



[Redefining a Community Bank]

2006 Annual Report

No matter how much we grow, we remain committed to our community.



[Community]

com•mu•ni•ty [kuh-myoo-ni-tee] –*n.*

a social, occupational, or other group sharing common characteristics or interests



[Community Bank] com•mu•ni•ty bank [kuh-myoo-ni-tee] [bangk] –n. a bank that has grown in size and profitability, yet remains an independent commercial bank true to the values and people who began it.

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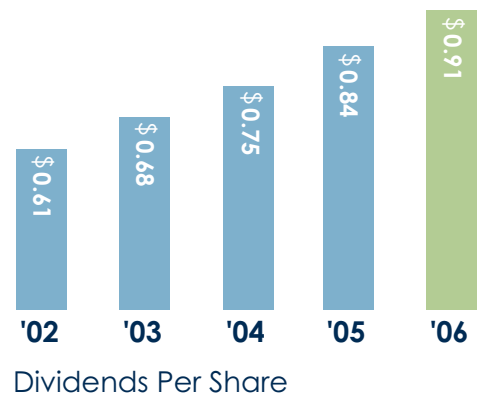
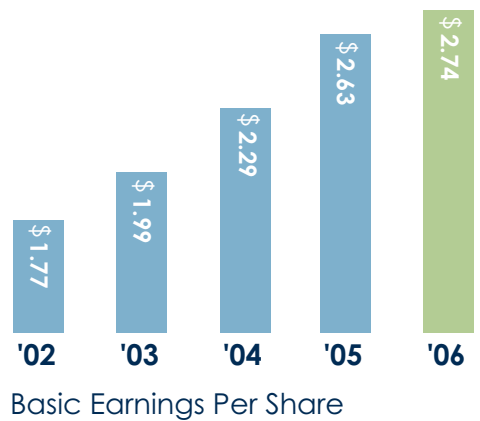
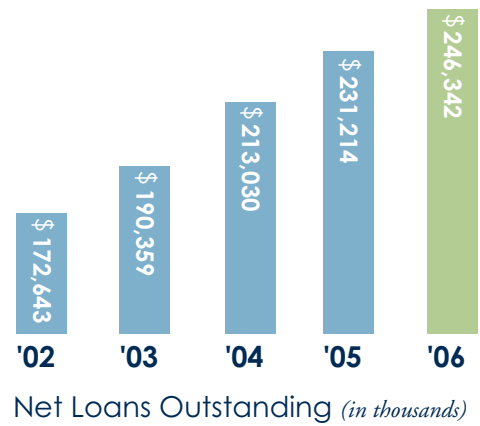
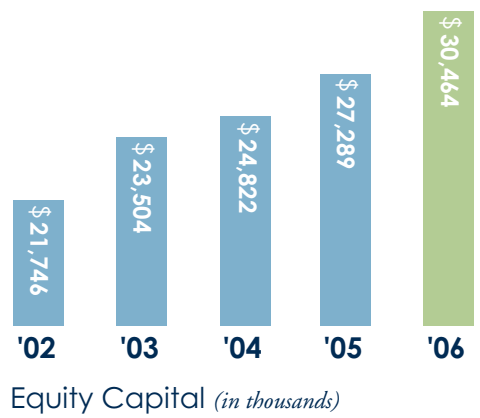
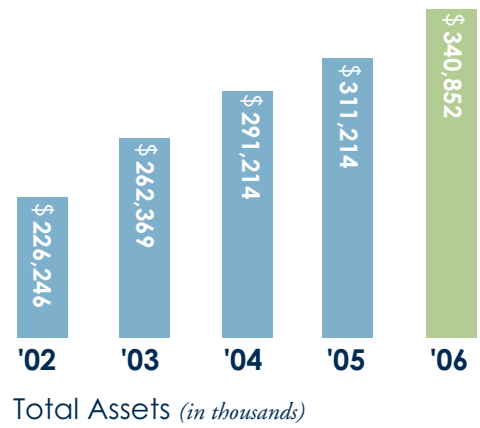
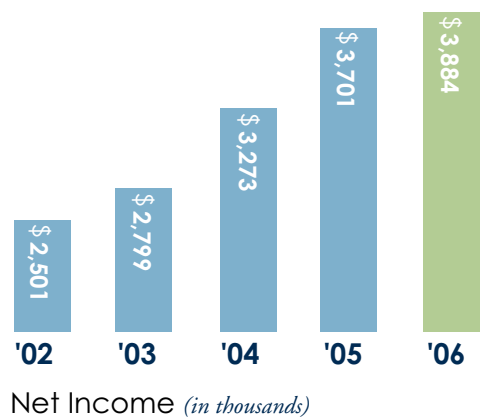
Staff & Directors

