COMMUNITY BANCORP /VT
Form 10-Q/A
November 15, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2005

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 Number 000-16435

COMMUNITY BANCORP.

Vermont	03-0284070
(State of Incorporation)	(IRS Employer Identification Number)
4811 US Route 5, Derby, Vermont	05829
(Address of Principal Executive Offices)	(zip code)

Registrant's Telephone Number: (802) 334-7915

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ( ) No (X)

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

At November 10, 2005, there were 4,062,322 shares outstanding of the Corporation's common stock.

EXPLANATORY NOTE: The purpose of filing this Form 10-Q/A is correct the figure reported for shares outstanding on the cover page. The figure reported of 4,049,334 shares should be 4,062,322 shares.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (Unaudited)

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

COMMUNITY BANCORP. AND SUBSIDIARY
Consolidated Balance Sheets

	September 30	December 31	September 30
	2005	2004	2004
	(Unaudited)		(Unaudited)
Assets			
Cash and due from banks	$ 9,354,463	$ 8,390,806	$ 8,965,896
Federal funds sold and overnight deposits	11,932	0	0
Total cash and cash equivalents	9,366,395	8,390,806	8,965,896
Securities held-to-maturity (fair value $35,331,000 at 09/30/05, $31,587,658 at 12/31/04 and $39,425,197 at 09/30/04)	35,405,973	31,579,178	39,398,039
Securities available-for-sale	41,666,605	51,150,344	44,729,779
Restricted equity securities, at cost	3,252,150	2,315,450	2,315,450
Loans held-for-sale	1,450,143	1,833,397	1,223,841
Loans	244,129,453	227,799,788	217,489,967
Allowance for loan losses	(2,189,475)	(2,153,372)	(2,206,827)
Unearned net loan fees	(691,958)	(763,774)	(788,143)
Net loans	241,248,020	224,882,642	214,494,997
Bank premises and equipment, net	10,827,414	8,057,120	7,601,878
Accrued interest receivable	1,634,960	1,652,827	1,555,616
Other real estate owned, net	0	82,800	104,800
Other assets	5,395,000	4,891,930	4,242,714
Total assets	$ 350,246,660	$ 334,836,494	$ 324,633,010
Liabilities and Shareholders' Equity			
Liabilities			
Deposits:			
Demand, non-interest bearing	$ 50,406,558	$ 42,725,604	$ 43,855,805

NOW and money market accounts	86,769,678	94,502,798	84,020,414
Savings	46,853,433	47,288,161	46,922,728
Time deposits, $100,000 and over	23,217,231	21,804,521	21,943,627
Other time deposits	77,102,795	76,284,787	78,003,942
Total deposits	284,349,695	282,605,871	274,746,516
Federal funds purchased and other borrowed funds	19,306,000	6,407,000	5,829,000
Repurchase agreements	15,137,414	14,907,518	13,595,290
Accrued interest and other liabilities	2,699,458	2,872,659	2,482,983
Total liabilities	321,492,567	306,793,048	296,653,789
Shareholders' Equity			
Common stock - $2.50 par value; 6,000,000 shares authorized			
and 4,265,943 shares issued at 09/30/05, 4,037,548 shares			
issued at 12/31/04 and 4,024,183 shares issued at 09/30/04	10,664,857	10,093,871	10,060,458
Additional paid-in capital	21,128,512	17,778,605	17,593,952
(Accumulated deficit) retained earnings	(157,396)	2,776,011	2,410,536
Accumulated other comprehensive (loss) income	(346,193)	(168,679)	148,661
Less: treasury stock, at cost; 204,570 shares at 09/30/05, 198,444			
shares at 12/31/04, and 185,938 shares at 09/30/04	(2,535,687)	(2,436,362)	(2,234,386)
Total shareholders' equity	28,754,093	28,043,446	27,979,221
Total liabilities and shareholders' equity	$ 350,246,660	$ 334,836,494	$ 324,633,010

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

COMMUNITY BANCORP. AND SUBSIDIARY

Consolidated Statements of Income

(Unaudited)

For The Third Quarter Ended September 30,	2005	2004
Interest income		
Interest and fees on loans	$ 3,969,076	$ 3,443,972
Interest on debt securities		
Taxable	362,627	439,552

Tax-exempt	278,276	258,789
Dividends	34,668	18,590
Interest on federal funds sold and overnight deposits	4,101	11,520
Total interest income	4,648,748	4,172,423
Interest expense		
Interest on deposits	1,116,391	1,033,615
Interest on federal funds purchased and other borrowed funds	224,197	80,688
Interest on repurchase agreements	53,484	31,322
Total interest expense	1,394,072	1,145,625
Net interest income	3,254,676	3,026,798
Provision for loan losses	37,500	10,000
Net interest income after provision	3,217,176	3,016,798
Non-interest income		
Service fees	335,665	309,813
Gain on sale of securities	0	25,428
Other income	485,705	519,998
Total non-interest income	821,370	855,239
Non-interest expense		
Salaries and wages	1,128,699	1,088,759
Pension and other employee benefits	393,936	436,334
Occupancy expenses, net	511,020	495,019
Other expenses	863,228	854,992
Total non-interest expense	2,896,883	2,875,104
Income before income taxes	1,141,663	996,933
Applicable income taxes	223,551	196,810
Net Income	$ 918,112	$ 800,123
Earnings per share on weighted average	$0.23	$0.20
Weighted average number of common shares used in computing earnings per share	4,057,436	4,021,309
Dividends declared per share	$0.17	$0.16
Book value per share on shares outstanding at September 30,	$7.08	$6.94

All per share data for prior periods have been restated to reflect a 5% stock dividend declared in May 2005.

