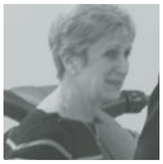
mbc
Middlefield Banc Corp.

annual report 2003





dedicated to your future…

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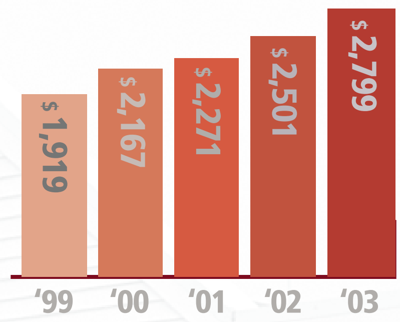
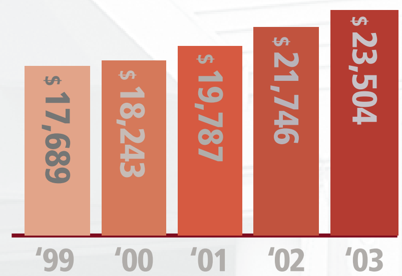
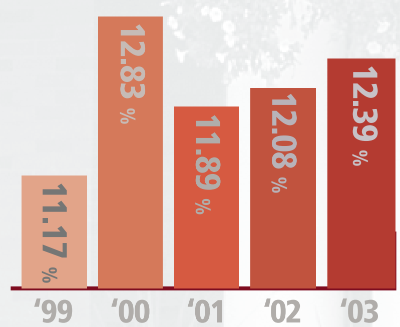


Net Income

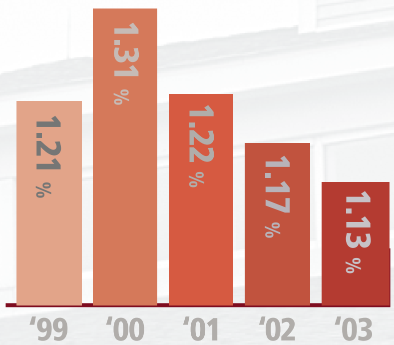


Equity Capital

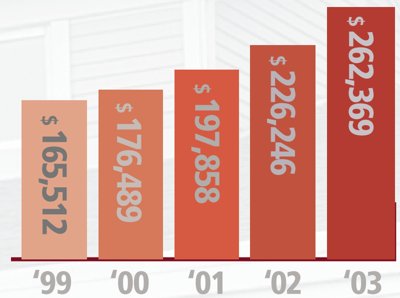


Return on Average Equity

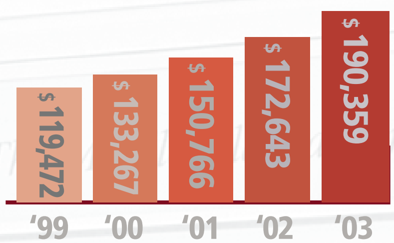
Statistical Summary



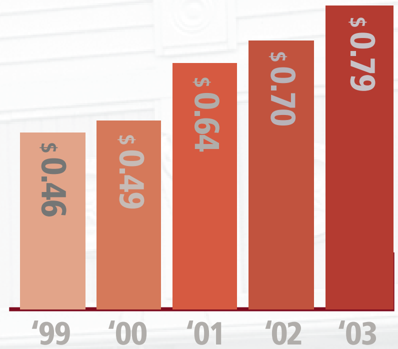
Return on Average Assets



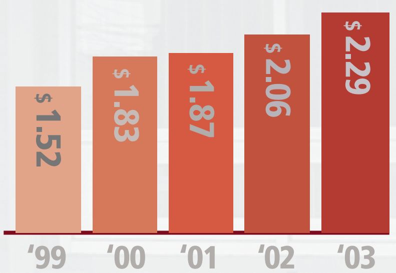
Total Assets



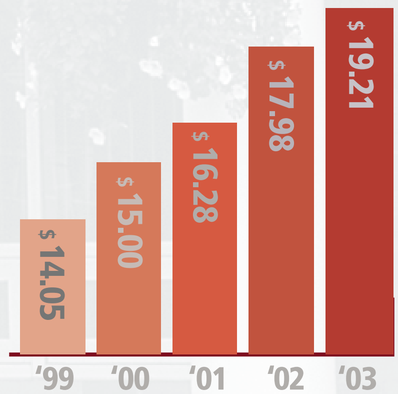
Net Loans Outstanding



Dividends Per Share



Earnings Per Share

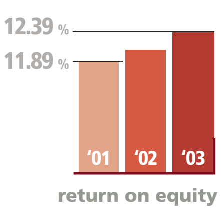


Book Value Per Share

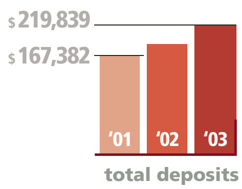
The year 2003 was one filled with many challenges. Our country became engaged in conflict on the other side of the globe. Interest rates remained at historically low levels. Corporate governance issues and increased regulation remained at the forefront of business news. Closer to home, the Ohio Legislature enacted an increased sales tax and added many additional fees that impacted our operation.

As you review the enclosed chronicle of our performance, I believe you will agree that we were modestly successful in turning these challenges into viable opportunities. Our record earnings performance reflects the cooperative efforts and dedication of many fine people. To those Employees, Officers, and Directors, we extend our sincere appreciation.

Earnings for 2003 were $2,798,620 compared to $2,500,949 for 2002. On a per share basis, earnings were $2.29 for the twelve months ended December 31, 2003, compared to $2.06 for the prior twelve month period. This represents an increase of 11.17% and considers the 5% stock dividend paid to our shareholders in the fourth quarter of 2003.



Our balance sheet on December 31, 2003, also showed positive growth, with assets up 15.9% at $262,369,448, loans up 10.3% at $190,358,883, deposits up 17.3% at $219,839,910, and Stockholders' Equity up 8.08% at $23,504,314. We closed the year with a Return on Average Assets of 1.13% and a Return on Average Equity of 12.39%.



Last year in this letter, we introduced our new logo for Middlefield Banc Corp. and The Middlefield Banking Company. Designed to better reflect the dynamic, forward-looking nature of your company, this change proved to be very well received within our communities. Along with this change, we have committed to increasing our marketing expenditures in an effort to build awareness and profitably grow your company.

In April of 2003, we opened an office in Orwell, Ohio. This, our first venture into Ashtabula County, has produced very promising results. Both loan and deposit totals have exceeded our initial projections. Another exciting business line was added in August. In cooperation with UVEST Financial Services® we opened a full service brokerage office. Staffed by an experienced, licensed financial representative we are now offering a broader array of investment and savings options.

It is with pleasure that we are also able to report continued success with our electronic banking delivery activities. EasyLine, our voice response banking system, saw growth in usage of over 10% during the year. The flexibility and acceptance of this product is also found in EasyLink, our Internet banking solution. You may enjoy the convenience of banking with us from nearly anywhere in the world at www.middlefieldbank.com. If you have not yet become familiar with this service, and its electronic bill payment function, we urge you to do so.

With all of the negative media coverage on poor corporate stewardship, we want to assure you that we have taken, and continue to take, appropriate measures to ensure the integrity of your company. As we noted last year, we have engaged three separate firms that provide us with independent audit services, internal audit services, and independent loan review.





To Our Shareholders and Friends

Earlier this year, in following with the recommendations of various regulatory agencies, your Board has created a Corporate Governance and Nominating Committee. This committee is composed entirely of independent directors and is charged with promoting and protecting the investment of shareholders.



Our shareholders received a 5% share dividend in the fourth quarter of 2003. Middlefield Banc Corp. is building a history of declaring stock splits and share dividends, which have rewarded shareholders for the company's growth and performance. Shareholders benefited from a five for one stock split in 1995, 10% share dividends in 1997 and 1998, a two for one stock split in 2000, and 5% share dividends in 2002 and 2003. A shareholder owning 100 shares in 1994 would now own 1,333 shares. Dividends on these shares, at our current rate of $0.21 per quarter, would total in excess of $1,100 a year. Of course, we welcome you to re-invest those funds in your company through our Dividend Reinvestment Plan.

As a part of our strategic planning process near the end of 2003, we identified seven Core Values that we fully believe will work to make us a better organization and add value to your investment. We feel it important to share these with you and have included them following this letter. Additionally, during that endeavor, we strongly reaffirmed our commitment to remain an independent, community-oriented financial services company. We have taken an introspective look and come away with a strong understanding of our direction and desire to properly reward you, our shareholders.

We have written in the past of the uncertainties that confront us in the year ahead. 2004 would seem to be just one step up in that path. The financial services industry is, once again, undergoing a period of consolidation, as evidenced by the fact that two of our direct competitors will experience new ownership in a few months. The pattern of election year activities stands poised to add to the mix of items that we may need to address. The potential for rising interest rates and continued global unrest are also present.

Perhaps it is true that the more things change, the more they stay the same. In the face of these concerns, may we assure you that all of us at your company take very seriously the charge presented – to prove capable and prudent stewards of Middlefield Banc Corp. and The Middlefield Banking Company. We thank you for your support and welcome the continued opportunity to serve you.

Sincerely,

Thomas Caldwell

Thomas G. Caldwell
President and Chief Executive Officer

Donald D. Hunter

Donald D. Hunter
Chairman, Board of Directors

Customer Service: *We will treat all customers in a manner that is both personal and caring. We will show genuine concern and respect for them as individuals.* ***Honesty and Integrity:*** *It is imperative that our customers trust us to do business in an ethical manner. We will always honor our commitments, keep our promises, and do the right thing.* ***Efficiency:*** *In order to be successful and to remain competitive, we must keep our costs at a reasonable level, strive to improve productivity, and continue to become more efficient in the way we conduct our business.* ***Team Focus:*** *Believing that our people are key to our success, we are dedicated to a well-educated and highly skilled workforce. We are one team sharing one focus.* ***Community Commitment:*** *Actively participating and investing in our communities is at the foundation of our organization. It is important to provide leadership within our communities and to offer our time, talent, and dollars.* ***Proactive Approach:*** *In order to be responsive to our customers' needs, we approach banking in a proactive, flexible, and positive manner. We strive to be creative in solutions to problems, recognizing them as improvement opportunities.* ***Shareholder Commitment:*** *Our shareholders have expressed their belief in us and it is our duty to be responsible stewards of their investments. Prudent and fiscally responsible management will provide both short-term and long-term value to our shareholders.*

	1994	1995	1996
Interest Income	$9,512,712	$10,336,464	$10,375,117
Interest Expense	$4,200,784	$4,855,690	$4,985,064
Net interest Income	$5,311,928	$5,480,774	$5,390,053
Provision for loan loss	$198,000	$240,000	$351,000
Net interest Income After Provision for loan losses	$5,113,928	$5,240,774	$5,039,053
Noninterest Income, Including Security Gains/Losses	$327,607	$355,149	$586,328
Nonintest Expense	$3,076,058	$3,221,651	$3,245,926
Income Before Income Taxes	$2,365,477	$2,374,272	$2,379,455
Income Taxes	$651,000	$681,660	$657,000
Net Income	$1,714,477	$1,692,612	$1,722,455
Total Assets	$130,589,544	$134,570,716	$133,867,396
Deposits	$112,082,402	$121,247,047	$119,254,240
Equity Capital	$11,449,463	$12,800,762	$14,135,561
Loans Outstanding, Net	$80,431,585	$86,250,549	$83,946,960
Allowance For Loan Losses	$811,212	$1,067,956	$1,138,919
Net Charge-Offs (Recoveries)	$67,906	-$16,744	$280,037
Full Time Employees (Average Equivalents)	50	53	53
Number of Offices	3	3	3
Earnings Per Share	1.36	1.34	1.36
Dividends Per Share	0.23	0.27	0.30
Book Value Per Share	9.05	10.11	11.16
Dividends Pay-out Ratio	16.62%	19.64%	22.61%
Cash Dividends Paid	$284,901	$332,385	$389,365
Return on Average Assets	1.34%	1.30%	1.29%
Return on Average Equity	14.99%	14.05%	12.21%

Notes

The above per share amounts have been restated to reflect the five for one stock split effected in 1995, the 10% stock dividend paid in 1997 and 1998, the two for one stock split effected in 2000 and the 5% stock dividend paid in 2002 and 2003.

Decade of Progress

1997	1998	1999	2000	2001	2002	2003
$10,599,777	$10,901,445	$11,448,619	$12,770,170	$13,706,569	$14,119,963	$14,647,163
$5,083,713	$5,084,615	$5,048,276	$5,909,884	$6,747,922	$6,148,086	$5,724,907
$5,516,064	$5,816,830	$6,400,343	$6,860,286	$6,958,647	$7,971,877	$8,922,256
$200,000	$270,000	$296,000	$275,000	$170,000	$300,000	$315,000
$5,316,064	$5,546,830	$6,104,343	$6,585,286	$6,788,647	$7,671,877	$8,607,256
$546,103	$598,771	$804,358	$982,663	$1,194,193	$1,143,217	$1,428,144
$3,493,280	$3,824,819	$4,254,374	$4,408,617	$4,741,374	$5,206,339	$6,105,450
$2,368,887	$2,320,782	$2,654,327	$3,159,332	$3,241,466	$3,608,755	$3,929,950
$624,243	$630,337	$735,318	$992,661	$970,859	$1,107,806	$1,131,330
$1,744,644	$1,690,445	$1,919,009	$2,166,671	$2,270,607	$2,500,949	$2,798,620
$142,276,167	$155,557,609	$165,512,453	$176,488,813	$197,857,964	$226,245,533	$262,369,448
$121,482,038	$128,827,889	$135,094,459	$147,166,046	$167,382,728	$187,384,494	$219,839,910
$15,465,255	$16,656,797	$17,689,055	$18,243,362	$19,786,807	$21,746,408	$23,504,314
$88,320,047	$102,728,454	$119,471,741	$133,266,893	$150,766,103	$172,642,646	$190,358,883
$1,334,800	$1,538,726	$1,756,137	$2,037,322	$2,062,252	$2,300,485	$2,521,270
$4,119	$66,074	$78,589	-$6,185	$145,070	$61,767	$94,215
56	59	61	57	64	66	72
3	4	4	4	5	5	6
1.38	1.33	1.52	1.83	1.87	2.06	2.29
0.34	0.40	0.46	0.49	0.64	0.70	0.79
12.22	13.15	14.05	15.00	16.28	17.98	19.21
24.98%	29.53%	29.82%	26.61%	33.94%	34.47%	34.54%
$435,747	$499,215	$572,343	$595,255	$772,068	$862,696	$966,697
1.23%	1.15%	1.21%	1.31%	1.22%	1.17%	1.13%
11.67%	10.43%	11.17%	12.83%	11.89%	12.08%	12.39%

Management's Discussion & Analysis

In the following pages, management presents an analysis of Middlefield Banc Corp's (the Corporation) financial condition and results of operations as of and for the year ended December 31, 2003 as compared to prior years. This discussion is designed to provide shareholders with a more comprehensive review of the operating results and financial position than could be obtained from an examination of the financial statements alone. This analysis should be read in conjunction with the consolidated financial statements and related footnotes and the selected financial data included elsewhere in this report.

Middlefield is an Ohio corporation organized to become the holding company of The Middlefield Banking Company ("Bank"). The Bank is a state-chartered bank located in Middlefield, Ohio. Middlefield and its subsidiary bank derive substantially all of their income from banking and bank-related services, including interest earnings on residential real estate, commercial mortgage, commercial, and consumer financings as well as interest earnings on investment securities and deposit services to its customers through six locations.

Forward Looking Statement

The Private Securities Litigation Reform Act of 1995 contains safe harbor provisions regarding forward-looking statements. Forward-looking statements can be identified by terminology such as "believes," "expects," "anticipates," "estimates," "intends," "should," "will," "plans," "potential" and similar words. Forward-looking statements are also statements that are not statements of historical fact. Forward-looking statements necessarily involve risks and uncertainties. They are merely predictive or statements of probabilities, involving known and unknown risks, uncertainties and other factors. If one or more of these risks of uncertainties occurs or if the underlying assumptions prove incorrect, actual results could differ materially from those expressed in or implied by the forward-looking statements.

Forward-looking statements are based upon a variety of estimates and assumptions. The estimates and assumptions involve judgments about a number of things, including future economic, competitive, and financial market conditions and future business decisions. These matters are inherently subject to significant business, economic, and competitive uncertainties, all of which are difficult to predict and many of which are beyond Middlefield's control. Although Middlefield believes its estimates and assumptions are reasonable, actual results could vary materially from those shown. Inclusion of forward-looking information does not constitute a representation by Middlefield or any other person that the indicated results will be achieved. Investors are cautioned not to place undue reliance on forward-looking information.

Critical Accounting Policies

Allowance for Loan Losses

Arriving at an appropriate level of allowance for loan losses involves a high degree of judgment. The Company's allowance for loan losses provides for probable losses based upon evaluations of known, and inherent risks in the loan portfolio.

Management uses historical information to assess the adequacy of the allowance for loan losses as well as the prevailing business environment, which is affected by changing economic conditions and various external factors and which may impact the portfolio in ways currently unforeseen. The allowance is increased by provisions for loan losses and by recoveries of loans previously charged-off and reduced by loans charged-off. For a full discussion of the Company's methodology of assessing the adequacy of the reserve for loan losses, refer to Note 1 of "Notes to Consolidated Financial Statements" commencing on the following pages of this Annual Report.

