,949 or 0.5% is noted in net interest income for 2007 compared to 2006. Non-interest income increased \$323,636 or 10.4%, basically offsetting the increase in non-interest expense of \$321,664, by 2.7%. A decrease in income taxes, which is in line with the decrease in net income, helped to offset a portion of the decrease in net interest income, thereby accounting for the small decrease in net income for 2007 compared to 2006. Although a gain of \$257,836 was recognized in 2007 through the sale of the Company's credit card portfolio, increases are noted in all components of non-interest expense, with the exception of salaries. Furniture and equipment expenses, which include depreciation and service contracts, increased \$122,671, or 12.8%, loss on limited partnerships, a component of other expenses, increased \$27,432, or 7.7%, and state deposit tax, also a component of other expenses, increased \$47,191, or 16.8%. Earnings for 2007 and 2006 resulted in earnings per share of \$0.77 and \$0.79, respectively. The Company's average assets decreased 2.3% in 2007 resulting in total average assets of \$345.9 million during 2007, compared to average assets of \$354.0 million during 2006. A decrease of \$11.5 million or 18.6% in average investment securities, which was partially offset by an increase of \$5.2 million in overnight deposits, accounts for most of the decrease in average assets.

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,	
	2007	2006
Return on Average Assets	0.97%	0.95%
Return on Average Equity	10.69%	11.35%
Dividend Payout Ratio	87.01%	81.01%
Average Equity to Average Assets Ratio	9.08%	8.40%

## INTEREST INCOME VERSUS INTEREST EXPENSE

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

The following table provides a reconciliation between net interest income presented in the statement of income and the tax equivalent net interest income presented in Table A below for the 12 month comparison periods of 2007 and 2006.

	For the year ended December 31,	
	2007	2006
	(Dollars in Thousands)	
Net interest income as presented	\$ 13,202	\$ 13,273
Effect of tax-exempt income	539	556
Net interest income, tax equivalent	<u>\$ 13,741</u>	<u>\$ 13,829</u>

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

**Table A**  
**AVERAGE BALANCES AND INTEREST RATES**

	Average Balance	2007 Income/ Expense	Rate/ Yield	Average Balance	2006 Income/ Expense	Rate/ Yield
	(Dollars in Thousands)					
<b>Interest-Earning Assets(1)</b>						
Loans (2)	\$ 263,597	\$ 19,119	7.25%	\$ 263,901	\$ 18,471	7.00%
Taxable Investment Securities	22,567	877	3.89%	30,174	1,082	3.59%
Tax-exempt Investment Securities	25,384	1,584	6.24%	28,529	1,636	5.73%
Federal Funds Sold	66	3	4.55%	263	10	3.80%
Overnight Deposits	8,215	479	5.83%	3,052	156	5.11%
Other Investments	2,456	170	6.92%	3,161	177	5.60%
<b>TOTAL</b>	<b>\$ 322,285</b>	<b>\$ 22,232</b>	<b>6.90%</b>	<b>\$ 329,080</b>	<b>\$ 21,532</b>	<b>6.54%</b>
<b>Interest-Bearing Liabilities(1)</b>						
Savings Deposits	\$ 39,005	\$ 136	0.35%	\$ 43,563	\$ 152	0.35%
NOW and Money Market Funds	77,431	2,079	2.68%	80,348	1,698	2.11%
Time Deposits	132,293	5,759	4.35%	121,691	4,835	3.97%
Other Borrowed Funds	1,685	92	5.46%	13,236	693	5.24%
Junior Subordinated Debentures	2,154	122	5.66%	0	0	0%
Repurchase Agreements	13,825	303	2.19%	15,688	325	2.07%
<b>TOTAL</b>	<b>\$ 266,393</b>	<b>\$ 8,491</b>	<b>3.19%</b>	<b>\$ 274,526</b>	<b>\$ 7,703</b>	<b>2.81%</b>
<b>Net Interest Income</b>		<b>\$ 13,741</b>			<b>\$ 13,829</b>	
<b>Net Interest Spread(3)</b>			<b>3.71%</b>			<b>3.73%</b>
<b>Interest Margin(4)</b>			<b>4.26%</b>			<b>4.20%</b>

(1) Assets and liabilities acquired from LyndonBank as of the close of business on December 31, 2007 are not included in average balance because there would be no impact on yields.

(2) Included in gross loans are non-accrual loans with an average balance of \$822,354 for 2007 and \$1,070,518 for 2006.

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

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

Interest income from loans of \$19.1 million accounts for approximately 86.0% of total tax-equivalent interest income for 2007, compared to \$18.5 million or 85.8% for 2006, with average yields of 7.25% and 7.00%, respectively. The average volume of loans decreased \$304 thousand, or 0.12% from 2006 to 2007, while the rate earned on these assets increased 25 basis points from 2006 to 2007. Short-term rates increased from December 31, 2006 until the beginning of the fourth quarter. The Company's loans that are contractually scheduled to reprice based on benchmarks such as Prime Rate, increased according to their repricing schedule. This resulted in higher interest income to the Company on the loans tied to short-term indexes. Long-term rates however, did not increase accordingly. The increase in short-term rates while long-term rates remain low created an even flatter yield curve, putting pressure on the net interest spread.

Interest expense on time deposits represents approximately 67.8% of total interest expense for 2007 compared to 62.8% for 2006, with average rates paid of 4.35% and 3.97%, respectively. The average volume of certificates of deposit (CD) increased \$10.6 million, or 8.71%, and the yield increased 38 basis points from 2006 to 2007. Decreases are noted in the average volume of savings and NOW and money market funds. The increase in short term market rates helped to boost CD rates to a level that is more attractive to the consumer than other deposit accounts across the board. Maintaining a positive spread continues to be a challenge as these deposit rates are driven higher by short term market rates. The flattening yield curve (short-term rates increasing faster than long-term rates) continues to delay the benefits of the rising rates.

During the first quarter of 2007, the Company implemented deposit reclassification as an effort to increase spread income. Deposit reclassification allows banks to reclassify certain balances of transactional accounts to non-transactional accounts for the purposes of calculating the daily cash reserve balances required to be maintained by the Federal Reserve Bank. As a result of this process, management has seen a reduction in the Company's daily reserve requirement, which, at year-end 2006 was approximately \$3.0 million compared to \$0 on December 31, 2007.

