This 180th annual report is dedicated to the memory of Justin C. “Judd” Brande, chief financial officer at National Bank of Middlebury. For thirty-seven years, Judd’s work at the bank was performed mostly behind the scenes. With little formal training, Judd astutely applied his exceptional analytical skills to the job at hand and molded himself into a first-rate financial manager. His quick wit and predilection to hyperbole both exasperated his colleagues and endeared him to them. Judd loved to teach and pass along his hard-earned knowledge freely. He left his “fingerprints” all over our organization, from a squeaky-clean balance sheet to neat and tidy archives. He devoted his working life to the bank he loved. Judd, we miss you every day and we will surely see you “when we’re older.”
Dear Shareholders:

The year 2011 was an extraordinary one for National Bank of Middlebury and Middlebury National Corporation registering net income that broke the $2 million barrier for the first time at $2,076,431, and continuing a two-year trend of improving net income.

Balance sheet management was tested as our liquidity grew substantially due to a 5.13% increase in deposits and a decrease of 2.04% in loan balances. We took this opportunity to pay down borrowings by over $4 million and invested the balance in securities increasing that portfolio 27.4%.

The effect of these moves lowered our cost of funds 24.88%, or $447,001. This was not enough to stem the decrease in interest income due to lower rates on our earning assets. Lower rates on refinanced mortgages and matured securities dropped interest income $576,309, or 4.97%. Reductions in our provisions for loan losses of $581,600, a $81,341 improvement in non-interest income, and a $101,587 decrease in operating expenses softened a $240,815 increase in income taxes and allowed for a 23.45% increase in net income of $394,403. We are particularly pleased with these results because embedded in our non-interest expense was $257,000 worth of one-time writedowns on real estate assets.

Total assets grew 4.15%. Shareholder equity was up 7.72%. Per share book value increased 8.47% and earnings per share was up 23.81%. Market value of our shares stood at $29.60, up slightly from $29.50 a year ago.

We achieved these financial results despite an ever growing burden of compliance and software costs. During the year, we rebuilt our website, adding a new look and improving functionality; we performed numerous upgrades to our computer operating systems; and we instituted new procedures to comply with a myriad of new mortgage lending guidelines. It is a testament to the ingenuity of our staff that we originated a record number of secondary market mortgage loans and improved our market share in this restrictive environment.

Our trust and investment affiliate, Community Financial Services Group, ended the year with a 165.8% increase in net income, opening 142 new accounts that fueled a 5.44% increase in assets under management to $349 million despite a flat equity market. The company continues to expand its reach throughout Vermont and northern New Hampshire.

While improving financial results was the good news, we suffered a significant, personal loss when our long-time CFO, Justin Brande, passed away in early December. His remarkable career with National Bank of Middlebury spanned thirty-seven years and created the foundation from which these positive results were built. We respectfully dedicate this annual report to his memory.

Thank you as always for your continued interest in National Bank of Middlebury and Middlebury National Corporation.

Sincerely,

G. Kenneth Perine
Executive Vice President
Total Assets

Shareholders’ Equity

Total Loans

Loan Originations

Net Income

Book and Market Values
Residential mortgage lending has always been an important service for National Bank of Middlebury. Over the past twenty-five years, mortgage loan balances have averaged fifty-five percent of our loan portfolio. In recent years, the average has been closer to sixty percent (see Chart 1).

Despite this high percentage of total loans, portfolio residential mortgage balances have leveled off at $110 million over the last four years (see Chart 2). This does not, however, signal a drop in residential lending activity. Since the institution of our Hometown Advantage Mortgage in 2002, we have become very active sellers of loans in the secondary market. This product has allowed us to offer our customers extremely competitive fixed-rate loans with local servicing (by us) without taking on interest-rate risk for the bank. In short, we have achieved the best of both worlds. As secondary market lending activity has expanded, our portfolio loan balances have declined.

However, when we add in the loans we service for the secondary market, we see continued growth in loan balances at National Bank of Middlebury (see Chart 3).

We remain committed to this important source of funds for our customers, and will continue to help realtors, new homeowners, and refinancers navigate through the increasingly complex requirements of the secondary market. That's because this is what we do. "We are the best provider of financial services in our market!"
Community Financial Services Group (CFSG) is a $349 million trust company owned by National Bank of Middlebury, Community National Bank and Woodsville Guaranty Savings Bank. CFSG provides comprehensive trust and investment services to bank customers. CFSG’s trust and investment clients range from $100,000 stand-alone accounts to $30 million family relationships and $20 million employee benefit plans.

CFSG also manages many 401(k) plans for local businesses and non-profit organizations, offering complete administrative and investment services while assisting individual plan participants with retirement plan advice.

2011 Results
Despite considerable equity market volatility and growing debt concerns in the European Union, 2011 was a strong year for CFSG in several key aspects.