Results of Operations

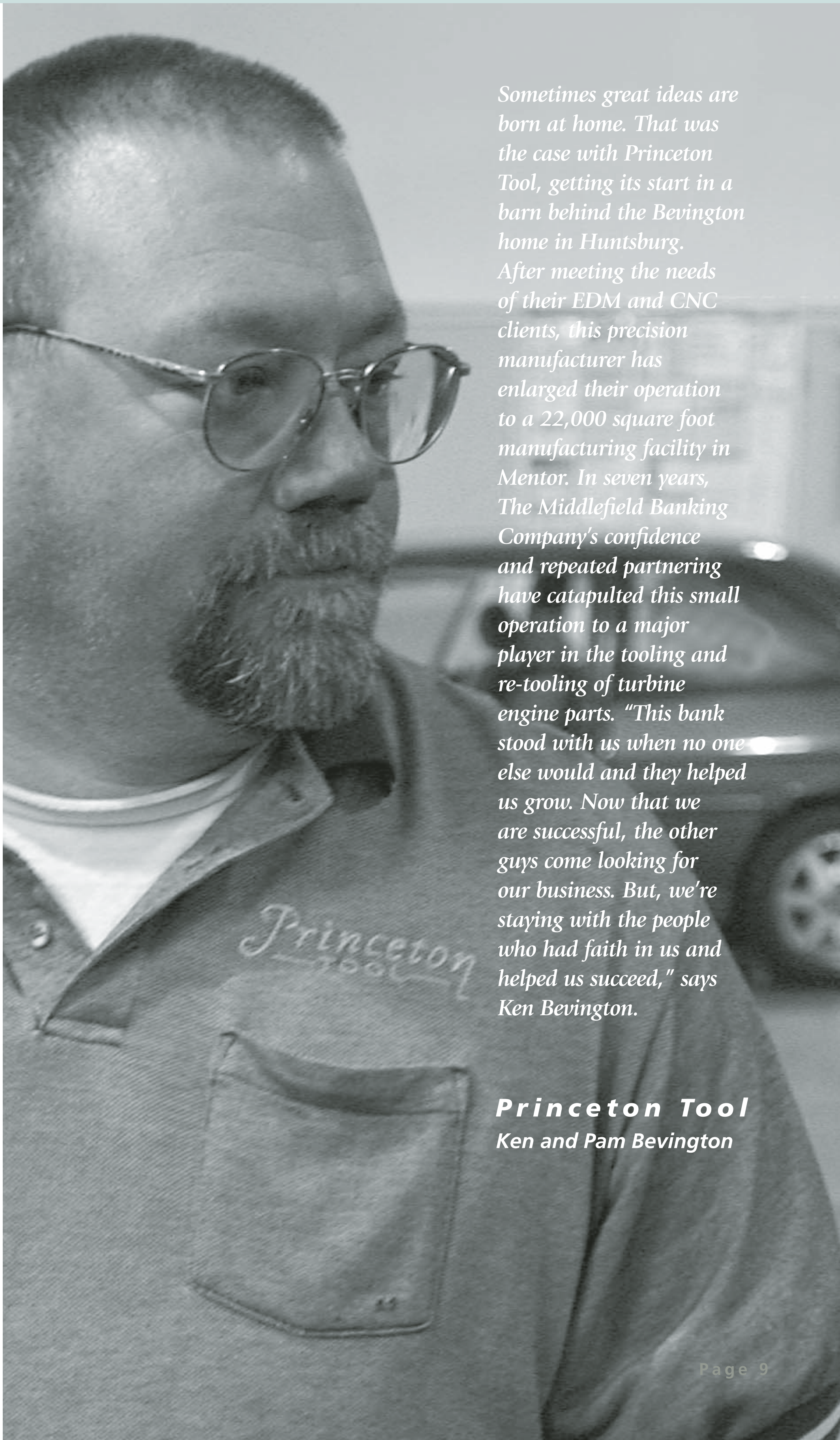
For the fifth year in a row your Company posted record earnings. Middlefield recorded net income of $2.8 million in 2003, which represents an increase of $300,000, or 11.92%, over 2002. Net income for 2002 of $2.5 million represented an increase of $230,000, or 10.1%, over 2001. Diluted earnings per share have increased each of the past three years to $2.29 per share for 2003, $2.06 per share for 2002, and $1.86 per share for 2001.

Net Interest Income -- *2003 Compared to 2002.* Net interest income, by definition, is the difference between interest income generated on earning assets and the interest expense incurred on interest-bearing liabilities. Net interest income for 2003 increased to $8.9 million, compared to $8.0 million for 2002. Interest income for 2003 was $14.6 million as compared to $14.1 million for 2002. This increase of $527,000 or 3.7% was influenced primarily by an increase in interest earned on loans receivable of $506,000, while offset by decreases in interest earned on interest-bearing deposits in other institutions, and federal funds sold, of $31,000, and $16,000 respectively. Although the 2003 rate environment was characterized by lower interest rate yields, 2003's increase in interest income was driven by increases in average balances of interest-earning assets. The average balance of loans receivable and investment securities increased $19.9 million to $183.7 million and $9.8 million to $45.0 million, respectively, during 2003. The tax-equivalent yield on interest earning assets decreased to 6.32% for 2003 from 6.99% for 2002, and primarily resulted from a 91 basis point and 54 basis point decrease in investment securities and loans receivable, respectively. During 2003, $22.5 million in called, sold, and re-payed investment securities were reinvested at substantially lower rates. The inflow of deposits coupled with the rapid repayment of mortgage-backed securities has resulted in reinvestment options at substantially lower rates than the previous year. The lower interest rate environment resulted when interest rates were driven downward by an aggressive rate reduction policy by the Federal Reserve Board over the past few years.

Interest expense decreased $423,000 or 6.9% for 2003 to $5,725,000 from $6,148,000 for 2002. Interest expense incurred on deposits decreased $572,000 for 2003 as compared to 2002 and was primarily attributable to the current interest rate environment that resulted in a lowering of the cost of funds to 2.90% for 2003 as compared to 3.68% for 2002. Offsetting the declining rates was an increase in the average balance of interest-bearing liabilities of $30.4 million to $197.5 million for 2003. In particular, the average balance of savings and certificates of deposits increased $11.4 million and $8.7 million, respectively. Core deposit growth also was driven by a general shift in customer preference away from the equity markets and into insured bank deposits. Although the Bank reduced its costs on all deposit products during 2003, certificates of deposits were the primary target as such costs decreased by 89 basis points. Interest expense on borrowings increased to $819,000 for 2003 as compared to $670,000 for 2002 and resulted primarily from an additional $5.4 million in borrowings with the Federal Home Loan Bank in 2003. The Company borrowed from the FHLB in varying maturities at an average rate of 2.9% to lock into what management believes to be a low cost of funds.

Net Interest Income — *2002 Compared to 2001.* Net interest income for 2002 increased to $8.0 million, compared to $7.0 million for 2001. Interest income for 2002 was $14.1 million as compared to $13.7 million for 2001. This increase of $413,000 or 3.0% was influenced primarily by an increase in interest earned on loans receivable of $533,000, while offset by decreases in interest earned on federal funds sold, investment securities, and interest-bearing deposits in other institutions of $73,000, $33,000, and $14,000 respectively. Although Middlefield intentionally caused a decrease to its interest rate yields, interest income was driven by increases in average balances of interest-earning assets. The average balance of loans receivable and investment securities increased $20.3 million to $163.8 million and $5.3 million to $35.2 million, respectively, during 2002. The tax-equivalent yield on interest earning assets decreased to 6.99% for 2002 from 7.79% for 2001, and primarily resulted from a 102 basis point and 69 basis point decrease in investment securities and loans receivable, respectively. During 2002, $14.0 million in called, matured, and repayed investment securities were reinvested at substantially lower rates. The inflow of deposits coupled with the rapid repayment of mortgage-backed securities has resulted in reinvestment options at substantially lower rates than the previous year. The lower

dedicated to growth



Sometimes great ideas are born at home. That was the case with Princeton Tool, getting its start in a barn behind the Bevington home in Huntsburg. After meeting the needs of their EDM and CNC clients, this precision manufacturer has enlarged their operation to a 22,000 square foot manufacturing facility in Mentor. In seven years, The Middlefield Banking Company's confidence and repeated partnering have catapulted this small operation to a major player in the tooling and re-tooling of turbine engine parts. "This bank stood with us when no one else would and they helped us grow. Now that we are successful, the other guys come looking for our business. But, we're staying with the people who had faith in us and helped us succeed," says Ken Bevington.

Princeton Tool
Ken and Pam Bevington

Management's Discussion and Analysis

	For the Year Ended December 31, 2003			2002			2001		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
	(Dollars in thousands)			(Dollars in thousands)			(Dollars in thousands)		
Interest-earning assets:									
Loans receivable (1)	$183,683	$12,847	6.99%	$163,828	$12,341	7.53%	$143,560	$11,808	8.23%
Investments securities	45,011	1,683	4.30%	35,169	1,615	5.21%	29,887	1,625	6.24%
Interest-bearing deposits with other banks	6,883	66	0.96%	6,116	164	2.68%	5,647	274	4.85%
Total interest-earning assets	235,577	14,596	6.32%	205,113	14,120	6.99%	179,094	13,707	7.79%
Noninterest-earning assets	12,327			8,368			7,455		
Total assets	$247,904			$213,481			$186,549		
Interest-bearing liabilities:									
Interest - bearing demand deposits	$ 8,623	61	0.71%	$ 7,905	109	1.38%	$ 6,296	153	2.43%
Money market deposits	13,355	259	1.94%	9,090	199	2.19%	8,123	244	3.00%
Savings deposits	57,413	828	1.44%	46,045	948	2.06%	35,432	954	2.69%
Certificates of deposit	98,512	3,758	3.81%	89,857	4,222	4.70%	83,177	4,847	5.83%
Borrowings	19,635	819	4.17%	14,258	670	4.70%	10,211	550	5.39%
Total interest-bearing liabilities	197,538	5,725	2.90%	167,155	6,148	3.68%	143,239	6,748	4.71%
Noninterest-bearing liabilities									
Other liabilities	27,773			25,621			24,336		
Total liabilities	225,311			192,776			167,455		
Stockholders' equity	22,594			20,705			19,094		
Total liabilities and stockholders' equity	$247,904			$213,481			$186,549		
Net interest income		$ 8,871			$ 7,972			$ 6,959	
Interest rate spread (3)			3.40%			3.31%			3.08%
Net yield on interest-earning assets (4)			3.87%			3.99%			3.89%
Ratio of average interest-earning assets to average interest-bearing liabilities			119.26%			122.71%			125.03%

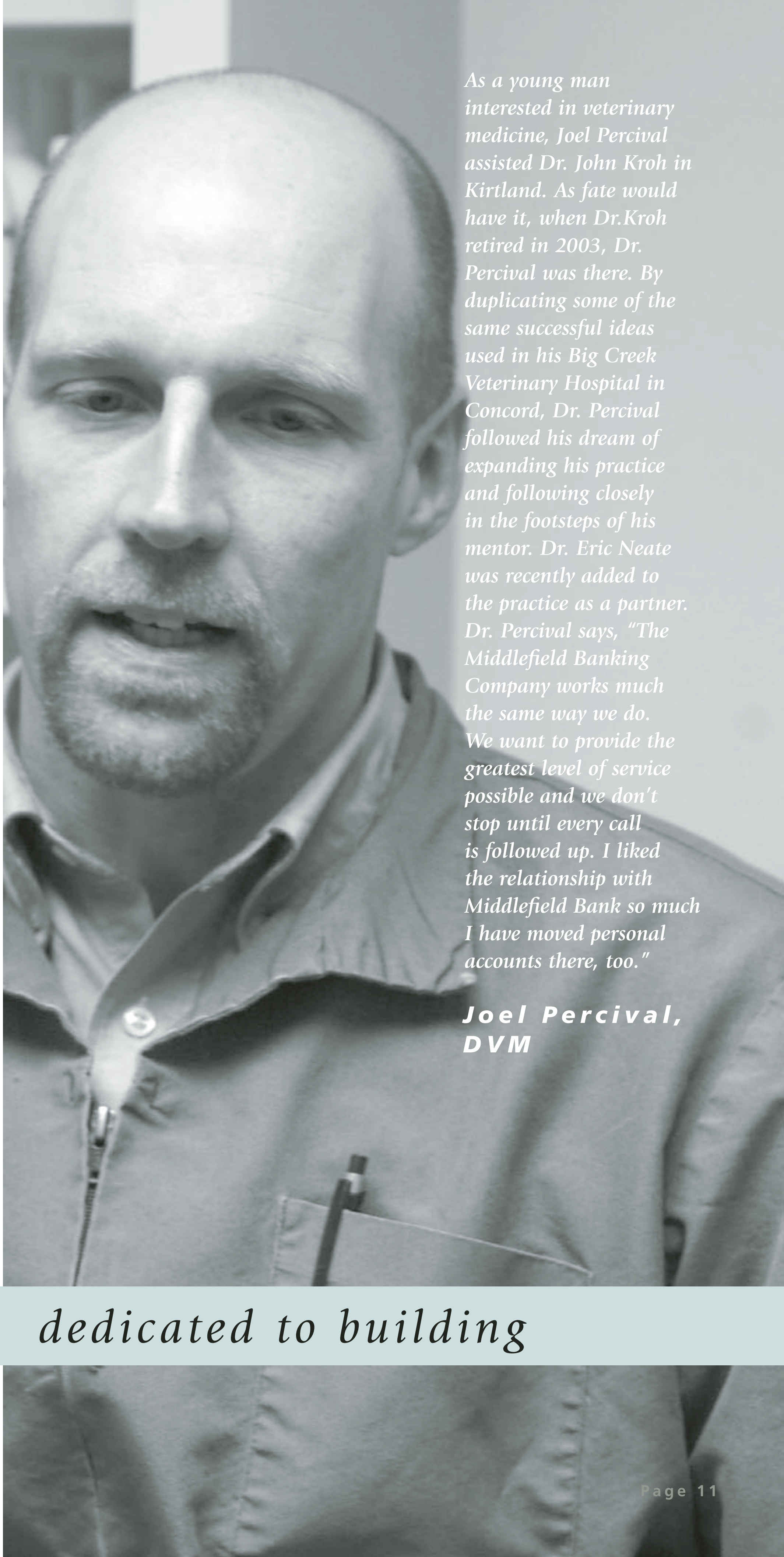
(1) Average balances include non-accrual loans.
(2) Includes interest - bearing deposits in other financial institutions.
(3) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(4) Net yield on interest - earning assets represents net interest income as a percentage of average interest - earning assets.

	Year Ended December 31, 2003 vs. 2002 Increase (Decrease) Due to			Year Ended December 31, 2002 vs. 2001 Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In Thousands)			(In Thousands)		
Interest income:						
Loans Receivable	$ 1,235	$ (729)	$ 506	$ 1,320	$ (787)	$ 533
Investment securities	182	(114)	68	(138)	128	(10)
Other interest-earning assets	24	(71)	(47)	25	(135)	(110)
Total interest-earning assets	1,441	(914)	527	1,207	(794)	413
Interest expense:						
Interest-bearing demand	11	(59)	(48)	64	(108)	(44)
Money market	79	(19)	60	35	(80)	(45)
Savings	563	(683)	(120)	(28)	22	(6)
Certificates	487	(951)	(464)	443	(1,068)	(625)
Other interest-bearing liabilities	212	(63)	149	177	(57)	120
Total interest-bearing liabilities	1,352	(1,775)	(423)	690	(1,290)	(600)
Change in net interest income	$ 89	$ 861	$ 950	$ 517	$ 496	$ 1,013

interest rate environment resulted during 2001, when interest rates were driven downward by an aggressive rate reduction policy by the Federal Reserve Board.

Interest expense decreased $600,000 or 8.9% for 2002 to $6.1 million from $6.7 million for 2001. Interest expense incurred on deposits decreased $720,000 for 2002 as compared to 2001 and was primarily attributable to the current interest rate environment that resulted in a lowering of the cost of funds to 3.68% for 2002 as compared to 4.71% for 2001. Offsetting the declining rates was an increase in the average balance of interest-bearing liabilities of $23.9 million to $167.2 million for 2002. In particular, the average balance of savings and certificates of deposits increased $10.6 million and $6.7 million, respectively. Core deposit growth also was driven by a general shift in customer preference away from the equity markets and into insured bank deposits. Although the Bank reduced its costs on all deposit products during 2002, certificates of deposits were the primary target as such costs decreased by 113 basis points. Interest expense on borrowings increased to $670,000 for 2002 as compared to $550,000 for 2001 and resulted primarily from an additional $7.0 million in borrowings with the Federal Home Loan Bank that The Middlefield Banking Company did not have at December 31, 2001.

Rate/Volume Analysis. The following table (page10, bottom) sets forth certain information regarding the changes in our interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume (changes in average volume multiplied by prior year rate), and (2) changes in rates (changes in rate multiplied by prior year average volume). Increases and decreases due to both rate and volume have been allocated proportionally to the change due to volume and the change due to rate.



As a young man interested in veterinary medicine, Joel Percival assisted Dr. John Kroh in Kirtland. As fate would have it, when Dr.Kroh retired in 2003, Dr. Percival was there. By duplicating some of the same successful ideas used in his Big Creek Veterinary Hospital in Concord, Dr. Percival followed his dream of expanding his practice and following closely in the footsteps of his mentor. Dr. Eric Neate was recently added to the practice as a partner. Dr. Percival says, "The Middlefield Banking Company works much the same way we do. We want to provide the greatest level of service possible and we don't stop until every call is followed up. I liked the relationship with Middlefield Bank so much I have moved personal accounts there, too."

Joel Percival, DVM

dedicated to building

Management's Discussion and Analysis

Loan Loss Provision -- *2003 Compared to 2002.* The provision for loan losses is an operating expense recorded to maintain the related balance sheet allowance for loan losses at an amount considered adequate to cover probable losses incurred in the normal course of lending. The provision for loan losses was $315,000 in 2003 as compared to $300,000 in 2002. The loan loss provision is based upon management's assessment of a variety of factors, including types and amounts of nonperforming loans, historical loss experience, collectibility of collateral values and guaranties, pending legal action for collection of loans and related guaranties, and current economic conditions. The loan loss provision reflects management's judgment of the current period cost-of-credit risk inherent in the loan portfolio. Although management believes the loan loss provision has been sufficient to maintain an adequate allowance for loan losses, actual loan losses could exceed the amounts that have been charged to operations. The change in the loan loss provision in 2003 was principally a result of an increase in net charge-offs to average loans during the year.

