

Middlebury National Corporation



2005 Annual Report

IN MEMORIAM



Walter E. Brooker
*Director, Middlebury
 National Corporation
 and National Bank of
 Middlebury
 1970-1991*



Richard E. Pominville
*Director, Middlebury
 National Corporation
 and National Bank of
 Middlebury
 1973-2002*



Donna K. Otis
*Vice President,
 Bristol Branch Manager,
 National Bank of
 Middlebury
 1995-2004*



Denton L. Lyon
*Director, Middlebury
 National Corporation
 and National Bank of
 Middlebury
 1980-2005*



2005

M I D D L E B U R Y N A T I O N A L C O R P O R A T I O N & S U B S I D I A R Y A N N U A L R E P O R T

DEAR SHAREHOLDER:

Challenges in our business come in many forms and last year brought us a new one. 2005 presented us with a flattening yield curve in a rising-rate environment that squeezed our net interest margin significantly. Despite this, we recognized very good deposit inflows, solid growth in our loan portfolio, and an incremental increase in net income.

Assets grew 13.4% in 2005. Two factors contributed to this growth. In April, we completed a leverage transaction in which we borrowed \$10 million from the Federal Home Loan Bank of Boston and reinvested it in tax-advantaged municipal securities at a comfortable margin. Also, our loan officers were successful in originating over \$75 million in loans, a 33% increase over 2004, and in growing the loan portfolio by 10.7%.

On the liability side of the balance sheet, deposits increased a healthy 12.5%. We realized a \$12.7 million growth in our checking-account base. An \$8.2 million jump in certificates of deposit offset a \$7.5 million drop in savings and money market accounts as customers began to lock into higher interest rates. A decline of \$5.7 million in our repurchase agreements (much of which was transferred to money market accounts) offset the deposit growth somewhat, so that our net funding from customers increased 9.7%. Shareholder equity grew 3.8%.

The income statement showed good growth in interest income of 17%, but was victimized by a 92% increase in funding costs. As a result, net interest income grew 6.0%. Other operating income was up 5.9% over 2004 due in large part to continued growth in debit-card usage and receipt of accompanying interchange fees, as well as a \$70,000 growth in gain on sale of loans. Our operating expense grew 10%, absorbing almost all of the gross profit improvement. Expense growth has been centered in salaries and benefits as we build staff to meet the expanding needs of our customers and absorb significant increases in health insurance costs. The result was an incremental 1.0% improvement in net income.

Our stock price fluctuated a bit in 2005. The four 2004 auctions yielded an average selling price of \$35.74 per share. While we saw some ups and downs in 2005, the average price for the year was \$35.19 per share, with the last auction in December settling out at \$35.56 per share.

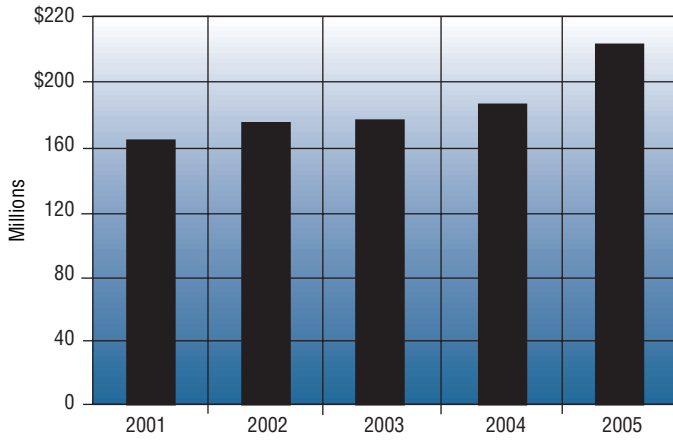
We are very pleased with our success in the marketplace. It is primarily attributable to one thing, people. In this annual report, we highlight the service of four members of the National Bank of Middlebury family who passed away in 2005: Walter Brooker, Denton Lyon, and Richard Pominville, director emeriti, and Donna Otis, our former Bristol branch manager. We also celebrate the dedication of the Duclos Building to Bob Duclos, former president and chief executive officer, who retired from our board in June after over fifty years of service to the bank. Finally, we put the spotlight on six bank employees: Laura Adams, Jane Beck, Justin Brande, Diane Cadoret, Madeline Gardner, and Wendy Shaw, who achieved longevity milestones over the last year. They represent virtually all corners of the bank's operation and are all integral to the bank's continued success.

