

Dear Shareholders:

The year 2009 was a challenging one for National Bank of Middlebury and Middlebury National Corporation. We entered the year with grave concerns about the economy, considered participating in the U.S. Treasury's Capital Purchase Program, were notified of increased FDIC insurance premiums, were besieged with mortgage loan requests as borrowers rushed to take advantage of record low interest rates, and recognized a significant flight to quality by depositors. Our responses to these challenges impacted our balance sheet and income statement.

As investors became wary of a volatile stock market, they looked to banks for a safe and secure home for their money. Our deposits grew almost \$22 million (10.8%). This increase in liquidity helped us pay down Federal Home Loan Bank borrowings by \$3 million, increase outstanding loans by almost \$5 million (primarily in commercial loans), and purchase an additional \$10 million in investment securities. Overall, our total assets grew a healthy 8.54%. Shareholder equity increased to almost \$24 million, a 6.64% increase over year-end 2008.

The growth in the on-balance sheet loans did not reflect an extraordinarily busy year in mortgage lending. The low-interest rate environment enticed many borrowers to refinance their home mortgages. These are loans we sell to the secondary market. Business was so brisk, our loan staff worked substantial overtime to meet the demand. The task was made more difficult due to many new secondary mortgage market requirements put in place as a reaction to the abuses in the sub-prime mortgage market. We originated a record \$31 million in secondary market loans. The fees we earned for selling these loans amounted to \$662,000 and were key to our ability to absorb some unusual expenses in 2009. Our loan staff earned well-deserved kudos for their remarkable dedication this past year.

Due to a number of bank failures throughout the country in 2009, the FDIC needed to replenish the deposit insurance fund. Healthy institutions, such as National Bank of Middlebury, were asked to increase their contributions. Not only did the FDIC increase our regular premiums from \$98,000 to \$338,000, it charged healthy banks a special assessment as well. Our price tag for this was \$117,000.

As we worked hard to clear these hurdles, we kept our eye on a fragile economy. On the whole, we saw an increase in past due payments over the year from 1.46% of total loans to 1.73%. While this number is very low compared to industry standards, we remain concerned about how long some of the businesses in our communities can handle this long-term slowdown. To speak to this concern and to a deterioration in financial strength of a few of our borrowers, we substantially increased the additions to our Loan Loss Reserve, adding a net \$540,000. With a solid equity ratio at 8.63% of total assets, a strong reserve ratio of 1.2% of loans, past due loans below 2.0% of total loans, and our over-90-days past dues and non-accruals at 0.8% versus an industry average of 1.87%, we feel well positioned to cope with the inevitable fallout from the continued economic slowdown.

As a reflection of our financial performance this year, our stock price, as set in our quarterly auctions, remained virtually unchanged at \$29.87 versus \$30 a year ago.

This year's annual report focuses on the challenges our local economy has faced in 2009, our responses to those challenges, and our continuing efforts to make a difference in the communities we serve. We remain dedicated to the well being of the citizens of west central Vermont, both financially and socially. Thank you for your part in enabling us to meet our mission.

Sincerely,



G. Kenneth Perine
Executive Vice President



G. Kenneth Perine
Executive Vice President



National Bank of Middlebury poised to help our **LOCAL ECONOMY**

The ups and downs of our national economy and, to a lesser extent, the Vermont state economy have been well documented in the media. In this report, we will present a discussion of some of the aspects of the regional economy here in west central Vermont, the challenges local businesses have faced and National Bank of Middlebury's response to those challenges.

While every sector has been affected by the economic downturn of the last eighteen months, we will focus on manufacturing, housing, retail sales, tourism and transportation. Agriculture and healthcare have been receiving significant attention from the federal and state governments and our assistance in this area is limited to working with individual borrowers to help them weather the economic storm.

Manufacturing

THE CHALLENGE: We have been experiencing a loss of manufacturing jobs for some time. Over the last thirty-six months, we have seen major plants close or move out of the area in Brandon (Nexus, Vermont Tubbs), Bristol (Autumn Harp), Middlebury (Standard Register, CPC, Specialty Filaments) and Hinesburg (Saputo Cheese). The good news is that unemployment in our region, after growing to 8.2% in March 2009, fell to 6.5% by December. Putting this rate into perspective, it is lower than most all of 1992 (our most recent major slowdown) which peaked at 9%. The unemployment rate was as low as 3.6% as recently as May 2008 and, at 6.5% today, is better than the Vermont state average of 6.9%.

OUR RESPONSE: To create a more business-friendly atmosphere, bank personnel are participating in active discussions with our regional development corporation, our town governments and other local groups. Current efforts include eliminating a machinery and equipment tax, reducing certain user fees to retain companies, seeking capital sources for growing businesses and providing permitted sites for quick business development or occupancy.

Housing

THE CHALLENGE: Home sales in Addison County dropped 25% in 2009 from the previous year with December 2009 sales the lowest in six years. Home values declined an estimated 7.5% on average in 2009. We have also seen a dearth of new home construction. The impact of this housing slowdown ripples through our economy from builders to lumber yards to retailers selling home goods.