The following table summarizes the variances in income for the years 2007 and 2006 resulting from volume changes in assets and liabilities and fluctuations in rates earned and paid. This table does not reflect the numbers for the former LyndonBank.

**Table B**  
**CHANGES IN INTEREST INCOME AND INTEREST EXPENSE**

RATE VOLUME	2007 vs. 2006		
	Variance Due to(1) Rate	Volume	Total Variance
(Dollars in Thousands)			
<b>Interest-Earning Assets</b>			
Loans(2)	\$ 670	\$ ( 22)	\$ 648
Taxable Investment Securities	91	(296)	(205)
Tax-exempt Investment Securities	144	(196)	(52)
Federal Funds Sold	2	(9)	(7)
Overnight Deposits	59	264	323
Other Investments	42	(49)	(7)
Total Interest Earnings	<u>\$ 1,008</u>	<u>\$ (308)</u>	<u>\$ 700</u>
<b>Interest-Bearing Liabilities</b>			
Savings Deposits	\$ 0	\$ ( 16)	\$ ( 16)
NOW and Money Market Funds	459	(78)	381
Time Deposits	503	421	924
Other Borrowed Funds	30	(631)	(601)
Repurchase Agreements	19	(41)	(22)
Junior Subordinated Debentures	122	0	122
Total Interest Expense	<u>\$ 1,130</u>	<u>\$ (345)</u>	<u>\$ 788</u>
Change in Net Interest Income	<u>\$ (125)</u>	<u>\$ 37</u>	<u>\$ (88)</u>

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

Variance due to rate = Change in rate x new volume

Variance due to volume = Change in volume x old rate

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

Variance due to rate = Change in rate x old volume

Variance due to volume = Change in volume x new rate

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

#### NON-INTEREST INCOME AND NON-INTEREST EXPENSE

*Non-interest Income:* The Company's non-interest income increased 10.4% to \$3.4 million in 2007 from \$3.1 million in 2006. Income from sold loans is the largest single item that contributes to total non-interest income. Secondary market sales were down in 2007 compared to 2006, and income generated through the sale and servicing of these loans decreased \$71,001, or 8.3% with income reported at \$781,460 for 2007, compared to \$852,461 for 2006. Originations of loans sold to the secondary market were \$27.8 million in 2007 compare to \$28.7 million in 2006. Although originations have declined over the last few years, the Company still considers these figures to be strong. The Company projects to continue to benefit from higher servicing fee income from the record sales during that time period to help offset lower income from loan sales to the secondary market during 2006 and 2007. Service fees increased \$94,707, or 7.2% from 2006 to 2007 due to increases in volume and related fees for ATM and debit card transactions. A gain of \$56,875 in 2006 for the sale of some stock the Company held for a period of time is included in other income for 2006. The Company sold its credit card portfolio during the third quarter of 2007, and reported a net gain of \$257,836 before taxes, accounting for a portion of the increase in non-interest income for 2007.

*Non-interest Expense:* The Company's non-interest expense increased approximately 2.7% to \$12.5 million compared to \$12.2 million for 2006. Salaries and wages reported decreases of \$37,000 or .81% for 2007 compared to 2006. Salaries and wages decreased in 2007 due to attrition and consolidation of some positions as well as reduced incentive payments. Employee benefits increased during the comparison period due to increases in health benefits, with an increase of \$94,770, or 5.6% from 2006 to 2007. Occupancy expense increased \$123,081, or 5.6% from 2006 to 2007 due in part to an increase in depreciation expense of \$58,202, or 6.6%, and an increase in equipment expense, primarily service contracts, of \$72,311, or 16.1%.

Total losses relating to various limited partnership investments constitute a generous portion of other expenses. These losses amounted to \$381,588 or 9.9% of other expenses in 2007 and \$354,156 or 9.5% in 2006. These investments provide tax benefits, including tax credits in exchange for our participation in low income housing projects throughout the Company's market area. The Company amortizes its investments in these limited partnerships under the effective yield method, resulting in the asset being amortized consistent with the periods in which the Company receives the tax benefit.

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

#### APPLICABLE INCOME TAXES

Provisions for income taxes decreased 8.3% for 2007 versus 2006. The decrease in earnings and the increase in tax credits are both contributing factors in the decrease. Tax credits for the investments in the limited partnerships mentioned above amounted to \$390,965 in 2007 compared to \$345,522 in 2006.

#### CHANGES IN FINANCIAL CONDITION

The Company had total average assets of \$345.9 million during 2007 and \$354.0 million during 2006, representing a 2.3% decrease in average assets. Average earning assets decreased 2.1% with totals of \$322.2 million during 2007 compared to \$329.1 million during 2006. Overnight deposits increased \$5.2 million, which is due in part to the reclassification of deposits indicated previously in the discussion and in the Notes to the Consolidated Financial Statements. Little change is noted in the loan portfolio, while the average volume of the investment portfolio decreased \$11.5 million, or just over 18.0% during 2007 through maturities and calls within the government bonds and agency portfolio.

Decreases in average liabilities surpassed the decreases in average assets. A decrease in total average interest-bearing liabilities of \$10.3 million or 3.8% was noted during 2007 compared to 2006. Average time deposits increased \$10.6 million, or 8.7%, while average NOW and money market accounts decreased \$2.9 million, or 3.6% and average savings accounts decreased \$4.6 million, or 10.5%. The increase in short-term rates fueled competition for Certificate of Deposit specials, thus the shift of money from the non-maturing NOW and money market accounts and savings accounts to Certificates of Deposits with more favorable rates and various maturity options. The average volume of other borrowed funds decreased \$11.6 million to an average volume of \$1.7 million at the end of 2007 compared to \$13.2 million at the end of 2006. Loan growth in 2007 was funded by the maturing investments, eliminating the need for borrowed funds, with the remainder of the maturities being invested in overnight funds accounting for the \$5.2 million increase in those funds during 2007.

