We were saddened by the passing this year of our colleague Fletcher “Buster” Brush.

Buster epitomized the values that we hold dear. His “can do” attitude, service above self, confidence in and love of the youth of our community, and constant good humor were hallmarks of his all too short, but well-lived life.

The Board of Directors of National Bank of Middlebury and Middlebury National Corporation, with deep sadness, dedicates this 2008 Annual Report to the memory of Buster Brush.
Dear Shareholder:

This past year provided us with unique challenges. Not only was there substantial financial market turmoil, we lost our newest director, Fletcher “Buster” Brush, to a heart attack. During a short time on the board, Buster displayed tremendous energy, insight and community spirit. We miss him dearly.

The year 2008 will long be remembered in the economic history of our country. The extraordinary financial events that unfolded in the second half of the year have rocked our financial system down to its roots. The subprime debacle, the bankruptcy of Lehman Brothers, the shoring up of FannieMae and FreddieMac, and the drastic market response of many stockholders have created much angst in households throughout the nation. At National Bank of Middlebury, we feel fortunate to have subscribed to a conservative business model that avoided investments in subprime mortgages, instead investing in high quality mortgages and fixed-income securities. As of the end of the year, our investment portfolio’s market values stood at just over 100% of our cost.

For the year, we expanded our market reach with the addition of two new branches, recognized very good loan growth, increased our deposit base, and funded our capital reserves. Our purchase of the Vergennes branch of the Lyndon Bank became official on January 2, 2008. Laurie Barrett and her staff were the organization to our transition with ease and aplomb, while continuing to provide excellent service to our Vergennes customers. In August we opened our Hinesburg Office and are very pleased with the initial response of the community. With these two additions, we have rounded out our market presence in west central Vermont and look forward to becoming an important resource to each of these communities.

Loan originations were up over 30% in 2008, helping to fuel a 16.47% increase in loans. Nearly half of that growth represented loans we purchased in the Vergennes acquisition; the other half was split between commercial loan activity and home equity loan growth. What does not show in the balance sheet is the origination of over twelve million dollars of residential loans for sale in the secondary market. It was a strong year in lending and credit quality as of year-end, still looks very good with over thirty day past due at 1.58% of total loans.

Deposits grew 12.25% with approximately 40% of that growth attributable to the Vergennes acquisition. We did a shift in deposits to certificates of deposit as the rates on non-time accounts dropped precipitously by year-end.

Earnings were down 5.83% in 2008, in line with our expectations and primarily due to our new branch activity. After dividend payments, we were able to add about one million dollars to our capital base. Looking forward to 2009, we anticipate some difficult times for some of our customers and are thankful that we are entering this uncertain period with a strong capital position.

Our trust and investment affiliate, Community Financial Services Group (CFSG), had a challenging year as well. A severe drop in the stock market adversely affected CFSG’s assets under management, and thus fees generated. On a positive note, the total number of accounts administered by CFSG increased by 11%. Seasoned professionals at CFSG are working hard to help their customers understand the vagaries of the market and ride out this financial downturn.

Our stock price has held up well during the year. While the average successful bid in our last auction of $32.09 reflected a drop of $3.75 or 10.5% from year-end 2007, our price-to-book value was 129% compared to 91% for banks in the Northeast as of 12/31/08.

We expect the current economic malaise to continue throughout 2009, but feel well positioned to assist our customers in coping with their various challenges this year. We look forward to helping our communities prosper in the years ahead.

Thank you for your interest in and support of Middlebury National Corporation and National Bank of Middlebury.

Sincerely,

G. Kenneth Perine
Executive Vice President
It is at times like the present when we appreciate more fully the wisdom of a conservative management style. To help you understand more completely how our management philosophy permeates our institution, we shall discuss the major factors that our regulators review to assess the health of our bank. These factors are six: capital adequacy, asset quality, management quality, earnings, liquidity, and sensitivity to market risk.

