

# Middlebury National Corporation

2008 ANNUAL REPORT



# DEDICATION



## Fletcher "Buster" Brush 1949 – 2008

*Member, National Bank of Middlebury  
and Middlebury National Corporation  
Board of Directors*

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 LyndonBank became official on January 2, 2008. Laurie Barrett and her staff have made the transition to our organization 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 dues at 1.58 % of total loans.

Deposits grew 12.25% with approximately 40% of that growth attributable to the Vergennes acquisition. We did see 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.

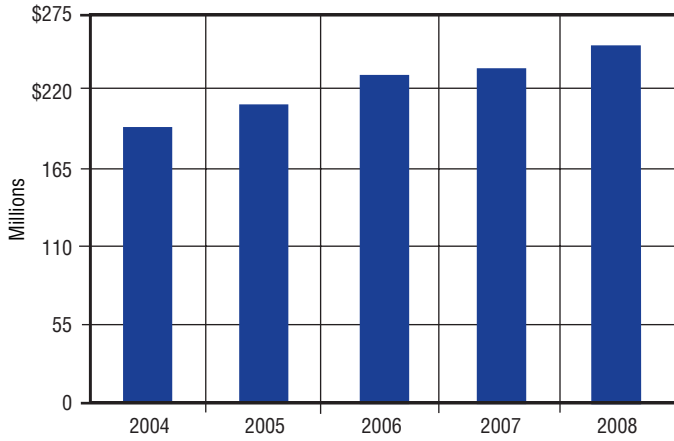
Thank you for your interest in and support of Middlebury National Corporation and National Bank of Middlebury.

Sincerely,

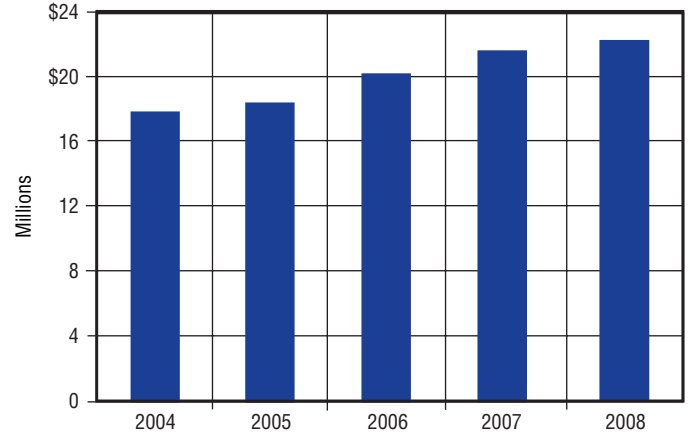
A handwritten signature in blue ink that reads "G. Perine". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