We thank you, our shareholders, for your confidence in our operation and your assistance in maintaining a positive workplace for our staff, officers, and directors.

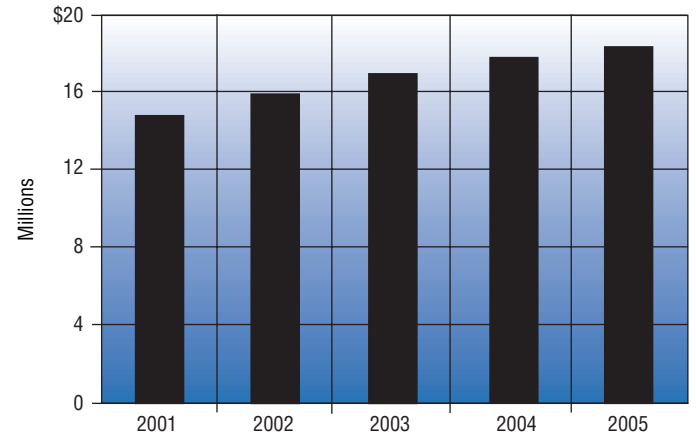
Sincerely,

G. Kenneth Perine
Executive Vice President

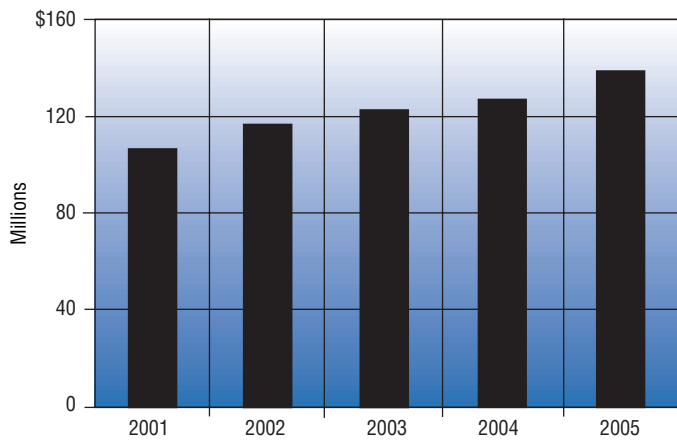
Total Assets



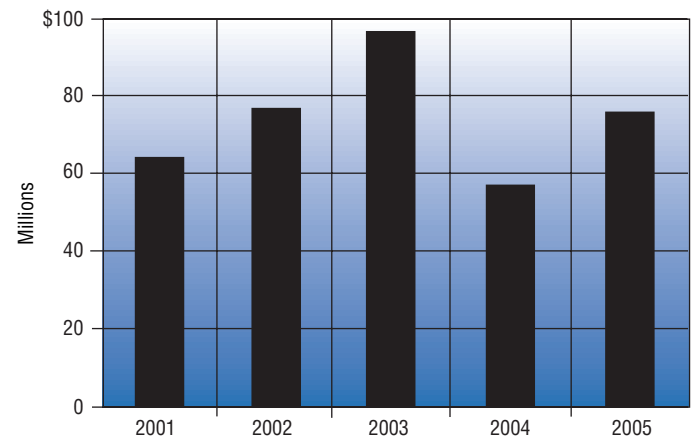
Shareholders' Equity



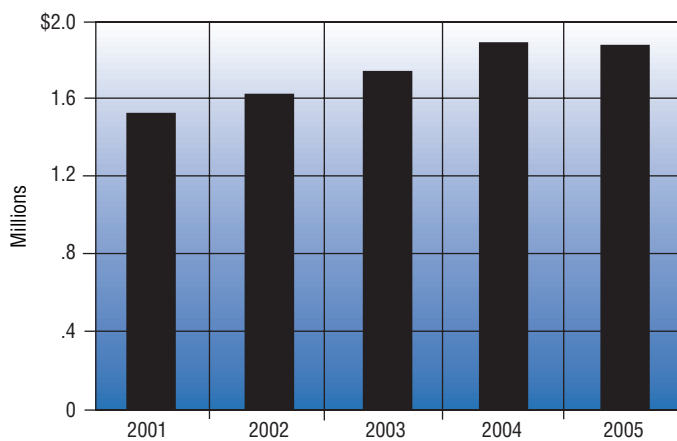
Total Loans



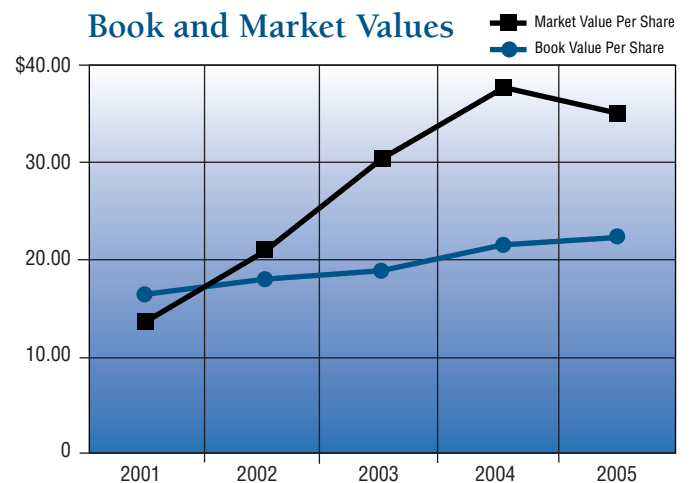
Loan Originations



Net Income



Book and Market Values





Service



Robert J. Duclos

FIFTY-FOUR YEARS OF SERVICE

Robert J. Duclos was hired at National Bank of Middlebury in 1951. He began his career as a teller and quickly rose in the ranks to cashier and, ultimately, chief executive officer of the bank in 1964. When Bob handed over the reins of the presidency in January 1992, his service and impact on the bank did not end. He continued as a director of the bank and president of Middlebury National Corporation, the bank's holding company, until his retirement from the bank board and the corporation on June 29, 2005. It was in this most recent role that Bob spearheaded the careful historic renovation of the Beckwith Block in 1996 and 1997. His skills as a carpenter and cabinetmaker were put to good use in ensuring a quality rehabilitation of this stately building at 22 Main Street. Indeed, the restoration project received the 1997 Preservation Trust of Vermont Award for outstanding work in