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

COMMUNITY BANCORP. AND SUBSIDIARY
Consolidated Statements of Income
(Unaudited)

For The Nine Months Ended September 30,	2005	2004
Interest income		
Interest and fees on loans	$ 11,414,627	$ 10,126,743
Interest on debt securities		
Taxable	1,149,355	1,554,250
Tax-exempt	763,160	769,201
Dividends	92,615	39,543
Interest on federal funds sold and overnight deposits	8,102	20,925
Total interest income	13,427,859	12,510,662
Interest expense		
Interest on deposits	3,275,970	3,303,301
Interest on federal funds purchased and other borrowed funds	481,999	234,325
Interest on repurchase agreements	134,900	90,084
Total interest expense	3,892,869	3,627,710
Net interest income	9,534,990	8,882,952
Provision for loan losses	112,500	95,000
Net interest income after provision	9,422,490	8,787,952
Non-interest income		
Service fees	926,121	910,961
Gain on sale of securities	0	44,059
Other income	1,386,141	1,447,580
Total non-interest income	2,312,262	2,402,600
Non-interest expense		
Salaries and wages	3,401,304	3,154,095
Pension and other employee benefits	1,207,244	1,153,362
Occupancy expenses, net	1,522,573	1,508,452
Other expenses	2,671,312	2,576,732
Total non-interest expense	8,802,433	8,392,641
Income before income taxes	2,932,319	2,797,911
Applicable income taxes	527,022	414,745
Net Income	$ 2,405,297	$ 2,383,166

Earnings per share on weighted average	$0.59	$0.60
Weighted average number of common shares used in computing earnings per share	4,069,195	4,007,146
Dividends declared per share	$0.50	$0.48
Book value per share on shares outstanding at September 30,	$7.08	$6.94

All per share data for prior periods have been restated to reflect a 5% stock dividend declared in May 2005.
The accompanying notes are an integral part of these consolidated financial statements.

COMMUNITY BANCORP. AND SUBSIDIARY
Consolidated Statements of Cash Flows
(Unaudited)

For the Nine Months Ended September 30,	2005	2004
Reconciliation of Net Income to Net Cash Provided by Operating Activities:		
Net Income	$ 2,405,297	$ 2,383,166
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and amortization	568,625	584,328
Provision for loan losses	112,500	95,000
Provision for deferred income taxes	54,752	8,411
Net gain on sale of loans	(271,187)	(332,872)
Loss on sale or disposal of fixed assets	39,066	24,796
Net gain on sale of securities	0	(44,059)
Gains on sales of other real estate owned	(7,710)	(6,314)
(Gain) loss on investment in Trust LLC	(17,665)	13,889
Amortization of bond premium, net	210,944	351,468
Proceeds from sales of loans held for sale	20,039,728	28,099,755
Originations of loans held for sale	(19,385,287)	(26,737,573)
(Decrease) increase in taxes payable	(54,878)	14,245
Decrease in interest receivable	17,867	120,574
Increase in mortgage servicing rights	(108,664)	(167,518)
Increase in other assets	(228,053)	(91,389)
Decrease in unamortized loan fees	(71,816)	(17,141)
Increase (decrease) in interest payable	11,666	(27,661)
Increase (decrease) in accrued expenses	148,009	(377,913)
(Decrease) increase in other liabilities	(47,345)	59,634
Net cash provided by operating activities	3,415,849	3,952,826

Cash Flows from Investing Activities:		
Investments - held to maturity		
Maturities and paydowns	28,520,525	37,402,733
Purchases	(32,343,484)	(35,259,648)
Investments - available for sale		
Sales and maturities	11,000,000	19,441,543
Purchases	(2,000,000)	(8,678,125)
Purchase of restricted equity securities	(936,700)	(958,600)
Investment in limited partnership, net	(389,549)	(706,245)
Increase in loans, net	(16,469,514)	(13,442,249)
Capital expenditures, net	(3,377,985)	(396,079)
Proceeds from sales of other real estate owned	100,510	39,678
Recoveries of loans charged off	53,452	92,724
Net cash used in investing activities	(15,842,745)	(2,464,268)
Cash Flows from Financing Activities:		
Net decrease in demand, NOW, money market and savings accounts	(486,894)	(3,116,197)
Net increase (decrease) in certificates of deposit	2,230,718	(1,816,546)
Net decrease in short-term borrowings and repurchase agreements	229,896	1,578,720
Net increase (decrease) in borrowed funds and federal funds purchased	12,899,000	(2,211,000)
Payments to acquire treasury stock	(99,325)	(49,881)
Dividends paid	(1,370,910)	(1,279,668)
Net cash provided by (used in) financing activities	13,402,485	(6,894,572)
Net increase (decrease) in cash and cash equivalents	975,589	(5,406,014)
Cash and cash equivalents:		
Beginning	8,390,806	14,371,910
Ending	$ 9,366,395	$ 8,965,896

Supplemental Schedule of Cash Paid During the Period		
Interest	$ 3,881,203	$ 3,655,371
Income taxes	$ 575,000	$ 392,088

Supplemental Schedule of Noncash Investing and Financing Activities:

Change in unrealized gain on securities available-for-sale	$ (268,959)	$ (541,431)
Other real estate owned acquired in settlements of loans	$ 10,000	$ 49,887
Investments in limited partnerships		
(Decrease) increase in limited partnerships	$ (240,255)	$ 224,703
Decrease in contributions payable	(149,294)	(930,948)
	$ (389,549)	$ (706,245)
Dividends Paid		
Dividends declared	$ 2,028,373	$ 1,944,500
Increase in dividends payable attributable to dividends declared	(37,944)	(6,231)
Dividends reinvested	(619,519)	(658,601)
	$ 1,370,910	$ 1,279,668
Stock Dividend	$ 3,310,331	$ 0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION AND CONSOLIDATION

The interim consolidated financial statements of Community Bancorp. and Subsidiary are unaudited. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments necessary for fair presentation of the financial condition and results of operations of the Company contained herein have been made. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2004, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

NOTE 2. 5% STOCK DIVIDEND

In May 2005, the Company declared a 5% stock dividend payable July 1, 2005 to shareholders of record as of June 15, 2005. As a result of this stock dividend, all per share data for prior periods have been restated.