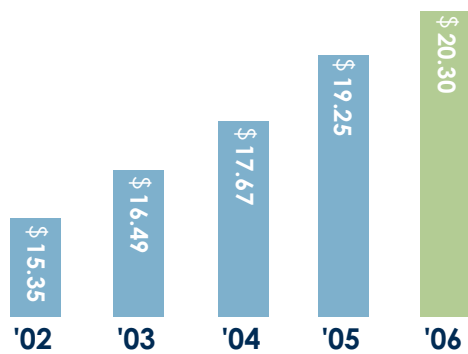
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Shareholder Information

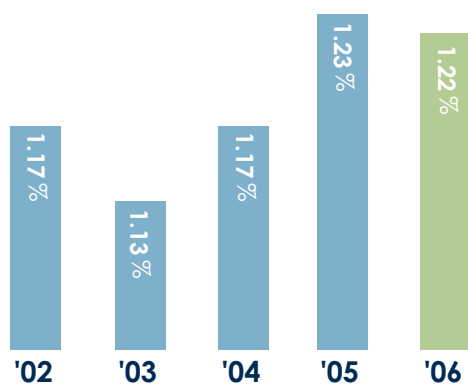
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Statistical Summary

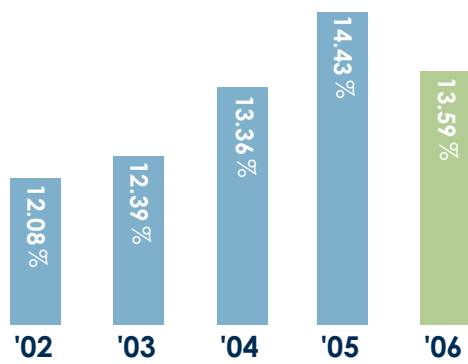




Book Value Per Share



Return on Average Assets



Return on Average Equity



Decade of Progress

	1997	1998	1999
Interest Income	\$ 10,599,777	\$ 10,901,445	\$ 11,448,619
Interest Expense	\$ 5,083,713	\$ 5,084,615	\$ 5,048,276
Net interest Income	\$ 5,516,064	\$ 5,816,830	\$ 6,400,343
Provision for loan loss	\$ 200,000	\$ 270,000	\$ 296,000
Net interest Income After Provision for loan losses	\$ 5,316,064	\$ 5,546,830	\$ 6,104,343
Noninterest Income, Including Security Gains/Losses	\$ 546,103	\$ 598,771	\$ 804,358
Noninterest Expense	\$ 3,493,280	\$ 3,824,819	\$ 4,254,374
Income Before Income Taxes	\$ 2,368,887	\$ 2,320,782	\$ 2,654,327
Income Taxes	\$ 624,243	\$ 630,337	\$ 735,318
Net Income	\$ 1,744,644	\$ 1,690,445	\$ 1,919,009
Total Assets	\$142,276,167	\$155,557,609	\$165,512,453
Deposits	\$121,482,038	\$128,827,889	\$135,094,459
Equity Capital	\$ 15,465,255	\$ 16,656,797	\$ 17,689,055
Loans Outstanding, Net	\$ 88,320,047	\$102,728,454	\$119,471,741
Allowance For Loan Losses	\$ 1,334,800	\$ 1,538,726	\$ 1,756,137
Net Charge-Offs (Recoveries)	\$ 4,119	\$ 66,074	\$ 78,589
Full Time Employees (Average Equivalents)	56	59	61
Number of Offices	3	4	4
Earnings Per Share	1.19	1.15	1.32
Dividends Per Share	0.30	0.35	0.39
Book Value Per Share	10.56	11.36	12.13
Dividends Pay-out Ratio	24.98%	29.53%	29.82%
Cash Dividends Paid	\$ 435,747	\$ 499,215	\$ 572,343
Return on Average Assets	1.23%	1.15%	1.21%
Return on Average Equity	11.67%	10.43%	11.17%