preserving Vermont's architecture. At a ceremony on November 23, 2005, this grand building was dedicated to Bob and is now known as the Duclos Building, a fitting and tangible tribute to the man who brought National Bank of Middlebury into the twenty-first century.



John M. McCardell, Jr. Vice Chairman of the board of directors of National Bank of Middlebury, speaks to Bob and Anita Duclos at the unveiling of the Duclos Building plaque on November 23, 2005.

ONE HUNDRED EIGHTY-TWO YEARS OF SERVICE AND COUNTING



- Madeline E. Gardner**45 Years
Vice President, Mortgage Loan and Security Officer
- Diane R. Cadoret**40 Years
Mortgage Process Coordinator
- Justin C. Brande**30 Years
Senior Vice President, Chief Financial Officer
- Laura J. Adams**25 Years
Senior Vice President, Operations Department Manager
- Wendy M. Shaw**22 Years
Deposit Services
- Jane M. Beck**20 Years
Information Systems Manager



Front from left to right: Wendy M. Shaw and Justin C. Brande. Back from left to right: Jane M. Beck, Laura J. Adams, Madeline E. Gardner and Diane R. Cadoret.



2005

MIDDLEBURY NATIONAL CORPORATION & SUBSIDIARY ANNUAL REPORT

You talked. . .

OFFICER CALL PROGRAM

Our Officer Call Program is designed to ensure regular visits to our customers' places of business. On-site visits help us obtain first-hand knowledge of our customers' operations and enable us to prepare more effective solutions to their business needs. In 2005, our loan officers made 450 visits to area businesses.