NOTE 3. RECENT ACCOUNTING DEVELOPMENTS

Any accounting developments announced during the first nine months of 2005 were not applicable, thereby requiring no disclosure by the Company.

NOTE 4. EARNINGS PER SHARE

Earnings per common share amounts are computed based on the weighted average number of shares of common stock issued during the period (retroactively adjusted for stock splits and stock dividends) and reduced for shares held in Treasury.

NOTE 5. 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 income statement, 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). Other comprehensive income, along with net income, comprises the Company's total comprehensive income.

The Company's total comprehensive income for the comparison periods is calculated as follows:

For the third quarter ended September 30,	2005	2004
Net Income	$ 918,112	$ 800,123
Other comprehensive income, net of tax:		
Change in unrealized holding (losses) gains on available-for-sale securities arising during the period	95,059	253,012
Reclassification adjustment for gains realized in income	0	(25,428)
Net unrealized gains	95,059	227,584
Tax effect	(32,320)	(77,379)
Other comprehensive income, net of tax	62,739	150,205
Total comprehensive income	$ 980,851	$ 950,328

For the nine months ended September 30,	2005	2004
Net Income	$ 2,405,297	$ 2,383,166
Other comprehensive income, net of tax:		
Change in unrealized holding (losses) gains on available-for-sale securities arising during the period	(268,959)	(497,372)
Reclassification adjustment for gains realized in income	0	(44,059)
Net unrealized losses	(268,959)	(541,431)
Tax effect	91,446	184,086

Other comprehensive loss, net of tax	(177,513)	(357,345)
Total comprehensive income	$ 2,227,784	$ 2,025,821

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NOTE 6. INCOME TAXES

Provision for income taxes increased $112,277 to $527,022 for the first nine months of 2005 versus $414,745 for the same period in 2004. Income taxes for 2005 are in line with net income for the first nine months, while income taxes for the first nine months of 2004 are lower due in part to the tax effect of a capital loss recognized in 2004 related to the Company's sale in 2003 of the Liberty Savings Bank charter.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
for the Period Ended September 30, 2005

FORWARD-LOOKING STATEMENTS

The Company's Management's Discussion and Analysis of Financial Condition and Results of Operations may contain certain forward-looking statements about the Company's operations, financial condition and business. When used in the discussion below, 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, management's expectations as to future asset growth, income trends, results of operations, local market conditions and economic outlook, and other matters reflected in the Overview section, estimated contingent liability related to the Company's participation in the Federal Home Loan Bank (FHLB) Mortgage Partnership Finance (MPF) program, assumptions made within the asset/liability management process, and management's expectations as to the future interest rate environment and the Company's related liquidity level. Although these statements are based on management's current expectations and estimates, many of the factors that could influence or determine actual results are unpredictable and not within the Company's control. Readers are cautioned not to place undue reliance on such statements as they speak only as of the date they are made. The Company 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 services providers in the Company's northern New England market area or in the financial services industry generally, including competitive pressures from nonbank 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; and (4) changes in laws or government rules, or the way in which courts interpret those laws or rules, adversely affect the Company's business.

OVERVIEW

The following Management's Discussion and Analysis explains in detail the results of the third quarter and first nine months of 2005.

Net Income was up $117,989 for the third quarter of 2005 compared to 2004, but only slightly for the first nine months of 2005 as compared to the same period in 2004. The $22,131 increase for the first nine months of 2005 was achieved despite the $116,540 tax effect during 2004 attributable to a one-time capital loss on the Company's sale of an inactive bank charter.

Net interest income for the third quarter of 2005 increased $200,378 compared to the same quarter in 2004, while increasing $652,038 for the first nine months of 2005 compared to the first nine months of 2004. Although the yield curve continues to be flat, the growth in our loan portfolio is replacing lower yielding assets on our balance sheet. We expect that the yield curve will be relatively flat for the foreseeable future creating additional pressure on net interest income.

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Total assets grew from year-end 2004 by $15,410,166 and from September of last year by $25,613,650. The third quarter is our traditional growth quarter and this year was no exception.

Non-interest income for the third quarter of 2005 was down $33,869 and the figure for the first nine months of 2005 was down by $90,338 from 2004. This decline was due in part to lower originations and sales of 30-year fixed rate mortgages into the secondary market. Many consumers have opted to take a 5-year variable rate mortgage this year as opposed to a 30-year fixed rate mortgage that was more popular last year at our institution. The 5-year variable rate mortgages are held in our own portfolio and contribute to our net interest income, while the 30-year fixed rate products are mostly sold in the secondary market creating servicing fee and premium income contributing to our non-interest income. We had no security gains during 2005, while gains of $25,428 were recognized during the third quarter of 2004 and $44,059 for the first nine months of 2004. Non-interest expense is up $21,779 for the third quarter of 2005 compared to 2004, and is up by $409,792 year to date as compared to the same period last year. The increase is due primarily to increases in salaries and outside agency fees. All of the recent corporate scandals such as Enron and the resulting Sarbanes Oxley Act have resulted in increases in the cost of regulation, particularly in legal and audit fees, as well as staff required to report to the regulators. We have also experienced higher losses due to the fraudulent use of our customers' debit cards.

In October of 2004, we broke ground for the new 17,000 square foot addition to our main office in Derby, and work is progressing on schedule and on budget. In mid October, various departments were moved into their new space in the new addition so that remodeling could begin within the "old part" of the building. Prior to the move, there were 65 people working in space designed for 38, so we welcomed the new space. Once renovations are complete, more privacy will be provided for our customers, as well as a larger customer lobby with improved seating space for customers. The new drive up ATM is fully operational. This project is providing some construction jobs in the Northeast Kingdom and will allow us to fill two needed positions in the Bank. We believe that the future of banking in the Northeast Kingdom is promising, and this expansion will allow us to continue to be a community leader.