Repurchase agreements ended the years of 2007 and 2006 at average volumes of \$13.8 million and \$15.7 million, respectively, resulting in a decrease of \$1.9 million or 11.9%. As required, securities from our investment portfolio are pledged against these agreements with a book value of \$16.0 million and \$20.0 million, respectively, for year-end 2007 and 2006, and a fair value of \$16.1 million and \$19.7 million, respectively. These figures do not include the repurchase agreements of the acquired LyndonBank amounting to \$6.3 million on December 31, 2007, and investments pledged against these agreements amounted to an adjusted book and fair value of approximately \$7 million. Before consolidation, the Company was required to obtain fair values on certain assets and liabilities of the former LyndonBank, and bring them on at fair value. Repurchase agreements book value was deemed to be the fair value; however securities book value was adjusted to fair value.

With the acquisition of LyndonBank on December 31, 2007, the Company's total assets increased on that date approximately \$128.5 million or 34.4%, with net loans increasing \$94.8 million or 36.8%, and the investment portfolio increased approximately \$24.5 million or 40.8%. Total deposits increased approximately \$110.1 million or 36.0%, with time deposits increasing \$53.4 million or 40.6% and NOW and money market accounts increasing \$29.7 million or 32.6%. These figures are actual dollars versus average volume discussed in the paragraphs above in this section.

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, and is not reflective of the numbers for the acquired LyndonBank.

#### **DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY**

**Year ended December 31,**

2007

2006

2005

AVERAGE ASSETS	2007		2006		2005	
	Balance	%	Balance	%	Balance	%
(Dollars in Thousands)						
Cash and Due from Banks						
Non-Interest Bearing	\$ 7,004	2.02%	\$ 8,724	2.46%	\$ 8,618	2.53%
Overnight Deposits	8,215	2.37%	3,052	0.86%	591	0.17%
Federal Funds Sold	66	0.02%	263	0.07%	465	0.14%
Taxable Investment Securities(1)	22,567	6.52%	30,174	8.53%	44,243	12.99%
Tax-exempt Investment Securities(1)	25,384	7.34%	28,529	8.06%	32,092	9.42%
Other Securities(1)	2,391	0.69%	3,161	0.89%	3,014	0.88%
Total Investment Securities	50,342	14.55%	61,864	17.48%	79,349	23.29%
Gross Loans	263,597	76.20%	263,901	74.55%	238,376	69.97%
Reserve for Loan Losses and Accrued Fees	(2,852)	-0.82%	(2,923)	-0.83%	(2,892)	-0.85%
Premises and Equipment	12,111	3.50%	11,876	3.36%	7,602	2.23%
Other Real Estate Owned	0	0.00%	0	0.00%	5	0.00%
Stock in Capital Trust	65	0.02%	0	0.00%	0	0.00%
Other Assets	7,364	2.13%	7,238	2.05%	8,579	2.52%
Total Average Assets	<u>\$ 345,912</u>	<u>100%</u>	<u>\$ 353,995</u>	<u>100%</u>	<u>\$ 340,693</u>	<u>100%</u>

#### AVERAGE LIABILITIES

Demand Deposits	\$ 46,944	13.58%	\$ 46,964	13.27%	\$ 46,078	13.53%
Now and Money Market Accounts	77,431	22.38%	80,348	22.70%	88,152	25.87%
Savings Accounts	39,005	11.28%	43,563	12.30%	46,722	13.71%
Time Deposits	132,293	38.24%	121,691	34.38%	99,042	29.07%
Total Average Deposits	<u>295,673</u>	<u>85.48%</u>	<u>292,566</u>	<u>82.65%</u>	<u>279,994</u>	<u>82.18%</u>
Other Borrowed Funds	1,685	0.48%	13,236	3.74%	16,106	4.73%
Repurchase Agreements	13,825	4.00%	15,688	4.43%	13,987	4.11%
Junior Subordinated Debentures	2,154	0.62%	0	0%	0	0%
Other Liabilities	1,182	0.34%	2,780	0.78%	2,215	0.65%
Total Average Liabilities	<u>\$ 314,519</u>	<u>90.92%</u>	<u>\$ 324,270</u>	<u>91.60%</u>	<u>\$ 312,302</u>	<u>91.67%</u>

#### AVERAGE SHAREHOLDERS' EQUITY

Common Stock	\$ 11,222	3.24%	\$ 10,783	3.05%	\$ 10,430	3.06%
Surplus	23,659	6.84%	21,663	6.12%	19,754	5.80%
Retained Earnings (Accumulated Deficit)	(741)	-0.21%	300	0.08%	1,054	0.31%
Less: Treasury Stock	(2,618)	-0.75%	(2,600)	-0.73%	(2,483)	-0.73%
Accumulated Other Comprehensive Loss (1)	(129)	-0.04%	(421)	-0.12%	(364)	-0.11%
Total Average Shareholders' Equity	<u>31,393</u>	<u>9.08%</u>	<u>29,725</u>	<u>8.40%</u>	<u>28,391</u>	<u>8.33%</u>
Total Average Liabilities and Shareholders' Equity	<u>\$ 345,912</u>	<u>100%</u>	<u>\$ 353,995</u>	<u>100%</u>	<u>\$ 340,693</u>	<u>100%</u>

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

#### RISK MANAGEMENT

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

policy limits set forth in the Asset Liability, Liquidity and Investment policies approved by the Company's Board of Directors. The ALCO's methods for evaluating interest rate risk include an analysis of the effects of interest rate changes on net interest income and an analysis of the Company's interest rate sensitivity "gap", which provides a static analysis of the maturity and repricing characteristics of the entire balance sheet. In order to present the gap analysis for December 31, 2007, the Company would be required to incorporate the interest sensitive assets and liabilities of the acquired LyndonBank at fair value, by the repricing/maturity timeframes presented in the gap analysis. This information was not easily attainable in a timely manner, therefore, the gap analysis for 2007 and 2006 are being omitted from this Annual Report for the Company.

