

Middlebury National Corporation

2010
Annual
Report

DEDICATION



Madeline E. Gardner
50 Years of Service
1961 – 2010



Diane R. Cadoret
46 Years of Service
1964 – 2010

The Board of Directors of Middlebury National Corporation wishes to dedicate this 2010 Annual Report to Madeline E. Gardner and Diane R. Cadoret to recognize their superior work ethic, unsurpassed dedication to the bank, and unwavering commitment to their customers.

Dear Shareholders:



G. Kenneth Perine
Executive Vice President

Despite weak commercial loan demand, a reduction of the residential loan portfolio, and significant loan charge-offs, we ended 2010 with \$1,682,027 in earnings, \$7,693 better than budget and marking the first increase (+7.51%) in annual earnings in four years.

In 2010, we experienced weak commercial loan demand and strong mortgage refinance activity. Furthermore, businesses and households deleveraged their balance sheets using cash to pay down lines of credit and prepay loans partially or in full. All of this activity resulted in a significant decrease in outstanding loans, down \$6,691,607 (-3.6%). At the same time we experienced good growth in deposits, up \$4,438,130 (+1.92%). This influx of cash enabled us to pay down borrowings by \$4,888,232 (-34.54%) and increase our investments in securities, \$6,042,611 (+11.6%). Shareholder equity improved by 4.15% to \$24,929,489.

Our ability to manage the balance sheet and improve non-interest income allowed us to exceed our earnings target. Net interest income was up slightly from 2009, \$100,092 (+1.03%), while non-interest income grew by a healthy \$314,058 (+12.68%). The main contributors to the non-interest income increase were strong secondary mortgage market originations of \$30 million, netting fees of \$790,333 and debit/credit card interchange income of \$733,410.

These improvements more than offset \$661,600 in additions to our loan loss reserve, which were needed to offset loan charge-offs of \$545,444. Charge-offs were at the highest level we have ever experienced, but we feel we have recognized our worst asset quality problems. Our loan loss reserve stands at \$2,386,448, or 1.32% of total loans. Over-30-day delinquencies were down to 1.53% as of January 2011. We did book our first foreclosure in many years when we took back a piece of commercial real estate last January; a second real estate property followed in November. We are actively marketing both properties and at this writing have a purchase and sales agreement on one of them.

Our market share (measured in financial institution deposits) in Addison County topped 41% as of June 30, 2010. Also seeing good growth was our trust and investment affiliate, Community Financial Services Group (CFSG). CFSG booked over \$43 million in new accounts in 2010, raising assets under management to over \$331 million. We are very pleased with both of these trends.

While share price of our stock dipped slightly from \$29.87 to \$29.49, we are still trading above our book value of \$27.98.

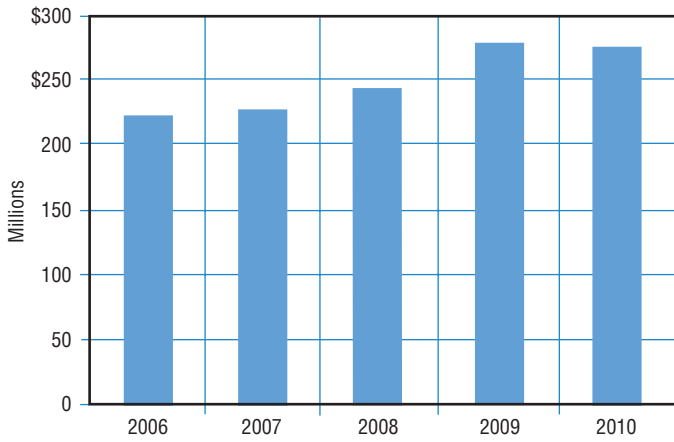
In many different ways, 2010 was an eventful year. The ability for us to withstand these many demands is a tribute to the tenacity, dedication, and hard work of our staff. None exemplify these attributes better than Madeline Gardner and Diane Cadoret who retired at the end of 2010. We salute them and wish them the very best in their newfound leisure time.

Sincerely,

A handwritten signature in blue ink that reads "GK Perine". The signature is written in a cursive, flowing style.