The following pages describe the financial results of our third quarter and the first nine months of 2005 in much more detail. Please take the time to read them to more fully understand those results in relation to the 2004 third quarter and nine month comparison periods. 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 the Company's consolidated financial statements. In estimating the ALL, management utilizes historical experience as well as other factors including the effect of changes in the local real estate market on collateral values, use of current economic indicators and their probable impact on borrowers and changes in delinquent, non-performing or impaired loans. Management's estimates used in the ALL may increase or decrease based on changes in these factors resulting in adjustments to the Company's provision for loan losses. Actual results could differ significantly from these estimates under different assumptions, judgments or conditions.

Occasionally, the Company acquires property in connection with foreclosures or in satisfaction of debt previously contracted. To determine the value of property acquired in foreclosure, management often obtains independent appraisals for significant properties. 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.

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

RESULTS OF OPERATIONS

The Company's net income for the third quarter of 2005 was $918,112, representing an increase of 14.8% over net income of $800,123 for the third quarter of 2004. This resulted in earnings per share of $0.23 and $0.20, respectively, for the third quarter of 2005 and 2004. Net income for the first nine months increased $22,131, or just under one percent, with net income for the first nine months of 2005 reported at $2.41 million compared to $2.38 million for the same period in 2004.

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 annualized for the comparison periods.

For the third quarter ended September 30,	2005	2004
Return on Average Assets	1.08%	.98%
Return on Average Equity	12.78%	11.46%

For the first nine months ended September 30,	2005	2004
Return on Average Assets	.95%	.97%
Return on Average Equity	11.38%	11.44%

INTEREST INCOME LESS INTEREST EXPENSE (NET INTEREST INCOME)

Net interest income, the difference between interest income and expense, represents the largest portion of the Company's earnings, and is affected by the volume, mix, and rate sensitivity of earning assets as well as by interest bearing liabilities, market interest rates and the amount of non-interest bearing funds which support earning assets. The three tables below provide a visual comparison of the consolidated figures, and are stated on a tax equivalent basis assuming a federal tax rate of 34%. The Company's corporate tax rate is 34%, therefore, to equalize tax-free and taxable income in the comparison, we must divide the tax-free income by 66%, with the result that every tax-free dollar is equal to $1.52 in taxable income.

The following table shows the reconciliation between reported net interest income and tax equivalent, net interest income for the nine month comparison periods in 2005 and 2004:

For the nine months ended September 30,	2005	2004

Net interest income as presented	$ 9,534,990	$ 8,882,952
Effect of tax-exempt income	393,143	396,255
Net interest income, tax equivalent	$ 9,928,133	$ 9,279,207

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AVERAGE BALANCES AND INTEREST RATES

The table below presents average earning assets and average interest-bearing liabilities supporting earning assets. Interest income (excluding interest on non-accrual loans) and interest expense figures are expressed on a tax equivalent basis, both in dollars and as a rate/yield for the 2005 and 2004 comparison periods. Loans are stated before deduction of non-accrual loans, unearned discount and allowance for loan losses.

	For the Nine Months Ended September 30:					
	2005			2004		
	Average Balance	Income/ Expense	Rate/ Yield	Average Balance	Income/ Expense	Rate/ Yield
INTEREST-EARNING ASSETS						
Loans (gross)	$ 234,477,272	$ 11,414,627	6.51%	$ 208,806,111	$ 10,126,743	6.48%
Taxable Investment Securities	46,122,140	1,149,355	3.33%	57,458,782	1,554,250	3.61%
Tax Exempt Investment Securities	31,636,723	1,156,303	4.89%	38,347,494	1,165,456	4.06%
Federal Funds Sold	130,751	2,322	2.37%	1,090,226	7,039	0.86%
Sweep Account	277,278	5,780	2.79%	1,867,309	13,886	0.99%
Other Securities	2,921,512	92,615	4.24%	1,841,803	39,543	2.87%
TOTAL	$ 315,565,676	$ 13,821,002	5.86%	$ 309,411,725	$ 12,906,917	5.57%
INTEREST-BEARING LIABILITIES						
Savings Deposits	$ 46,967,290	$ 122,558	0.35%	$ 44,822,433	$ 123,002	0.37%
NOW & Money Market Funds	85,026,804	997,182	1.57%	90,229,426	986,863	1.46%
Time Deposits	98,384,207	2,156,230	2.93%	101,095,514	2,193,435	2.90%
Federal Funds Purchased and						
Other Borrowed Funds	17,196,334	480,688	3.74%	9,787,930	230,958	3.15%
Notes Payable	31,136	1,311	5.63%	81,569	3,368	5.52%
Repurchase Agreements	13,091,733	134,900	1.38%	12,222,370	90,084	0.98%

TOTAL	$	260,697,504	$	3,892,869	2.00%	$	258,239,242	$	3,627,710	1.88%
Net Interest Income			$	9,928,133				$	9,279,207	
Net Interest Spread					3.86%					3.69%
Interest Differential					4.21%					4.01%

An increase of $6.2 million is noted in the average volume of earning assets for the first nine months of 2005 compared to the same period of 2004, with an increase of 29 basis points in the average yield. Interest earned on the loan portfolio accounts for approximately 82.6% of total interest income for 2005 and 78.5% for 2004.

Interest paid on time deposits is the largest component of the Company's interest expense, comprising 55.4% and 60.5%, respectively, of total interest expense for the 2005 and 2004 comparison periods. The average volume of interest-bearing liabilities for the first nine months of 2005 increased approximately $2.5 million over the 2004 comparison period, and the rate paid on these accounts increased 12 basis points.