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

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

The following reflects the Company's NII sensitivity analysis over one-year and two-year horizons, assuming a parallel shift of the yield curve as of December 31, 2007;

Rate Change	One Year Horizon		Two Year Horizon	
	Rate Change	Percent Change in NII	Rate Change	Percent Change in NII
Down 200 basis points		-5.89%	Down 200 basis points	-22.16%
Up 200 basis points		-0.60%	Up 200 basis points	-1.19%

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

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

The following table reflects the composition of the Company's loan portfolio, including loans held for sale and the loan portfolio of the acquired LyndonBank at fair value, as of December 31,

#### COMPOSITION OF LOAN PORTFOLIO

2007	2006	2005	2004	2003
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	TOTAL	% OF								
	LOANS	TOTAL								
(Dollars in Thousands)										
Real Estate Loans										
Construction & Land										
Development	\$ 12,896	3.62%	\$ 11,889	4.42%	\$ 13,931	5.52%	\$ 11,646	5.07%	\$ 8,929	4.32%
Farm Land	9,646	2.70%	3,217	1.19%	2,870	1.14%	2,496	1.09%	2,783	1.35%
1-4 Family Residential	195,845	54.92%	157,008	58.30%	144,777	57.40%	127,555	55.55%	120,848	58.51%
Commercial Real Estate	85,576	24.00%	54,236	20.14%	48,505	19.23%	43,610	18.99%	33,422	16.18%
Loans to Finance										
Agricultural Production	2,431	0.68%	224	0.08%	214	0.09%	443	0.19%	529	0.26%
Commercial & Industrial	31,258	8.77%	21,993	8.17%	20,049	7.95%	21,592	9.40%	16,951	8.21%
Consumer Loans	18,461	5.18%	20,588	7.65%	21,296	8.44%	21,716	9.46%	22,517	10.90%
All Other Loans	459	0.13%	141	0.05%	567	0.23%	575	0.25%	552	0.27%
Gross Loans	<u>356,572</u>	<u>100%</u>	<u>269,296</u>	<u>100%</u>	<u>252,209</u>	<u>100%</u>	<u>229,633</u>	<u>100%</u>	<u>206,531</u>	<u>100%</u>
Less:										
Reserve for Loan Losses	(3,026)	-0.85%	(2,268)	-0.84%	(2,189)	-0.87%	(2,153)	-0.94%	(2,199)	-1.06%
Unearned Loan Fees	(443)	-0.12%	(632)	-0.24%	(684)	-0.27%	(764)	-0.33%	(805)	-0.39%
Net Loans	<u>\$353,103</u>	<u>99.03%</u>	<u>\$266,396</u>	<u>98.92%</u>	<u>\$249,336</u>	<u>98.86%</u>	<u>\$226,716</u>	<u>98.73%</u>	<u>\$203,527</u>	<u>98.55%</u>

The following table shows the estimated maturity of the Company's commercial loan portfolio as of December 31, 2007, including the acquired LyndonBank at fair value.

	Maturity Schedule							
	Fixed Rate Loans				Variable Rate Loans			
	Within 1 Year	1 - 5 Years	After 5 years	Total	Within 1 Year	1 - 5 Years	After 5 years	Total
Real Estate								
Construction & Land								
Development	5,697	21	1,572	7,290	3,058	871	1,677	5,606
Secured by Farm Land	440	166	3,713	4,319	2,949	1,203	1,175	5,327
Commercial Real Estate	1,440	3,564	20,699	25,703	16,984	20,225	22,664	59,873
Loans to Finance								
Agricultural Production	479	207	125	811	722	258	640	1,620
Commercial & Industrial Loans	<u>1,729</u>	<u>8,934</u>	<u>2,676</u>	<u>13,339</u>	<u>12,989</u>	<u>3,490</u>	<u>1,440</u>	<u>17,919</u>
<b>Total</b>	<u><b>9,785</b></u>	<u><b>12,892</b></u>	<u><b>28,785</b></u>	<u><b>51,462</b></u>	<u><b>36,702</b></u>	<u><b>26,047</b></u>	<u><b>27,596</b></u>	<u><b>90,345</b></u>

*Allowance for loan losses and provisions* -The Company continues to maintain an allowance for loan losses at a level that management believes is appropriate to absorb losses inherent in the loan portfolio. As of December 31, 2007, the Company maintained a residential loan portfolio of \$195.8 million and a commercial real estate portfolio (including construction, land development and farm land loans) of \$108.1 million, together accounting for approximately 85% of the total loan portfolio. The Company's commercial loan portfolio includes loans that carry guarantees from government programs. At December 31, 2007, the Company had \$18.4 million in guaranteed loans, compared to \$18.7 million at December 31, 2006. This volume, together with the low historical loan loss experience in these portfolios, helps to support the Company's basis for loan loss coverage. Furthermore, the Company is committed to a conservative lending philosophy and maintains high credit and underwriting standards.

The loan loss provision increased from \$137,500 or .05% of average total loans in 2006 to \$147,500 or .06% of average total loans in 2007. Growth in the loan portfolio was moderate, and levels of delinquency and non-accrual loans remained moderate. This, in combination with the other factors noted above, in management's view warranted the slight decrease in the 2006 provision.

Net loan losses increased for 2007, while decreases are noted 2006 and 2005 compared to 2004. The following table summarizes the Company's loan loss experience for each of the last five years.

### SUMMARY OF LOAN LOSS EXPERIENCE

December 31,	2007	2006	2005	2004	2003
	<i>(Dollars in Thousands)</i>				
Loans Outstanding End of Period	<u>356,572</u>	<u>269,296</u>	<u>252,209</u>	<u>229,633</u>	<u>206,531</u>
Average Loans Outstanding During Period	<u>263,597</u>	<u>263,901</u>	<u>238,376</u>	<u>212,460</u>	<u>205,237</u>
Loan Loss Reserve, Beginning of Period	2,268	2,189	2,153	2,199	2,156
Loans Charged Off:					
Residential Real Estate	0	6	5	26	2
Commercial Real Estate	51	17	0	0	10
Commercial	25	13	45	54	0
Consumer	<u>172</u>	<u>91</u>	<u>130</u>	<u>189</u>	<u>185</u>
Total	248	127	180	269	197
Recoveries:					
Residential Real Estate	14	1	1	1	4
Commercial Real Estate	12	6	0	0	0
Commercial	3	3	6	12	3
Consumer	<u>42</u>	<u>58</u>	<u>59</u>	<u>115</u>	<u>110</u>
Total	71	68	66	128	117
Net Loans Charged Off	177	59	114	141	80
Provision Charged to Income	148	138	150	95	123
Allowance for loan loss of acquired bank*	<u>787</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Loan Loss Reserve, End of Period	<u><u>3,026</u></u>	<u><u>2,268</u></u>	<u><u>2,189</u></u>	<u><u>2,153</u></u>	<u><u>2,199</u></u>
Net Losses as a Percent of Average Loans	0.07%	0.02%	0.05%	0.07%	0.04%
Provision Charged to Income as a Percent of Average Loans	0.06%	0.05%	0.06%	0.04%	0.06%
At End of Period:					
Loan Loss Reserve as a Percent of Outstanding Loans	0.85%	0.84%	0.87%	0.94%	1.06%

\*This table does not include the loan loss experience for the acquired LyndonBank.

