Dear Shareholder,

Earnings continued to improve in 2016. Deposits grew, interest expenses remained low, we grew our loan portfolio, and non-interest income was bolstered by healthy secondary market loan activity and profit from our trust company. Improving asset quality meant that we did not need to grow the loan loss reserve at the rate we had anticipated. Net income improved 29.56% over 2015.

Deposit account balances grew in both retail and commercial checking accounts with the greatest increase in small business checking accounts and municipal investment accounts. Deposit market share in the Brandon, Hinesburg, and Vergennes offices grew in 2016 resulting in an overall increase of $11.6 million in deposits. Funds in certificate of deposit accounts decreased 6.29% and as a result, interest expense declined 17.06%.

Loan growth occurred in both residential and commercial loans. Our business and community lenders originated $38.9 million more in total loans in 2016 than 2015, a 51% increase. Our commercial loan portfolio grew 2.36% and our municipal loan portfolio grew 67.5%. A selection of these loans, customers and projects are highlighted in this report and feature several towns in our market. It was a successful year for residential lending with on-balance sheet loans growing by $13 million and total residential loans serviced increasing by $3.2 million. Low rates fueled more rounds of refinancing in 2016, generating income from loan sales. Refinancing inevitably slowed as rates began to rise. We are maximizing our opportunities to earn the mortgage loan business that results from steady home purchase and construction activity in our market.

Asset quality improved and additions to the loan loss reserve slowed. We will maintain an adequate reserve to accommodate loan growth and assure preparedness for future credit losses. The local economy appears stable based on our lending activity, but there are signs that the Vermont economy may be weakening slightly.

Expenses have been increasing in the areas of technology, particularly hosted banking applications, card processing and cybersecurity tools. From a strategic and risk management point of view, these expenditures would be necessary regardless of company growth. Other expenses have been managed carefully in order to allow the improving margin to result in increasing profitability. Non-interest expenses grew 3.05% in 2016 while the margin, net interest income, improved 5.07%.

Our trust and investment affiliate, Community Financial Services Group, ended the year with $521 million in assets under management, $615 million with brokerage accounts included, and contributed $424,000 to the bank’s non-interest income.

National Bank of Middlebury’s dedicated employees are the key to our success. NBM’s strength and stability comes from the depth of the staff’s experience and comprehensive understanding of the markets we serve. As we emerge from an unprecedented low rate environment, we take with us the accumulated knowledge and experience to serve our communities through whatever future economic challenges come our way.

Sincerely,

Caroline R. Carpenter

Executive Vice President
Founded in 1996, Optimal Energy in Hinesburg provides a full range of energy efficiency consulting and specializes in assessing, developing, designing, planning and launching energy efficient programs that address the needs of stakeholders in a balanced fashion. NBM was pleased to be part of a relocation project that equipped their facility with LED lighting and occupancy sensors throughout and that helped execute a 7.2kW solar PV array that provides the majority of the building’s electricity needs.

“We have been dealing with NBM for our entire 20 year history as we have grown from four employees to 14 and into two locations. At every step of the way, NBM has been ready to help with advice on real estate and business lending and support. Both Phil (Mosenthal, Partner) and I use NBM for our personal banking as well and readily recommend the bank to others. There has just never been a reason to entertain the services of another lending institution.”

— Eric Belliveau, Partner

Being a community bank means serving the individual needs of each of our customers: a first grader in a School House Savings program, a young adult with his or her first checking account, a family looking for a new home, an entrepreneur with big dreams, a business owner looking to expand, a town working to improve infrastructure, a developer building affordable housing, a senior planning retirement...

We are proud to play an important role in our local economy and we are dedicated to serving and strengthening all aspects of its vitality. We strive to support the individuals, organizations and businesses that are our communities’ economic backbone and are committed to continuing this effort for many years to come. After all, as one of our customers recently reminded us,

“You can’t fake local.”

WE DON’T HAVE TO—IT’S WHAT WE’RE ALL ABOUT.
Claybrook at Vergennes is thoughtfully planned, beautiful, affordable community housing within walking distance of Vergennes downtown.

“I want to express thanks for a great year working with National Bank of Middlebury. You made what is normally a complicated loan process straight-forward and efficient. The speed in which we obtained our loan enabled us to start infrastructure in the spring and make sales in the summer and fall. Activity at the Claybrook at Vergennes project is strong and we are looking forward to a productive 2017.”

NBM is pleased to have been a part of building a new Bristol Fire Station. From Bristol Town Administrator, Therese Kirby, “The much revered old station was built in 1897 and was literally crumbling. The new Bristol Fire Department building has been designed to meet the needs of the community for the next 100 years and will house all the apparatus and operations in one place. It will be a safer, healthier work environment for firefighters and will have handicapped accessibility for the public.”

The Congregational Church of Middlebury was completed in 1809 at a cost of $9000. It is considered architect Lavius Fillmore’s masterpiece. It is a vital, evolving symbol of community outreach and inclusion in the heart of Middlebury Village.

“It is a pleasure to have a local bank work with us on a project that is intended to welcome one and all. Our expansion will not only increase our space, it will also increase space for the Charter House Coalition and their needs.”

One of the first things that comes to mind when you say ‘Vermont’ is agriculture. Agriculture is more than farms; it also includes businesses that support farms. Lawes’ AG has been serving the agricultural needs of Vermont, Eastern New York and Western New Hampshire since 1986.

NBM was pleased to be part of their project to install solar panels on their facility in Brandon.

“National Bank of Middlebury is very easy to work with and willing to go the extra mile to understand our business and structure financing to meet our needs.”
DIRECTORS OF MIDDLEBURY NATIONAL CORPORATION AND NATIONAL BANK OF MIDDLEBURY

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Michael G. McLaughlin
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Kylie L. Felion Community Office Manager
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Beth S. Buckman Community Lender

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Karen Sinnock
Eleanor Smith
Bhrea Strand
Marion Sullivan
Sandra Trombley
Michele Warren
OFFICE AND DRIVE-UP LOCATIONS

Main Office
30 Main Street
Middlebury

Drive-up Office
15 Seymour Street
Middlebury

Route 7 South Office and Drive-up
240 Court Street
Middlebury

Brandon Office
5 Carver Street
Brandon

Bristol Office and Drive-up
28 Main Street
Bristol

Hinesburg Office and Drive-up
140 Commerce Street
Hinesburg

Vergennes Office and Drive-up
29 Green Street
Vergennes

ATM LOCATIONS

Offices with ATMs:
Main Street
Seymour Street
Route 7 South
Brandon
Bristol
Hinesburg
Vergennes

Additional ATMs:
Middlebury College Student Center
Middlebury College Library

PO Box 189
Middlebury, Vermont 05753-0189
Connecting all offices: 802-388-4982 or 877-508-8455
nbmvt.com

COMMUNITY FINANCIAL SERVICES GROUP

Community Financial Services Group (CFSG) is the trust and investment management affiliate of National Bank of Middlebury. CFSG is a Vermont-based trust company with local offices in Middlebury, South Burlington and five other regional towns. CFSG has been providing trust and investment management services for clients since 1926. Their seasoned staff specializes in providing unbiased, comprehensive financial advice, managing over $500 million in assets.

CFSG’s investment strategy is to make sure they understand the client’s complete financial picture before providing sound advice to address needs and goals. They assist with investment and asset management, retirement planning, education planning, trust & estate planning, retirement planning for businesses and strategies to minimize taxes.

CFSG can be contacted toll-free at 877-334-1677, through their website at www.cfsgrust.com or by calling National Bank of Middlebury toll-free at 877-508-8455.

CFSG: Paul Valente and Tom Bright