2002 Compared to 2001. The provision for loan losses was $300,000 in 2002 as compared to $170,000 in 2001. The change in the loan loss provision in 2002 was principally a result of an increase in nonperforming loans during the year coupled with an increase in classified assets from 2001 to 2002.

Noninterest Income — *2003 Compared to 2002.* Noninterest income is made up of bank related fees and service charges, as well as other income-producing services. These include ATM/interchange income, safe deposit box rental income and other miscellaneous items. In addition the bank invested in Bank Owned Life Insurance (BOLI) in 2003. The earnings from this investment are reflected in the Company's noninterest income. Total noninterest income increased 25% in 2003 to $1.5 million from $1.1 million for 2002. The increase is accounted for principally by the income from the purchase of bank owned life insurance (BOLI) of $202,000 in 2003. An increase in fee income from deposit accounts also contributed significantly to 2003's increased noninterest income. Deposit account service fees have progressively increased as the number of accounts and volume of related transactions have increased.

2002 Compared to 2001. Total noninterest income decreased slightly in 2002 to $1.1 million from $1.2 million for 2001. The decrease is accounted for principally by the recognition of investment security gains of $98,000 in 2001 that was not repeated in 2002. Offsetting this decline was an increase in fee income from deposit accounts, as well as increases in ATM surcharges and debit card fees. Such fees have progressively increased as the number of accounts and volume of related transactions have increased.

Transaction deposit accounts grew at a steady pace in 2003, 2002, and 2001. In general, management prices deposits at rates competitive with rates offered by the other banks in Middlefield's market, which rates tend to be somewhat lower than rates offered by thrift institutions and credit unions. Middlefield generally has not imposed service charges and fees to the same extent as other local institutions. Although a wider range of service charges and fees and higher service charges and fees would yield more income for each dollar of deposits, imposing service charges and fees on a basis equivalent to those imposed by many other area banks might adversely affect deposit growth. To promote deposit growth and provide cross-selling opportunities, Middlefield has not adopted the most aggressive fee structure. Deposit growth is generated by developing strong customer relationships and cross-selling deposit relationships to loan customers. Management intends to continue promoting demand deposit products, particularly noninterest-bearing deposit products, in order to obtain additional interest-free lendable funds.

Noninterest Expense — 2003 Compared to 2002. Noninterest expense increased 17.3% to $6.1 million for 2003 as compared to $5.2 million for 2002. Compensation and employee benefits increased $562,000, or 22.3%, primarily as a result of normal merit raises and the establishment of an employee profit sharing plan Occupancy and equipment expenses increased 8.0% or $55,000 as a result of added capital expenditures in prior years. As a result of increased transaction activity from operating a larger organization, data processing expenses increased $43,000 or 10.1% during 2003 as compared to 2002. In addition, all other expenses increased $239,000 or 15.2%. A large part of this increase of $104,000 was due to an enhanced marketing budget in 2003 to promote the bank's new look and logo. Increases in other expense also included operating expenses that resulted from expanding into a larger organization.

2002 Compared to 2001. Noninterest expense increased 9.8% to $5.2 million for 2002 as compared to $4.7 million for 2001. Compensation and employee benefits increased $207,000, or 8.9%, primarily as a result of normal merit raises and a 17.0% increase in health insurance expenses for 2002. Occupancy and equipment expenses increased 16.8% or $98,000 as a result of added capital expenditures in prior years, in particular the Chardon branch that became operational in 2001. Offsetting these increases was a reduction in marketing costs that occurred in 2001 marking the 100th anniversary of the Bank.

Provision for Income Taxes. The provision for income taxes fluctuated in 2003, 2002, and 2001 in direct correlation to the changing level of pre-taxable income during these periods. The purchase Bank Owned Life Insurance did not materially alter the effective marginal tax rate

Financial Condition

Assets and Liabilities. Middlefield's total assets increased $36.1 million, or 16.0%, to $262.4 million at December 31, 2003 from $226.2 million at December 31, 2002. This increase primarily resulted from a $17.7 million, or 10.3%, increase in net loans receivable to $190.4 million at December 31, 2003 that was funded by a $32.5 million net increase in customer deposits and a series of borrowings with the Federal Home Loan Bank of approximately $5.0 million. The increase in net loans receivable resulted from the economic health of Middlefield's market area, the current interest rate environment, and the strategic, service-oriented marketing approach taken by management to meet the lending needs of the area. Although mortgage loans continue to comprise the largest portion of the loan portfolio, the majority of Middlefield's loan growth during 2003 was in the form of open-end, revolving home equity lines of credit and commercial loans. Commercial and commercial real estate loans increased in total by $7.3 million to $49.9 million, an increase of 15.0%. Home equity loans experienced an increase of $7.1 million, or 91.7%, to $14.7 million at December 31, 2003. Management attributes the loan increases to continued customer referrals and Middlefield's overall relationship with its customers.

Investment securities available for sale increased to $50.0 million at December 31, 2003 from $35.9 million at December 31, 2002. Meanwhile, investment securities held to maturity decreased to $1.9 million at December 31, 2003 from $6.2 million at December 31, 2002. The net increase in 2003 is primarily due to investment purchases of $33.0 million primarily in mortgage-backed securities, which was partially offset by investment calls and maturities of $22.5 million. Purchases of mortgage-backed securities, which have all been classified as available for sale, typically have maturities ranging from 15 to 30 years with yields between 4.5% and 5.5%. Approximately 57% of the entire investment securities portfolio is now comprised of mortgage-backed securities as compared to 50.0% at December 31, 2002. During the first quarter of 2003, Middlefield purchased $5,000,000 in bank-owned life insurance in order to generate nontaxable earnings that will offset the cost of certain employee benefit plans. Management was able to fund this growth with an influx of deposits coupled with the utilization of excess cash and cash equivalents of $2.8 million and the reinvestment of called and matured securities during the year. Furthermore, available for sale securities now comprise 96.4% of the investment securities portfolio as compared to 84.9% at December 31, 2002.

The company's primary source of funds is core deposits from retail and business customers. During 2003, total deposits increased $32.5 million, or 17.3%, to $219.8 million at December 31, 2003 from $187.4 million at December 31, 2002. Growth was primarily concentrated in savings and time deposits, which increased $19.4 and $5.1 million, respectively, and resulted from continual marketing efforts by management, as well as management's competitive pricing of such products. As noted previously, deposit growth also was driven by a general shift in customer preference away from the equity markets and

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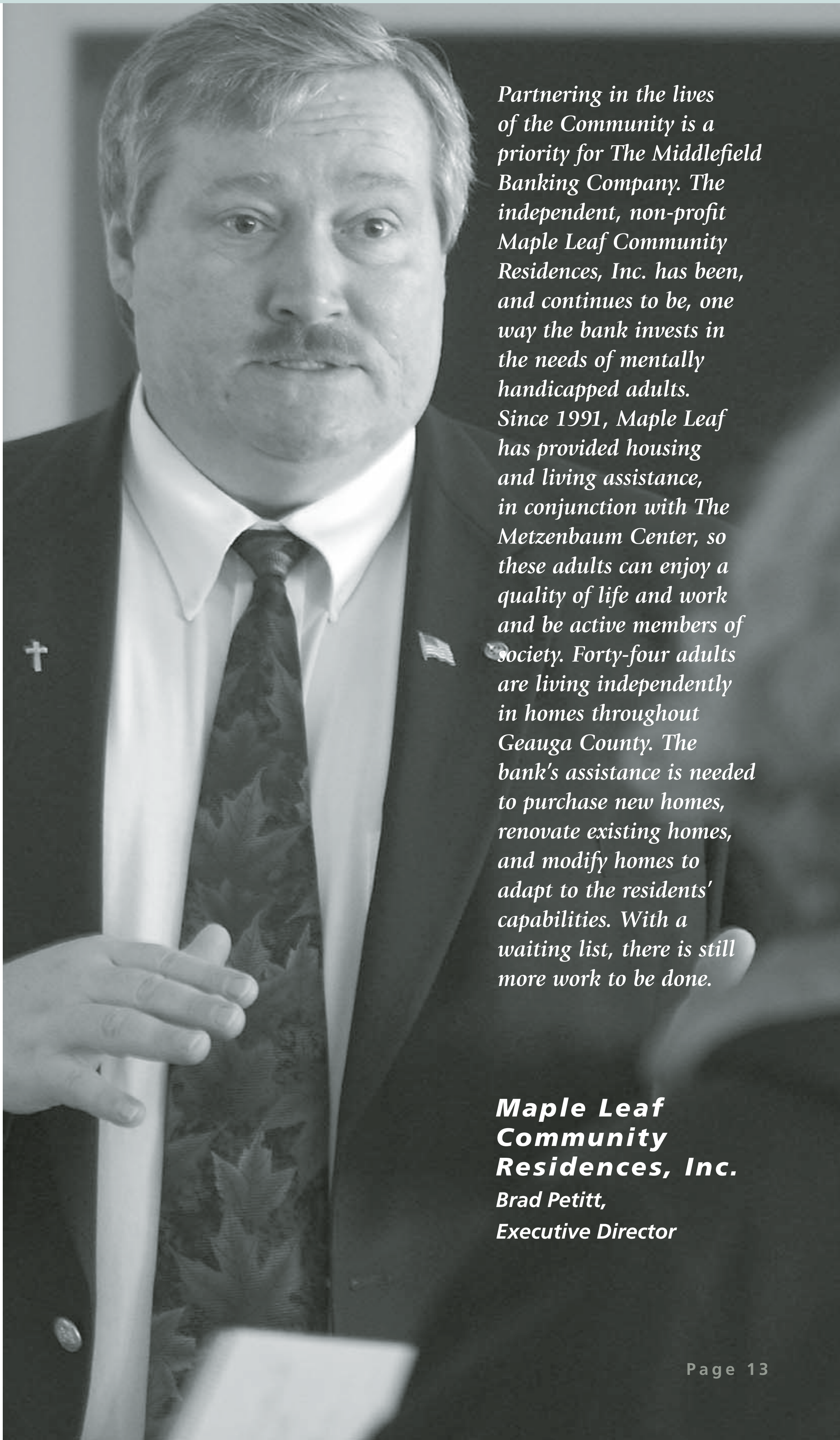


Partnering in the lives of the Community is a priority for The Middlefield Banking Company. The independent, non-profit Maple Leaf Community Residences, Inc. has been, and continues to be, one way the bank invests in the needs of mentally handicapped adults. Since 1991, Maple Leaf has provided housing and living assistance, in conjunction with The Metzenbaum Center, so these adults can enjoy a quality of life and work and be active members of society. Forty-four adults are living independently in homes throughout Geauga County. The bank's assistance is needed to purchase new homes, renovate existing homes, and modify homes to adapt to the residents' capabilities. With a waiting list, there is still more work to be done.

Maple Leaf Community Residences, Inc.

Brad Petitt,
Executive Director

into insured bank deposits. Time deposits at December 31, 2003 continue to account for just under half of the total deposit portfolio and remain a dominant resource for funds.

Other borrowings increased $2.0 million or 12.6% to $17.7 million at December 31, 2003 from $15.7 million at December 31, 2002. As noted previously, this primarily consisted of a series of Federal Home Loan Bank borrowings with staggered maturities to be repaid over a fifteen-year period. The Bank has a remaining borrowing capacity of approximately $113 million at December 31, 2003. The current borrowings are secured by 9% of the Bank's loan portfolio. The proceeds from these borrowings were used to supplement the funding of loan demand.

Total stockholders' equity increased to $23.5 million at December 31, 2003 due to net income of $2.8 million that was offset partially by dividend payments of $967,000 and a decrease in accumulated other comprehensive income of $350,000. Accumulated other comprehensive income increased as a result of changes in the net unrealized gain on investment securities available for sale due to fluctuations in interest rates. Because of interest rate volatility, accumulated other comprehensive income could materially fluctuate for each interim period and year-end period depending on economic and interest rate conditions. Middlefield declared a 5.0% stock dividend during the period that resulted in a transfer between retained earnings and common stock of approximately $1.8 million. In 2003, Middlefield completed its first full year of dividend reinvestment plan operation to promote long-term ownership by investors with the proceeds from such purchases being used for general corporate purposes. Shareholders' dividends of approximately $167,000 were used for reinvestment purposes in 2003, resulting in new equity issued in a like amount in 2003. Middlefield will continue to repurchase shares of common stock for both stock option and restricted stock purposes. In addition, the Board of Directors in light of the earnings and financial condition of Middlefield, including applicable governmental regulations and policies, will determine future dividend policies.

Allowance for Loan Losses. The allowance for loan losses represents the amount management estimates is adequate to provide for probable losses inherent in the loan portfolio as of the balance sheet date. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. At December 31, 2003, Middlefield's allowance for loan losses increased to $2.5 million from $2.3 million at December 31, 2002, and now represents 1.30% of the gross loan portfolio as compared to 1.31% for the previous period. The allowance for loan losses is established through a provision for loan losses, which is charged to operations. The provision is based on management's periodic evaluation of the adequacy of the allowance for loan losses, taking into account the overall risk characteristics of the various portfolio segments, the bank's loan loss experience, the impact of economic conditions on borrowers, and other relevant factors. The estimates used to determine the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to significant change in the near term. The total allowance for loan losses is a combination of a specific allowance for identified problem loans, a formula allowance, and an unallocated allowance.

The specific allowance incorporates the results of measuring impaired loans as provided in Statement of Financial Accounting Standards ("FAS") No. 114, *Accounting by Creditors for Impairment of a Loan*, and FAS No. 118, *Accounting by Creditors for Impairment of a Loan--Income Recognition and Disclosures*. These accounting standards prescribe the measurement methods, income recognition and disclosures for impaired loans. The formula allowance is calculated by applying

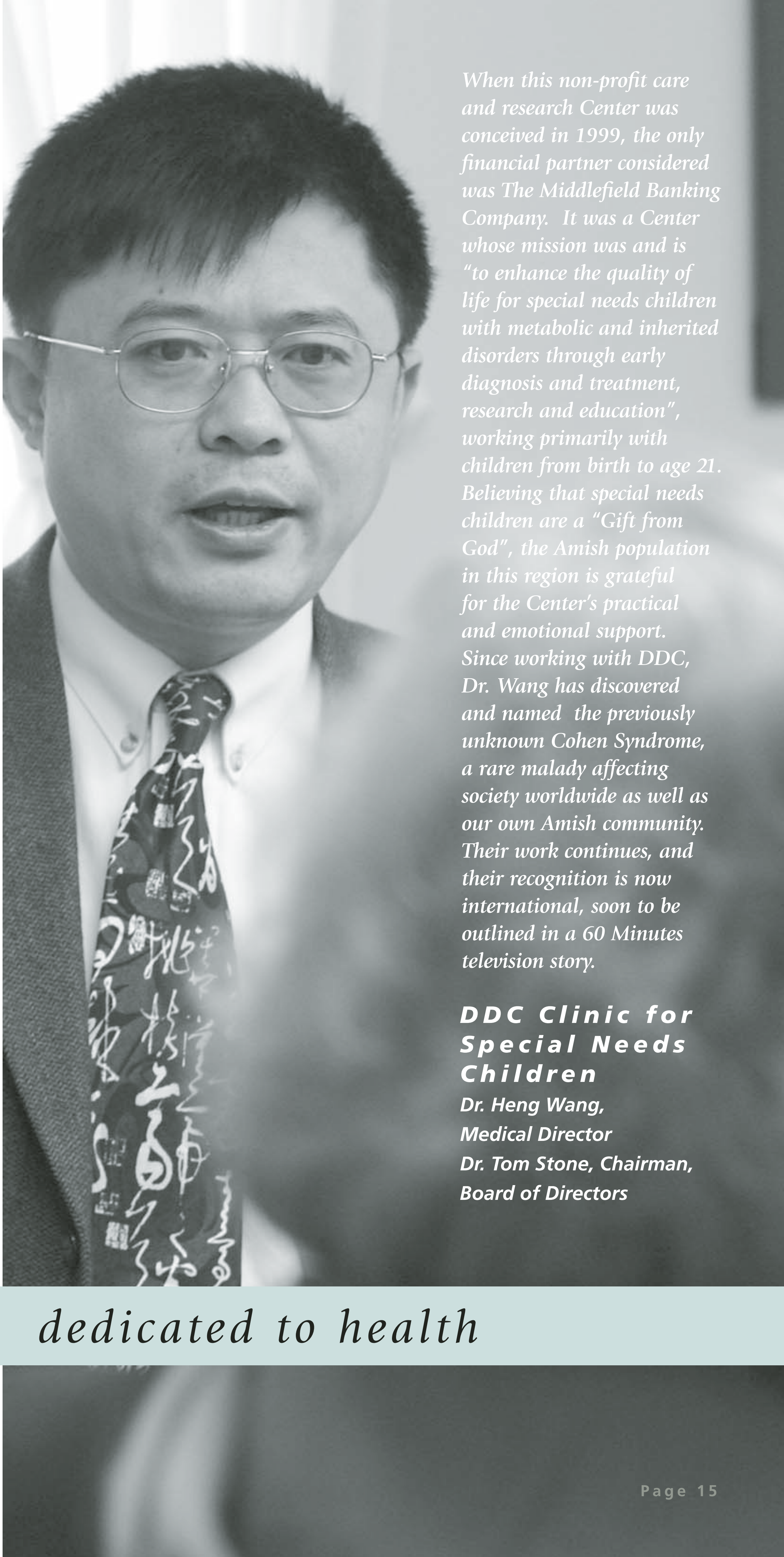
	For the Years Ended December 31, (Dollars in thousands)		
	2003	2002	2001
Allowance balance at beginning of period	$ 2,300	$ 2,062	$ 2,037
Loans charged off:			
Commercial and industrial	(75)	(67)	(74)
Real estate-construction			
Real estate-mortgage:			
Residential	(32)	—	(29)
Commercial	—	—	(92)
Consumer installment	(37)	(52)	(71)
Total loans charged off	(144)	(119)	(266)
Recoveries of loans previously charged-off:			
Commercial and industrial	28	24	4
Real estate-construction	—	—	—
Real estate-mortgage:	—	—	—
Residential	—	—	—
Commercial	—	—	95
Consumer installment	22	33	22
Total recoveries	50	57	121
Net loans recovered (charged off)	(94)	(62)	(145)
Provision for loan losses	315	300	170
Allowance balance at end of period	$ 2,521	$ 2,300	$ 2,062
Loans outstanding:			
Average	$ 183,683	$ 163,828	$ 143,560
End of period	192,880	174,943	152,828
Ratio of allowance for loan losses to loans outstanding at end of period	1.31 %	1.31 %	1.35 %
Net recoveries (charge offs) to average loans	(0.05)	(0.04)	(0.10)

loss factors to outstanding loans by type, excluding loans for which a specific allowance has been determined. Loss factors are based on management's determination of the amounts necessary for concentrations and changes in mix and volume of the loan portfolio, and consideration of historical loss experience.

