



## **Corporate Governance Guidelines**

Approved by the Board on February 13, 2017

### **Introduction**

The Board of Directors of Middlefield Banc Corp. (the “Company”), acting on the recommendation of its Corporate Governance and Nominating Committee, has developed and adopted a set of corporate governance principles (the “Guidelines”) to promote the functioning of the Board and its committees and to set forth a common set of expectations as to how the Board should perform its functions.

### **Board Composition**

#### ***Size of Board:***

The size of the Board should facilitate substantive discussions of the whole Board in which each director can participate meaningfully. According to Article III, Section 2 of the Company’s regulations, the Board may consist of no fewer than five and no more than twenty-five directors, the precise number being fixed from time to time within that range by the Board or by majority vote of the shareholders acting at an annual meeting.

The Board should have a significant majority of independent directors. A limit on the number of inside or non-independent directors has not been established so as to provide the Board flexibility in responding to changing circumstances such as future acquisitions or management succession planning. It is the expectation of the Board that the number of inside or non-independent directors will be strictly limited.

#### ***Membership Criteria:***

The composition of the Board should encompass a broad range of skills, expertise, industry knowledge, and diversity of opinion with a reputation for integrity.

Each director must also comply with the share ownership requirements as further described in these Guidelines.

***Independence Requirement:***

A majority of the Board shall consist of directors whom the Board has determined have no relationship that would interfere with the exercise of independent judgment in carrying out responsibilities as a director of the Company and who are otherwise “independent” under the NASDAQ listing standards in effect from time to time.

**Selection of Chairman of the Board and Chief Executive Officer**

The Board may select its Chairman and the Company’s Chief Executive Officer in the manner it considers in the best interests of the Company at any given point in time. These positions may be filled by one individual or by two different individuals.

**Selection of Directors**

***Nominations***

The Board is responsible for selecting the nominees for election to the Company’s Board of Directors. The Company’s Corporate Governance and Nominating Committee is responsible for recommending to the Board a slate of directors or one or more nominees to fill vacancies occurring between annual meetings of shareholders.

For purposes of identifying nominees for the Board, the Board will rely on personal contacts of the Board as well as its knowledge of members of the local communities. The Board will also consider director candidates recommended by stockholders in accordance with the policies and procedures set forth in Article III, Section 4 of the Company’s regulations.

In evaluating potential candidates, the Board will determine whether the candidate is eligible and qualified for service on the Board by evaluating the candidate under the membership criteria set forth above. In addition, the Board will conduct a check of the individual’s background and will interview the candidate.

***Criteria***

The Board should, based on the recommendation of the Corporate Governance and Nominating Committee, select new nominees for the position of director considering the independence requirements under the NASDAQ rules and the following criteria:

- Personal qualities and characteristics, accomplishments, and reputation in the business community;
- financial, regulatory, and business experience;

- Current knowledge and contacts in the communities in which the Company does business;
- Ability and willingness to commit adequate time to Board and committee matters;
- The fit of the individual's skills with those of other directors and potential directors in building a Board that is effective and responsive to the needs of the Company;
- Independence; and
- Diversity of viewpoints, background, experience and other demographics.

### ***Invitation***

The invitation to join the Board should be extended by the Board itself via the Chief Executive Officer of the Company and Chairman of the Board of Directors.

### ***Orientation and Continuing Education***

Management, working with the Board, will provide an orientation process for new directors, including background material on the Company, its strategic and operating plans, its risk profile, corporate governance, and meetings with senior management. Periodically, management will provide additional educational sessions for directors on matters relevant to the Company, its strategic and operating plans, its risk profile, and corporate governance.

### **Election Term**

The Board does not believe it should establish term limits. As an alternative to term limits, the Corporate Governance and Nominating Committee will review each director's continuation on the Board at re-election. The Corporate Governance and Nominating Committee will consider and review an existing director's board and committee attendance and performance; length of board service; experience, skills, contributions that the existing director brings to the board; and independence. This will allow each director the opportunity to conveniently confirm his or her desire to continue as a member of the Board.

### **Retirement of Directors**

Upon reaching the age of 75, directors may serve on the Board until their term ends. Directors may not stand for re-election after their 75<sup>th</sup> birthday.

Any director who has held the office of Chief Executive Officer of the Company shall retire from the Board effective upon his or her resignation as Chief Executive

Officer unless requested by the independent directors to continue to serve as a director for a transitional term.

Any employee director should resign from the Board upon resignation, removal, or retirement as an employee of the Company or upon a change in present job responsibility.

In the event that the employment status of any director changes from the status held when they came on the Board, the Board, through the Corporate Governance and Nominating Committee, shall review the continued appropriateness of that director's Board membership.

### **Board Meetings**

The Board currently plans at least five meetings each year, with further meetings to occur at the discretion of the Board.