CFSG’s assets under management grew over 5% to $349 million and the company’s net profit rose to $443,000 during the past year.

Well over a hundred new trust and asset management accounts were opened in 2011 contributing $30 million in new financial assets. During the last three years, new accounts at CFSG added $130 million in financial assets.

Finally, in October 2011, CFSG signed a strategic alliance agreement with People’s Trust Company of St. Albans agreeing to provide trust and investment services to the $250 million bank. We believe this arrangement will accelerate CFSG’s growth in Franklin and Chittenden Counties while providing a valuable service to People’s Trust customers.

Qualified, unbiased financial advice
CFSG employs seasoned trust officers with considerable fiduciary experience to manage client accounts. Trust officers have from 10 to 30 years of trust and investment experience and three CTFAs and one CFP are on staff to provide substantive comprehensive financial advice. Equally important, no CFSG employees are personally compensated on a commission basis, so they can always act in the customer’s best interest.

Contacting us
If you are interested in receiving trust or investment advice, please call CFSG toll-free at 877-334-1677 or e-mail us on our website at www.cfstrust.com and a trust officer will be pleased to meet with you at your convenience.

Community Financial Services Group (CFSG) is the Trust and Investment Management Affiliate of the National Bank of Middlebury. CFSG accounts are not obligations of or guaranteed or insured by the bank or any depository institution, the FDIC, or any other government agency. Investments are subject to risk, including the possible gain or loss of principal.
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. Machtyre, Linda K. Harmon, G. Kenneth Perine.
Bottom Left: Michael G. McLaughlin, Sarah D. Stahl, Michael D. Schoenfeld.

Officers of Middlebury National Corporation

Linda K. Harmon, President
G. Kenneth Perine, Executive Vice President
Caroline R. Carpenter, Treasurer
Lawrence W. Miller II, Secretary
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
Grover K. Usilton, Vice President
Julie L. Heffernan, Vice President
Kerry D. Bolduc, Vice President
Christine N. Sickles, Assistant Vice President
Christopher J. Carpenter, Assistant Vice President
Theresa A. Gile, Assistant Vice President
Christine G. Wagner, Deposit Operations Officer & Security Officer
Jo A. Holm-Hansen, Deposit Sales/Service Officer
Stacey D. Brown, Finance Operations Manager
Christopher M. Lapierre, Vergennes Business Community Lender
Laurie L. Barrett, Vergennes Community Office Manager
Sharon L. Brown, Vergennes and Hinesburg Community Lender

Staff of National Bank of Middlebury

Elizabeth Andrews
Mallory Barnum
Kevin Baussmann
Carolyn Bearor
Jane Beck
Charlotte Birchmore
Carolee Boise
Cassandra Boise
Brenda Bourdeau
Joel Bouvier
Tatsiana Bussiere
Michelle Caniyo
Lynne Chabot
Blessing Chimwanda
Shelly Clark
Jesse Collins
Michael Corbett
Roxann Cousino
Donna Donahue
Christine Dowd

Rick Emilo
Jaime Farnsworth
Melissa Farr
Michelle Farrell
Kylie Felion
Jennifer Gebo
Sue Gebo
Joanne Gilson
Maureen Gour
Emily Haskins
Kathy Hayes
Christine Heudorfer
Shane Kean
Edmond Kelly Jr.
Christine Lathrop
Donna Lewis
Amber Lovely-Lee
Heather Ludwigsen
Meaghan McLaughlin
Melody Mundorf
Karen Osborn
Becky Pahling
Sarah Paquette
Rebecca Perkins
Nicholas Perzanoski
Delsie Polgar
Amy Prior
Kirsten Putnam
Karene Reardon
Laura Reed
Kimberly Richards
Joshua Root
Angela Rule
Virginia Salino
Marlene Saunders
Michelle Shambo
Jeanne Shaughnessy
Wendy Shaw
Karen Sinnock
Margaret Spivack
Bhrea Strand
Marion Sullivan
Tonya Sylvester
Tracy Tombreull
Melissa Tessier
Sandra Trombley
Wendy Truax
Cathy Trudel
Catherine Wall
Michele Warren
Geraldine Welch
C. Lynne Wiley
Lindsey Wing
Danielle Woodbury
Locations

Office and Drive-up Locations

Main Office  Drive-up Office  Route 7 South Office and Drive-up
30 Main Street  15 Seymour Street  240 Court Street
Middlebury  Middlebury  Middlebury

Brandon Office  Bristol Office and Drive-up
5 Carver Street  28 Main Street
Brandon  Bristol

Hinesburg Office and Drive-up  Vergennes Office and Drive-up
140 Commerce Street  29 Green Street
Hinesburg  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.

National Bank of Middlebury

PO Box 189
Middlebury, Vermont 05753-0189

Connecting all offices:
1-802-388-4982 or 1-877-508-8455
www.nbmvt.com

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