A comparison of non-performing assets reveals an increase of approximately \$550 thousand or 59% for 2007 compared to 2006, and an increase of approximately \$314 thousand or 51% for 2006 compared to 2005. The increase for 2007 is attributable to the consolidation of non-performing assets of the recently acquired LyndonBank, which include \$12 thousand in commercial loans past due 90 days or more and \$757 thousand in non-accrual loans. Non-performing assets were made up of the following:

#### NON-PERFORMING ASSETS

December 31,	2007	2006	2005	2004	2003
	<i>(Dollars in Thousands)</i>				
Accruing Loans Past Due 90 Days or More:					
Consumer	11	32	8	7	4
Commercial	0	60	0	50	0
Commercial Real Estate	70	0	0	0	0
Residential Real Estate	57	113	169	137	15
Total Past Due 90 Days or More	<u>138</u>	<u>205</u>	<u>177</u>	<u>194</u>	<u>19</u>
Non-accrual Loans	<u>1,338</u>	<u>721</u>	<u>436</u>	<u>865</u>	<u>1,295</u>
Total Non-accrual, Past Due Loans	1,476	926	613	1,059	1,314
Other Real Estate Owned	<u>0</u>	<u>0</u>	<u>0</u>	<u>83</u>	<u>88</u>
<b>Total Non Performing Loans</b>	<b><u>1,476</u></b>	<b><u>926</u></b>	<b><u>613</u></b>	<b><u>1,142</u></b>	<b><u>1,402</u></b>
Percent of Gross Loans	0.41%	0.34%	0.24%	0.50%	0.68%
Reserve Coverage of Non performing Loans	205.02%	244.92%	357.10%	188.53%	156.85%

When it is determined that future collection of interest and principal is doubtful, a loan is placed in non-accrual status. At this point, the Company's policy is to reverse the accrued interest against current income and to discontinue the accrual of interest until the borrower clearly demonstrates the ability to resume normal payments. Our portfolio of non-accrual loans for the years ended 2007, 2006, 2005, 2004, and 2003, is made up primarily of residential real estate loans. Management does not anticipate any substantial effect to future operations if any of these loans is liquidated. Although interest on non-accrual loans is included in income only to the extent received from the borrower, deferred taxes are calculated monthly, based on the accrued interest of all non-accrual loans. As of December 31<sup>st</sup>, for each respective year, this accrued interest amounted to \$55,507 for 2007, \$32,362 for 2006, \$6,889 for 2005, \$11,287 for 2004, and \$107,073 for 2003. The decrease in accrued interest from 2003 to 2004 is attributable to the change from non-accrual to accrual status, during the two-year period, on loans that had been in the non-accrual portfolio for a number of years.

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

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

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

December 31,	2007	%	2006	%	2005	%	2004	%	2003	%
<b>(Dollars in Thousands)</b>										
Domestic										
Residential Real Estate	\$ 1,258	55%	\$ 1,055	58%	\$ 973	57%	\$ 725	56%	\$ 809	59%
Commercial	1,486	39%	956	34%	858	34%	936	35%	786	30%
Consumer	248	6%	204	8%	229	9%	260	10%	325	11%
Unallocated	34	0%	53	0%	129	0%	232	0%	279	0%
<b>Total</b>	<b>\$ 3,026</b>	<b>100%</b>	<b>\$ 2,268</b>	<b>100%</b>	<b>\$ 2,189</b>	<b>100%</b>	<b>\$ 2,153</b>	<b>100%</b>	<b>\$ 2,199</b>	<b>100%</b>

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

*Market Risk* - In addition to credit risk in the Company's loan portfolio and liquidity risk, the Company's business activities also generate market risk. Market risk is the risk of loss in a financial instrument arising from adverse changes in market prices and rates, foreign currency exchange rates, commodity prices and equity prices. The Company does not have any market risk sensitive instruments acquired for trading purposes. The Company's market risk arises primarily from interest rate risk inherent in its lending and deposit taking activities. Interest rate risk is directly related to the different maturities and repricing characteristics of interest-bearing assets and liabilities, as well as to loan prepayment risks, early withdrawal of time deposits, and the fact that the speed and magnitude of responses to interest rate changes vary by product. As discussed above under "Interest Rate Risk and Asset and Liability Management", the Company actively monitors and manages its interest rate risk through the ALCO process.

#### INVESTMENT SECURITIES

The Company maintains an investment portfolio of various securities to diversify its revenues, as well as provide interest rate risk and credit risk diversification and to provide for its liquidity and funding needs. The Company's portfolio of available-for-sale securities increased approximately \$24.3 million in 2007, from \$22.6 million at December 31, 2006 to \$46.9 million as of December 31, 2007. This increase is due primarily to the investments acquired from the merger with LyndonBank, which totaled \$23.5 million. The Company's held-to-maturity portfolio consisted of Obligations of State and Political Subdivisions with a book value of \$34.3 million as of December 31, 2007, compared to \$21.1 million as of December 31, 2006. All of the former LyndonBank's investment portfolio was classified as available-for-sale.

Accounting standards require banks to recognize all appreciation or depreciation of investments classified as either trading securities or available-for-sale either through the income statement or on the balance sheet even though a gain or loss has not been realized. Securities classified as "trading securities" are marked to market with any gain or loss charged to income. The Company's investment policy does not permit the holding of trading securities. Securities classified as "held-to-maturity" are to be held at book value. Securities classified as "available-for-sale" are marked to market with any gain or loss after taxes charged to the equity portion of the balance sheet. These figures amounted to an unrealized gain after taxes of \$111,209 at the end of 2007, compared to an unrealized loss after taxes of \$270,664 at the end of 2006. This change is due to the decreasing interest rate environment. As rates decrease, bonds with lower coupons increase in value in order to equalize the yield. Although classified as available for sale, these bonds are short term and we anticipate keeping them until maturity.