OUR RESPONSE: At National Bank of Middlebury, we have focused on providing low-interest rates on home mortgages coupled with expert guidance for borrowers through an increasingly complex mortgage process. We originated a record number of home loans in 2009; (344 loans totaling \$58.9 million). We are also working with borrowers who are having difficulty paying their mortgages by exercising various forbearance scenarios and assisting borrowers to avoid foreclosure. As of this writing, we own no foreclosed homes.





Retail Sales and Tourism

THE CHALLENGE: Retail and hospitality sectors have been directly affected by the decline in discretionary spending during this recession. Retail sales tax receipts are in fact down 7.7% for Addison County (through 10/31/09) as compared to a 7.2% drop for the state as a whole. While rooms and meals tax receipts are up year-over-year as of the end of October 2009 in four of the five communities we serve, anecdotal evidence indicates the last two months of 2009 were substandard.

OUR RESPONSE: We have assisted a number of businesses who are suffering cash flow difficulties in this recession by offering special “ARC” loans from the Small Business Administration. These loans include a six-month grace period with no payments required and then easy repayment terms at an effective zero interest rate to the borrower. We have also provided temporary forbearance to help bridge business owners over a tough sales period.

Transportation

THE CHALLENGE: In October 2009, New York State shut down the Champlain Bridge, the major connector between Addison County, Vermont, and Essex County, New York. The subsequent loss of traffic on Routes 125, 17 and 22A in Addison and Bridport, in particular, affected business for several of our customers.

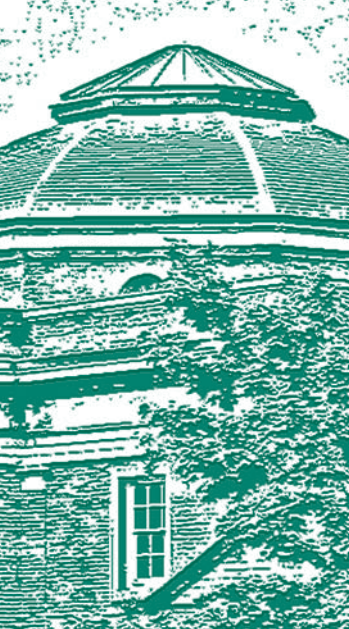
OUR RESPONSE: We provided payment relief and temporary lines of credit tailored to the individual needs of these businesses. The good news is that a ferry service has been opened as of February 1, 2010, at the site of the now demolished bridge, once again allowing the free flow of commerce along traditional routes.

Poised for the future

While we are weathering a particularly difficult economic time, we do feel well poised to help our communities thrive as we emerge from this recession. Our branches are strategically located to provide convenient banking. We are upgrading our online presence in 2010 and continue to be fortunate to have a skilled and dedicated workforce. We are also maintaining a solid capital ratio (8.6% versus the regulatory minimum of 4%), low delinquency rates (over-90-day delinquent loans at 0.8% of total loans versus a national average of 1.87%) and liquidity (\$49 million of available-for-sale securities) to meet emergent loan demand.

The year 2009 has been a challenging year. We expect continued challenges in 2010, but feel confident that the bank is in excellent financial shape and prepared to help our communities rebound during an economic recovery.





A Hallmark of National Bank of Middlebury

COMMUNITY SERVICE

Again in 2009 we demonstrated our commitment to community in a variety of ways.

Shred Day

We hosted our third annual Shred Day on April 25. Shred Day is an opportunity for our customers to purge old tax documents and other sensitive financial information in a secure manner. A shred truck visited our Route 7 South office in Middlebury to accommodate 130 customers. We also collected “shred bins” at all of our office locations for those customers unable to travel to Middlebury on Shred Day.

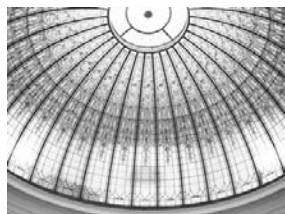


Community Donations for New Accounts

Each calendar quarter, we designate an organization that operates in each of our communities as a recipient of a \$25 gift for each new checking account opened in one of our offices. During 2009, we supported our local food shelves in the first quarter, community first responders in the second, summer lunch programs in the third and Habitat for Humanity in the fourth quarter.

Capital Contributions

We have supported many organizations over the years with gifts to capital campaigns. In 2009, we were pleased to provide funds for two noteworthy projects. **Boosters at Otter Valley Union High School** in Brandon were in need of a concession stand to complete field renovations accomplished through their **Fields of Otter Valley** campaign. At the same time, the Brandon Area Chamber of Commerce was moving into the recently renovated Stephen A. Douglas home site and no longer had need of their information booth. Debbie Wing, Community Lender in Brandon, connected these dots and suggested the boosters purchase the Chamber’s booth with National Bank of Middlebury providing the capital necessary for the transaction. Both parties were thrilled with the idea and a match was made.