**Capital Adequacy**
Middlebury National Corporation maintains $22,445,736 in capital reserves, which is 8.79% of our total assets as of December 31, 2008. Well-capitalized banks, as defined by our regulators, must have at least a 5.0% capital-to-assets ratio. Our ratio is 176% of the minimum requirement to be considered well-capitalized. This strong capital level positions us well to weather weak economic conditions for an extended period of time.

**Asset Quality**
Our primary investment is in mortgages and commercial loans to borrowers in west-central Vermont. One measure of the quality of these investments is the amount of credit loss. National Bank of Middlebury has incurred very few credit losses over the years—just $177,421 over the last ten years. Our credit quality is excellent. Even in this weakening economy, our non-performing loans stand at 0.24% of loans, one third of the average for banks in New England. Furthermore, our investment in securities has shown no market deterioration, registering a market value of just over one hundred percent of cost at year-end 2008.

**Management Quality**
Our senior managers have been with the company for many years, providing continuity and experience. Our six senior managers have a combined one hundred twenty-three years of service to National Bank of Middlebury and 168 years in banking. Our managers also serve on many non-profit boards of directors in the community, keeping a finger on the pulse of the ever changing needs of our customers.

**Earnings**
The bank has been managed for stable earnings that can support growth in capital, dividends to our shareholders, and sufficient investment in our franchise to keep it in good physical shape and convenient for our customers. The graph below illustrates our success at maintaining a good earning stream through all sorts of economic cycles.
WE HAVE OPERATED A WELL-CAPITALIZED TIVE INVESTMENT PHILOSOPHY.

In August we opened a new office in Hinesburg.

LIQUIDITY
Our depositors expect to be able to access their funds with us at any time. We must be in a position to honor these requests. We must also invest these deposits in our community through loans to our neighbors. To provide our deposit customers with confidence that their funds will be safe, we offer FDIC Deposit Insurance. We recently paid extra premiums to increase the deposit insurance from the traditional $100,000 to $250,000 through December 31, 2009. We are also paying extra insurance on providing unlimited deposit insurance to depositors in non-interest bearing accounts, again through December 31, 2009. Lastly, we offer our CDARS Program, which allows our customers to deposit amounts over and above the FDIC limit with National Bank of Middlebury and still receive full FDIC coverage through a network of banks. We manage our liquidity by targeting our lending at only 85% of our total deposit base, leaving us leeway to deal with the ebbs and flows of customer deposits and withdrawals. Moreover, we maintain lines of credit with the Federal Reserve Bank of Boston, Federal Home Loan Bank of Boston and BankersBank Northeast to assist us in meeting larger calls on our liquidity.

SENSITIVITY TO MARKET RISK
Interest rate movements affect the deposits and loans at the bank in varying degrees. We use a sophisticated asset liability management system to monitor our interest rate sensitive assets (loans and securities) and our interest rate sensitive liabilities (deposits). Because these loans and deposits have both variable and fixed rates (and the fixed-rates have various terms), we must try to balance these to be sure that movements in interest rates will not have adverse effects on our profitability. At December 31, 2008, we were so well balanced that our net interest income would be affected less than 1.0%, even with a severe change (doubling) in interest rates in one year.

By paying attention to these important areas of bank management, we at Middlebury National Corporation and the National Bank of Middlebury are confident that we have positioned the company and the bank to withstand the headwinds of this deep recession.
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.  John M. McCardell, Jr.  Sarah D. Stahl
Linda K. Harmon  Lawrence W. Miller II

Robert J. Duclos, Director Emeritus
Edward M. Foster, Director Emeritus

Officers of Middlebury National Corporation

Sarah D. Stahl, President
G. Kenneth Perine, Executive Vice President
Linda K. Harmon, Secretary
Justin C. Brande, Treasurer
Bank Officers & Staff