The unallocated allowance is determined based upon management's evaluation of existing economic and business conditions affecting the key lending areas of the bank and other conditions, such as new loan products, credit quality trends, collateral values, specific industry conditions within portfolio segments that existed as of the balance sheet date, and the impact of those conditions on the collectibility of the loan portfolio. Management reviews these conditions quarterly. The unallocated allowance is subject to a higher degree of uncertainty because it considers risk factors that may not be reflected in the historical loss factors.

Although management believes that it uses the best information available to make such determinations and that the allowance for loan losses was adequate at December 31, 2003, future adjustments could be necessary if circumstances or economic conditions differ substantially from the assumptions used in making the initial determinations. A downturn in the local economy and employment could result in increased levels of nonperforming assets and charge-offs, increased loan loss provisions, and reductions in income. Additionally, as an integral part of the examination process, bank regulatory agencies periodically review a bank's loan loss allowance. The banking agencies could require the recognition of additions to the loan loss allowance based on their judgment of information available to them at the time of their examination.

The table on page 14 (bottom) sets forth information concerning the Middlefield's allowance for loan losses at the dates and for the periods presented.



When this non-profit care and research Center was conceived in 1999, the only financial partner considered was The Middlefield Banking Company. It was a Center whose mission was and is "to enhance the quality of life for special needs children with metabolic and inherited disorders through early diagnosis and treatment, research and education", working primarily with children from birth to age 21. Believing that special needs children are a "Gift from God", the Amish population in this region is grateful for the Center's practical and emotional support. Since working with DDC, Dr. Wang has discovered and named the previously unknown Cohen Syndrome, a rare malady affecting society worldwide as well as our own Amish community. Their work continues, and their recognition is now international, soon to be outlined in a 60 Minutes television story.

DDC Clinic for Special Needs Children

Dr. Heng Wang, Medical Director

Dr. Tom Stone, Chairman, Board of Directors

dedicated to health

Management's Discussion and Analysis

	At December 31, 2003		At December 31, 2002		At December 31, 2001	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
			(Dollars in Thousands)			
Type of Loans:						
Commercial and industrial	$ 568	21.81 %	$ 611	18.82 %	$ 722	18.53 %
Real estate construction	32	1.78	38	1.83	37	2.09
Mortgage:						
Residential	844	69.48	888	70.79	781	73.97
Commercial	228	4.08	230	5.44	161	2.22
Consumer installment	120	2.85	124	3.12	111	3.19
Unallocated	435	—	409	—	250	—
Total	$ 2,227	100.00 %	$ 2,300	100.00 %	$ 2,062	100.00 %

The above table illustrates the allocation of Middlefield's allowance for probable loan losses for each category of loan for each reported period. The allocation of the allowance to each category is not necessarily indicative of future loss in a particular category and does not restrict our use of the allowance to absorb losses in other loan categories.

Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions, the borrower's financial condition is such that collection of interest is doubtful. Payments received on nonaccrual loans are recorded as income or applied against principal according to management's judgment as to the collectibility of principal.

A loan is considered impaired when it is probable the borrower will not repay the loan according to the original contractual terms of the loan agreement. Management has determined that first mortgage loans on one-to-four family properties and all consumer loans represent large groups of smaller-balance homogeneous loans that are to be collectively evaluated. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. A loan is not impaired during a period of delay in payment if the bank expects to collect all amounts due, including interest accrued at the

	At December 31, 2003	At December 31, 2002	At December 31, 2001
		(Dollars in thousands)	
Loans accounted for on a nonaccrual basis:			
Commercial and industrial	$ —	$ —	$ 48
Real estate-construction	—	—	—
Real estate-mortgage:	—	—	
Residential	372	357	—
Commercial	—	—	—
Consumer installment	—	—	—
Total nonaccrual loans	372	357	48
Accruing loans which are contractually past due 90 days or more:			
Commercial and industrial	4	30	9
Real estate-construction	—	—	—
Real estate-mortgage:	—	—	—
Residential	114	144	216
Commercial	—	—	—
Consumer installment	19	7	20
Total accruing loans which are contractually past due 90 days or more	137	181	245
Total non - performing loans	509	538	293
Real estate owned	—	—	—
Other non-performing assets	—	—	—
Total non-performing assets	$ 509	$ 538	$ 293
Total non-performing loans to total loans	0.26 %	0.31 %	0.19 %
Total non-performing loans to total assets	0.19 %	0.24 %	0.15 %
Total non-performing assets to total assets	0.19 %	0.24 %	0.15 %

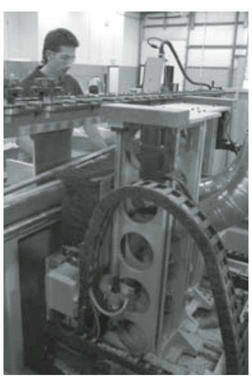
(1) Represents accruing loans delinquent greater than 90 days that are considered by management to be well secured and that are in the process of collection.

contractual interest rate for the period of delay. Management evaluates all loans identified as impaired individually. The bank estimates credit losses on impaired loans based on the present value of expected cash flows, or the fair value of the underlying collateral if loan repayment is expected to come from the sale or operation of the collateral. Impaired loans, or portions thereof, are charged off when it is determined a realized loss has occurred. Until that time, an allowance for loan losses is maintained for estimated losses.

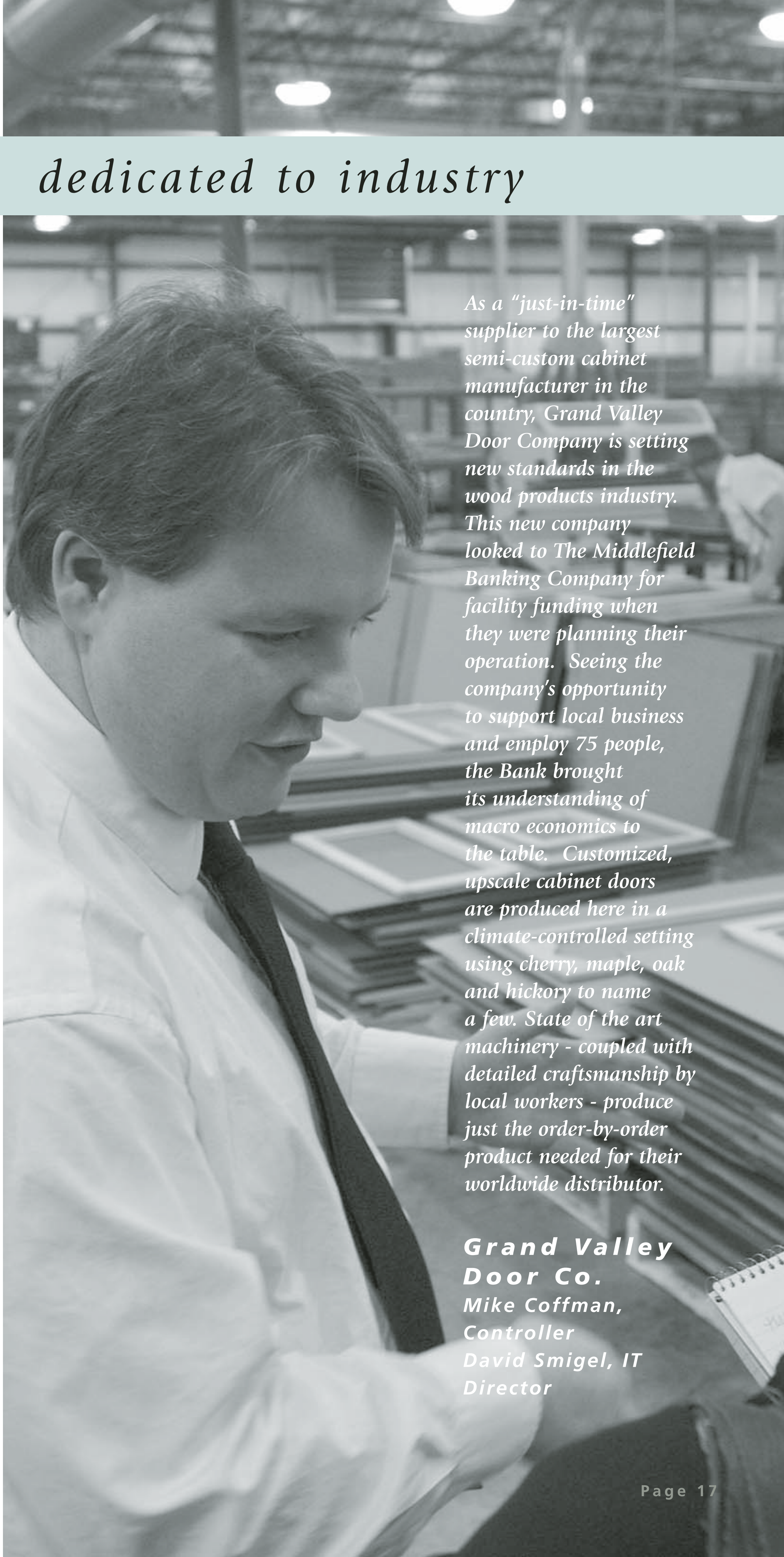
Unless otherwise required by the loan terms, cash receipts on impaired loans are applied first to accrued interest receivable, except when an impaired loan is also a nonaccrual loan, in which case the portion of the payment related to interest is recognized as income.

Nonperforming loans as a percentage of total net loans at December 31, 2003 decreased to 0.27% from 0.31% for 2002. The bank had nonaccrual loans of $372,000 and $357,000 at December 31, 2003 and 2002, respectively. Interest income recognized on nonaccrual loans during all of the periods was insignificant. Management does not believe the nonaccrual loans or any amounts classified as nonperforming had a significant effect on operations or liquidity in 2003. Furthermore, management is not aware of any trends or uncertainties related to any loans classified as doubtful or substandard that might have a material effect on earnings, liquidity, or capital resources. Management is not aware of any information pertaining to material credits that would cause it to doubt the ability of borrowers to comply with repayment terms.

The table on page16 (bottom) summarizes nonperforming assets by category.



dedicated to industry



As a "just-in-time" supplier to the largest semi-custom cabinet manufacturer in the country, Grand Valley Door Company is setting new standards in the wood products industry. This new company looked to The Middlefield Banking Company for facility funding when they were planning their operation. Seeing the company's opportunity to support local business and employ 75 people, the Bank brought its understanding of macro economics to the table. Customized, upscale cabinet doors are produced here in a climate-controlled setting using cherry, maple, oak and hickory to name a few. State of the art machinery - coupled with detailed craftsmanship by local workers - produce just the order-by-order product needed for their worldwide distributor.

Grand Valley Door Co.
Mike Coffman, Controller
David Smigel, IT Director

Liquidity. Liquidity management for Middlefield is measured and monitored on both a short- and long-term basis, allowing management to better understand and react to emerging balance sheet trends. After assessing actual and projected cash flow needs, management seeks to obtain funding at the most economical cost to Middlefield. Both short- and long-term liquidity needs are addressed by maturities and sales of investments securities, loan repayments and maturities, and liquidating money market investments such as federal funds sold. The use of these resources, in conjunction with access to credit, provides the core ingredients for satisfying depositor, borrower, and creditor needs.

Middlefield's liquid assets consist of cash and cash equivalents, which include investments in very short-term investments (i.e. federal funds sold), and investment securities classified as available for sale. The level of these assets is dependent on Middlefield's operating, investing, and financing activities during any given period. At December 31, 2003, cash and cash equivalents totaled $4.9 million or 1.9% of total assets while investment securities classified as available for sale totaled $50.0 million or 19.0% of total assets. Management believes that the liquidity needs of Middlefield are satisfied by the current balance of cash and cash equivalents, readily available access to traditional funding sources, FHLB advances, and the portion of the investment and loan portfolios that mature within one year. These sources of funds will enable Middlefield to meet cash obligations and off-balance sheet commitments as they come due.

Operating activities provided net cash of $3.5 million, $3.2 million, and $2.7 million for 2003, 2002, and 2001, respectively, generated principally from net income of $2.8 million, $2.5 million, and $2.3 million in each of these respective periods.

Investing activities consist primarily of loan originations and repayments and investment purchases and maturities. These cash usages primarily consisted of loan originations of $17.9 million, as well as investment purchases of $33.0 million. During the first quarter, Middlefield purchased $5,000,000 in bank-owned life insurance in order to generate nontaxable earnings that will offset the cost of certain employee benefit plans. Partially offsetting the usage of investment activities is $22.5 million of proceeds from investment security maturities and repayments. For the same period ended 2002, investing activities used $32.6 million in funds, principally for the net origination of loans and the purchase of investment securities of $22.1 million and $25.1 million, respectively.

Financing activities consist of the solicitation and repayment of customer deposits, borrowings and repayments, treasury stock activity, and the payment of dividends. During 2003, net cash provided by financing activities totaled $33.4 million, principally derived from an increase in deposit accounts in general, and savings and time deposits specifically. Also contributing to this influx of cash was proceeds from other borrowings of $5.0 million. During 2002, net cash provided by financing activities totaled $25.6 million, principally derived from an increase in deposit accounts. During the same period ended 2001, net cash provided by financing activities was $19 million.

The Company has various financial obligations, including contractual obligations and commitments that may require future cash payments.

Commitments to extend credit, include loan commitments, standby letters of credit and do not necessarily represent future cash requirements, in that these commitments often expire without being drawn upon.

Liquidity may be adversely affected by unexpected deposit outflows, excessive interest rates paid by competitors, and similar matters. Management monitors projected liquidity needs and determines the level desirable, based in part on Middlefield's commitment to make loans, as well as management's assessment of Middlefield's ability to generate funds. Middlefield anticipates that it will have sufficient liquidity to satisfy estimated short-term and long-term funding needs.

Capital Resources. Middlefield's primary source of capital has been retained earnings. Historically, Middlefield has generated net retained income to support normal growth and expansion. Management has developed a capital planning policy to not only ensure compliance with regulations, but also to ensure capital adequacy for future expansion.

Middlefield is subject to federal regulations imposing minimum capital requirements. Management monitors both Middlefield's and the Bank's Total risk-based, Tier I risk-based and Tier I leverage capital ratios to assess compliance with regulatory guidelines. At December 31, 2003, both Middlefield and the Bank exceeded the minimum risk-based and leverage capital ratio requirements. Middlefield's Total risk-based, Tier I risk-based and Tier I leverage ratios were 15.79%, 14.54%, and 8.89%, and the Bank's were 16.72%, 15.47%, and 9.42%, respectively, at December 31, 2002.