Shawn Davis greets John Rouse of Rouse Tire Sales.



VIP LUNCHEONS

VIP luncheons bring commercial customers into the bank in small groups to meet with the bank president and officers. These intimate gatherings of non-competing business people provide a comfortable environment for sharing business problems and to hold frank and open discussions about the local economy.

. . . *w e l i s t e n e d !*

OUR NEW HORIZONS CLUB ADVISORY COUNCIL

Our New Horizons Club Advisory Council helps its program director, Charlotte Birchmore, choose exciting new venues for our club trips as well as plan educational seminars and fun activities. Based on the Advisory Council's input, we traveled to the British Isles and the Rocky Mountains, held classes on card-making and painting, sponsored a defensive driving course, and enjoyed an evening with Kenny Rogers and Kristi Yamaguchi at the Pepsi Arena in Albany, New York.



Our New Horizons Club Advisory Council.

CUSTOMER SURVEY

Surveying our customer base is an important component of our Quality Service Initiative. We believe in actively measuring success and subscribe to a philosophy of continual improvement. Our most recent external customer survey* reported that 99.9 percent of all respondents said they would recommend National Bank of Middlebury to others. This lends credence to our motto, "We are the best provider of financial services in our market."

* Conducted by New Directions, Inc.





2005

M I D D L E B U R Y N A T I O N A L C O R P O R A T I O N & S U B S I D I A R Y A N N U A L R E P O R T

Community

SERVICE TO THE COMMUNITY

The greater Addison County community is an important stakeholder in the National Bank of Middlebury family. We recognize that the time we spend at our work accepting deposits, opening accounts, processing checks, and making loans, is only meaningful if we are helping our neighbors realize their dreams. Not all of these dreams are financial in nature, however. So, it is through volunteer service to our communities' myriad of social service agencies, civic organizations, and local schools that we can complete our mission.

In 2005, National Bank of Middlebury's directors, officers, and staff provided over 1500 hours of volunteer time to the following organizations:



Jane Beck, creating a web page for Court Diversion during the United Way of Addison County Days of Caring.

Salvation Army
Elderly Services
Porter Medical Center
Addison County Poverty Task Force
Interfaith Housing Corporation
United Way of Addison County
Youth Safety Council of Vermont
Addison County Home Health & Hospice
Addison County Chamber of Commerce
Patricia Hannaford Career Center
Middlebury Union High School
Hospice Volunteer Services
Middlebury ID #4
Town Hall Theater
Bristol Fire Department
RSVP and many more.

We at National Bank of Middlebury clearly recognize that a community bank is as much about community as it is about banking.

COMMUNITY FINANCIAL SERVICES GROUP, LLC

Community Financial Services Group, LLC (CFSG) has been providing investment management, estate planning and trust services for four years. CFSG has trust assets under its supervision in excess of \$138 million and advises brokerage relationships with assets exceeding \$70 million.

CFSG has full service office locations in Middlebury, Barre, and Newport, Vermont, plus one in Littleton, New Hampshire. The company is owned equally by three community banks including the National Bank of Middlebury.



Trust officer Doug MacCallum with Community Financial Services Group president, William Heaslip.

CFSG focuses on providing investment solutions with oversight at the highest level of responsibility in acting as a fiduciary. The company is known for exceeding client expectations and commitment to quality advice and recommendations. A unique attribute of CFSG is that its staff will meet with anyone regardless of the amount of liquid assets. CFSG provides individually tailored portfolios based on client circumstances and level of risk.

Relationships include investment agency accounts, trusts, estate settlement, employee benefit plans and IRAs. In addition, many individuals seek out financial and estate planning help from CFSG.

Doug MacCallum is available full time in National Bank of Middlebury's main office to provide investment and planning solutions.



cfsitrust.com

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



2005

Directors & Officers

DIRECTORS OF MIDDLEBURY NATIONAL CORPORATION AND NATIONAL BANK OF MIDDLEBURY

Caroline R. Carpenter	Linda K. Harmon	Lawrence W. Miller
Paul J. Carrara, Jr.	Roch F. MacIntyre	G. Kenneth Perine
Edward M. Foster	John M. McCardell, Jr.	Sarah D. Stahl

Robert J. Duclos, Director Emeritus



FRONT ROW, Left to right: Linda K. Harmon, Caroline R. Carpenter, Sarah D. Stahl.
BACK ROW, Left to right: Edward M. Foster, G. Kenneth Perine, John M. McCardell, Jr.,
Roch F. MacIntyre, Paul J. Carrara, Jr., Lawrence W. Miller.