	2000	2001	2002	2003	2004	2005	2006
	\$ 12,770,170	\$ 13,706,569	\$ 14,119,963	\$ 14,647,163	\$ 15,732,536	\$ 17,378,504	\$ 19,494,550
	\$ 5,909,884	\$ 6,747,922	\$ 6,148,086	\$ 5,724,907	\$ 5,768,898	\$ 6,654,614	\$ 8,567,442
	\$ 6,860,286	\$ 6,958,647	\$ 7,971,877	\$ 8,922,256	\$ 9,963,638	\$ 10,723,890	\$ 10,927,108
	\$ 275,000	\$ 170,000	\$ 300,000	\$ 315,000	\$ 174,000	\$ 302,000	\$ 60,000
	\$ 6,585,286	\$ 6,788,647	\$ 7,671,877	\$ 8,607,256	\$ 9,789,638	\$ 10,421,890	\$ 10,867,108
	\$ 982,663	\$ 1,194,193	\$ 1,143,217	\$ 1,428,144	\$ 1,779,231	\$ 2,119,237	\$ 2,427,455
	\$ 4,408,617	\$ 4,741,374	\$ 5,206,339	\$ 6,105,450	\$ 6,965,706	\$ 7,424,640	\$ 7,938,373
	\$ 3,159,332	\$ 3,241,466	\$ 3,608,755	\$ 3,929,950	\$ 4,603,163	\$ 5,116,487	\$ 5,356,190
	\$ 992,661	\$ 970,859	\$ 1,107,806	\$ 1,131,330	\$ 1,330,000	\$ 1,415,156	\$ 1,471,943
	\$ 2,166,671	\$ 2,270,607	\$ 2,500,949	\$ 2,798,620	\$ 3,273,163	\$ 3,701,331	\$ 3,884,247
	\$176,488,813	\$197,857,964	\$226,245,533	\$262,369,448	\$291,213,986	\$311,214,191	\$340,851,704
	\$147,166,046	\$167,382,728	\$187,384,494	\$219,839,910	\$239,885,451	\$249,449,640	\$271,050,193
	\$ 18,243,362	\$ 19,786,807	\$ 21,746,408	\$ 23,504,314	\$ 24,822,024	\$ 27,289,365	\$ 30,463,934
	\$133,266,893	\$150,766,103	\$172,642,646	\$190,358,883	\$213,029,852	\$231,213,699	\$246,341,647
	\$ 2,037,322	\$ 2,062,252	\$ 2,300,485	\$ 2,521,270	\$ 2,623,431	\$ 2,841,098	\$ 2,848,887
	\$ (6,185)	\$ 145,070	\$ 61,767	\$ 94,215	\$ 71,839	\$ 84,333	\$ 52,211
	57	64	66	72	73	75	80
	4	5	5	6	6	6	8
	1.58	1.61	1.77	1.99	2.30	2.64	2.74
	0.42	0.55	0.61	0.69	0.75	0.84	0.91
	12.96	14.06	15.53	16.59	17.44	18.11	20.30
	27.47%	34.00%	34.30%	34.37%	32.72%	32.10%	33.87%
	\$ 595,255	\$ 772,068	\$ 857,751	\$ 961,901	\$ 1,083,197	\$ 1,188,147	\$ 1,315,418
	1.31%	1.22%	1.17%	1.13%	1.17%	1.23%	1.22%
	12.83%	11.89%	12.08%	12.39%	13.36%	14.43%	13.59%

NOTES: The above per share amounts have been restated to reflect 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, 2003, 2004, 2005 and 2006.



[Growth]

growth [grohth] *-n.*

anticipated progressive development especially in capital value and income

Letter to Our Shareholders

To our Shareholders and Friends



Thomas G. Caldwell - President and Chief Executive Officer

On behalf of the employees and directors of Middlefield Banc Corp., I am pleased to present our Annual Report for the year 2006. During the year, your company achieved strong financial results and made continued progress in its strategic plan for long-term growth and reward for our shareholders. As you read this report, I believe that you will see that 2006 was a year of obstacles overcome, as well as one during which your company began a transformational process.