The Chairman and Chief Executive Officer will establish the agenda for each Board meeting. Management will seek to provide to all directors an agenda and appropriate material in advance of meetings, although the Board recognizes that this will not always be consistent with the timing of transactions and the operations of the business and that, in certain cases, it may not be possible. Each Board member is free to suggest the inclusion of items on the agenda. Each Board member is free to raise at any Board meeting subjects that are not on the agenda for that meeting. The Board will review the Company's long-term strategic plan and annual financial plan each year.

Materials presented to the Board or its committees should be as concise as possible, while still providing the desired information needed for the directors to make an informed judgment.

### **Executive Sessions**

To ensure free and open discussion and communication among the independent directors of the Board, the independent directors will meet in executive sessions with no other directors present at least twice per year, and more frequently as necessary or desirable, in conjunction with regularly scheduled meetings of the Board. The Chairman of the Board, provided he or she is an independent director, will preside at the executive sessions. Otherwise, the independent directors shall designate a lead director who will oversee the executive sessions.

## **The Committees of the Board**

The standing committees of the Board are the Audit Committee, the Compensation Committee, the Corporate Governance and Nominating Committee and the Executive Committee. The Board may, from time to time, establish or maintain additional committees as necessary or appropriate. All committees report to the Board, and all significant findings of a committee are presented to the Board for discussion and review.

All directors, whether members of a committee or not, are invited to make suggestions to a committee chairperson for additions to the agenda of his or her committee or to request that an item from a committee agenda be considered by the Board. Each committee will determine which members of management will attend committee meetings and when to conduct executive sessions without management. Each committee chairperson will give a report of his or her committee's activities at the Board meeting next following the date of a committee meeting.

Each of the Corporate Governance and Nominating Committee, the Audit Committee, the Compensation Committee and the Executive Committee shall be composed of at least three directors whom the Board has determined are otherwise "independent" under the NASDAQ listing standards in effect from time to time. The required qualifications for the members of each committee shall be set out in the respective committees' charters. A director may serve on more than one committee for which he or she qualifies. The Board will determine membership on each committee. It is the sense of the Board that considerations should be given to rotating committee members periodically, but the Board does not believe that rotation should be mandated as a policy.

### **Executive Compensation**

#### ***Evaluating and Approving Salary for the Chief Executive Officer***

The Board, acting through the Compensation Committee, evaluates the performance of the Chief Executive Officer and the Company against the Company's goals and objectives and approves the compensation level of the Chief Executive Officer.

#### ***Evaluating and Approving the Compensation of Management***

The Board, acting through the Compensation Committee, evaluates and approves the proposals for overall compensation policies applicable to executive officers.

The Compensation Committee may periodically retain compensation consultants or other experts to assist the Committee in the performance of these responsibilities.

## **Management Succession**

Assuring that the Company has the appropriate management talent to successfully pursue the Company's strategies is one of the Board's primary responsibilities. Directors are expected to become sufficiently familiar with the Company's executive officers as to be able to offer personal feedback on the performance of such officers, and to become generally familiar with the Company's senior management. The Board should also see that potential successors are identified for the CEO position in the event of an emergency or his or her disability and shall identify successors for other key management positions.

## **Board Compensation**

The Compensation Committee should conduct a review annually of the components and amount of Board compensation in relation to other similarly-situated companies. The Compensation Committee will make recommendations to the Board as to the form and amount of director compensation for the Board's final approval. Board compensation should be consistent with market practices but should not be set at a level that would call into question the Board's objectivity.

## **Expectations of Directors**

The business and affairs of the Company shall be managed by or under the direction of the Board in accordance with Ohio law. In performing their duties, the primary responsibility of the directors is to exercise their business judgment in the best interests of the Company. The Board has developed a number of specific expectations of directors to promote the discharge of this responsibility and the efficient conduct of the Board's business.

## ***Commitment and Attendance***

All directors should make every effort to attend meetings of the Board and meetings of committees of which they are members. The Board strongly encourages directors to attend the Company's annual meeting of shareholders.

## ***Participation in Meetings***

Each director should be sufficiently familiar with the business of the Company, including its financial statements and capital structure, and the risks and competition it faces, to facilitate active and effective participation in the deliberations of the Board and of each committee on which he or she serves. Upon request, management will make appropriate personnel available to answer any questions a director may have about any aspect of the Company's business. Directors should also review the materials provided by management and advisors in advance of the meetings of the Board and its committees and should arrive prepared to discuss the issues presented.

### ***Continuing Education***

The Company shall endeavor to make available to directors educational opportunities pertinent to their service as directors, to enable the directors to better perform their duties and responsibilities and recognize and deal with the varied issues that might arise during their tenure as directors.

### ***Loan Default***

A director is expected to submit his or her resignation if a loan to the director, ~~or~~ to an entity controlled by the director, guaranteed by the director, or guaranteed by an entity controlled by the director is classified “doubtful” or “loss.”

### ***Loyalty and Ethics***

In their role as directors, all directors owe a duty of loyalty to the Company. This duty of loyalty mandates that the best interests of the Company take precedence over any personal interests possessed by a director.