G. Kenneth Perine
Executive Vice President

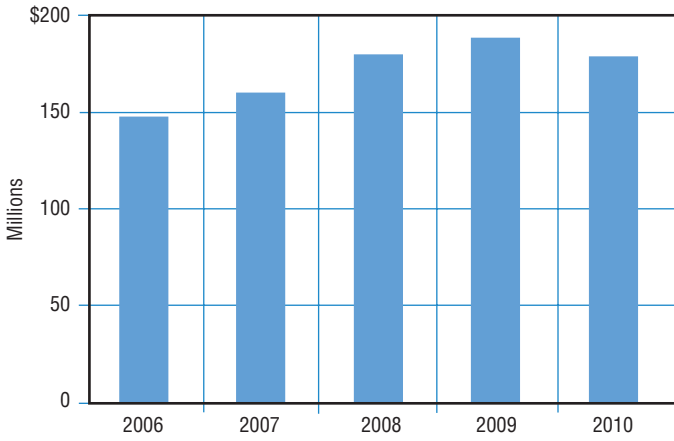
Total Assets



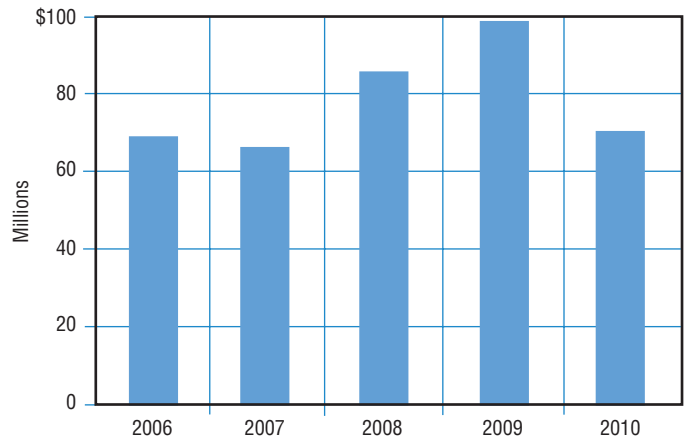
Shareholders' Equity



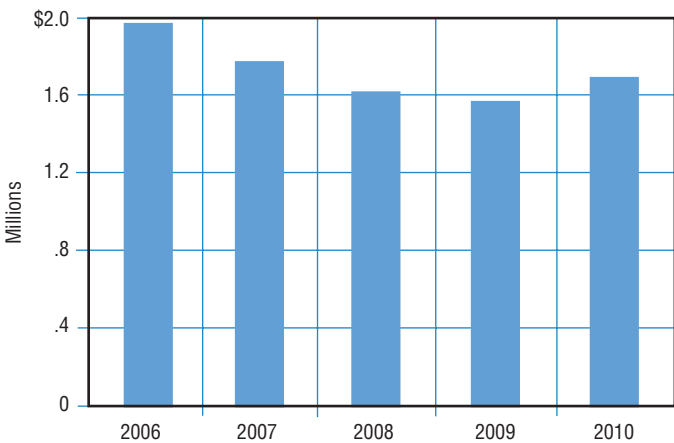
Total Loans



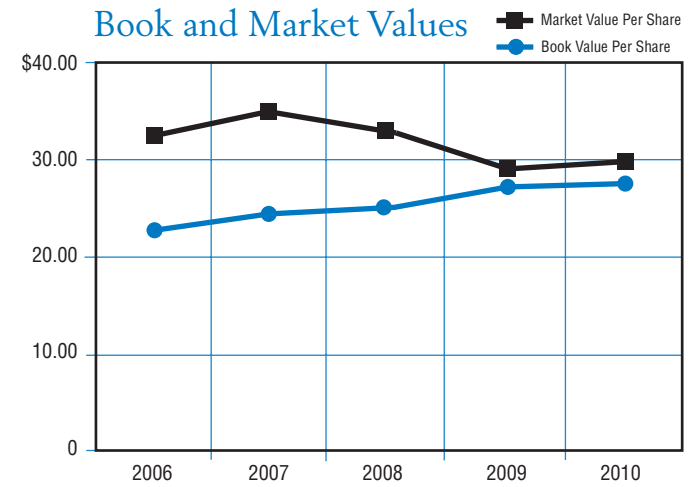
Loan Originations



Net Income



Book and Market Values



Listening to customers.

We've been doing it since 1831.

At National Bank of Middlebury, we talk about the “voice” of the customer. Everyday, the people who enter our lobby, call us on the phone, or contact us through email provide us feedback that enables us to improve our products and service delivery. Here are just a few of the areas where listening to our customers helped us refine our products and services, so that we remain relevant in today's ever changing economy and society.

Internet Banking

From its fledgling days in 2001, internet banking has become a staple for conducting bank business. Online banking users have increased 75% over the last five years. We have responded by adding increased functionality to our website, including eCorp for business in 2004, Bill Pay in 2005, Mobile Banking in 2009 and FinanceWorks, a household budgeting tool, in 2010.

Debit and ATM Cards

As the economy worsened, we saw many of our customers increase the use of card-based services. In the last five years, our daily check-card transactions have increased 168%. To respond, we increased our standard cash withdrawal limits at ATMs and debit-card approval limits, while enrolling in card fraud protection services that help preserve the integrity of this card-based payment system.