As with the great majority of financial institutions in this land, we struggled throughout the past year with an extremely constricted net interest margin. An inverted interest rate curve alternated with a flat interest rate curve. The Federal Reserve's Open Market Committee continued to gradually escalate interest rates. Growth and earnings pressures led to irrational pricing on the part of many of our competitors for both loans and deposits.

In the face of those many hurdles, Middlefield Banc Corp. was able to achieve a new level of earnings during 2006. The total net income of \$3,884,247 was 4.94% above our 2005 bottom line figure. Diluted earnings per share were \$2.70, which compares favorably to 2005's figure of \$2.59. Our return on average equity for 2006 was 13.59%, while our return on average assets was 1.22%. The respective returns for 2005 were 14.43% and 1.23%.

Although not reaching double digits, our asset growth of 9.5% was strong. Net loans, which stood at \$246.3 million at year-end 2006, were up 6.5%, or \$15.1 million, from the year prior period. Funding for loans primarily came through deposit growth of \$21.6 million. This 8.7% increase in deposits saw us end the year with total deposits of just over \$270.0 million. As part of the challenge of growing earnings, you will note that 2006 was witness to a shift from lower cost deposits to more expensive certificates of deposit. Not only did this have an impact in the year just ended, it will also weigh upon us in 2007.

Both our total asset levels, of approximately \$340.9 million, and our total stockholders' equity, of \$30.5 million, were also new all-time highs. It was only in 2002 that we first surpassed \$200 million in total assets and \$20 million of total stockholders' equity. From a broader historical perspective, the achievement of reaching \$100 million in total assets and \$10 million in stockholders' equity occurred in 1993.

Representative of the strategic focus of Middlefield Banc Corp. and The Middlefield Banking Company are the bank's newest office locations. In November of 2006, we were pleased to open a loan production office in the City of Cortland in Trumbull County. We were fortunate to gain the services of Dennis E. Linville, a long-time Trumbull County banker, to lead our efforts in that market. Presently, our plans include establishing a full service banking office in Cortland within the next 12 – 18 months.

Following closely on the heels of the Cortland office was the opening of our seventh full service banking office. Located in the heart of Newbury Township in Geauga County, this office serves as the cornerstone of a planned retail center, which will help fulfill the vision of the township trustees. In a relatively short period, we have seen strong deposit growth as the community has welcomed a local banking presence.

We are excited about this growth. However, the most exciting news of 2006 was the November announcement of our agreement to acquire Emerald Bank. Located in Dublin, Ohio, Emerald Bank was founded in mid-2004

and has grown to \$40 million in assets. We are working to gain approval of the Emerald Bank shareholders and the various regulatory authorities. Our intention is to convert Emerald's savings bank charter to that of a commercial bank, similar to The Middlefield Banking Company, and to more fully gain advantage of the dynamic central Ohio market.

As we have shared with you previously, the introduction of technology continues to benefit our operations. Growing from our early 2005 introduction of image-based item processing, 2006 witnessed the addition of e-mail statements, expanded images available through our Internet banking product, the two-way exchange of imaged items with the Federal Reserve Bank, and the introduction of remote merchant capture for our business customers. This last product permits our commercial customers to make deposits to their accounts with us, having never left the comfort of their offices. If you have not done so recently, we invite you to visit us at www.middlefieldbank.com to learn more of the broad array of products and services that we are proud to offer.

In December 2006, Middlefield Banc Corp. once again paid a 5% stock dividend. We have adopted this practice for the benefit of our shareholders, along with paying a strong cash dividend. It remains our commitment that your belief in us is linked to a duty to be responsible stewards of your investment. Our reward to you should provide both short-term and long-term value.

One additional note on the transformation of Middlefield Banc Corp. is very significant. At our Annual Meeting of Shareholders this year, Donald D. Hunter will retire from the board of directors. Having joined the board in May of 1977, Mr. Hunter has faithfully applied his stewardship to the growth of our organization. When Mr. Hunter began his 30-year affiliation with The Middlefield Banking Company it had one office and assets of less than \$20 million. As Chairman of the Board of Directors, Mr. Hunter has steadfastly provided guidance for all who have had the pleasure of working with him. His attention to detail and gentlemanly manner will be sorely missed and we wish him only the best.