Impact of Inflation and Changing Prices

Middlefield's consolidated financial statements and related data herein have been prepared in accordance with accounting principles generally accepted in the United States of America, which require measurement of financial condition and results of operations in terms of historical

Contractual Obligations:

(In thousands)	Payments Due In One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
Deposits without a stated maturity	122,073	—	—	—	122,073
Certificates of Deposit	46,193	30,539	21,035	—	97,767
Borrowed funds	3,173	3,951	7,538	3,448	18,110

Commitments to Extend Credit:

(In thousands)	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
Commercial	4,816	—	—	—	4,816
Residential real estate	3,175	—	—	—	3,175
Revolving home equity and credit card lines	21,358	—	—	—	21,358
Standby letters of credit	68		—	—	68

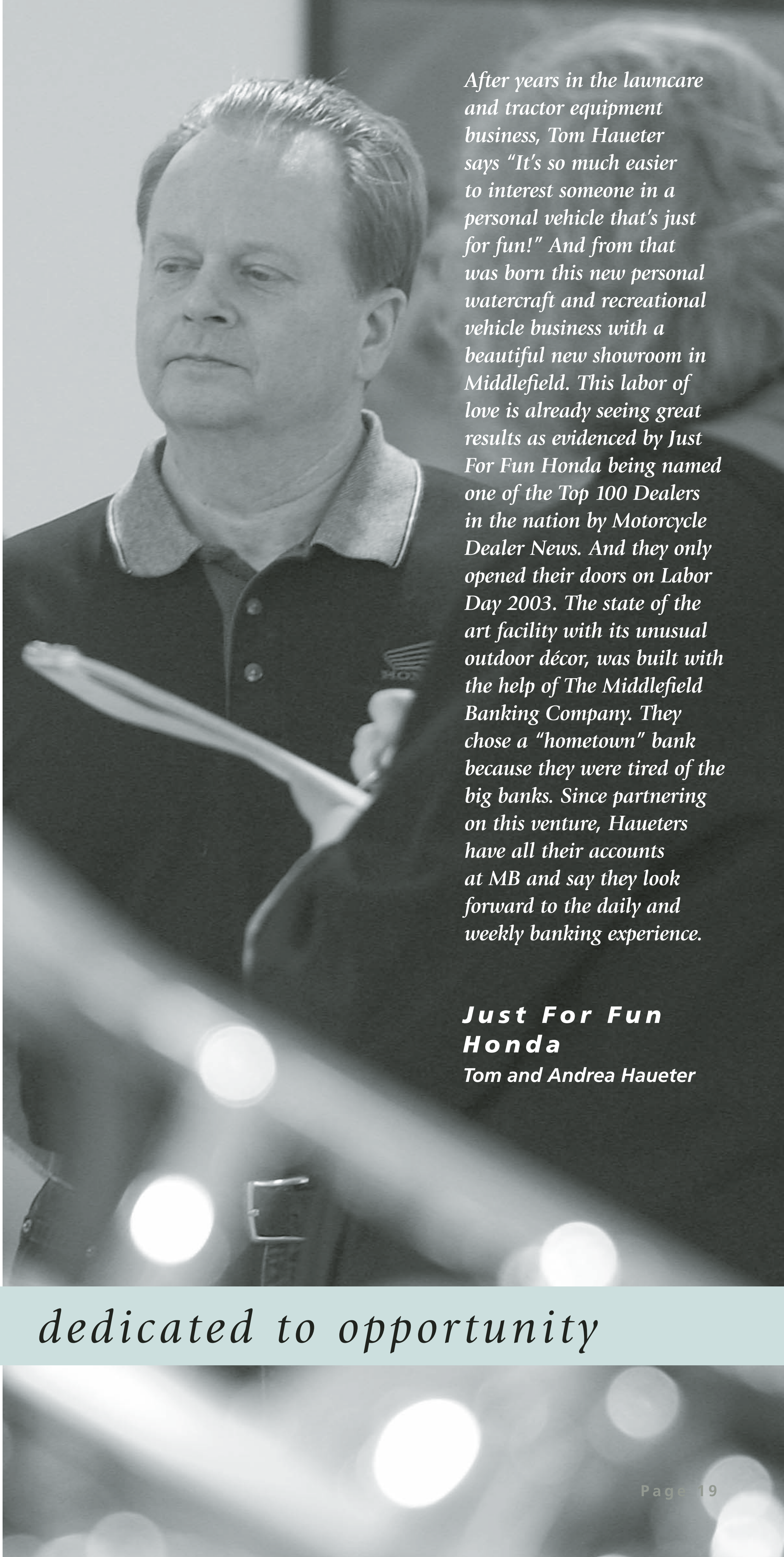
dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Because the primary assets and liabilities of Middlefield and the Bank are monetary in nature, changes in the general level of prices for goods and services have a relatively minor impact on total expenses. Increases in operating expenses such as salaries and maintenance are in part attributable to inflation. However, interest rates have a far more significant effect than inflation on the performance of financial institutions, including the Bank.

Quantitative and Qualitative Disclosures About Market Risk

Like other financial institutions, the Bank is subject to interest rate risk. The Bank's interest-earning assets could mature or reprice more rapidly than or on a different basis from its interest-bearing liabilities (primarily borrowings and deposits with short- and medium-term maturities) in a period of declining interest rates. Although having assets that mature or reprice more frequently on average than liabilities will be beneficial in times of rising interest rates, that asset/liability structure will result in lower net interest income in periods of declining interest rates.

Interest rate sensitivity, or interest rate risk, relates to the effect of changing interest rates on net interest income. Interest-earning assets with interest rates tied to the prime rate for example, or that mature in relatively short periods of time, are considered interest-rate sensitive. Interest-bearing liabilities with interest rates that can be repriced in a discretionary manner, or that mature in relatively short periods of time, are also considered interest-rate sensitive. The differences between interest-sensitive assets and interest-sensitive liabilities over various



After years in the lawncare and tractor equipment business, Tom Haueter says "It's so much easier to interest someone in a personal vehicle that's just for fun!" And from that was born this new personal watercraft and recreational vehicle business with a beautiful new showroom in Middlefield. This labor of love is already seeing great results as evidenced by Just For Fun Honda being named one of the Top 100 Dealers in the nation by Motorcycle Dealer News. And they only opened their doors on Labor Day 2003. The state of the art facility with its unusual outdoor décor, was built with the help of The Middlefield Banking Company. They chose a "hometown" bank because they were tired of the big banks. Since partnering on this venture, Haueters have all their accounts at MB and say they look forward to the daily and weekly banking experience.

Just For Fun Honda

Tom and Andrea Haueter

dedicated to opportunity

time horizons are commonly referred to as sensitivity gaps. As interest rates change, a sensitivity gap will have either a favorable effect or an adverse effect on net interest income. A negative gap -- with liabilities repricing more rapidly than assets -- generally should have a favorable effect when interest rates are falling, and an adverse effect when rates are rising. A positive gap -- with assets repricing more rapidly than liabilities -- generally should have the opposite effect: an adverse effect when rates are falling and a favorable effect when rates are rising.

Middlefield and the Bank have no financial instruments entered into for trading purposes. Interest rates change daily on federal funds purchased and sold. Federal funds are therefore the most sensitive to the market and have the most stable fair values. Loans and deposits tied to indices such as the prime rate or federal discount rate are also market sensitive, with stable fair values. The least sensitive instruments include long-term, fixed-rate loans and securities and fixed-rate savings deposits, which have the least stable fair value. Management of maturity distributions of assets and liabilities between these extremes is as important as the balances maintained. Management of maturity distributions involves matching interest rate maturities as well as principal maturities, and it influences net interest income significantly. In periods of rapidly changing interest rates, a negative or positive gap can cause major fluctuations in net interest income and earnings. Managing asset and liability sensitivities to enhance growth regardless of changes in market conditions is one of the objectives of the Bank's asset/liability management strategy.

Evaluating the Bank's exposure to changes in interest rates is the responsibility of the Asset/Liability Committee, a committee of Bank directors and officers. The Asset/Liability Committee assesses both the adequacy of the management process used to control interest rate risk and the quantitative level of exposure, ensuring that appropriate policies, procedures, management information systems, and internal controls are in place to maintain interest rate risk at appropriate levels. Evaluating the quantitative level of interest rate risk exposure requires assessment of existing and potential effects of changes in interest rates on the bank's financial condition, including capital adequacy, earnings, liquidity, and asset quality.

The Bank uses a static gap analysis to evaluate the risk associated with changes in interest rates. The table below illustrates the maturities or repricing of the Bank's assets and liabilities at December 31, 2003, based upon the contractual maturity or contractual repricing dates of loans and the contractual maturities of time deposits. Prepayment assumptions have not been applied to fixed-rate mortgage loans. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. Allocation of deposits other than time deposits to the various maturity and repricing periods is based upon management's best estimate.

The Bank's policy is that the one-year cumulative interest rate sensitivity gap should generally be within a range of negative 20% to positive

	Within 3 Months	4 to 12 Months	1 to 5 Years	Over 5 Years	Total
Interest-earning assets:					
Interest-bearing deposits in other institutions	$ 1,469	$ —	$ —	$ —	$ 1,469
Investment securities	8,067	21,289	12,264	10,016	51,636
Commercial and industrial	11,044	11,712	13,528	5,779	42,063
Real estate construction loans	850	1,487	617	480	3,434
Real estate-mortgage loans	33,569	34,435	65,975	7,894	141,873
Consumer installment	697	1,401	2,412	1,000	5,510
Total interest-earning assets	55,696	70,324	94,796	25,169	245,985
Interest-bearing liabilities:					
Interest-bearing demand	590	1,843	4,938	—	7,370
Money market	6,308	4,736	4,665	—	15,709
Savings	15,028	17,638	14,981	21,924	69,571
Time	8,777	35,794	53,196	—	97,767
Short term borrowings	445	—	—	—	445
Other borrowings	209	9,155	4,196	4,106	17,666
Total interest-bearing liabilities	31,357	69,165	81,976	26,030	208,528
Interest sensitivity gap	$ 24,339	$ 1,159	$ 12,820	$ (861)	$ 37,457
Cumulative interest sensitivity gap	$ 24,339	$ 25,498	$ 38,318	$ 37,457	
Cumulative interest sensitivity gap as a percent of total assets	10.76 %	11.27 %	16.94 %	16.56 %	

For purposes of the gap analysis, loans are not reduced by the allowance for loan losses and nonperforming loans.

20%. As the table above shows, the one-year gap was within this range as of December 31, 2003, with a positive one-year gap of 11.27%. The cumulative gap at December 31, 2003 is due principally to fixed-rate securities and loans in the "over one year to five years" category to maximize yield on assets.

One way to minimize interest rate risk is to maintain a balanced or matched interest-rate sensitivity position. However, matched funding does not always maximize profits. To increase net interest income, the Bank selectively mismatches asset and liability repricing to take advantage of short-term interest rate movements. The magnitude of the mismatch depends on a careful assessment of the risks presented by forecasted interest rate movements. The risk inherent in such a mismatch, or gap, is that interest rates might not move as anticipated.

Interest rate risk exposure is reviewed in quarterly meetings of the Asset/Liability Committee. At each meeting, guidelines are established for the following quarter and longer- term exposure. Matching maturities or repricing more closely mitigates risk. The Bank does not use derivative financial instruments to manage interest rate risk. Limitations are inherent in any method of measuring interest rate risk. Actual results can differ significantly from simulated results if, for example, market conditions and management strategies vary from the assumptions used in the analysis. The static "gap" analysis is based on assumptions concerning such matters as when assets and liabilities will reprice in a changing interest rate environment. Because these assumptions are no more than estimates, certain assets and liabilities indicated as maturing or repricing within a stated period might actually mature or reprice at different times and at different volumes from those estimated. The actual prepayments and withdrawals experienced by the Bank after a change in interest rates could deviate significantly from those assumed in calculating the data shown in the table. Adjustable-rate loans, for example, commonly have provisions that limit changes in interest rates each time the interest rate changes and on a cumulative basis over the life of the loan. Also, the renewal or repricing of some assets and liabilities can be discretionary and subject to competitive and other pressures. The ability of many borrowers to service their debt could diminish after an interest rate increase. Therefore, the gap table above does not and cannot necessarily indicate the actual future impact of general interest movements on net interest income.

Middlefield's use of a simulation model to better measure the impact of interest rate changes on net interest income is incorporated into the risk management process to effectively identify, measure, and monitor Middlefield's risk exposure. Interest rate simulations using a variety of assumptions are employed by Middlefield to evaluate its interest rate risk exposure. A shock analysis at December 31, 2003 indicated that a 200 basis point movement in interest rates in either direction would have had a minor impact on Middlefield's anticipated net interest income and the market value of assets and liabilities over the next 12 months, well within Middlefield's ability to manage effectively.

Market for Middlefield's Common Equity and Related Stockholder Matters

Middlefield had approximately 780 stockholders of record as of February 5, 2004. There is no established market for Middlefield common stock. The stock is traded very infrequently. Bid prices are quoted from time to time on the National Quotation Bureau's "pink sheets" under the symbol "MBCN." The following table shows the high and low bid prices of and cash dividends paid on Middlefield common stock in 2003 and 2002, adjusted for stock splits and stock dividends. This information does not reflect retail mark-up, markdown or commissions, and does not necessarily represent actual transactions.

Because Middlefield is dependent on its bank subsidiary for earnings and funds necessary to pay dividends, the ability of Middlefield to pay dividends to its stockholders is subject to bank regulatory restrictions.

	High bid	Low bid	Cash dividends per share
2003:			
First Quarter	$ 29.048	$ 26.190	$ 0.191
Second Quarter	$ 29.524	$ 27.619	$ 0.190
Third Quarter	$ 30.048	$ 28.581	$ 0.200
Fourth Quarter	$ 31.000	$ 29.025	$ 0.210
2002:			
First Quarter	$ 23.467	$ 21.769	$ 0.163
Second Quarter	$ 25.714	$ 22.458	$ 0.171
Third Quarter	$ 32.381	$ 24.905	$ 0.181
Fourth Quarter	$ 32.381	$ 25.048	$ 0.191

Consolidated Balance Sheet

Year Ended December 31,	2003	2002
ASSETS		
Cash and due from banks	$ 3,956,453	$ 1,775,324
Federal funds sold	930,000	350,000
Cash and cash equivalents	4,886,453	2,125,324
Interest-bearing deposits in other institutions	539,147	571,969
Investment securities available for sale	49,966,511	35,917,057
Investment securities held to maturity (estimated market value of $1,915,366 and $6,405,918)	1,858,904	6,242,095
Loans	192,880,153	174,943,131
Less allowance for loan losses	2,521,270	2,300,485
Net loans	190,358,883	172,642,646
Premises and equipment	6,807,930	6,480,730
Bank-owned life insurance	5,202,385	—
Accrued interest and other assets	2,749,235	2,265,712
TOTAL ASSETS	$ 262,369,448	$ 226,245,533
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 29,423,027	$ 26,610,912
Interest-bearing demand	7,369,754	7,216,385
Money market	15,708,932	10,660,657
Savings	69,570,895	50,195,270
Time	97,767,302	92,701,270
Total deposits	219,839,910	187,384,494
Short-term borrowings	444,819	785,778
Other borrowings	17,665,661	15,690,053
Accrued interest and other liabilities	914,744	638,800
TOTAL LIABILITIES	238,865,134	204,499,125
STOCKHOLDERS’ EQUITY		
Common stock, no par value; 5,000,000 shares authorized, 1,279,128 and 1,209,123 shares issued	10,038,156	7,883,155
Retained earnings	15,085,868	15,051,110
Accumulated other comprehensive income	125,199	475,428
Treasury stock, at cost (55,309 and 52,578 shares)	(1,744,909)	(1,663,285)
TOTAL STOCKHOLDERS’ EQUITY	23,504,314	21,746,408
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 262,369,448	$ 226,245,533

See accompanying notes to consolidated financial statements.

Consolidated Statements

Consolidated Statement of Income

Year Ended December 31,	2003	2002	2001
INTEREST INCOME			
Interest and fees on loans	$12,340,920	$12,340,920	$11,807,799
Interest-bearing deposits in other institutions	17,188	48,293	61,718
Federal funds sold	48,947	64,994	138,415
Investment securities:			
Taxable	1,192,221	1,241,399	1,235,922
Tax-exempt	486,485	424,357	462,715
Otherr dividend income	51,797	50,891	73,830
Total interest income	14,647,163	14,119,963	13,706,569
INTEREST EXPENSE			
Deposits	4,905,826	5,478,030	6,198,365
Short-term borrowings	4,048	7,175	15,411
Other borrowings	815,033	662,881	534,146
Total interest expense	5,724,907	6,148,086	6,747,922
NET INTEREST INCOME	8,922,256	7,971,877	6,958,647
Provision for loan losses	315,000	300,000	170,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,607,256	7,671,877	6,788,647
NONINTEREST INCOME			
Service charges on deposit accounts	1,033,928	955,121	930,431
Investment securities gains	542	—	97,807
Other income	202,385	—	—
Other income	191,289	188,096	165,955
Total noninterest income	1,428,144	1,143,217	1,194,193
NONINTEREST EXPENSE			
Salaries and employee benefits	3,085,451	2,523,433	2,316,342
Occupancy expense	403,591	357,500	291,706
Equipment expense	333,163	324,659	292,168
Data processing costs	470,393	427,164	361,839
Professional fees	218,838	246,285	247,222
Ohio state franchise tax	265,050	250,050	225,081
Advertising	168,849	65,263	63,201
Postage and freight	161,632	140,628	121,377
Other expense	998,483	1,077,248	1,007,016
Total noninterest expense	6,105,450	5,206,339	4,741,374
Income before income taxes	3,929,950	3,608,755	3,241,466
Income taxes	1,131,330	1,107,806	970,859
NET INCOME	$ 2,798,620	$ 2,500,949	$ 2,270,607
EARNINGS PER SHARE			
Basic	$ 2.29	$ 2.06	$ 1.87
Diluted	2.29	2.06	1.86

Consolidated Statement of Changes in Stockholders' Equity

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity	Comprehensive Income
Balance, December 31, 2000	1,148,676	$ 6,287,011	$ 13,343,980	$ 88,811	$ (1,476,440)	$ 18,243,362	
Net income			2,270,607			2,270,607	$ 2,270,607
Other comprehensive income:							
Unrealized gain on available for sale securities net of taxes of $ 23,133				44,906		44,906	44,906
Comprehensive income							$ 2,315,513
Cash dividends ($.64 per share)			(772,068)			(772,068)	
Balance, December 31, 2001	1,148,676	6,287,011	14,842,519	133,717	(1,476,440)	19,786,807	
Net income			2,500,949			2,500,949	$ 2,500,949
Other comprehensive income:							
Unrealized gain on available for sale securities net of taxes of $176,033				341,711		341,711	341,711
Comprehensive income							$ 2,842,660
Exercise of stock options	988	23,509				23,509	
Sale of treasury stock		795			17,225	18,020	
Purchase of treasury stock					(204,070)	204,070)	
Five percent stock dividend (including cash paid for fraactional shares)	54,997	1,429,662	(1,434,607)			(4,9,45)	
Dividend reinvestment plan	4,462	142,178				142,178	
Cash dividends ($.67 per share)			(857,751)			(857,751)	
Balance, December 31, 2001	1,209,123	7,883,155	155,051,110	475,428	(1,663,285)	21,746,408	
Net income			2,798,620			2,798,620	$ 2,798,620
Other comprehensive income:							
Unrealized gain on available for sale securities net of taxes of $180,421			(350,229)			(350,229)	(350,229)
Comprehensive income							$ 2,448,391
Exercise of stock options	847	19,916				19,916	
Common stock issued	5,612	170,513				170,513	
Purchase of treasury stock					(81,624)	(81,624)	
Five percent stock dividend (including cashpaid for fractional shares)	57,972	1,797,165	(1,801,961)			(4,796)	
Dividend reinvestment plan	5,574	167,407				167,407	
Cash dividends ($.79 per share)			(961,901)			(961,901)	
Balance, December 31, 2003	1,279,128	$ 10,038,156	$ 15,085,868	$ 125,199	$ (1,744,909)	$ 23,504,314	