Mortgage Refinancing

Back in 2006, we heard grumblings from our neighbors who had the servicing of their home mortgage loans sold to out-of-state companies. This created problems with proof of insurance coverage, payment questions, and escrow issues. We created the “Hometown Mortgage” to provide servicing at National Bank of Middlebury for long-term, fixed-rate home loans. We also developed a second outlet in the secondary market in early 2009 so we could offer extremely competitive rates, and we assigned an individual to exclusively manage our mortgage loan programs in 2010. As a result of these moves, we originated \$31 million of fixed-rate home mortgage loans in 2009 and \$30 million in 2010.

Marketing

With the merger of several Vermont institutions into out-of-state banks, we heard the “local” cry. To address the desire for local banking, we opened branches in Brandon in 2007 and in Vergennes and Hinesburg in 2008. More recently, we have conducted a marketing campaign highlighting that we are a truly local community bank.

Our ability to remain sensitive to the needs of our neighbors and communities, and to act quickly to meet those needs, has kept National Bank of Middlebury relevant over the last 180 years. It is our pledge to continue this responsive posture in the future so that we truly can be a value-added institution in the communities we serve.





COMMUNITY FINANCIAL SERVICES GROUP
*The Trust & Investments Management Affiliate of
National Bank of Middlebury*

Update to Bank Shareholders

National Bank of Middlebury, in conjunction with Community National Bank and Guaranty Bancorp Inc. (Woodstock Guaranty Savings Bank), owns Community Financial Services Group (CFSG), which was created to provide trust and investment services for customers of all three banks.

The year 2010 was a good year for the equity markets, despite a few bumps in the road, most notably the so-called “flash crash” and temporary debt concerns in the European Union. Last year CFSG’s stocks, on average, outperformed the S&P 500 Index by 5.3%, providing a +20.4% return compared to +15.1% for the index.

CFSG’s assets under management grew from \$250 million to \$331 million, with most of this growth attributable to new account relationships and portfolio investment returns. Revenue from asset management accounts increased 32% from \$1,440,000 in 2009 to \$1,908,000 in 2010. Brokerage revenue also increased significantly, up 49% from \$161,000 in 2009 to \$231,000 in 2010.

CFSG Clients and Investment

CFSG’s investment management accounts range from \$100,000 stand-alone accounts to \$30,000,000 family relationships and long-term investment track record is exceptional. CFSG’s managed account stock portfolio recommendations have, on average, outperformed the S&P 500 index by 5.5% (550 basis points) each year since October 31, 2001, providing a 9.4% annual compound return compared to just 3.9% for the index.

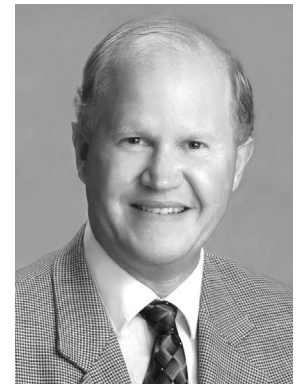
CFSG also provides a wide range of brokerage services, including mutual funds, annuities, and long-term care insurance. In addition, CFSG manages many multi-million dollar 401(k) plans for local businesses and non-profit organizations, offering complete administrative and investment services while meeting with individual plan participants to assist them with their retirement plan decisions.

If you are interested in receiving unbiased, comprehensive financial advice, please call CFSG today at 877-334-1677 and a trust officer will be pleased to meet with you in one of our bank branches or at your home, whatever is most convenient for you.

Community Financial Services Group (CFSG) is the Trust and Investment Management Affiliate of the National Bank of Middlebury. Douglas MacCallum is an Investment Advisor Representative and Registered Representative of Tower Square Securities, member FINRA/SIPC, an independent broker-dealer not affiliated with National Bank of Middlebury or CFSG. All securities are offered through Tower Square Securities, Inc. and are not obligations of, guaranteed or insured by, National Bank of Middlebury or any depository institution, the FDIC, or any other government agency. Investments are subject to risk, including the possible gain or loss of principal. Office located at 15 Seymour Street, Middlebury, Vermont 05753.



Douglas M. MacCallum
Financial Advisor



Thomas W. Bright
Financial Advisor

Directors & Officers

DIRECTORS OF MIDDLEBURY NATIONAL CORPORATION AND NATIONAL BANK OF MIDDLEBURY

Caroline R. Carpenter	Roch F. MacIntyre	G. Kenneth Perine
Paul J. Carrara, Jr.	Michael G. McLaughlin	Michael D. Schoenfeld
Linda K. Harmon	Lawrence W. Miller II	Sarah D. Stahl

Robert J. Duclos, *Director Emeritus*

Edward M. Foster, *Director Emeritus*



Top Left: Paul J. Carrara Jr., Caroline R. Carpenter, Lawrence W. Miller II.