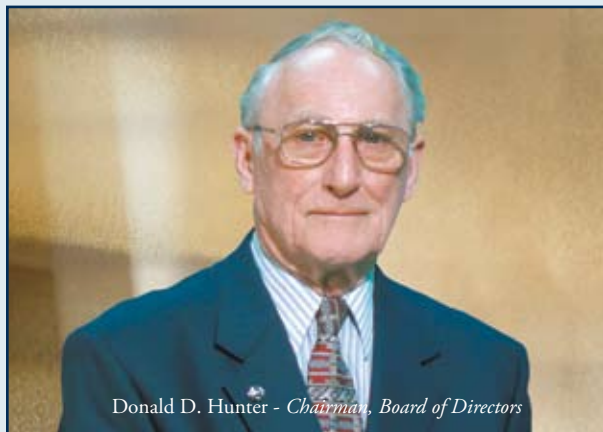
As is reflected in Mr. Hunter's contributions, I fully recognize that none of the achievements of this past year would have been possible without the dedication and hard work of our employees and directors. My sincere appreciation goes to those who have served to make Middlefield Banc Corp. a stronger, more efficient organization.

Sincerely,

A handwritten signature in dark ink, reading "Thomas Caldwell". The signature is fluid and cursive, with the first name "Thomas" and last name "Caldwell" clearly distinguishable.

Thomas G. Caldwell
President and Chief Executive Officer

Letter from the Chairman



Donald D. Hunter - *Chairman, Board of Directors*

"You will get all you want in life if you help enough other people get what they want."

As Chairman of the Board of Directors of The Middlefield Banking Company and Middlefield Banc Corp., I am proud to say I have been an active part of this institution's time in history since 1977. Thirty years to day. I have seen our fine bank grow from a modest level in the earliest days with assets of less than \$20 million in 1977 to over \$340 million in assets at year-end 2006. We have successfully completed seven branch offices in addition to expansion to the Main Office building, with each location offering its share of challenges, opportunity and personal service in each community we serve. To meet those challenges our seven "Core Values" have given the answer.

CUSTOMER SERVICE
HONESTY and INTEGRITY
EFFICIENCY
TEAM FOCUS
COMMUNITY COMMITMENT
PROACTIVE APPROACH
SHAREHOLDER COMMITMENT

The Middlefield Banking Company moved into the computer age in 1982, installing the first computer system in the basement of the bank. Today, we have fully integrated computers operating at lightening speed with online banking from a customer's home or office through EasyLink, offering instant access to your personal accounts.

This availability comes with the latest in security and protection. Tomorrow, I'm sure, will continue to bring new changes in communications and bank operations.

Our community has also changed over the years as well. Once a thriving, agricultural small town in the Western Reserve, merely the last stop of the Interurban Railway, Middlefield is now the center of an industrial revolution within Geauga County. Our area has become home to manufacturing and distribution giants like KraftMaid Cabinetry, Dillon Products, Johnson Rubber, Duramax Marine, Gold Key Processing, and a host of polymer, wood and manufacturing facilities. The Middlefield Banking Company has been instrumental in the furtherance of many of these fine businesses and has contributed to the growth of many more. We have been blessed with many retail, service, food and related businesses moving to our area in support of residents and workers alike.

The Middlefield Banking Company's success has hinged on community service and the loyalty and dedication of all of our customers. I'm extremely proud of our knowledgeable, caring staff, the leadership of our qualified administrators, and members of the board of directors.

I personally thank all of the stockholders for your support and trust over the past thirty years and pray you continue with that same trust and support to the officers and directors of The Middlefield Banking Company and Middlefield Banc Corp. for the future success of your investment.

Very truly yours,

A handwritten signature in black ink, reading "Donald D. Hunter". The signature is fluid and cursive, with a long, sweeping horizontal line extending from the end of the name.