Bixby's stained glass dome

In Vergennes, the **Bixby Library** was undertaking a major capital campaign to fund needed renovations to that historic landmark. After touring the facility with our Vergennes Community Office Manager, Laurie Barrett, we decided to provide seed money for the Library’s fund raising with a matching gift challenge. As of February 2010, the Bixby Library trustees notified us they had successfully secured the match and work will begin in the summer of 2010. We were pleased to help induce investment in this beautiful and historic building.



Food for Neighbors

During the first week of November, National Bank of Middlebury partnered with a local radio station, **WVTK**, the voice of Addison County, for live broadcast in five of our offices from noon to 2:00 p.m., encouraging area residents to deposit food items into grocery carts in our offices and the following stores: **Lantman's** in Hinesburg; **Shaw's** in Bristol, Vergennes and Middlebury; **Grand Union** in Brandon; **Greg's Meat Market** in Middlebury; **Middlebury Natural Food Cooperative**; and **Hannaford's** in Middlebury. At the end of the week, concerned citizens had donated 1500 pounds of food for the local food shelves: **Addison County Food Shelf**, **CVOEO**, **St. Ambrose** in Bristol, **Brandon Area Food Shelf**, **Vergennes Community Food Shelf** and **Hinesburg Food Shelf**. It gave us great pleasure to help engender a spirit of giving in our neighbors in the communities of west central Vermont.

These are just a few of the initiatives employed by National Bank of Middlebury staff during 2009 to make our communities better places in which to live.



1500 pounds
donated to
local food
shelves

NBM Brandon Office employees Shane Kean, Ashley Dike, Yvonne Emery, Ginny Salino with WVTK's Sarah Stone during our November Food for Neighbors Drive.



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

Update to Bank Shareholders

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

2009 was a very challenging year for the world economy and certainly for the trust and investment business. However, we are pleased to report that CFSG weathered the storm quite well and is positioned for continued growth in 2010. Assets under management grew from \$170 million to \$255 million, with most of this growth attributable to new account relationships and portfolio investment returns.

Experienced, Knowledgeable, Advisors

CFSG has experienced, knowledgeable trust officers, located in several towns throughout New Hampshire and Vermont. Investment management accounts range from \$100,000 stand-alone accounts to \$30,000,000 family relationships. CFSG's long-term investment track record is outstanding. CFSG's managed account stock portfolio recommendations have, on average, outperformed the S&P 500 index by 4% (400 basis points) each year for the last five years.

CFSG also provides a wide array 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.

Unbiased Comprehensive Advice in Your Best Interest

CFSG's investment services differ from many other advisors because its employees are not paid on a commission basis, so they can truly offer unbiased advice. CFSG trust officers differentiate themselves from many investment advisors by providing comprehensive financial recommendations in a variety of areas, including estate planning, tax planning, and insurance.

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.

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Paul J. Carrara, Jr.	Michael G. McLaughlin	G. Kenneth Perine
Linda K. Harmon	John M. McCardell, Jr.	Sarah D. Stahl

Robert J. Duclos, *Director Emeritus*

Edward M. Foster, *Director Emeritus*



Back Row: Paul J. Carrara, Jr., Linda K. Harmon, Roch F. MacIntyre, Sarah D. Stahl, Michael G. McLaughlin.

Front Row: Lawrence W. Miller II, G. Kenneth Perine, John M. McCardell, Jr., Caroline R. Carpenter.

Bank Officers & Staff

OFFICERS OF NATIONAL BANK OF MIDDLEBURY

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Sarah D. Stahl, *Clerk*
Paul J. Carrara Jr., *Assistant Clerk*
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Caroline R. Carpenter, *Executive Vice President*
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Justin C. Brande, *Senior Vice President & Chief Financial Officer*
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Theresa A. Gile, *Assistant Vice President*
Christopher J. Carpenter, *Assistant Vice President*
Christine N. Sickles, *Assistant Vice President*
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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*

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Kevin Bausmann	Christine Dowd	Laurel Lattrell	Jeanne Shaughnessy
Carolyn Bearor	Yvonne Emery	Donna Lewis	Wendy Shaw
Jane Beck	Richard Emilo	Amber Lovely-Lee	Karen Sinnock
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Cassandra Boise	Michelle Farrell	R. Lindsey Martin	Ashley Sweeney
Brenda Bourdeau	Kylie Felion	Melody Mundorf	Tonya Sylvester
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Danielle Briggs	Susan Gebo	Karen-Lynn Osborn	Sandra Trombley
Melissa Brittell	Joanne Gilson	Becky Paliling	Wendy Truax
Tatsiana Bussiere	Constance Goodrich	Sarah Paquette	Cathy Trudel
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Michelle Caniyo	Emily Haskins	Amy Prior	Catherine Wall
Laurie Conant	Kathy Hayes	Kirstein Putnam	Michele Warren
Michael Corbett	Christine Heudorfer	Karene Reardon	Geraldine Welch
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Julie Davis	Edmond Kelly, Jr.	Josh Root	
Ashley Dike	Ashley LaFlam	Angela Rule	