Some of the Company's investment portfolios have a "call" feature, meaning that the issuer may call in the investment, before maturity, at predetermined call dates and prices. Given the low rate environment, many of those investments with call features were exercised during 2007 and 2006. In 2007, a portion of these calls were replaced, while all the calls in 2006 were used to fund loan growth.

The Company's investment portfolios as of December 31, 2007 and 2006 were as follows:

	Amortized Cost	Gross Unrealized Gains (Dollars in Thousands)	Gross Unrealized Losses	Fair Value
December 31, 2007				
Available-for-Sale				
U. S. Government sponsored enterprise securities	\$ 22,170	\$ 126	\$ 30	\$ 22,266
U. S. Government securities	3,974	73	0	4,047
States and political subdivisions	1,157	0	0	1,157
Mortgage-backed securities	17,868	0	0	17,868
Preferred stock	1,539	0	0	1,539
	<u>\$ 46,708</u>	<u>\$ 199</u>	<u>\$ 30</u>	<u>\$ 46,877</u>
Held-to-Maturity				
States and political subdivisions	<u>\$ 34,311</u>	<u>\$ 0</u>	<u>\$ 38</u>	<u>\$ 34,273</u>
Restricted Equity Securities				
	<u>\$ 3,457</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,457</u>
Total	<u>\$ 84.476</u>	<u>\$ 199</u>	<u>\$ 68</u>	<u>\$ 84.607</u>
December 31, 2006				
Available-for-Sale				
U. S. Government sponsored enterprise securities	\$ 19,030	\$ 0	\$ 382	\$ 18,648
U. S. Government securities	3,992	5	33	3,964
	<u>\$ 23,022</u>	<u>\$ 5</u>	<u>\$ 415</u>	<u>\$ 22,612</u>
Held-to-Maturity				
States and political subdivisions	<u>\$ 21,070</u>	<u>\$ 231</u>	<u>\$ 0</u>	<u>\$ 21,301</u>
Restricted Equity Securities				
	<u>\$ 2,828</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,828</u>
Total	<u>\$ 46.920</u>	<u>\$ 236</u>	<u>\$ 415</u>	<u>\$ 46.741</u>

Realized gains from sales of investments available-for-sale were \$0 in 2007 and \$56,875 in 2006. Realized losses were \$0 for both years. The gain in 2006 occurred when Passumpsic Bancorp. acquired Siwooganock Holding Company Inc. in a cash deal that resulted in a right to receive payment of \$35.75 per share. The Company held 2,500 shares, and was paid \$56,875 for those shares.

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

	2007		December 31, 2006		2005	
	Fair Value (1)	Weighted Average Rate	Fair Value (1)	Weighted Average Rate	Fair Value (1)	Weighted Average Rate
	(Dollars in Thousands)					
Available for Sale						
U.S. Treasury & Agency Obligations						
Due within 1 year	\$ 9,978	6.16%	\$ 4,949	3.23%	\$ 10,939	2.92%
Due after 1 year within 5 years	14,351	4.44%	17,663	3.75%	23,472	3.47%
Due after 5 years within 10 years	1,984	5.06%	0	0.00%	1,006	5.31%
Total	<u>\$ 26,313</u>	<u>5.14%</u>	<u>\$ 22,612</u>	<u>3.64%</u>	<u>\$ 35,417</u>	<u>3.35%</u>
Tax-exempt Municipals						
Due after 10 years	\$ 1,157	5.19%	\$ 0	0.00%	\$ 0	0.00%
Total	<u>\$ 1,157</u>	<u>5.19%</u>	<u>\$ 0</u>	<u>0.00%</u>	<u>\$ 0</u>	<u>0.00%</u>
Corporate Bonds						
Due within 1 year	\$ 0	0.00%	\$ 0	0.00%	\$ 1,005	5.86%
Total	<u>\$ 0</u>	<u>0.00%</u>	<u>\$ 0</u>	<u>0.00%</u>	<u>\$ 1,005</u>	<u>5.86%</u>
Mortgage Backed Securities						
Due after 10 years	\$ 15,766	4.80%	\$ 0	0.00%	\$ 0	0.00%
Total	<u>\$ 15,766</u>	<u>4.80%</u>	<u>\$ 0</u>	<u>0.00%</u>	<u>\$ 0</u>	<u>5.86%</u>
CMO						
Due after 5 years within 10 years	\$ 826	4.51%	\$ 0	0.00%	\$ 0	0.00%
Due after 10 years	1,276	4.47%	0	0.00%	0	0.00%
Total	<u>\$ 2,102</u>	<u>4.48%</u>	<u>\$ 0</u>	<u>0.00%</u>	<u>\$ 0</u>	<u>0.00%</u>
Restricted Equity Securities	<u>\$ 3,457</u>	<u>6.47%</u>	<u>\$ 2,828</u>	<u>5.76%</u>	<u>\$ 3,252</u>	<u>4.90%</u>
Preferred Stock	<u>\$ 1,539</u>	<u>8.43%</u>	<u>\$ 0</u>	<u>0.00%</u>	<u>\$ 0</u>	<u>0.00%</u>
Held to Maturity						
Obligations of State & Political Subdivisions						
Due within 1 year	\$ 29,717	5.46%	\$ 17,254	5.40%	\$ 25,638	5.04%
Due after 1 year within 5 years	1,699	6.42%	1,444	6.34%	1,409	5.73%
Due after 5 years within 10 years	2,290	7.81%	1,744	7.42%	697	7.09%
Due after 10 years	605	10.81%	628	10.88%	648	10.90%
Total	<u>\$ 34,311</u>	<u>5.76%</u>	<u>\$ 21,070</u>	<u>5.79%</u>	<u>\$ 28,392</u>	<u>5.25%</u>

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

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

## BANK PREMISES AND EQUIPMENT

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

	2007	2006
	(Dollars in Thousands)	
Land and land improvements	\$ 2,547	\$ 2,315
Buildings and improvements	11,710	9,747
Furniture and equipment	6,209	5,282
Leasehold improvements	1,196	623
Capital lease	928	0
Other prepaid assets	121	95
	<u>22,711</u>	<u>18,062</u>
Less accumulated depreciation and amortization	(6,350)	(5,728)
	<u>\$ 16,361</u>	<u>\$ 12,334</u>

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

The Company's most recent project, its operations center in Derby, was started in October of 2004 and was completed during the first quarter of 2006. Major components include a three-lane drive up teller system; the third lane being served by a 24 hour drive-up ATM, and a 19,000 square foot addition to the main office. The cost of this project was approximately \$4.3 million.