The Company has adopted a Code of Conduct, including a compliance program to enforce the Code. The Code of Conduct applies to all Company employees, as well as to directors. Certain portions of the Code relate specifically to the activities of directors, particularly with respect to transactions in the securities of the Company, potential conflict of interests, the taking of corporate opportunities for personal use, and competing with the Company. Directors should be familiar with the Code’s provisions in these areas and should consult with the Company’s counsel in the event of any issues.

The Company has also adopted a Code of Ethics for Financial Professionals which applies to the Company’s chief executive officer, chief financial officer, and chief accounting officer or controller. The Corporate Governance and Nominating Committee shall monitor compliance with the Code of Conduct and the Code of Ethics for Financial Professionals.

### ***Other Directorships***

The Company values the experience directors bring from other boards on which they serve, but recognizes that those boards may also present demands on a director’s time and availability and may present conflicts or legal issues. Directors should advise the chairperson of the Corporate Governance and Nominating Committee and the Chief Executive Officer before accepting membership on other boards of directors or other significant commitments involving affiliation with other businesses or governmental units. There should be an opportunity for the Board, through the Corporate Governance and Nominating Committee, to review a director’s availability to fulfill his or her responsibilities as a director, including committee assignments, if the director serves on more than three other public company boards.

### ***Contact with Management***

All directors are invited to contact the Chief Executive Officer at any time to discuss any aspect of the Company's business. Directors also have complete access to other members of management. The Board expects that there will be frequent opportunities for directors to meet with the Chief Executive Officer and other members of management in Board and committee meetings and in other formal or informal settings.

Further, the Board encourages management to, from time to time, bring managers into Board meetings who: (a) can provide additional insight into the items being discussed because of personal involvement and substantial knowledge in those areas, and/or (b) are managers with future potential that the senior management believes should be given exposure to the Board.

### ***Contact with Other Constituents***

It is important that the Company speaks to the employees and outside constituencies with a single voice, and that management serves as the primary spokesperson.

### ***Confidentiality***

The proceedings and deliberations of the Board and its committees are confidential. Each director shall maintain the confidentiality of information received in connection with his or her service as a director.

### ***Share Ownership***

The Board has adopted stock ownership guidelines for directors of the Company, as well as for The Middlefield Banking Company. The guidelines state that within three years of being elected, directors should own Company common stock equal in value to at least two times a director's current yearly base compensation for service on The Middlefield Banking Company's board of directors. To further encourage alignment of director interests with those of the stockholders, the Board has determined that by the sixth anniversary of the director's initial election, the director should own Company common stock equal in value to three times a director's current yearly base compensation for service on The Middlefield Banking Company's board of directors.

These share ownership guidelines are calculated using the current yearly base compensation for director service as of the date the individual first joins the board of directors. Shares that count towards satisfaction of these guidelines include (i) shares owned outright by the director or his or her immediate family members residing in the same household and (ii) shares held in trust for the benefit of the director or his or her family. Shares that do not count toward these ownership guidelines include unexercised stock options and shares of restricted stock for which restrictions have not yet lapsed.



After satisfying the minimum director share ownership requirements, a director shall be required to continue to maintain and hold that amount until he or she leaves the board of directors. These guidelines may be waived, at the discretion of the Board, if compliance would create severe hardship.

### **Shareholder Communications**

The Company has established several means for shareholders or others to communicate their concerns with the Board. If the concern relates to the Company's financial statements, accounting practices, or internal controls, the concern should be submitted in writing to the Chairman of the Audit Committee in care of the Company's Secretary at the Company's headquarter address. If the concern relates to the Company's governance practices, business ethics, or corporate conduct, the concern should be submitted in writing to the Chairman of the Corporate Governance and Nominating Committee in care of the Company's Secretary at the Company's headquarter address. If the shareholder is unsure as to which category his or her concern relates, he or she may communicate it to any one of the independent directors in care of the Company's Secretary.

### **Evaluating Board Performance**

The Board, acting through the Corporate Governance and Nominating Committee, should conduct a self-evaluation at least annually to determine whether it is functioning effectively. The Corporate Governance and Nominating Committee should periodically consider the mix of skills and experience that directors bring to the Board to assess whether the Board has the necessary tools to perform its oversight function effectively.

Each committee of the Board should conduct a self-evaluation at least annually and report the results to the Board, acting through the Corporate Governance and Nominating Committee. Each committee's evaluation should compare the performance of the committee with the requirements of its written charter, if any.

### **Reliance on Management and Other Advisors**

In performing its functions, the Board is entitled to rely on the advice, reports, and opinions of management, counsel, accountants, auditors, and other expert advisors. The directors shall be entitled to have the Company provide reasonable directors' and officers' liability insurance on their behalf, to the benefits of indemnification to the fullest extent permitted by law and the Company's Articles, Code of Regulations, and any indemnification agreements, and to exculpation as provided by state law and the Company's Articles.