The yield on loans for the comparison period has increased 3 basis points. Although the prime rate has increased over 200 basis points, driving short term rates higher, the long end of the curve has not increased at the same rate, further flattening the yield curve. While the rates on loans tied to prime have increased, residential real estate mortgage loans have not repriced or been replaced at higher rates. The Company's balance sheet is slightly asset sensitive, therefore those loans that are tied to the prime rate have repriced to a higher rate, while real estate loans are tied to long-term rates that are now starting to increase. On the liability side, the increase in short-term rates over the last nine months has created pressure to increase rates on deposit products. The Company has been offering specials such as a high-yielding money market account for higher-balance accounts and various time-deposit specials. In recent months, market pressure has increased for higher rates on certificate of deposit accounts. As time deposits mature, customers are looking for more options with higher rates. Confidence in non-bank products offered by brokerage houses, such as mutual funds is increasing as well creating even more pressure for competitive rates. The Company experienced an increased need to borrow funds during 2005, as loan growth outpaced deposit growth. The increase in borrowed funds, at the higher rates, contributed significantly to the increase in interest expense for the comparison period. Managing the liability side of the balance sheet is a balancing act between managing yields while retaining and attracting deposits for funding.

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CHANGES IN INTEREST INCOME AND INTEREST EXPENSE

The following table summarizes the variances in interest income and interest expense on a fully tax-equivalent basis for the first nine months of 2005 and 2004 resulting from volume changes in average assets and average liabilities and fluctuations in rates earned and paid.

RATE / VOLUME		Variance Due to Rate(1)		Variance Due to Volume(1)		Total Variance
Loans(2)	$	42,538	$	1,245,346	$	1,287,884
Taxable Investment Securities		(122,538)		(282,357)		(404,895)

Tax Exempt Investment Securities	236,290	(245,443)	(9,153)
Federal Funds Sold	12,291	(17,008)	(4,717)
Sweep Account	25,074	(33,180)	(8,106)
Other Securities	29,874	23,198	53,072
Total Interest Earnings	$ 223,529	$ 690,556	$ 914,085
Savings Deposits	$ (6,385)	$ 5,941	$ (444)
NOW & Money Market Funds	71,412	(61,093)	10,319
Time Deposits	22,213	(59,418)	(37,205)
Other Borrowed Funds	75,025	174,705	249,730
Notes Payable	67	(2,124)	(2,057)
Repurchase Agreements	38,438	6,378	44,816
Total Interest Expense	$ 200,770	$ 64,389	$ 265,159
Change in Net Interest Income	$ 22,759	$ 626,167	$ 648,926

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

Variance due to rate = Change in rate x new volume

Variance due to volume = Change in volume x old rate

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

Variance due to rate = Change in rate x old volume

Variances due to volume = Change in volume x new rate

(2) Loans are stated before deduction of unearned discount and allowance for loan losses. The principal balances of non-accrual loans is included in calculations of the yield on loans, while the interest on these non-performing assets is excluded.

NON INTEREST INCOME AND NON INTEREST EXPENSE

A decrease in non-interest income is noted for both the third quarter and nine month comparison periods. The third quarter of 2005 decreased $33,869 compared to the same period of 2004, while the decrease for the first nine months of 2005 compared to 2004 was $90,338. These decreases are attributable primarily to the decrease in income from loans sold to the secondary market. Income from sold loans of $207,132 was generated for the third quarter of 2005, compared to $247,432 for the same quarter of 2004, and figures for the nine month comparison periods were $633,829 for 2005 and $733,544 for 2004. Additionally, activity in the Company's investment portfolio in 2005 was limited to calls and maturities, thereby generating no income from gains, compared to $25,428 in the third quarter of 2004, and $44,059 for the first nine months of 2004.

Increases are noted in non-interest expense for both periods. Salaries and wages accounts for most of the increase in both comparison periods, with an increase of $39,940 for the third quarter comparison periods and $247,209 for the nine month comparison periods for 2005 versus 2004. This increase is the result of normal salary increases as well as new positions within the Bank. A decrease of $42,398 is noted in pension and other employee benefits for the third quarter, due to a decrease in medical claims in 2005 under the Company's self-insured health plan, as well as changes to the participant deductibles and co-pays and a change in the third party plan administrator. The Company has experienced an increase in fraudulent activity related to its ATM and Debit cards, with total charge-offs for the first nine months of 2005 of $23,615, compared to $6,176 for the first nine months of 2004. Although the dollar amounts of these charge-offs are immaterial, this is a crime that is on the rise and a trend that the Company intends to monitor closely. In an effort to minimize losses in this area, the Company has made changes to daily limits allowed for this type of transaction. The increase in occupancy expense reflects the added cost of higher fuel prices. An increase in legal and audit fees is recognized due to increased regulations, as well as the preparations necessary for the Company to meet the requirements of Section 404 of the Sarbanes Oxley Act. Additionally, increased reporting requirements through the Securities and Exchange Commission (SEC) have also had a financial impact on the Company's earnings.

Management monitors all components of other non-interest expenses; however, a quarterly review is performed to assure that the accruals for these expenses are accurate. This helps alleviate the need to make significant adjustments to these accounts that in turn affect the net income of the Company.

APPLICABLE INCOME TAXES

Provisions for income taxes for the third quarter comparison periods increased $26,741 with figures of $223,551 for 2005 versus $196,810 for 2004, due to higher net income for the third quarter of 2005. An increase of $112,277 in the provision for income taxes is noted for the first nine months of 2005 versus 2004, with figures of $527,022 for 2005 compared to $414,745 for 2004. As indicated in the "Overview" above and in Note 6 of the Notes to the Financial Statements, the lower tax provision for the first nine months of 2004 is partially attributable to the tax effect of a capital loss recognized in the first quarter of that year, related to the Company's sale in 2003 of the Liberty Savings Bank charter.