Depreciation included in occupancy and equipment expense amounted to \$936,847 and \$878,645, for the years ended December 31, 2007 and 2006, respectively.

The Company leases seven of its fifteen locations, and they are the offices in Island Pond, Barton, St. Johnsbury, and Montpelier, Vermont. Of the six locations acquired through the recent merger with LyndonBank, three offices are leased, and they are located in Lyndonville, St. Johnsbury and Morrisville, Vermont. The Lyndonville and St. Johnsbury locations are capital leases and require more sophisticated accounting than the other leases. The leases for these seven locations expire in various years through 2015 with options to renew.

## FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and risk-sharing commitments on certain sold loans. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. From December 31, 2006 to December 31, 2007, 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, 2007 and 2006 are as follows:

	Contract or ----Notional Amount----	
	2007	2006
	(Dollars in Thousands)	
Unused portions of construction lines of credit	\$ 4,232	\$ 4,011
Unused portions of home equity lines of credit	14,674	11,212
Other commitments to extend credit	31,111	19,088
Standby letters of credit and commercial letters of credit	580	1,004
Credit card arrangements	0	9,087
MPF credit enhancement obligation, net of liability recorded	1,281	1,131

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, thereby eliminating the unused portion of the credit card portfolio from the table above. The recourse provision under the terms of the sale is 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 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 amount of \$12.9 million at December 31, 2007.

#### EFFECTS OF INFLATION

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

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

#### LIQUIDITY AND CAPITAL RESOURCES

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

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

The Company has an unsecured Federal Funds line with the Federal Home Loan Bank of Boston (FHLB) with an available balance of \$1.0 million at December 31, 2007. Interest is chargeable at a rate determined daily approximately 25 basis points higher than the rate paid on federal funds sold. Additional borrowing capacity of approximately \$105.8 million through the FHLB is secured by the Company's qualifying loan portfolio (generally, residential mortgages).

As of December 31, 2007, the Company had total advances of \$8,010,000 against the \$105.8 million line, consisting of the following:

Purchase Date	Annual Rate	Maturity Date	Principal Balance
March 28, 2007	5.05%	March 28, 2008	\$ 8,000,000
November 16, 1992	7.67%	November 16, 2012	10,000
Total Long-term Advances			<u>\$ 8,010,000</u>

Under a separate agreement, the Company has the authority to collateralize public unit deposits up to its FHLB borrowing capacity (\$105.8 million less outstanding advances) with letters of credit issued by the FHLB. The Company offers a Government Agency Account to the municipalities collateralized with these letters of credit issued by FHLB. At December 31, 2007, approximately \$63.5 million was pledged as collateral for these deposits. Interest is charged to the Company quarterly based on the average daily balance outstanding at a rate of 20 basis points. As of December 31, 2007, an average daily balance for the fourth quarter of approximately \$31.3 million was reported.

Total cash dividends of \$0.67 per common share were declared during 2007, representing an increase of 4.69% over cash dividends of \$0.64 declared during 2006. In December, 2007, the Company declared a \$0.17 per common share cash dividend, payable February 1, 2008 to shareholders of record as of January 15, 2008, requiring the Company to accrue a liability of \$745,140 for this dividend in the fourth quarter of 2007. A 5% stock dividend was declared in the second quarter of 2007, to be paid during the third quarter of 2007 resulting in a restatement of all per share data for all previous quarters and years reported.

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

Balance at December 31, 2006 (book value \$7.09 per common share)	\$ 30,730,811
Net income	3,357,330
Issuance of common stock	852,750
Issuance of preferred stock	2,500,000
Purchase of treasury stock	(8,045)
Total dividends declared	(2,894,359)
Change in unrealized loss on available-for-sale securities, net of tax	381,873
Balance at December 31, 2007 (book value \$7.94 per common share)	<u>\$ 34,920,360</u>

As of December 31, 2007, of the 405,000 shares authorized for the stock buyback plan announced in 2000 and extended in 2002, 178,890 shares had been repurchased, leaving 226,110 shares available for repurchase. The repurchase price paid for these shares ranged from \$9.75 per share in May of 2000 to \$16.50 per share in September of 2005. There was no repurchase activity in 2007 under the buyback plan. The last purchase was on December 23, 2005 in which 4,938 shares were repurchased at a price of \$16.00 per share.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Under current guidelines, banks must maintain a risk-based capital ratio of 8.0%, of which at least 4.0% must be in the form of core capital (as defined).

Regulators have also established minimum capital ratio guidelines for FDIC-insured banks under the prompt corrective action provisions of the Federal Deposit Insurance Act, as amended. These minimums are risk-based capital ratio of 10.0% and Tier 1 capital ratio of 6.0%. As of December 31, 2007, the capital ratios of the Company's Subsidiary were within the guidelines under the regulatory framework for prompt corrective action.

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The risk based ratios of the Company and its subsidiary as of year end 2007 and 2006 exceeded regulatory guidelines and are presented in the table below.

	Actual		Minimum For Capital Adequacy Purposes:		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2007:</b>						
Total capital (to risk-weighted assets)						
Consolidated*	\$36,975	15.48%	\$19,104	8.0%	N/A	N/A
Community National Bank	\$48,506	20.41%	\$19,013	8.0%	\$23,766	10.0%
Former LyndonBank	\$13,536	12.94%	\$ 8,365	8.0%	\$10,457	10.0%
Tier I capital (to risk-weighted assets)						
Consolidated*	\$34,736	14.55%	\$ 9,552	4.0%	N/A	N/A
Community National Bank	\$46,267	19.47%	\$ 9,506	4.0%	\$14,260	6.0%
Former LyndonBank	\$12,749	12.19%	\$ 4,183	4.0%	\$ 6,274	6.0%
Tier I capital (to average assets)						
Consolidated*	\$34,736	9.40%	\$14,785	4.0%	N/A	N/A
Community National Bank	\$46,267	12.54%	\$14,752	4.0%	\$18,440	5.0%
Former LyndonBank	\$12,749	8.26%	\$ 6,153	4.0%	\$ 7,691	5.0%
<b>As of December 31, 2006:</b>						
Total capital (to risk-weighted assets)						
Consolidated	\$33,270	14.10%	\$18,879	8.0%	N/A	N/A
Bank	\$33,047	14.01%	\$18,872	8.0%	\$23,590	10.0%
Tier I capital (to risk-weighted assets)						
Consolidated	\$31,002	13.14%	\$ 9,439	4.0%	N/A	N/A
Bank	\$30,779	13.05%	\$ 9,436	4.0%	\$14,154	6.0%
Tier I capital (to average assets)						
Consolidated	\$31,002	8.59%	\$14,434	4.0%	N/A	N/A
Bank	\$30,779	8.53%	\$14,430	4.0%	\$18,038	5.0%