	2003	2002	2001
Components of comprehensive income:			
Change in net unrealized gain (loss) on investments available for sale	$ (349,871)	$ 341,711	$ 109,459
Realized gains included in net income, net of taxes of $184,$0, and $33,254	(358)	—	(64,553)
Total	$ (350,229)	$ 341,711	$ 44,906

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flow

Year Ended December 31,	2003	2002	2001
OPERATING ACTIVITIES			
Net income	$2,798,620	$2,500,949	$2,270,607
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	315,000	300,000	170,000
Depreciation and amortization	377,546	354,550	300,531
Amortization of premium and discount on investment securities	259,890	159,047	69,237
Amortization of net deferred loan costs (fees)	(117,524)	(76,684)	(31,666)
Investment securities gains	(542)	—	(97,807)
Earnings on bank-owned life insurance	(202,385)	—	—
Deferred income taxes	(69,934)	(72,302)	54,403
Decrease (increase) in accrued interest receivable	(11,796)	34,337	140,147
Increase (decrease) in accrued interest payable	(77,862)	(121,258)	38,927
Other, net	184,434	124,129	(211,763)
Net cash provided by operating activities	3,455,447	3,202,768	2,702,616
INVESTING ACTIVITIES			
Decrease (increase) in interest-bearing deposits in other institutions, net	32,822	668,238	(255,766)
Investment securities available for sale:			
Proceeds from repayments and maturities	16,167,324	10,006,949	5,144,986
Purchases	(32,985,572)	(24,359,041)	(16,392,621)
Proceeds from sales	1,991,917	—	2,092,980
Investment securities held to maturity:			
Proceeds from repayments and maturities	4,370,070	3,960,491	7,853,057
Purchases	—	—	(200,000)
Increase in loans, net	(17,913,713)	(22,099,859)	(17,637,544)
Purchase of Federal Home Loan Bank stock	(52,000)	(189,700)	(143,100)
Purchase of bank-owned life insurance	(5,000,000)	—	—
Purchase of premises and equipment	(704,746)	(590,483)	(1,112,856)
Net cash used for investing activities	(34,093,898)	(32,603,405)	(20,650,864)
FINANCING ACTIVITIES			
Net increase in deposits	32,455,416	20,001,766	20,216,682
Increase (decrease) in short-term borrowings, net	(340,959)	125,100	117,456
Proceeds from other borrowings	5,000,000	7,000,000	—
Repayment of other borrowings	(3,024,392)	(611,281)	(560,262)
Purchase of treasury stock	(81,624)	(204,070)	—
Sale of treasury stock	—	18,020	—
Exercise of stock options	19,916	23,509	—
Common stock issued	170,513	—	—
Proceeds from dividend reinvestment plan	167,407	142,178	—
Cash dividends	(966,697)	(862,696)	(772,068)
Net cash provided by financing activities	33,399,580	25,632,526	19,001,808
Increase (decrease) in cash and cash equivalents	2,761,129	(3,768,111)	1,053,560
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,125,324	5,893,435	4,839,875
CASH AND CASH EQUIVALENTS AT END OF YEAR	$4,886,453	$2,125,324	$5,893,435
SUPPLEMENTAL INFORMATION			
Cash paid during the year for:			
Interest on deposits and borrowings	$5,802,769	$6,269,344	$6,708,995
Income taxes	1,295,000	1,054,000	980,000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting and reporting policies applied in the presentation of the accompanying financial statements follows:

Nature of Operations and Basis of Presentation

Middlefield Banc Corp. (the "Company") is an Ohio corporation organized to become the holding company of The Middlefield Banking Company (the "Bank"). The Bank is a state-chartered bank located in Ohio. The Company and its subsidiary derive substantially all of their income from banking and bank-related services which includes interest earnings on residential real estate, commercial mortgage, commercial and consumer financings, as well as interest earnings on investment securities and deposit services to its customers through five locations. The Company is supervised by the Board of Governors of the Federal Reserve System, while the Bank is subject to regulation and supervision by the Federal Deposit Insurance Corporation and the Ohio Division of Financial Institutions.

The consolidated financial statements of the Company include its wholly owned subsidiary, the Bank. Significant intercompany items have been eliminated in preparing the consolidated financial statements.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Investment Securities

Investment securities are classified at the time of purchase, based on management's intention and ability, as securities held to maturity or securities available for sale. Debt securities acquired with the intent and ability to hold to maturity are stated at cost adjusted for amortization of premium and accretion of discount, which are computed using a level yield method and recognized as adjustments of interest income. Certain other debt securities have been classified as available for sale to serve principally as a source of liquidity. Unrealized holding gains and losses for available-for-sale securities are reported as a separate component of stockholders' equity, net of tax, until realized. Realized security gains and losses are computed using the specific identification method. Interest and dividends on investment securities are recognized as income when earned.

Common stock of the Federal Home Loan Bank ("FHLB") represents ownership in an institution that is wholly owned by other financial institutions. This equity security is accounted for at cost and classified with other assets.

Loans

Loans are reported at their principal amount net of the allowance for loan losses. Interest income is recognized as income when earned on the accrual method. The accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions, the borrower's financial condition is such that collection of interest is doubtful. Interest received on nonaccrual loans is recorded as income against principal according to management's judgment as to the collectibility of such principal.

Loan origination fees and certain direct loan origination costs are being deferred and the net amount amortized as an adjustment of the related loan's yield. Management is amortizing these amounts over the contractual life of the related loans.

Allowance for Loan Losses

The allowance for loan losses represents the amount which management estimates is adequate to provide for probable loan losses inherent in its loan portfolio. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses which is charged to operations. The provision is based on management's periodic evaluation of the adequacy of the allowance for loan losses, which encompasses the overall risk characteristics of the various portfolio segments, past experience with losses, the impact of economic conditions on borrowers, and other relevant factors. The estimates used in determining the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to significant change in the near term.

A loan is considered impaired when it is probable the borrower will not repay the loan according to the original contractual terms of the loan agreement. Management has determined that first mortgage loans on one-to-four family properties and all consumer loans represent large groups of smaller-balance homogeneous loans that are to be collectively evaluated. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. A loan is not impaired during a period of delay in payment if the Company expects to collect all amounts due including interest accrued at the contractual interest rate for the period of delay. All loans identified as impaired are evaluated independently by management. The Company estimates credit losses on impaired loans based on the present value of expected cash flows or the fair value of the underlying collateral if the loan repayment is expected to come from the sale or operation of such collateral. Impaired loans, or portions thereof, are charged off when it is determined a realized loss has occurred. Until such time, an allowance for loan losses is maintained for estimated losses. Cash receipts on impaired loans are applied first to accrued interest receivable unless otherwise required by the loan terms, except when an impaired loan is also a nonaccrual loan, in which case the portion of the payment related to interest is recognized as income.

Mortgage loans secured by one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances concerning the loan, the credit worthiness and payment history of the borrower, the length of the payment delay, and the amount of shortfall in relation to the principal and interest owed.

Premises and Equipment

Premises and equipment are stated at cost net of accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from three to twenty years for furniture, fixtures, and equipment and three to forty years for buildings and leasehold improvements. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions and improvements are capitalized.

Income Taxes

The Company and the Bank file a consolidated federal income tax return. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Earnings Per Share

The Company provides dual presentation of basic and diluted earnings per share. Basic earnings per share are calculated utilizing net income as reported in the numerator and average shares outstanding in the denominator. The computation of diluted earnings per share differs in that the dilutive effects of any stock options, warrants, and convertible securities are adjusted in the denominator.

Stock Options

The Company maintains a stock option plan for key officers, employees, and non-employee directors. Had compensation expense for the stock option plans been recognized in accordance with the fair vale accounting provisions of FAS No. 123, *Accounting for Stock-Based Compensation*, net income applicable to common stock, basic, and diluted net income per common share for the year ended December 31 would have been as follows:

	2003	2002	2001
Net income as reported:	$ 2,798,620	$ 2,500,949	$ 2,270,607
Less pro forma expense related to option	52,459	52,434	37,644
Pro forma net income	$ 2,746,161	$ 2,448,515	$ 2,232,963
Basic net income per common share:			
As reported	$ 2.29	$ 2.06	$ 1.87
Pro forma	2.25	2.02	1.83
Diluted net income per common share:			
As reported	$ 2.29	$ 2.06	$ 1.86
Pro forma	2.25	2.01	1.83

For purposes of computing pro forma results, the Company estimated the fair values of stock options using the Black-Scholes option pricing model. The model requires the use of subjective assumptions which can materially affect fair value estimates. Therefore, the pro forma results are estimates of results of operations as if compensation expense had been recognized for the stock option plans. The fair value of each stock option granted was estimated using the following weighted-average assumptions:

Grant Year	Expected Dividend Yield	Risk-free Interest Rate	Expected Volatility	Expected Life (in years)
2000	2.50 %	5.29 %	5.00 %	9.95
2002	2.72	4.19	27.04	9.94
2003	2.72	4.25	14.00	9.94

Stockholders' Equity

The Board of Directors approved a 5 percent stock dividend to stockholders of record as of December 3, 2003, payable December 12, 2003. As a result of the dividend, 57,972 additional shares of the Company's common stock were issued, common stock was increased by $1,797,165, and retained earnings decreased by $1,801,961.

The Board of Directors approved a 5 percent stock dividend to stockholders of record as of June 1, 2002, payable June 14, 2002. As a result of the dividend, 54,997 additional shares of the Company's common stock were issued; common stock was increased by $1,429,662 and retained earnings decreased by $1,434,607.

Fractional shares paid were paid in cash. All average shares outstanding and all per share amounts included in the financial statements are based on the increased number of shares after giving retroactive effects to the stock dividend.

Cash Flow Information

The Company has defined cash and cash equivalents as those amounts included in the Consolidated Balance Sheet captions "Cash and due from banks" and "Federal funds sold."

Advertising Costs

Advertising costs are expensed as the costs are incurred. Advertising expenses amounted to $168,849, $65,263, and $63,201 for 2003, 2002, and 2001, respectively.

Recent Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board ("FASB") revised Statement of Financial Accounting Standards ("FAS") No. 132, *Employers' Disclosures about Pension and Other Postretirement Benefit*. This statement retains the disclosures required by FAS No. 132, which standardized the disclosure requirements for pensions and other postretirement benefits to the extent practicable and requires additional information on changes in the benefit obligations and fair value of plan assets. Additional disclosures include information describing the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows, and components of net periodic benefit cost recognized during interim periods. This statement retains reduced disclosure requirements for nonpublic entities from FAS No. 132, and it includes reduced disclosure for certain of the new requirements. This statement is effective for financial statements with fiscal years ending after December 15, 2003. The interim disclosures required by this statement are effective for interim periods beginning after December 15, 2003. The adoption of this statement did not have a material effect on the Company's disclosure requirements.

In August 2001, the FASB issued FAS No. 143, *Accounting for Asset Retirement Obligations*, which requires that the fair value of a liability be recognized when incurred for the retirement of a long-lived asset and the value of the asset be increased by that amount. The statement also requires that the liability be maintained at its present value in subsequent periods and outlines certain disclosures for such obligations. The adoption of this statement, which was effective January 1, 2003, did not have a material effect on the Company's financial position or results of operations.

In July 2002, the FASB issued FAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which requires companies to recognize costs associated with exit or disposal activities when they are incurred, rather than at the date of a commitment to an exit or disposal plan. This statement replaces EITF Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)*. The new statement is effective for exit or disposal activities initiated after December 31, 2002. The adoption of this statement did not have a material effect on the Company's financial position or results of operations.

On December 31, 2002, the FASB issued FAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure, which amends FAS No. 123, Accounting for Stock-Based Compensation*. FAS No. 148 amends the disclosure requirements of FAS No. 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. Under the provisions of FAS No. 123, companies that adopted the preferable, fair value based method were required to apply that method prospectively for new stock option awards. This contributed to a "ramp-up" effect on stock-based compensation expense in the first few years following adoption, which caused concern for companies and investors because of the lack of consistency in reported results. To address that concern, FAS No. 148 provides two additional methods of transition that reflect an entity's full complement of stock-based compensation expense immediately upon adoption, thereby eliminating the ramp-up effect. FAS No. 148 also improves the clarity and prominence of disclosures about the pro forma effects of using the fair value based method of accounting for stock-based compensation for all companies—regardless of the accounting method used—by requiring that the data be presented more prominently and in a more user-friendly format in the footnotes to the financial statements. In addition, the statement improves the timeliness of those disclosures by requiring that this information be included in interim, as well as annual financial statements. The transition guidance and annual disclosure provisions of FAS No. 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002.

In April 2003, the FASB issued FAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under FAS No. 133. The amendments set forth in FAS No. 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. In particular, this statement clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in FAS No. 133. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. FAS No.149 amends certain other existing pronouncements. Those changes will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting. This statement is effective for contracts entered into or modified after September 30, 2003, except as stated below and for hedging relationships designated after September 30, 2003. The guidance should be applied prospectively. The provisions of this statement that relate to FAS No. 133, *Implementation Issues*, that have been effective for fiscal quarters that began prior to September 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to existing contracts as well as new contracts entered into after September 30, 2003. The adoption of this statement did not have a material effect on the Company's financial position or results of operations.

In May 2003, the FASB issued FAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Such instruments may have been previously classified as equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after September 15, 2003. The adoption of this statement did not have a material effect on the Company's reported equity.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. This interpretation clarifies that a guarantor is required to disclose: (a) the nature of the guarantee, including the approximate term of the guarantee, how the guarantee arose, and the events or circumstances that would require the guarantor to perform under the guarantee; (b) the maximum potential amount of future payments under the guarantee; (c) the carrying amount of the liability, if any, for the guarantor's obligations under the guarantee; and (d) the nature and extent of any recourse provisions or available collateral that would enable the guarantor to recover the amounts paid under the guarantee. This interpretation also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The objective of the initial measurement of that liability is the fair value of the guarantee at its inception. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements in this interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of this interpretation did not have a material effect on the Company's financial position or results of operations.

In December 2003, the FASB issued a revision to Interpretation 46, *Consolidation of Variable Interest Entities*, which established standards for identifying a variable interest entity (VIE) and for determining under what circumstances a VIE should be consolidated with its primary beneficiary. Application of this Interpretation is required in financial statements of public entities that have interests in special-purpose entities for periods ending after December 15, 2003. Application by public entities, other than small business issuers, for all other types of VIEs is required in financial statements for periods ending after March 15, 2004. Small business issuers must apply this Interpretation to all other types of VIEs at the end of the first reporting period ending after December 15, 2004. The adoption of this interpretation has not and is not expected to have a material effect on the Company's financial position or results of operations.

Reclassification of Comparative Amounts

Certain items previously reported have been reclassified to conform with the current year's format. Such reclassifications did not affect net income or stockholders' equity.

2. EARNINGS PER SHARE

There are no convertible securities which would affect the numerator in calculating basic and diluted earnings per share; therefore, net income as presented on the Consolidated Statement of Income will be used as the numerator. The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation.

	2003	2002	2001
Weighted-average common shares outstanding	1,274,309	1,205,155	1,206,110
Average treasury stock shares	(54,833)	(47,786)	(45,722)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	1,219,476	1,157,369	1,160,388
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	3,362	1,899	1,203
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	1,222,838	1,159,268	1,161,591

Options to purchase 9,975 shares of common stock at prices from $29.52 to $30.24 per share were outstanding during 2002 and 2001 but were not included in the computation of diluted EPS because to do so would have been anti-dilutive. In 2003, there were no options to purchase shares of common stock that were anti-dilutive.

3. INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost and estimated market values of securities available for sale are as follows:

	2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government agency securities	$ 6,061,807	$ 132,978	$ (17,744)	$ 6,177,041
Obligations of states and political subdivisions:				
Taxable	209,534	6,195	—	215,729
Tax-exempt	14,564,866	324,412	(48,570)	14,840,708
Corporate securities	349,910	9,059	—	358,969
Mortgage-backed securities	28,590,695	112,244	(328,875)	28,374,064
Total	$49,776,812	$ 584,888	$ (395,189)	$49,966,511

	2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government agency securities	$ 3,737,068	$ 162,442	$ —	$ 3,899,510
Obligations of states and political subdivisions:				
Taxable	1,160,507	21,107	—	1,181,614
Tax-exempt	10,113,698	290,242	(27,762)	10,376,178
Corporate securities	349,747	23,659	—	373,406
Mortgage-backed securities	19,835,691	263,981	(13,323)	20,086,349
Total	$35,196,711	$ 761,431	$ (41,085)	$35,917,057

The following table shows the Company's gross unrealized losses and fair value, aggregated by investment category and length of time, that the individual securities have been in a continuous unrealized loss position, at December 31, 2003.

	Less than Twelve Months		Twelve Months or Greater		Total	
	Estimated Market Value	Gross Unrealized Losses	Estimated Market Value	Gross Unrealized Losses	Estimated Market Value	Gross Unrealized Losses
U.S. Government agency securities	$ 1,047,461	$ (17,744)	$ —	$ -	$ 1,047,461	$ (17,744)
Obligations of states and political subdivisions	2,303,600	(48,570)	—	—	2,303,600	(48,570)
Mortgage-backed securities	17,700,010	(317,263)	1,236,753	(11,612)	18,936,763	(328,875)
Total	$ 21,051,071	$ (383,577)	$ 1,236,753	$ (11,612)	$ 22,287,824	$ (395,189)

The Company's investment securities portfolio contains unrealized losses of direct obligations of the U.S. Treasury, securities, including mortgage-related instruments, issued or backed by the full faith and credit of the U.S. Government or are generally viewed as having the implied guarantee of the U.S. Government, and debt obligations of a U.S. state or political subdivision.

