**Dear Shareholders:**

National Bank of Middlebury and Middlebury National Corporation reached numerous milestones in 2012. Total assets broke the $300 million mark; we originated a record $111,299,522 in loans; and net income hit a new high of $2,582,322. It was truly an extraordinary year.

The continued low-interest rate environment had positive and negative effects for the bank. It spurred deposit growth and strong home mortgage business, but limited investment opportunities and eroded our net interest margin. Deposit growth was very good, up $15.7 million, or 6.46%, as our customers parked their liquidity in savings and money market accounts, up $6.8 million, or 9.75%, and checking accounts up $11.5 million, or 9.38%, keeping their funds in a safe and secure place and awaiting the inevitable up-tick in interest rates. Home-mortgage loan demand was robust. First mortgage originations topped $71 million, up 45.74% from last year. Most of these loans were long-term, fixed-rate loans that we sold to Fannie Mae and Federal Home Loan Bank of Boston, Mortgage Partnership Finance Program. We recognized excellent fee income of $1,734,622 from this activity, double what we booked in 2011.

Our commercial loan portfolio grew over $7.9 million, or 13.31%, due to participating in several large loans with other Vermont banks. Unfortunately, commercial loan demand in our own market was slack. We also found the investment market to be difficult. Prices on securities were driven high by the Federal Reserve’s quantitative easing, resulting in poor yields on these securities. Rather than lock ourselves into relatively low-interest rate securities for extended timeframes, we remained on the investment sideline and allowed cash to accumulate in our Federal Reserve account to $32,633,942 at year-end, up $23,438,746, or 254.9% from end-of-year 2011. This action, coupled with continuing re-pricing of our portfolio loans by interest-rate sensitive borrowers, led to a drop in our net interest margin of $134,871, or 1.39%. The good news is that we are well positioned for an increase in interest rates when that does occur.

The bottom line is we experienced excellent growth in net income to $2,582,322, up $505,891, or 24.36% from last year. Shareholder equity increased to $28,576,840, up 6.42% from 2011.

Our trust and investment affiliate, Community Financial Services Group (CFSG), ended the year with a 19.41% increase in net income, opening 167 new accounts that resulted in an 11.46% increase in assets under management to $389 million.

The year 2012 was an excellent one for National Bank of Middlebury and our affiliate, CFSG. However, the bank’s results were built on a home mortgage refinance boom which has shown signs of waning. Therefore, our expectations for 2013 are somewhat muted, despite our belief that economic conditions are slowly improving.

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

Sincerely,

G. Kenneth Perine  
Executive Vice President
Since 1997, 635 students have saved more than $220,000 in our School House Savings program.

Financial Literacy

Years ago, young people learned about money and the hard work it takes to earn it by managing a newspaper delivery route, bagging groceries at the local store, babysitting for the neighbor’s kids, mowing lawns or shoveling walks in the winter. By dropping their money into a piggy bank, they saved up for the bicycle, model plane or that special doll. Today, most of these opportunities for financial education are not available to our children, so they grow up less savvy about how money works.

We at National Bank of Middlebury feel it is extremely important that young people have an opportunity to learn about managing money and about earning and saving. Since 1997, we have offered the School House Savings program to thirteen elementary schools in the greater Addison County region. Students are encouraged to set specific goals for their savings. To date, 635 students have saved more than $220,000. Parent volunteers, teachers or sixth graders help students deposit their “pennies” into their School House Savings account on “Banking Day”.

In conjunction with the Vermont State Treasurer’s Office and the Vermont Bankers’ Association, we support a Financial Literacy Poster Contest in April of each year in the schools in our state. Later, we educate these students in their high school years by teaching classes on credit—how loans work and how to prepare a household budget.

Finally, we try to close the learning loop by participating in the Jumpstart Program. In 2012, we sponsored six teachers and parents to learn more about how to teach financial literacy in their schools. We are committed to doing our part in helping prepare our young people for being responsible money-managers in their adult lives.
The New Horizons Club

The New Horizons Club is over 20 years old. It offers a special checking account, programs, events, merchant discounts, and travel opportunities for customers age 50 and older. NHC members represent a significant segment of the NBM customer base and deposit assets. Currently there are about 4,500 NHC members. NHC members are a diverse lot, ranging in age from 50 to 90+. The NHC strives to provide activities and events of interest for members with unlimited time as well as for members with only a few hours on a weekend.

Our hope for 2013 and beyond is to maintain our valued traditions and to expand the NHC to include members who may be interested in additional activities like biking, hiking, walking, skiing and other outdoor adventures. Currently between 300 and 400 members participate in activities/trips. The NHC has traditionally sponsored trips across the United States and around the world, from California to Kenya. At this time, the feedback from members and from responses to our survey is that people are interested in shorter and less expensive trips within New England. In keeping with those requests, we will be partnering with Town Hall Theater over the coming year to take advantage of this gem in Addison County. We are also partnering with Middlebury Transit to provide elegant and professional transportation to our events.

New Horizon Club activities provide opportunities for us to strengthen the relationship we have with our customers and to provide a value added service to their banking experience.
Community Financial Services Group (CFSG) is a $389 million trust company owned by National Bank of Middlebury, Community National Bank and Woodsville Guaranty Savings Bank in order to provide comprehensive trust and investment services to bank customers. CFSG’s Trust and Investment clients range from $100,000 stand-alone accounts to $30,000,000 family relationships and $20,000,000 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.

2012 Results
Despite investment issues ranging from the ongoing debt challenges in Europe to our own country’s “fiscal cliff” brinksmanship, 2012 ended as a positive year for the markets and for CFSG in several regards.

CFSG’s assets under management grew from $349 million to $389 million and the company’s net profit rose to $483,000 during the past year.

167 new trust and asset management accounts were opened in 2012. During the last four years, new accounts at CFSG totaled $148,000,000 in financial assets net of closed accounts and withdrawals.

In June of 2012, CFSG opened a new office in South Burlington to be closer to many of its Chittenden County clients and to Franklin County as well. CFSG also hired a full time trust administrative officer with 25 years of experience for the new office as CFSG continues to grow. Tom Bright is based out of this new office, however he is still working in Middlebury as much as in past years to help support Doug MacCallum.

Qualified, unbiased financial advice
CFSG once again managed to outperform the S&P 500 index in 2012, as well as for the corresponding 3, 5 and 10 year periods. CFSG employs several trust officers with considerable fiduciary experience to manage client accounts. Most employees have between 15 to 30 years of trust and investment experience and three CTFAs and one CFP are on staff to provide substantive comprehensive financial advice from trust officers who are salary-based and not commission-based employees.

Contacting us
If you wish to receive trust or investment advice, please call CFSG toll-free at 877-334-1677 or e-mail us on our website at www.cfsgtrust.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.
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Linda K. Harmon  Lawrence W. Miller II  Sarah D. Stahl

Robert J. Duclos, Director Emeritus
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Lawrence W. Miller II, Secretary
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Amy Prior, Bristol Community Lender
Lindsey Wing, Middlebury Community Lender
Meaghan McLaughlin, Middlebury Community Lender

Staff of National Bank of Middlebury

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Wendy Truax
Cathy Trudel
Catherine Wall
Michele Warren
Geraldine Welch
Marnie Wikel
C. Lynne Wiley
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

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