G. Kenneth Perine  
Executive Vice President

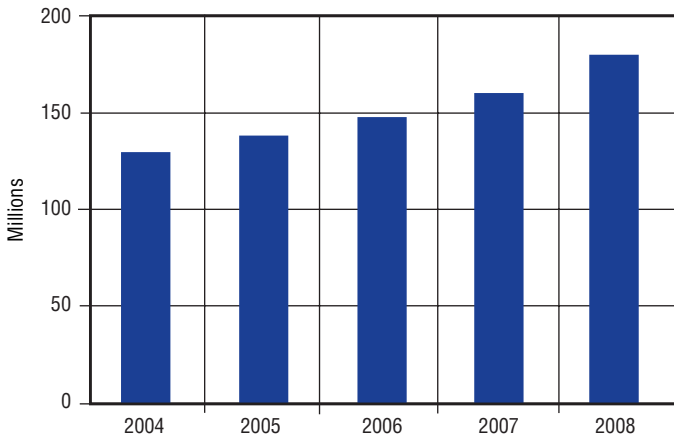
Total Assets



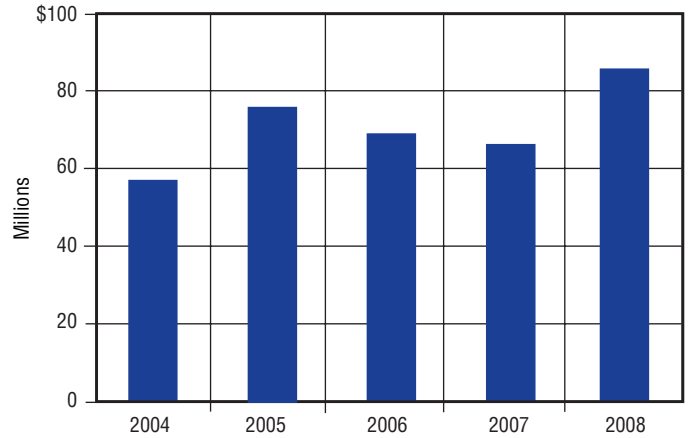
Shareholders' Equity



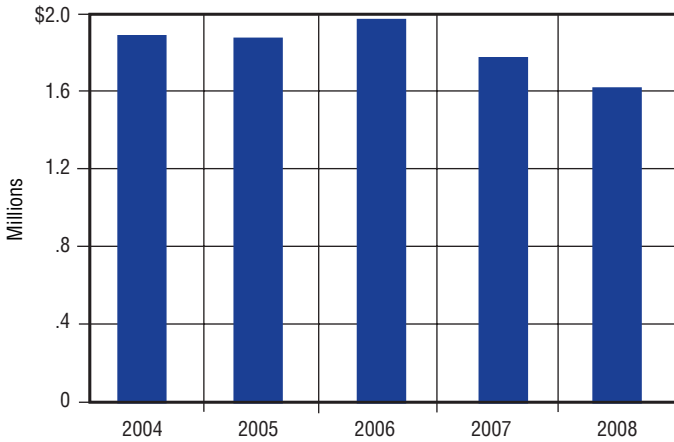
Total Loans



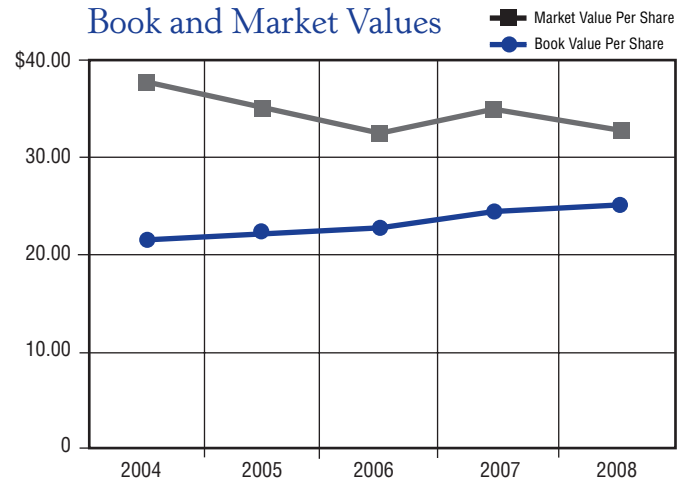
Loan Originations



Net Income



Book and Market Values



# FOR ONE HUNDRED SEVENTY-SEVEN YEARS, A FINANCIAL INSTITUTION WITH A CONSERVATIVE

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

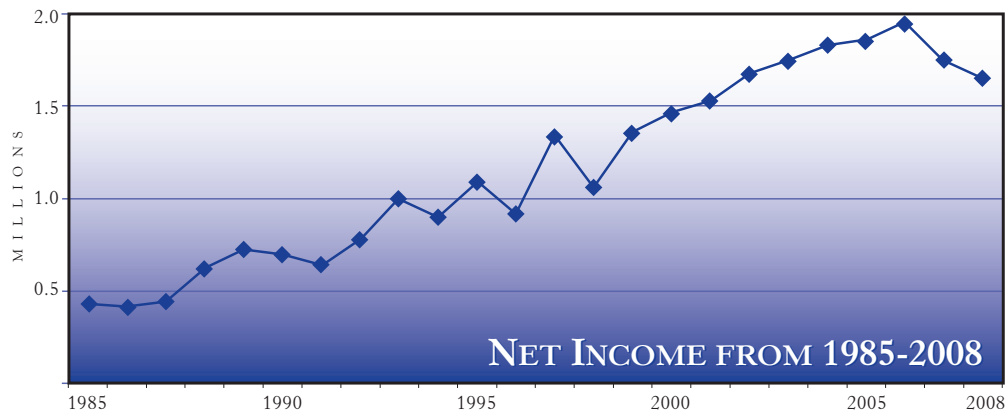
Our primary investment is in mortgages and commercial loans to borrowers in west-central Vermont. One measure of the quality of these investments is the amount of credit loss. National Bank of Middlebury has incurred very few credit losses over the years—just \$177,421 over the last ten years. Our credit 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 PRUDENT 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*



Upper Left: John M. McCardell, Jr.,  
Linda K. Harmon, Paul J. Carrara, Jr.



Upper Right: Caroline R. Carpenter,  
G. Kenneth Perine, Sarah D. Stahl.



Lower Left: Lawrence W. Miller,  
Roch F. MacIntyre.

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



## Locations

### OFFICE LOCATIONS

Main Office 30 Main Street Middlebury	<i>Drive-up Office</i> 15 Seymour Street Middlebury	Route 7 South Office 240 Court Street Middlebury	<i>Drive-up Office</i> 240 Court Street Middlebury
Brandon Office 5 Carver Street Brandon	Bristol Office 28 Main Street Bristol	<i>Drive-up Office</i> 28 Main Street Bristol	Hinesburg Office 140 Commerce Street Hinesburg
<i>Drive-up Office</i> 140 Commerce Street Hinesburg	Vergennes Office 29 Green Street Vergennes	<i>Drive-up Office</i> 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	Vergennes Office 29 Green Street Vergennes	Middlebury College • Student Center • Library
Middlebury Market & Café 54 College Street Middlebury			



PO Box 189  
Middlebury, Vermont 05753-0189

*Connecting all offices:*

1-802-388-4982

1-877-508-8455

[www.nationalbankmiddlebury.com](http://www.nationalbankmiddlebury.com)

email: [info@nationalbankmiddlebury.com](mailto:info@nationalbankmiddlebury.com)



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