On a quarterly basis, the Company evaluates the severity and duration of impairment for its investment securities portfolio unless the Company has the ability to hold the security to maturity without incurring a loss. Generally, impairment is considered other than temporary when an investment security has sustained a declined of 10 percent or more for six months.

The Company has concluded that any impairment of its investment securities portfolio is not other than temporary but is the result of interest rate changes that are not expected to result in the noncollection of principal and interest, during the period.

The amortized cost and estimated market value of debt securities at December 31, 2003, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Market Value
Due in one year or less	$ 3,831,887	$ 3,910,936
Due after one year through five years	7,584,355	7,779,391
Due after five years through ten years	8,905,904	9,018,376
Due after ten years	29,454,666	29,257,808
Total	$ 49,776,812	$ 49,966,511

Investment securities with an approximate carrying value of $21,323,044 and $11,397,600 at December 31, 2003 and 2002, respectively, were pledged to secure deposits and other purposes as required by law.

The following is a summary of proceeds received, gross gains, and gross losses realized on the sale of investment securities available for sale for the years ended December 31, 2003 and 2001. The Company had no sales in 2002.

	2003	2001
Proceeds from sales	$ 1,991,917	$ 2,092,980
Gross gains	6,350	97,807
Gross losses	5,808	—

4. INVESTMENT SECURITIES HELD TO MATURITY

The amortized cost and estimated market values of investment securities held to maturity are as follows:

	2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Obligations of states and political subdivisions:				
Taxable	$ 945,234	$ 17,769	$ —	$ 963,003
Tax-exempt	913,670	38,693	—	952,363
Total	$ 1,858,904	$ 56,462	$ —	$ 1,915,366

	2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Obligations of states and political subdivisions:				
Taxable	$ 1,370,215	$ 50,360	$ —	$ 1,420,575
Tax-exempt	3,368,276	95,092	—	3,463,368
Corporate securities	1,503,604	18,371	—	1,521,975
Total	$ 6,242,095	$ 163,823	$ —	$ 6,405,918

The amortized cost and estimated market value of debt securities at December 31, 2003, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Market Value
Due in one year or less	$ 1,431,872	$ 1,455,469
Due after one year through five years	290,186	300,884
Due after five years through ten years	36,846	40,960
Due after ten years	100,000	118,053
Total	$ 1,858,904	$ 1,915,366

Investment securities held to maturity with carrying values of approximately $685,186 and $1,535,726 and estimated market values of approximately $704,240 and $1,590,910 at December 31, 2003 and 2002, respectively, were pledged to secure public deposits and other purposes required by law.

5. LOANS

Major classifications of loans are summarized as follows:

	2003	2002
Commercial and industrial	$ 42,063,086	$ 32,915,776
Real estate - construction	3,433,614	3,207,434
Real estate - mortgage:		
Residential	134,007,401	123,843,881
Commercial	7,865,893	9,520,812
Consumer installment	5,510,159	5,455,228
	192,880,153	174,943,131
Less allowance for loan losses	2,521,270	2,300,485
Net loans	$ 190,358,883	$ 172,642,646

The Company's primary business activity is with customers located within its local trade area, eastern Geauga County, and contiguous counties to the north, east, and south. Commercial, residential, consumer, and agricultural loans are granted. Although the Company has a diversified loan portfolio at December 31, 2003 and 2002, loans outstanding to individuals and businesses are dependent upon the local economic conditions in its immediate trade area.

6. ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the years ended December 31 are as follows:

	2003	2002	2001
Balance, January 1	$ 2,300,485	$ 2,062,252	$ 2,037,322
Add:			
Provisions charged to operations	315,000	300,000	170,000
Recoveries	49,942	57,388	120,814
Less loans charged off	144,157	119,155	265,884
Balance, December 31	$ 2,521,270	$ 2,300,485	$ 2,062,252

7. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	2003	2002
Land and land improvements	$ 1,295,938	$ 1,094,647
Building and leasehold improvements	6,815,018	6,068,568
Furniture, fixtures, and equipment	2,656,874	2,452,273
Construction in progress	—	447,595
	10,767,830	10,063,083
Less accumulated depreciation and amortization	3,959,900	3,582,353
Total	$ 6,807,930	$ 6,480,730

Depreciation and amortization charged to operations was $377,547 in 2003, $354,550 in 2002, and $300,531 in 2001.

8. OTHER ASSETS

The components of other assets are as follows:

	2003	2002
FHLB stock	$ 1,297,700	$ 1,245,700
Accrued interest on investment securities	281,438	294,077
Accrued interest on loans	449,085	424,650
Deferred tax asset, net	337,471	87,117
Other	383,541	214,168
Total	$ 2,749,235	$ 2,265,712

9. DEPOSITS

Time deposits at December 31, 2003, mature $46,193,688, $23,504,838, $7,033,704, $9,054,077, and $11,980,995 during 2004, 2005, 2006, 2007, and 2008, respectively.

Time deposits include certificates of deposit in denominations of $100,000 or more. Such deposits aggregated $18,834,869 and $17,677,677 at December 31, 2003 and 2002, respectively.

Maturities on time deposits of $100,000 or more at December 31, 2003, are as follows:

Within three months	$ 1,486,844
Beyond three but within six months	1,773,454
Beyond six but within twelve months	3,956,701
Beyond one year	11,617,870
Total	$ 18,834,869

10. SHORT-TERM BORROWINGS

The outstanding balances and related information of short-term borrowings which includes securities sold under agreements to repurchase are summarized as follows:

	2003	2002
Balance at year-end	$ 444,819	$ 785,778
Average balance outstanding	726,874	977,343
Maximum month-end balance	2,327,544	1,176,829
Weighted-average rate at year-end	0.23 %	0.33 %
Weighted-average rate during the year	0.56	0.73

Average balances outstanding during the year represent daily average balances, and average interest rates represent interest expense divided by the related average balance.

The Company maintains a $4,000,000 line of credit at an adjustable rate, currently 4 percent, from Lorain National Bank. At December 31, 2003 and 2002, there were no outstanding balances on this line.

11. OTHER BORROWINGS

Other borrowings consist of advances from the FHLB as follows:

Description	Maturity range from	to	Weighted-average interest rate	Stated interest rate range from	to	2003	2002
Fixed rate	08/09/04	08/09/06	3.30 %	2.70 %	3.87 %	$ 1,560,000	$ 3,000,000
Fixed rate amortizing	07/01/07	02/01/23	3.59	2.70	6.40	8,105,661	4,690,053
Convertible	09/04/08	07/28/10	5.43	4.53	6.45	8,000,000	8,000,000
						$ 17,665,661	$ 15,690,053

The scheduled maturities of advances outstanding are as follows:

Year Ending December 31,	2003 Amount	Weighted-average Rate
2004	$ 2,728,089	3.51 %
2005	2,190,158	3.60
2006	1,761,155	3.73
2007	902,873	3.56
2008	6,635,268	4.92
Beyond 2008	3,448,118	5.14
	$ 17,665,661	4.39 %

The Bank entered into ten-year "Convertible Select" fixed commitment advance with the FHLB. Rates may be reset at the FHLB's discretion on a quarterly basis based on the three-month LIBOR rate. At each rate change the Bank may exercise a put option and satisfy the obligation without penalty.

Advances from the FHLB maturing July 1, 2007, February 1, 2012, June 4, 2012, February 2, 2013, June 4, 2017, February 1, 2018, and February 1, 2023 require monthly principal and interest payments and an annual 20 percent paydown of outstanding principal. Monthly principal and interest payments are adjusted after each 20 percent paydown. Under terms of a blanket agreement, collateral for the FHLB borrowings are secured by certain qualifying assets of the Bank which consist principally of first mortgage loans. Under this credit arrangement, the Bank has a remaining borrowing capacity of approximately $113 million at December 31, 2003.

12. OTHER LIABILITIES

The components of other liabilities are as follows:

	2003	2002
Accrued interest payable	$ 408,084	$ 485,946
Other	506,660	152,854
Total	$ 914,744	$ 638,800

13. INCOME TAXES

The provision for federal income taxes consists of:

	2003	2002	2001
Current payable	$ 1,201,264	$ 1,180,108	$ 916,456
Deferred	(69,934)	(72,302)	54,403
Total provision	$ 1,131,330	$ 1,107,806	$ 970,859

The tax effects of deductible and taxable temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	2003	2002
Deferred tax assets:		
Allowance for loan losses	$ 788,299	$ 713,232
Supplemental retirement plan	37,300	19,348
Gross deferred tax assets	825,599	732,580
Deferred tax liabilities:		
Deferred origination fees, net	157,979	173,186
Premises and equipment	141,866	122,908
Net unrealized gain on securities	64,498	244,918
Other	123,785	104,451
Gross deferred tax liabilities	488,128	645,463
Net deferred tax assets	$ 337,471	$ 87,117

No valuation allowance was established at December 31, 2003 and 2002, in view of the Company's ability to carryback to taxes paid in previous years and certain tax strategies, coupled with the anticipated future taxable income as evidenced by the Company's earnings potential.

The reconciliation between the federal statutory rate and the Company's effective consolidated income tax rate is as follows:

	2003 Amount	2003 % of Pre-tax Income	2002 Amount	2002 % of Pre-tax Income	2001 Amount	2001 % of Pre-tax Income
Provision at statutory rate	$1,336,030	34.0 %	$1,226,976	34.0 %	$1,102,098	34.0 %
Tax-free income	(236,760)	(6.1)	(147,425)	(4.1)	(157,362)	(4.9)
Nondeductible interest expense	22,789	0.6	21,590	0.6	26,068	0.8
Other	9,271	0.4	6,665	0.2	55	0.1
Actual tax expense and effective rate	$1,131,330	28.9 %	$1,107,806	30.7 %	$ 970,859	30.0 %

14. EMPLOYEE BENEFITS

Retirement Plan

The Bank maintains a section 401(k) employee savings and investment plan for all full-time employees and officers of the Bank with more than one year of service. The Bank's contribution to the plan is based on 50 percent matching of voluntary contributions up to 6 percent of compensation. An eligible employee can contribute up to 15 percent of salary. Employee contributions are vested at all times, and the Bank contributions are fully vested after six years beginning at the second year in 20 percent increments. Contributions for 2003, 2002, and 2001 to this plan amounted to $56,731, $53,268, and $49,130, respectively.

Supplemental Retirement Plan

Effective December 1, 2001, the Bank adopted a Directors Retirement Plan to provide post-retirement payments over a ten-year period to members of the Board of Directors who have completed five or more years of service. The Plan requires payment of 25 percent of the final average annual board fees paid to a director in the three years preceding the director's retirement. The expense of the plan for the years ended December 31, 2003, 2002, and 2001, amounted to $52,800, $52,800, and $4,107, respectively.

Stock Option Plan

The Company maintains a stock option plan ("the Plan") for granting incentive stock options and non-qualified stock options for key officers and employees and non-employee directors of the Company. A total of 126,640 shares of authorized and unissued or issued common stock are reserved for issuance under the Plan, which expires ten years from the date of stockholder ratification. The per share exercise price of an option granted will not be less than the fair value of a share of common stock on the date the option is granted. No option shall become exercisable earlier than one year from the date the Plan was approved by the stockholders.

The following table presents share data related to the outstanding options:

	2003	Weighted-average Exercise Price	2002	Weighted-average Exercise Price
Outstanding, January 1	31,968	$ 25.69	23,084	$ 24.87
Granted	18,270	29.52	9,923	27.14
Exercised	(877)	23.41	(1,038)	21.77
Forfeited	—	—	—	—
Outstanding, December 31	49,361	$ 27.14	31,968	$ 25.69
Exercisable at year-end	31,091	25.74	22,046	25.03

The following table summarizes the characteristics of stock options at December 31, 2003:

Grant Date	Exercise Price	Outstanding Shares	Outstanding Contractual Average Life	Outstanding Average Exercise Price	Exercisable Shares	Exercisable Average Exercise Price
June 14, 1999	$ 28.80	7,503	5.45	$ 28.80	7,503	$ 28.80
November 23, 1999	28.12	2,748	5.90	28.12	2,748	28.12
December 11, 2000	21.77	10,917	6.95	21.77	10,917	21.77
December 9, 2002	27.14	9,923	8.94	27.14	9,923	27.14
December 8, 2003	29.52	18,270	9.94	29.52	—	—
		49,361			31,091	

15. COMMITMENTS

In the normal course of business, there are various outstanding commitments and certain contingent liabilities, which are not reflected in the accompanying consolidated financial statements. These commitments and contingent liabilities represent financial instruments with off-balance sheet risk. The contract or notional amounts of those instruments reflect the extent of involvement in particular types of financial instruments which were comprised of the following:

	2003	2002
Commitments to extend credit	$ 29,349,316	$ 20,131,380
Standby letters of credit	67,800	86,692
Total	$ 29,417,116	$ 20,218,072

These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The Company's exposure to credit loss, in the event of nonperformance by the other parties to the financial instruments, is represented by the contractual amounts as disclosed. The Company minimizes its exposure to credit loss under these commitments by subjecting them to credit approval and review procedures and collateral requirements as deemed necessary. Commitments generally have fixed expiration dates within one year of their origination.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Performance letters of credit represent conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These instruments are issued primarily to support bid or performance-related contracts. The coverage period for these instruments is typically a one-year period with an annual renewal option subject to prior approval by management. Fees earned from the issuance of these letters are recognized over the coverage period. For secured letters of credit, the collateral is typically Bank deposit instruments or customer business assets.

16. REGULATORY RESTRICTIONS

Loans

Federal law prevents the Company from borrowing from the Bank unless the loans are secured by specific obligations. Further, such secured loans are limited in amount of 10 percent of the Bank's common stock and capital surplus.

Dividends

The Bank is subject to a dividend restriction which generally limits the amount of dividends that can be paid by an Ohio state-chartered bank. Under the Ohio Banking Code, cash dividends may not exceed net profits as defined for that year combined with retained net profits for the two preceding years less any required transfers to surplus. Under this formula, the amount available for payment of dividends in 2004 was $3,401,475 plus 2004 profits retained up to the date of the dividend declaration.

17. REGULATORY CAPITAL

Federal regulations require the Company and the Bank to maintain minimum amounts of capital. Specifically, each is required to maintain certain minimum dollar amounts and ratios of Total and Tier I capital to risk-weighted assets and of Tier I capital to average total assets.

In addition to the capital requirements, the Federal Deposit Insurance Corporation Improvement Act ("FDICIA") established five capital categories ranging from "well capitalized" to "critically undercapitalized." Should any institution fail to meet the requirements to be considered "adequately capitalized," it would become subject to a series of increasingly restrictive regulatory actions.

As of December 31, 2003 and 2002, the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well capitalized financial institution, Total risk-based, Tier 1 risk-based, and Tier 1 Leverage capital ratios must be at least 10 percent, 6 percent, and 5 percent, respectively.

The Company's actual capital ratios are presented in the following table which shows the Company met all regulatory capital requirements. The capital position of the Bank does not differ significantly from the Company's.

	2003		2002	
	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-weighted Assets)				
Actual	$ 25,395,628	15.79 %	$ 22,997,205	16.72 %
For Capital Adequacy Purposes	12,865,299	8.00	11,001,899	8.00
To Be Well Capitalized	16,081,624	10.00	13,752,374	10.00
Tier I Capital (to Risk-weighted Assets)				
Actual	$ 23,379,115	14.54 %	$ 21,270,980	15.47 %
For Capital Adequacy Purposes	6,432,650	4.00	5,500,950	4.00
To Be Well Capitalized	9,648,975	6.00	8,251,424	6.00
Tier I Capital (to Average Assets)				
Actual	$ 23,379,115	8.89 %	$ 21,270,980	9.42 %
For Capital Adequacy Purposes	10,514,492	4.00	9,033,386	4.00
To Be Well Capitalized	13,143,115	5.00	11,291,733	5.00

18. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Company's financial instruments at December 31 are as follows:

	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and due from banks	$ 3,956,453	$ 3,956,453	$ 1,775,324	$ 1,775,324
Federal funds sold	930,000	930,000	350,000	350,000
Interest-bearing deposits in other institutions	539,147	539,147	571,969	571,969
Investment securities:				
Available for sale	49,966,511	49,966,511	35,917,057	35,917,057
Held to maturity	1,858,904	1,915,366	6,242,095	6,405,918
Net loans	190,358,883	199,157,402	172,642,646	182,439,113
Bank-owned life insurance	5,202,385	5,202,385	—	—
Federal Home Loan Bank stock	1,297,700	1,297,700	1,245,700	1,245,700
Accrued interest receivable	730,523	730,523	718,727	718,727
Financial liabilities:				
Deposits	$ 219,839,910	$ 223,046,359	$ 187,384,494	$ 191,025,787
Short-term borrowings	444,819	444,819	785,778	785,778
Other borrowings	17,665,661	17,763,971	15,690,053	16,390,391
Accrued interest payable	408,084	408,084	485,946	485,946

Financial instruments are defined as cash, evidence of ownership interest in an entity, or a contract which creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value estimates for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors as determined through various option pricing formulas or simulation modeling. As many of these assumptions result from judgments made by management based upon estimates, which are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

As certain assets such as deferred tax assets and premises and equipment are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of the Company.

The Company employed simulation modeling in determining the estimated fair value of financial instruments for which quoted market prices were not available based upon the following assumptions:

Cash and Due From Banks, Federal Funds Sold, Interest-Bearing Deposits in Other Institutions, Federal Home Loan Bank Stock, Accrued Interest Receivable, Accrued Interest Payable, and Short-Term Borrowings

The fair value is equal to the current carrying value.