CHANGES IN FINANCIAL CONDITION

The following table reflects the composition of the Company's major categories of assets and liabilities and shareholders' equity as of the dates indicated:

ASSETS	September 30, 2005		December 31, 2004		September 30, 2004	
Loans (gross)*	$ 245,579,596	70.12%	$ 229,633,185	68.58%	$ 218,713,808	67.37%
Available for Sale Securities	41,666,605	11.90%	51,150,344	15.28%	44,729,779	13.78%
Held to Maturity Securities	35,405,973	10.11%	31,579,178	9.43%	39,398,039	12.14%
*includes loans held for sale						
LIABILITIES and SHAREHOLDERS' EQUITY						
Savings Deposits	$ 46,853,433	13.38%	$ 47,288,161	14.12%	$ 46,922,728	14.45%

NOW & Money Market Funds	86,769,678	24.77%	94,502,798	28.22%	84,020,414	25.88%
Time Deposits	100,320,026	28.64%	98,089,308	29.29%	99,947,569	30.79%
Other Borrowed Funds	19,306,000	5.51%	6,407,000	1.91%	5,829,000	1.80%
Shareholders' Equity	28,754,093	8.21%	28,043,446	8.38%	27,979,221	8.62%

A new commercial loan program was introduced in the second half of 2004, contributing to the increase in loans in that year. Loan growth continued during 2005 as a result of customers choosing some of our in-house mortgage products rather than traditional secondary-market loans. Deposit growth during 2004 and 2005 did not keep pace with loan growth. The Company utilized its borrowing capacity at the Federal Home Loan Bank to help fund loan growth. Further funding was achieved in 2005 as investments either matured or call options were exercised, accounting for the decrease in the available for sale portfolio. Approximately $22 million in short-term municipal borrowings matured on June 30, 2005 and as anticipated, renewals of approximately the same amount were booked within the first two months of the third quarter. NOW and money market accounts, primarily the NOW accounts, decreased due in part to the normal cyclical fluctuations of the municipal account balances, which are a component of NOW accounts. Savings deposits have shown little activity, while time deposits decreased $1.86 million from September 30, 2004 to December 31, 2004, and then increased $2.23 million to end at $100.3 million as of September 30, 2005.

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

Interest rate risk represents the sensitivity of earnings to changes in market interest rates. As interest rates change, the interest income and expense streams associated with the Company's interest sensitive assets and liabilities 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 quarterly rate shock simulations to the Company's net interest income, as well as a variety of other analyses. It is the ALCO's function to provide the assumptions used in the modeling process. The ALCO utilizes the results of this simulation model to quantify the estimated exposure of NII and liquidity to sustained interest rate changes. The simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all interest-earning assets and interest-bearing liabilities reflected on the Company's balance sheet. Furthermore, the model simulates the balance sheet's sensitivity to a prolonged flat rate environment. All rate scenarios are simulated assuming a parallel shift of the yield curve; however further simulations are performed utilizing a flattening yield curve as well. This sensitivity analysis is compared to the ALCO policy limits which specify a maximum tolerance level for NII exposure over a 1-year horizon, assuming no balance sheet growth, given a 200 basis point (bp) shift upward and a 100 bp shift downward in interest rates. During the extended period where interest rates were at an all time low, the sensitivity analysis also provided a 400 bp shift upward scenario. 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 or when 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.

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

	September 30, 2005		December 31, 2004	
	Total Loans	% of Total	Total Loans	% of Total
Real Estate Loans				
Construction & Land Development	$ 17,586,752	7.16%	$ 11,646,486	5.07%
Farm Land	2,210,285	0.90%	2,495,782	1.09%
1-4 Family Residential	129,941,318	52.91%	118,973,830	51.81%
Home Equity Lines	10,496,947	4.27%	8,580,929	3.74%
Commercial Real Estate	43,134,520	17.57%	43,609,781	18.99%
Loans to Finance Agricultural Production	180,952	0.07%	443,259	0.19%
Commercial & Industrial	20,389,672	8.30%	21,592,005	9.40%
Consumer Loans	21,129,095	8.61%	21,716,221	9.46%
All Other Loans	510,055	0.21%	574,892	0.25%
Gross Loans	245,579,596	100%	229,633,185	100%
Less:				
Allowance for Loan Losses	(2,189,475)	-0.89%	(2,153,372)	-0.94%
Deferred Loan Fees	(691,958)	-0.28%	(763,774)	-0.33%
Net Loans	$ 242,698,163	98.83%	$ 226,716,039	98.73%

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Allowance for loan losses and provisions

- The Company continues to maintain an allowance for loan losses at a level that management believes is adequate to absorb losses inherent in the loan portfolio. As of September 30, 2005, the Company maintained a residential loan portfolio of $130 million, compared to $119 million at December 31, 2004, and a commercial real estate portfolio (including construction, land development and farm land loans) of $62.9 million and $57.8 million, respectively. Together this accounts for approximately 78.5% and 77.0%, respectively, of the total loan portfolio for September 30, 2005 and December 31, 2004. The Company's commercial loan portfolio includes loans that carry guarantees from government programs. At September 30, 2005, the Company had $14.2 million in guaranteed loans, compared to $14.6 million at December 31, 2004. The volume of residential and commercial loans secured by real estate, 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. In establishing the ALL, management uses qualitative factors to simulate current lending conditions. The lending and credit administration staffs are highly skilled and dedicated to the high standards and expectations of the Company. The expansion into Central Vermont has given the Company an opportunity to diversify the geographic risk in the loan portfolio with loans from a stronger economic community. When the Company expanded into the new market in Central Vermont, experienced lenders were hired and trained to be sure that the same high level of standards would be followed for the loans originated in this new market; all credit administration and underwriting is centralized to ensure consistency. The following tables reflect the Company's success in managing the credit risk within the portfolio.