\*Consolidated refers to Community Bancorp. and Community National Bank before consolidation of the former LyndonBank assets. The Federal Regulators approved the filing of separate Call Reports for Community National Bank and the former LyndonBank, therefore numbers presented in the table above are as filed with the applicable reporting agencies at December 31, 2007.

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

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

#### IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In March 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 156, "Accounting for Servicing of Financial Assets-an Amendment to FASB Statement No. 140". SFAS No. 156 requires mortgage servicing rights associated with loans originated and sold, where servicing is retained, to be initially capitalized at fair value and subsequently accounted for using the "fair value method" or the "amortization method". The Company is using the amortization method for subsequent reporting. Mortgage servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. The Company implemented changes to its valuation analysis, with the assistance of a specialized valuation consulting firm, during the first quarter of 2007. The model used to value the mortgage servicing rights utilizes prepayment assumptions based on the Bond Market Association prepayment survey. The discount rate applied is at the lower end of the observed industry range. Other assumptions include delinquency rates, servicing cost inflation, and annual unit loan cost. All assumptions are adjusted periodically to reflect current circumstances. SFAS No. 156 was effective January 1, 2007. Implementation of SFAS No. 156 did not have a material effect on the financial statements of the Company.

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

In September 2006, FASB issued SFAS No. 157, "Fair Value Measurements", which provides enhanced guidance for using fair value to measure assets and liabilities. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Although SFAS No. 157 did not have any impact on the financial statements of the Company in 2007, it could impact the notes to the financial statements in the future.

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities", which gives entities the option to measure eligible financial assets and financial liabilities at fair value on an instrument by instrument basis. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability. Subsequent changes in fair value must be recorded in earnings. SFAS No. 159 contains provisions to apply the fair value option to existing eligible financial instruments at the date of adoption. This statement is effective as of the beginning of an entity's first fiscal year after November 15, 2007, with provisions for early adoption. The Company did not apply the fair value option to any financial instruments; therefore, SFAS No. 159 has not had any impact on the financial statements.

In November 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings*, in which the SEC Staff expresses its views concerning written loan commitments accounted for as derivatives or at fair value through earnings, as permitted by SFAS No. 159. It is the Staff's position that expected net future cash flows from servicing a loan should be included in the fair value measurement of a loan commitment when it qualifies for derivative accounting under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", or at fair value through earnings, as permitted by SFAS No. 159. Implementation of SAB No. 109 did not have a material effect on the financial condition or results of operations of the Company.

#### Common Stock Performance by Quarter\*

	2007				2006			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Trade Price								
High	\$ 14.00	\$ 15.75	\$ 14.15	\$ 15.00	\$ 15.24	\$ 15.15	\$ 14.00	\$ 13.73
Low	\$ 12.95	\$ 13.20	\$ 13.50	\$ 13.50	\$ 13.82	\$ 11.88	\$ 12.11	\$ 12.45
	2007				2006			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Bid Price								
High	\$ 13.30	\$ 13.90	\$ 14.00	\$ 14.50	\$ 14.97	\$ 14.96	\$ 12.83	\$ 13.59
Low	\$ 12.30	\$ 12.49	\$ 12.75	\$ 13.50	\$ 14.39	\$ 11.88	\$ 11.64	\$ 12.45
Cash Dividends Declared	\$ 0.16	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16

\* There is no established public trading market for the Company's common stock. Trade price and bid price information is based on high and low trade and bid prices reported in the OTC Bulletin Board<sup>®</sup> maintained by NASDAQ, and may not represent all trades effected during the relevant periods. Per share prices have been restated to reflect a 5% stock dividend declared during the second quarter of 2007.

As of February 1, 2008, the Corporation's common stock (\$2.50 par value) was owned by approximately 944 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](mailto:info@rtco.com)  
[www.rtco.com](http://www.rtco.com)

Annual Shareholders' Meeting

The 2008 Annual Shareholders' Meeting will be held at 5:30 p.m., June 10, 2008, at the Elks Club in Derby. We hope to see many of our shareholders there.

Additional Information Regarding Community Bancorp. Stock

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

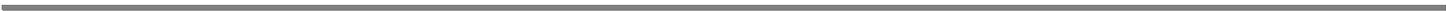
Silverlake Wealth Management  
Wachovia Securities Financial Network  
1795 Williston Road  
South Burlington, VT 05403  
(800) 235-0435

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

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

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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.

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

CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT CONSULTANTS

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Community Bancorp. of our report dated March 31, 2008, with respect to the consolidated financial statements included in the 2007 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 31, 2008, with respect to the consolidated financial statements incorporated herein by reference of Community Bancorp. included in the Annual Report (Form 10-K) for the year ended December 31, 2007.

/s/ Berry, Dunn, McNeil & Parker

Portland, Maine  
March 31, 2008  
Vermont Registration No. 92-0000278

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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 31, 2008

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

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CERTIFICATION

I, Louise M. Bonvechio, Vice President and Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Community Bancorp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 31, 2008

/s/Louise M. Bonvechio  
Vice President and Chief Financial Officer

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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, 2007, filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Financial Officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that: 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

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

/s/ Stephen P. Marsh

Stephen P. Marsh, President & Chief Executive Officer

March 31, 2007

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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/A for the period ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Executive Officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that: 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

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

/s/ Louise M. Bonvechio  
Louise M. Bonvechio, Vice President & CFO

March 31, 2007

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