Bank-Owned Life Insurance

The fair value is equal to the cash surrender value of the life insurance policies.

Investment Securities

The fair value of investment securities available for sale and held to maturity is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities.

Loans, Deposits, and Other Borrowings

The fair value of loans, certificates of deposit, and other borrowings is estimated by discounting the future cash flows using a simulation model which estimates future cash flows and constructs discount rates that consider reinvestment opportunities, operating expenses, noninterest income, credit quality, and prepayment risk. Demand, savings, and money market deposit accounts are valued at the amount payable on demand as of year-end.

Commitments to Extend Credit

These financial instruments are generally not subject to sale, and estimated fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment or letter of credit, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments and letters of credit are presented in Note 15.

19. PARENT COMPANY

Following are condensed financial statements for the Company.

CONDENSED BALANCE SHEET

	December 31, 2003	2002
ASSETS		
Cash and due from banks	$ 329,683	$ 292,947
Interest-bearing deposits in other institutions	539,147	283,969
Investment in subsidiary bank	22,635,484	21,169,492
TOTAL ASSETS	$ 23,504,314	$ 21,746,408
STOCKHOLDERS' EQUITY	$ 23,504,314	$ 21,746,408

CONDENSED STATEMENT OF INCOME

	Year Ended December 31, 2003	2002	2001
INCOME			
Dividends from subsidiary bank	$ 1,044,637	$ 1,020,895	$ 854,703
Interest income	5,179	6,963	4,709
Total income	1,049,816	1,027,858	859,412
EXPENSES	99,473	166,800	152,626
Income before income tax benefit	950,343	861,058	706,786
Income tax benefit	(32,056)	(54,636)	(48,063)
Income before equity in undistributed net income of subsidiary	982,399	915,695	754,849
Equity in undistributed net income of subsidiary	1,816,221	1,585,254	1,515,758
NET INCOME	$ 2,798,620	$ 2,500,949	$ 2,270,607

CONDENSED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2003	2002	2001
OPERATING ACTIVITIES			
Net income	$2,798,620	$2,500,949	$2,270,607
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiary	(1,816,221)	(1,585,254)	(1,515,758)
Other	—	—	32,210
Net cash provided by operating activities	982,399	915,695	787,059
INVESTING ACTIVITIES			
Decrease (increase) in interest-bearing deposits in other institutions	(255,178)	93,237	(350,766)
Net cash provided by (used for) investing activities	(255,178)	93,237	(350,766)
FINANCING ACTIVITIES			
Purchase of treasury stock	(81,624)	(204,070)	—
Sale of treasury stock	—	18,020	—
Exercise of stock options	19,916	23,509	—
Common stock issued	170,513	—	—
Proceeds from dividend reinvestment plan	167,407	142,178	—
Cash dividends	(966,697)	(862,696)	(772,068)
Net cash used for financing activities	(690,485)	(883,059)	(772,068)
Increase (decrease) in cash	36,736	125,873	(335,775)
CASH AT BEGINNING OF YEAR	292,947	167,074	502,849
CASH AT END OF YEAR	$ 329,683	$ 292,947	$ 167,074

20. SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

	Three Months Ended			
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
Total interest income	$ 3,587,523	$ 3,626,098	$ 3,700,273	$ 3,681,472
Total interest expense	1,451,033	1,450,680	1,430,071	1,393,123
Net interest income	2,136,490	2,175,418	2,270,202	2,288,349
Provision for loan losses	105,000	105,000	105,000	-
Net interest income after provision for loan losses	2,031,490	2,070,418	2,165,202	2,288,349
Total noninterest income	276,579	358,101	375,364	469,897
Total noninterest expense	1,310,758	1,613,208	1,592,379	1,589,105
Income before income taxes	997,311	815,311	948,187	1,169,141
Income taxes	344,565	200,363	246,000	340,402
Net income	$ 652,746	$ 614,948	$ 702,187	$ 828,739
Per share data:				
Net income				
Basic	$ 0.53	$ 0.50	$ 0.58	$ 0.68
Diluted	0.53	0.50	0.57	0.68
Average shares outstanding				
Basic	1,214,251	1,214,057	1,216,920	1,219,449
Diluted	1,216,402	1,217,239	1,220,484	1,223,684

	Three Months Ended			
	March 31, 2002	June 30, 2002	September 30, 2002	December 31, 2002
Total interest income	$ 3,426,323	$ 3,499,140	$ 3,585,611	$ 3,557,998
Total interest expense	1,536,068	1,512,260	1,590,727	1,509,031
Net interest income	1,890,255	1,986,880	1,994,884	2,048,967
Provision for loan losses	75,000	75,000	75,000	75,000
Net interest income after provision for loan losses	1,815,255	1,911,880	1,919,884	1,973,967
Total noninterest income	261,077	283,715	285,499	363,817
Total noninterest expense	1,259,422	1,345,672	1,268,026	1,333,219
Income before income taxes	816,910	849,923	937,357	1,004,565
Income taxes	268,000	278,000	298,000	263,806
Net income	$ 548,910	$ 571,923	$ 639,357	$ 740,759
Per share data:				
Net income				
Basic	$ 0.45	$ 0.47	$ 0.53	$ 0.61
Diluted	0.45	0.47	0.53	0.61
Average shares outstanding				
Basic	1,216,296	1,216,598	1,213,990	1,214,300
Diluted	1,217,465	1,217,156	1,217,241	1,216,811

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Board of Directors and Stockholders
Middlefield Banc Corp.

We have audited the accompanying consolidated balance sheet of Middlefield Banc Corp. and subsidiary as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Middlefield Banc Corp. and subsidiary as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ending December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

S.R. Snodgrass, A.C.

Wexford, PA
January 16, 2004

S.R. Snodgrass, A.C.
1000 Stonewood Drive, Suite 200 Wexford, PA 15090-8399 Phone: 724-934-0344 Facsimile: 724-934-0345

Shareholder Information

Corporate Headquarters

The Corporation's headquarters is located at:

Middlefield Banc Corp.
15985 East High Street
P. O. Box 35
Middlefield, Ohio 44062
(440) 632-1666
(888) 801-1666

Form 10-K And 10-Q Availability

A copy of Middlefield Banc Corp.'s Annual Report on Form 10-K and Quarterly Reports on 10-Q filed with the Securities and Exchange Commission will be furnished to any shareholder, free of charge, upon written or e-mail request to:

Donald L. Stacy
Treasurer and CFO
Middlefield Banc Corp.
P. O. Box 35
Middlefield, Ohio 44062
or
dstacy@middlefieldbank.com

Stock Trading

The symbol for Middlefield Banc Corp. common stock is MBCN and the CUSIP is 596304204.

Sweney Cartwright & Co.
George Geissbuhler
17 South High Street
Columbus, Ohio 43215
(614) 228-5391
(800) 334-7481

UVEST Financial Services
Member NASD, SIPC
(440) 632-3444
(888) 801-1666 x 3444
Located at:
The Middlefield Banking Co.
15985 East High Street
Middlefield, Ohio 44062

Notice Of Annual Meeting

The Annual Meeting of Shareholders of Middlefield Banc Corp. will be held at 1:00 p.m. on Wednesday, May 12, 2004, at Grandview Inn, 13404 Old State Road, Middlefield, Ohio.

Transfer Agent And Registrar

American Stock Transfer & Trust Company
59 Maiden Lane
Plaza Level
New York, NY 10038
(877) 366-6443

Independent Auditors

S. R. Snodgrass, A. C.
1000 Stonewood Drive, Suite 200
Wexford, Pennsylvania 15090-8399
(724) 934-0344

Internet Information

Information on The Middlefield Banking Company's products and services is available on the Internet at www.middlefieldbank.com.

Dividend Payment Dates

Subject to action by the Board of Directors, Middlefield Banc Corp. will pay dividends in March, June, September, and December.

Dividend Reinvestment And Stock Purchase Plan

Shareholders may elect to reinvest their dividends in additional shares of Middlefield Banc Corp.'s common stock through the company's Dividend Reinvestment Plan. To arrange automatic purchase of shares with quarterly dividend proceeds, please call (888) 801-1666.

Direct Deposit Of Dividends

The direct deposit program, which is offered at no charge, provides for automatic deposit of quarterly dividends directly to a checking or savings account with The Middlefield Banking Company. For information regarding this program, please call (888) 801-1666.

Branch Locations

Recognizing the need for a local bank within the community, a group of local business men met in early 1901 to fulfill this need. On September 16, 1901, The Middlefield Banking Company was opened with an authorized capital of $25,000.

The organizers of the bank were: Joe E. Johnson, A. W. Belden, W. S. Hodges, F. P. Work, C. E. Lampson and E. H. Brigden. Organization was completed by electing the original Board of Directors: C. E. Lampson, J. J. Rose, William Pinks, W. S. Hodges, E. G. Norris, A. W. Belden, C. F. Harrison, Henry Thompson and William Cromwell. This newly elected Board of Directors selected A. W. Belden as President, J.J. Rose as Vice President and Henry Thompson as Secretary/ Treasurer. Walter E. Norris was elected as Cashier of the bank and charged with its proper opening and operation.

From these humble beginnings, the bank has continued to grow and expand in an effort to better serve the community. To this end, a branch office was established in 1985 on West High Street in Middlefield. The establishment of this office was necessitated by the inability to acquire sufficient land to expand the main office. However, in the early 1990s, additional land became available and in 1993 a newly expanded Main Office facility was opened. In conjunction with this move, the bank constructed Middlefield Village Center. This project represented a major redevelopment of a key section of Middlefield and represented the bank's commitment to its community.

Expansion opportunities presented themselves in other areas also and were coupled closely with an expanding customer base. An office in Garrettsville, in Portage County, was opened in November of 1986. This office was relocated in January 1999 to a newly constructed facility designed to

Chardon ***(Drive Up ATM)***
348 Center Street
P.O. Box 1078
Chardon, Ohio 44024
888-801-1666 • 440-286-1222
Fax 440-286-1111

Garrettsville ***(Drive Up ATM)***
8058 State Street
Garrettsville, Ohio 44231
888-801-2121 • 330-527-2121
Fax 330-527-4210

Mantua ***(Walk Up ATM, May 2004)***
10519 South Main Street
P.O. Box 648
Mantua, Ohio 44255
877-274-0881 • 330-274-0881
Fax 330-274-0883

Middlefield – Main Office

(Walk Up ATM)
15985 East High Street
P.O. Box 35
Middlefield, Ohio 44062
888-801-1666 • 440-632-1666
Fax 440-632-1700

Middlefield – West Branch

15545 West High Street
P.O. Box 35
Middlefield, Ohio 44062
888-801-1666 • 440-632-1666
Fax 440-632-9781

Orwell ***(Drive Up ATM)***

30 South Maple Avenue
P.O. Box 66
Orwell, Ohio 44076
888-801-1666 • 440-437-7200
Fax 440-437-1111

accommodate the growth of the area and to provide maximum customer service. In November of 1998, an office was opened in the Portage County community of Mantua. Chardon, the county seat of Geauga County, became home to the bank's fifth office in 2001. The latest addition has been in Orwell, in Ashtabula County.

In an effort to better position the bank for the future, the Board of Directors, in 1988, formed Middlefield Banc Corp. This Bank Holding Company became the parent of The Middlefield Banking Company through the one-for-one exchange of shares by stockholders in January 1989.

The growth and success of The Middlefield Banking Company and Middlefield Banc Corp. may be attributed to the association of many dedicated men and women who have served as Directors, Officers and Employees. Throughout our 100 year history, only eight individuals have had the distinction to serve as president.

The Middlefield Banking Company operates with the general objective to remain a state-chartered independent commercial bank and to aggressively expand its asset base and market share. As a full-service, FDIC-insured commercial bank, The Middlefield Banking Company is proud to offer a full array of financial services.

Additional ATM Location –

Hiram College, Kennedy Center, Main Entrance, 11730 Garfield Avenue, Hiram, Ohio 44234

Staff & Directors

Staff

Main Office:

Karen Westover – 1983 – Head Teller
Louise Fenselon – 1984 – Teller
Bonnie Steele – 1985 – Customer Services
Diana Koller – 1998 – Teller
Summer Phillips – 1999 – Customer Services
Elizabeth Pixley – 2001 – Teller*
Monica Szilagyi – 2001 – Teller
Rachel Strong – 2002 – Receptionist*
Karah Vance – 2002 – Teller*
Lauralyn Johnson – 2003 – Teller*
Erica Stewart – 2003 – Teller*
Jamie Fleming – 2003 – Teller*

West Branch:

Patti Russo – 1982 – Customer Services
Rachel Lilly – 1985 – Head Teller
Kelly Gibney – 1987 – Teller
Lori Sheridan – 2000 – Teller*
Stacy Siracki – 2000 – Teller
Lisa Sanborn – 2000 – Teller
Ellen Wilson – 2001 – Teller
Jenni Trask – 2002 – Teller*

Garrettsville Branch:

Marian Nichols – 1986 – Teller*
Kathy Vanek – 1998 – Customer Services
Colleen Steele – 1998 – Teller*
Vickie Moss – 1998 – Teller
Michelle Lutz – 2001 – Teller
Jeremy Bailey – 2001 – Teller*
Janis Pollack – 2002 – Teller

Mantua Branch:

Sara Hedge – 2000 – Teller
Robin Morris – 2002 – Teller
Rebecca Reinard – 2002 – Teller*
Joan Sweet – 2002 – Branch Supervisor

Chardon Branch:

Amanda Miller – 2001 – Teller
Gretchen Mihalic – 2001 – Teller*
Karen Graham – 2002 – Teller
Jennifer Bartholomew – 2003 – Teller*

Orwell Branch:

Pamela Hummel – 1999 – Teller
Jessica Osburn – 2001 – Customer Services
Alyssa Lipps – 2003 – Teller
Sharon Clements – 2003 – Branch Manager
Diane Giel – 2003 – Teller

Loan Department:

Helen Stowe – 1985 – Loan Assistant
Carole Triplett – 1993 – Loan Assistant
Jennifer Gabrielson – 1997 – Loan Assistant
Jane Armstrong – 1998 – Collection Manager
Vivian Helmick – 1998 – Loan Assistant
Carolyn Fackler – 2001 – Loan Assistant
Melissa Clark – 2002 – Loan Assistant
Thomas Munson – 2003 - Loan Officer

Operations:

Pamela Malcuit – 1989 – Bookkeeper
Donna Williams – 1990 – Bookkeeper
Lauren Harth – 1995 – Audit Clerk*
Tara Morgan – 1997 – Proof Operator
Derrick Pilarczyk – 1999 – Facility Maintenance
Ashley Durst – 2001 – Bookkeeper
Kristina McGuire – 2001 – Network Support

Officers

Thomas G. Caldwell – 1986
President and Chief Executive Officer

James R. Heslop, II – 1996
Executive Vice President
Chief Operating Officer

Teresa M. Hetrick – 1996
Senior Vice President
Operations/Administration

Jay P. Giles – 1998
Senior Vice President
Senior Commercial Lender

Donald L. Stacy – 1999
Senior Vice President
Chief Financial Officer

Nancy C. Snow – 1979
Vice President and Corporate Secretary
and West Branch Manager

Kathleen M. Johnson – 1971
Vice President
Chief Accounting Officer

Jack L. Lester – 1990
Vice President
Compliance and Security Officer

Joann Vance – 1986
Vice President
Garrettsville Branch Manager

** Part Time*

Alfred F. Thompson, Jr. – 1996
Vice President
Senior Retail Lender

William L. Douglass – 1997
Vice President/Lending

R. E. West – 1998
Vice President
Main Office Manager

Sharon R. Jarold – 2001
Vice President/Lending

Edward F. Kent – 2002
Vice President/Lending

Gail Neikirk – 1983
Assistant Vice President

Karen Branhan – 1983
Assistant Vice President

Nancy R. Kitson – 2003
Assistant Vice President

Christine A. Polzer – 1989
Network Administrator

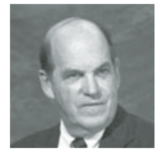
Thomas R. Neikirk – 1994
Banking Officer

Lori A. Graham – 1998
Banking Officer
Chardon Branch Supervisor

Marlin J. Moschell – 2000
Banking Officer

Directors

Donald D. Hunter – 1977
Chairman
Co-Owner: H&H Hardware, Inc.



Richard T. Coyne – 1997
General Manager
Jaco Products

Donald E. Villers – 1987
Retired: Copperweld Steel

Martin S. Paul – 1998
President
Paul Feed & Supply, Inc.
dba Paul's Do-It Best Lumber

Thomas C. Halstead – 1988
Co-Owner: Settlers' Farm

James R. Heslop, II – 2001
Executive Vice President and Chief Operating Officer
Middlefield Banc Corp.
The Middlefield Banking Company

George F. Hasman – 1989
Retired: Chairman & President of
The Twinsburg Banking Company

James J. McCaskey* – 2003
President
McCaskey Landscape & Design, LLC

Frances H. Frank – 1995
Secretary/Treasurer
The Frank Agency, Inc.

Carolyn J. Turk, C.P.A.* – 2003
Controller
Molded Fiber Glass Companies

Thomas G. Caldwell – 1997
President and Chief Executive Officer
Middlefield Banc Corp.
The Middlefield Banking Company

** Director of The Middlefield Banking Company*

The Middlefield Banking Company

Main Office
15985 East High Street
440-632-1666

West Branch
15545 West High Street
440-632-1666

Garrettsville
8058 State Street
330-527-2121

Mantua
10519 South Main Street
330-274-0881

Chardon
348 Center Street
440-286-1222

Orwell
30 South Maple Street
440-437-7200

Middlefield Banc Corp.
15985 East High Street • Middlefield, Ohio • 888-801-1666
www.middlefieldbank.com

And Its Wholly-Ownded Subsidiary