Officers of National Bank of Middlebury

John M. McCardell Jr., Chair
Roch F. MacIntyre, Vice Chair
Sarah D. Stahl, 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
Grover K. Usilton, Vice President
Phillip L. Martin, Vice President
Julie L. Heffernan, Vice President
Kerry D. Bolduc, Assistant Vice President
Shawn M. Davis, Assistant Vice President
Theresa A. Gile, Assistant Vice President
Deborah Wing, Mortgage Loan Officer and Brandon Office Manager
Jo A. Holm-Hansen, Deposit Sales/Service Officer
Christine G. Wagner, Deposit Operations Officer & Security Officer
Laurie Barrett, Vergennes Office Manager
Christopher Lapierre, Vergennes Commercial Loan Officer
Sharon L. Brown, Hinesburg and Vergennes Residential Loan Officer
Stacey D. Brown, Loan Operations Manager

Staff of National Bank of Middlebury

Elizabeth Andrews
Mallory Barnum
Kevin Baussmann
Carolyn Bearor
Jane Beck
Charlotte Birchmore
Carole Boise
Cassandra Boise
Brenda Bourdeau
Joel Bouvier
Danielle Briggs
Melissa Brittell
Donna Brown
Tatsiana Bussiere
Diane Cadoret
Michelle Caniyo
Laurie Conant
Roxann Cousino
Julie Davis
Ashley Dike
Donna Donahue
Danielle Douglas
Christine Dowd
Yvonne Emery
Richard Emilo
Delise Farnsworth
Jaime Farnsworth
Michelle Farrell
Kylie Gaboriault
Jennifer Gebo
Susan Gebo
Joanne Gilson
Constance Goodrich
Maureen Gour
Emily Haskins
Kathy Hayes
Christine Headorfer
Shane Keen
Edmond Kelly, Jr.
Ashley LaFlam
Judy Langeway
Christine Lathrop
Laurel Lattrell
Amber Lee
Heather Ludwigsen
Pamela Martin
R. Lindsey Martin
Melody Mundorf
Theresa Nilsson
Karen-Lynn Osborn
Becky Paliling
Sarah Paquette
Rebecca Perkins
Amy Prior
Kirsten Putnam
Kimberly Richards
Heather Roberts
Josh Root
Angela Rule
Virginia Salino
Marlene Saunders
Jeanne Shaughnessy
Wendy Shaw
Christine Sickles
Karen Sinnock
Margaret Spivack
Bhrea Strand
Tonya Sylvester
Sandra Trombley
Wendy Truax
Cathy Trudel
Ashley VanDeWeert
Catherine Wall
Michele Warren
Geraldine Welch
C. Lynne Wiley
Melanie Williams
Jacklyn Yandow
Locations

Office Locations

Main Office  
30 Main Street  
Middlebury

Drive-up Office  
15 Seymour Street  
Middlebury

Route 7 South Office  
240 Court Street  
Middlebury

Drive-up Office  
240 Court Street  
Middlebury

Brandon Office  
5 Carver Street  
Brandon

Bristol Office  
28 Main Street  
Bristol

Drive-up Office  
28 Main Street  
Bristol

Hinesburg Office  
140 Commerce Street  
Hinesburg

Drive-up Office  
140 Commerce Street  
Hinesburg

Vergennes Office  
29 Green Street  
Vergennes

Drive-up Office  
29 Green Street  
Vergennes

ATM Locations

Main Office  
30 Main Street  
Middlebury

Drive-up Office  
15 Seymour Street  
Middlebury

Route 7 South Office  
240 Court Street  
Middlebury

Brandon Office  
5 Carver Street  
Brandon

Bristol Office  
28 Main Street  
Bristol

Hinesburg Office  
140 Commerce Street  
Hinesburg

Middlebury Market & Café  
54 College Street  
Middlebury

Connecting all offices:
1-802-388-4982  
1-877-508-8455  
www.nationalbankmiddlebury.com  
email: info@nationalbankmiddlebury.com

FDIC  
EOE: National Bank of Middlebury is proud

to be an Equal Opportunity Employer.