Top Right: Roch F. MacIntyre, Linda K. Harmon, G. Kenneth Perine.

Bottom Left: Michael G. McLaughlin, Sarah D. Stahl, Michael D. Schoenfeld.

Bank Officers & Staff

OFFICERS OF NATIONAL BANK OF MIDDLEBURY

Sarah D. Stahl, *Chair*
Roch F. MacIntyre, *Vice Chair*
Caroline R. Carpenter, *Clerk*
Paul J. Carrara Jr, *Assistant Clerk*

G. Kenneth Perine, *President & Chief Executive Officer*
Caroline R. Carpenter, *Executive Vice President*
Laura J. Adams, *Senior Vice President*
Justin C. Brande, *Senior Vice President & Chief Financial Officer*
Sarah A.P. Cowan, *Senior Vice President*
Madeline E. Gardner, *Vice President & Residential Lender*
Grover K. Usilton, *Vice President*
Julie L. Heffernan, *Vice President*
Kerry D. Bolduc, *Vice President*
Theresa A. Gile, *Assistant Vice President*
Christopher J. Carpenter, *Assistant Vice President*
Christine N. Sickles, *Assistant Vice President*
Jo A. Holm-Hansen, *Deposit Sales/Service Officer*
Christine G. Wagner, *Deposit Operations Officer & Security Officer*
Laurie L. Barrett, *Vergennes Community Office Manager*
Christopher M. Lapierre, *Vergennes Business Community Lender*
Sharon L. Brown, *Vergennes and Hinesburg Community Lender*
Stacey D. Brown, *Controller*

STAFF OF NATIONAL BANK OF MIDDLEBURY

Elizabeth Andrews	Donna Donahue	Amber Lovely-Lee	Marlene Saunders
Mallory Barnum	Danielle Douglas	Heather Ludwigsen	Michelle Shambo
Kevin Bausmann	Christine Dowd	Pamela Martin	Jeanne Shaughnessy
Carolyn Bearor	Richard Emilo	Meaghan McLaughlin	Wendy Shaw
Jane Beck	Delsie Farnsworth	Jessica Morey	Karen Sinnock
Julie Bessette	Jaime Farnsworth	Melody Mundorf	Margaret Spivack
Charlotte Birchmore	Michelle Farrell	Karen-Lynn Osborn	Jennifer Stetson
Carole Boise	Kylie Felion	Becky Paliling	Bhrea Strand
Cassandra Boise	Jennifer Gebo	Ashley Paquette	Tonya Sylvester
Brenda Bourdeau	Susan Gebo	Sarah Paquette	Melissa Tessier
Joel Bouvier	Joanne Gilson	Rebecca Perkins	Sandra Trombley
Melissa Brittell	Maureen Gour	Nicholas Perzanoski	Wendy Truax
Tatsiana Bussiere	Emily Haskins	Amy Prior	Cathy Trudel
Diane Cadoret	Kathy Hayes	Kirstein Putnam	Catherine Wall
Michelle Caniyo	Christine Heudorfer	Karene Reardon	Michele Warren
Blessing Chimwanda	Shane Kean	Laura Reed	Geraldine Welch
Shelly Clark	Edmond Kelly, Jr.	Kimberly Richards	C. Lynne Wiley
Laurie Conant	Judy Langeway	Joshua Root	
Michael Corbett	Christine Lathrop	Angela Rule	
Roxann Cousino	Donna Lewis	Virginia Salino	

Locations

OFFICE AND DRIVE-UP LOCATIONS

Main Office
30 Main Street
Middlebury

Drive-up Office
15 Seymour Street
Middlebury

Route 7 South Office and Drive-up
240 Court Street
Middlebury

Brandon Office
5 Carver Street
Brandon

Bristol Office and Drive-up
28 Main Street
Bristol

Hinesburg Office and Drive-up
140 Commerce Street
Hinesburg

Vergennes Office and Drive-up
29 Green Street
Vergennes

ATM Locations

Offices on Main Street, Seymour Street and Route 7 South in Middlebury and Brandon, Bristol, Hinesburg and Vergennes.

In addition we have ATMs at Middlebury College Student Center and Library and Middlebury Market and Café on College Street in Middlebury



PO Box 189
Middlebury, Vermont 05753-0189

Connecting all offices:

1-802-388-4982 or 1-877-508-8455

www.nationalbankmiddlebury.com



EOE: National Bank of Middlebury is proud to be an Equal Opportunity Employer.