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

	2005	2004
Loans Outstanding End of Period	$ 245,579,596	$ 218,713,808
Average Loans Outstanding During Period	$ 234,477,272	$ 208,806,044
Loan Loss Reserve, Beginning of Period	$ 2,153,372	$ 2,199,110
Loans Charged Off:		
Residential Real Estate	4,602	26,523
Commercial Real Estate	0	242
Commercial Loans not Secured by Real Estate	27,500	19,703
Consumer Loans	97,747	133,539
Total Loans Charged Off	129,849	180,007
Recoveries:		
Residential Real Estate	1,110	1,445
Commercial Real Estate	0	55
Commercial Loans not Secured by Real Estate	5,593	10,594
Consumer Loans	46,749	80,630
Total Recoveries	53,452	92,724
Net Loans Charged Off	76,397	87,283
Provision Charged to Income	112,500	95,000
Loan Loss Reserve, End of Period	$ 2,189,475	$ 2,206,827

Non-performing assets for the comparison periods were as follows:

	September 30, 2005			December 31, 2004		
		Balance	Percent of Total		Balance	Percent of Total
Non-Accruing loans	$	591,854	86.98%	$	865,443	75.73%
Loans past due 90 days or more and still accruing		88,558	13.02%		194,594	17.03%
Other real estate owned		0	0%		82,800	7.24%
Total	$	680,412	100.00%	$	1,142,837	100.00%

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

Specific allocations are made in the allowance for loan losses in situations management believes may represent a greater risk for loss. In addition, a portion of the allowance (termed "unallocated") is established to absorb inherent losses that probably exist as of the valuation date although not identified through management's objective processes for estimated credit losses. 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. 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.

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, investing, 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.

FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit and risk-sharing commitments on certain sold loans. Such instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. During the first six months of 2005, 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 September 30, 2005 are as follows:

	Contract or Notional Amount
Unused portions commercial lines of credit	$ 19,234,440
Unused portions of home equity lines of credit	8,445,527
Unused portions of credit card lines	8,953,902
Other commitments to extend credit	9,650,135
Standby letters of credit	798,640
MPF credit enhancement obligation, net of liability recorded	1,034,844

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

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AGGREGATE CONTRACTUAL OBLIGATIONS

The following table presents, as of September 30, 2005, significant fixed and determinable contractual obligations to third parties, by payment date:

	Less than 1 year	2-3 years	4-5 years	More than 5 years	Total
Operating Leases	$ 165,726	$ 335,389	$ 355,582	$ 814,788	$ 1,671,485
Operations Center Project	3,370,826	0	0	0	3,370,826
Housing Limited Partnerships	433,327	123,527	0	0	556,854
FHLB Borrowings	14,266,000	30,000	0	5,010,000	19,306,000
Total	$ 18,235,879	$ 488,916	$ 355,582	$ 5,824,788	$ 24,905,165

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

The Company's loan portfolio increased approximately $16 million during the first nine months of 2005, while the investment portfolio decreased $4.7 million during the same time period. As mentioned in the section labeled "Changes in Financial Condition", the increase in loans is attributable to the customers desire for the Company's in-house mortgage products as opposed to secondary market options. The Company funded these loans through short-term borrowings as well as matured investments from the Company's available-for-sale portfolio. As anticipated, municipal loans have increased throughout the third quarter of 2005 through the renewal of these loans, accompanied by a corresponding money market account. This fluctuation is a cyclical pattern for the Company. While NOW and money market accounts show a decrease of $7.7 million, the decrease is mostly in NOW accounts. Most of this decrease is from a collateralized municipal account talked about further in this section. This decrease also contributes to a portion of the increase in federal funds purchased and other borrowed funds of $12.9 million.

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

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

The Company has a $4.3 million credit line with the Federal Home Loan Bank of Boston (FHLB) with an available balance of approximately $3 million at September 30, 2005. Interest is chargeable at a rate determined daily, approximately 25 basis points higher than the rate paid on federal funds sold. Additional borrowing capacity of approximately $91.6 million through the FHLB is secured by the Company's qualifying loan portfolio.

As of September 30, 2005, the Company had short-term advances of $13.0 million and long-term advances of $5.04 million against the $91.6 million and an advance of $1.266 million against the $4.3 million credit line. The advances with maturity dates greater than a year with higher interest rates are subject to a substantial pre-payment penalty. Although the rates are higher than the current market, the imposed penalty far outweighs the interest rate differential. The Company's outstanding advances consist of the following:

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Purchase Date	Annual Rate	Maturity Date	Principal Balance
June 01, 2005	3.41%	October 03, 2005	1,000,000
August 01, 2005	3.63%	October 03, 2005	$ 4,000,000
September 16, 2005	3.81%	October 17, 2005	3,000,000
August 18, 2005	3.74%	October 18, 2005	5,000,000
Total Short-term Advances			$ 13,000,000
November 16, 1992	7.57%	November 16, 2007	30,000
November 16, 1992	7.67%	November 16, 2012	10,000
January 16, 2001	4.78%	January 18, 2011	5,000,000
Total Long-term Advances			$ 5,040,000
Federal Funds Purchased			$ 1,266,000

Under a separate agreement with FHLB, the Company has the authority to collateralize public unit deposits, up to its FHLB borrowing capacity ($91.6 million less outstanding advances noted above) with letters of credit issued by the FHLB. At September 30, 2005, approximately $52.6 million was pledged, under this agreement, as collateral for these deposits. Interest is charged to the Company quarterly based on the average daily balance for the quarter at an annual rate of 20 basis points. The average daily balance for the third quarter of 2005 was approximately $7.3 million.

In December 2004, the Company declared a cash dividend of $0.16 per share, payable in the first quarter of 2005, requiring the bank to book an accrual of $650,449 during the fourth quarter. In March 2005, the Company declared a cash dividend of $0.16 per share, payable in the second quarter of 2005, requiring an accrual of $652,627 at March 31, 2005. In June 2005, the Company declared a cash dividend of $0.17 per share, payable in the third quarter of 2005, requiring an accrual of $687,360. Additionally, in the second quarter of 2005, the Company announced the intent to pay a 5% stock dividend on July 1, 2005. All per share data for prior periods have been restated to reflect this stock dividend. In September 2005, the Company declared a cash dividend of $0.17 per share.