OFFICERS OF MIDDLEBURY NATIONAL CORPORATION

Sarah D. Stahl, *President*
 G. Kenneth Perine, *Executive Vice President*
 Edward M. Foster, *Secretary, First Vice President*
 Justin C. Brande, *Treasurer*

Bank Officers & Staff

OFFICERS OF NATIONAL BANK OF MIDDLEBURY

Edward M. Foster, *Chairman*
 John M. McCardell, Jr., *First Vice Chairman*
 Roch F. MacIntyre, *2nd Vice Chairman*
 Sarah D. Stahl, *Clerk*
 Paul J. Cararra, 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*
 Ethan A. Allen, Jr., *Vice President*
 Madeline E. Gardner, *Vice President*
 Grover K. Usilton, *Vice President*
 Kerry D. Bolduc, *Assistant Vice President*
 Shawn M. Davis, *Assistant Vice President*
 Julie L. Heffernan, *Assistant Vice President*
 Theresa A. Gile, *Bristol Branch Manager*
 Jo Holm-Hansen, *Customer Sales and Service Manager*
 Christine G. Wagner, *Deposit Operations Manager*

STAFF OF NATIONAL BANK OF MIDDLEBURY

Courtney Allenson	Jodi Collins	Judy Langeway	Heather Roberts
Kevin Baussmann	Laurie Conant	Cathy LaRoche	Claire Seminario
Valerie Beach	Roxann Cousino	Christine Lathrop	Jeanne Shaughnessy
Jane Beck	Donna Donahue	Judith Leavstrom	Wendy Shaw
Charlotte Birchmore	Kimberly Estey	Linda Lunna	Karen Sinnock
Elizabeth Birdsall	Delsie Farnsworth	Lindsey Martin	Bhrea Strand
Carole Boise	Laura Galvin	Richard Martineit	Betsy Sullivan
Brenda Bourdeau	Jennifer Gebo	Rose Menard	Sandra Trombley
Joel Bouvier	Susan Gebo	Beth Miller	Wendy Truax
Danielle Briggs	Lisa Griner	Lorraine Morse	Cathy Trudel
Melissa Brittell	Shannon Hanlon	Deneen New	Sheila Varnal
Donna Brown	Cassidy Heisler	Melissa Nolan	Catherine Wall
Sharon Brown	Carrie Huestis	Karen Osborn	Michele Warren
Stacey Brown	Shane Kean	Sarah Paquette	Geraldine Welch
Diane Cadoret	Edmond Kelly, Jr	Rebecca Perkins	Lynne Wiley
Kimberly Ceccoli	April Lafayette	Amanda Quesnel	



2005

Locations

OFFICE LOCATIONS



The Duclos Building

Main Office
30 Main Street
Middlebury

Drive-In Office
15 Seymour Street
Middlebury

Route 7 South Office
240 Court Street
Middlebury

Drive-In Office
240 Court Street
Middlebury

Bristol Office
28 Main Street
Bristol

Drive-In Office
28 Main Street
Bristol

ATM LOCATIONS

Main Office
30 Main Street
Middlebury

Blue Hen Kitchen & Market
54 College Street
Middlebury

Middlebury College
• Student Center
• Library

Route 7 South Office
240 Court Street
Middlebury

Bristol Office
28 Main St.
Bristol

Hannaford Career Center
51 Charles Avenue
Middlebury



**National Bank
of Middlebury**

Putting You First Since 1831

PO Box 189
Middlebury, Vermont 05753-0189

Connecting all offices: 802-388-4982
www.nationalbankmiddlebury.com
email: info@nationalbankmiddlebury.com

EEOE: National Bank of Middlebury proudly supports Equal Employment Opportunities.