Due to the entries required to book the 5% stock dividend and the cash dividend declared in the second and third quarters of 2005, payable in the proceeding quarter, Retained Earnings became an Accumulated Deficit at June 30, 2005 and September 30, 2005. Management expects that, in future periods, this deficit will revert to earnings.

The following table illustrates the changes in shareholders' equity from December 31, 2004 to September 30, 2005:

Balance at December 31, 2004 (book value $6.96 per share*)	$ 28,043,446
Net income	2,405,297
Issuance of stock	610,562
Purchase of treasury stock (fractional share redemption)	(74)

Purchase of treasury stock (fractional shares from 5% stock dividend)	(2,802)
Purchase of treasury stock (stock buyback plan)	(96,449)
Total Dividends declared	(2,028,373)
Change in unrealized gains on available-for-sale securities, net of tax	(177,514)
Balance at September 30, 2005 (book value $7.08 per share)	$ 28,754,093

*Restated to reflect the 5% stock dividend declared in May 2005

At September 30, 2005, of the 405,000 shares authorized for repurchase under the stock buyback plan, 173,952 shares had been purchased, leaving 231,048 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 paid in September of 2005. During the first nine months of 2005, the Company repurchased 5,959 shares pursuant to the buyback authority. The last purchase was September 29, 2005 in which 2,500 shares were repurchased at a price of $15.75 per share. For additional information on stock repurchases by the Company and affiliated purchasers (as defined in SEC Rule 10b-18) refer to Part II, Item 2 of this Report.

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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 in the National Bank Act, implemented by the Office of the Comptroller of the Currency ("OCC"). Under such restrictions, the Bank may not, without the prior approval of the OCC, declare dividends in excess of the sum of the current year's earnings (as defined) plus the retained earnings (as defined) from the prior two years.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Under current guidelines, banks must maintain a risk-based capital ratio of 8.0%, of which at least 4.0% must be in the form of core capital (as defined). The risk-based ratios of the Company and its Subsidiary exceeded regulatory guidelines at September 30, 2005 with reported risk-weighted assets of $212.1 million compared to $196.2 million at December 31, 2004 and total capital of $31.1 million and $30.0 million, respectively. The Company's total risk-based capital to risk-weighted assets was 14.65% and 15.45% at September 30, 2005 and December 31, 2004, respectively. The Company's Tier 1 capital to risk-weighted assets was 13.40% and 14.20% at September 30, 2005 and December 31, 2004, respectively. In addition to risk-based capital requirements, bank holding companies are required to maintain minimum leverage capital ratios of core capital to average assets of $4.0%. The Company exceeded these requirements with leverage ratios of 8.34% as of September 30, 2005, and 8.34% at December 31, 2004.

Regulators have also established guidelines for minimum capital ratio requirements that define a bank as well-capitalized under prompt corrective action provisions. These minimums are risk-based capital ratio of 10.0% and Tier 1 capital ratio of 6.0%. As of September 30, 2005, the Company and its Subsidiary were deemed well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that time that management believes have changed the Company's classification.

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

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

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's management of the credit, liquidity and market risk inherent in its business operations is discussed in Part 1, Item 2 of this report under the caption "RISK MANAGEMENT", as well as in the Company's 2004 annual report on form 10-K. Management does not believe that there have been any material changes in the nature or categories of the Company's risk exposures from those disclosed in such 10-K report.

ITEM 4. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, the Company has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Chairman and Chief Executive Officer and its President and Chief Operating Officer (Chief Financial Officer). Based upon that evaluation, such officers concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. There were no changes during the Company's last fiscal quarter in the Company's internal control over financial reporting identified in connection with the evaluation of the Company's disclosure controls and procedures that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

The Company and/or its Subsidiary are subject to various claims and legal actions that have arisen in the normal course of business. Management does not expect that the ultimate disposition of these matters, individually or in the aggregate, will have a material adverse impact on the Company's financial statements.

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ITEM 2. Unregistered Sales of Securities and Use of Proceeds

The following table provides information as to purchases of the Company's common stock during the third quarter ended September 30, 2005, by the Company and by any affiliated purchaser (as defined in SEC Rule 10b-18):

	Total Number of Shares Purchased	Maximum Number of Shares That May Yet Be Purchased Under

For the month ended:	Total Number of Shares Purchased(1)(2)	Average Price Paid Per Share	as Part of Publicly Announced Plan(3)	the Plan at the End of the Period
July 1 - July 31	0	$0	0	237,007
August 1 - August 31	2,900	$17.33	0	237,007
September 1 - September 30	7,384	$16.26	5,959	231,048
Total	10,284	$16.56	5,959	231,048

(1) 4,325 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 reported on the OTC Bulletin Board©.

(2) Shares purchased during the period do not include (1) fractional shares repurchased from time to time in connection with the participant's election to discontinue participation in the Company's Dividend Reinvestment Plan; or (2) settlement of fractional shares in connection with the payment of a 5% stock dividend declared in May 2005.

(3) 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.

ITEM 6. Exhibits

Exhibit 31.1 - Certification from the Chief Executive Officer of the Company pursuant to section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2 - Certification from the Chief Financial Officer of the Company pursuant to section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1 - Certification from the Chief Executive Officer of the Company pursuant to 18 U.S.C., Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002*
Exhibit 32.2 - Certification from the Chief Financial Officer of the Company pursuant to 18 U.S.C., Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002*

*This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Act of 1934.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMUNITY BANCORP.

DATED: November 15, 2005

- By: /s/ Richard C. White

Richard C. White, Chairman &
Chief Executive Officer

DATED: November 15, 2005

By: /s/ Stephen P. Marsh
Stephen P. Marsh, President &
Chief Operating Officer
(Chief Financial Officer)