Donald D. Hunter
Chairman, Board of Directors



[Tradition]

tra-di-tion [truh-dish-uhn] —*n.*
the handing down of information, beliefs, and customs by word of mouth or by example
from one generation to another

Consolidated Statements

	Year Ended December 31,	
Consolidated Balance Sheets	2006	2005
ASSETS		
Cash and due from banks	\$ 6,893,148	\$ 5,294,641
Federal funds sold	6,200,000	-
Interest-bearing deposits in other institutions	546,454	526,523
Cash and cash equivalents	13,639,602	5,821,164
Investment securities available for sale	63,048,135	57,887,130
Investment securities held to maturity (fair value of \$134,306 and \$232,967)	125,853	221,453
Loans	249,190,534	234,054,797
Less allowance for loan losses	2,848,887	2,841,098
Net loans	246,341,647	231,213,699
Premises and equipment	6,742,465	6,624,776
Bank-owned life insurance	6,872,743	5,632,982
Accrued interest and other assets	4,081,259	3,812,987
TOTAL ASSETS	\$340,851,704	\$311,214,191
LIABILITIES		
Deposits:		
Non-interest-bearing demand	\$ 41,002,573	\$ 39,782,375
Interest-bearing demand	11,724,173	9,362,399
Money market	14,738,767	13,078,829
Savings	54,246,499	66,495,057
Time	149,338,181	120,730,980
Total deposits	271,050,193	249,449,640
Short-term borrowings	1,609,738	6,710,914
Other borrowings	36,112,738	26,578,211
Accrued interest and other liabilities	1,615,101	1,186,061
TOTAL LIABILITIES	\$310,387,770	\$283,924,826
STOCKHOLDERS' EQUITY		
Common stock, no par value; 10,000,000 shares authorized, 1,519,887 and 1,434,987 shares issued	19,507,257	15,976,335
Retained earnings	14,685,971	14,959,891
Accumulated other comprehensive loss	(520,987)	(677,088)
Treasury stock, at cost; 95,080 shares in 2006 and 89,333 shares in 2005	(3,208,307)	(2,969,773)
TOTAL STOCKHOLDERS' EQUITY	30,463,934	27,289,365
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$340,851,704	\$311,214,191

See accompanying notes to consolidated financial statements.

Year Ended December 31,

Consolidated Statement of Income	2006	2005	2004
INTEREST AND DIVIDEND INCOME			
Interest and fees on loans	\$ 17,092,516	\$ 15,040,518	\$ 13,617,560
Interest-bearing deposits in other institutions	20,175	15,500	5,641
Federal funds sold	117,115	35,173	50,608
Investment securities:			
Taxable	1,143,375	1,353,035	1,400,063
Tax-exempt	1,038,318	864,745	604,399
Other dividend income	83,051	69,533	54,265
TOTAL INTEREST AND DIVIDEND INCOME	19,494,550	17,378,504	15,732,536
INTEREST EXPENSE			
Deposits	7,157,226	5,520,206	4,905,899
Short-term borrowings	167,475	103,836	2,180
Other borrowings	1,242,741	1,030,572	860,819
TOTAL INTEREST EXPENSE	8,567,442	6,654,614	5,768,898
NET INTEREST INCOME	10,927,108	10,723,890	9,963,638
Provision for loan losses	60,000	302,000	174,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,867,108	10,421,890	9,789,638
NONINTEREST INCOME			
Service charges on deposit accounts	1,800,173	1,579,121	1,402,027
Investment securities losses	(5,868)	-	(98,375)
Earnings on bank-owned life insurance	239,761	208,677	221,919
Other income	393,389	331,439	253,561
TOTAL NONINTEREST INCOME	2,427,455	2,119,237	1,779,132
NONINTEREST EXPENSE			
Salaries and employee benefits	3,675,120	3,568,603	3,442,262
Occupancy	507,250	495,982	494,759
Equipment	440,878	432,635	356,346
Data processing costs	634,707	625,856	538,349
Professional fees	333,932	293,138	252,731
Ohio state franchise tax	360,000	284,950	285,050
Advertising	331,644	302,679	253,858
Postage and freight	189,629	189,970	178,717
Other expense	1,465,213	1,230,826	1,163,535
TOTAL NONINTEREST EXPENSE	7,938,373	7,424,639	6,965,607
Income before income taxes	5,356,190	5,116,488	4,603,163
Income taxes	1,471,943	1,415,156	1,330,000
NET INCOME	\$ 3,884,247	\$ 3,701,332	\$ 3,273,163
EARNINGS PER SHARE			
Basic	\$ 2.74	\$ 2.63	\$ 2.29
Diluted	2.70	2.59	2.27

See accompanying notes to consolidated financial statements.

Consolidated Statements

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 (Loss)
Balance, December 31, 2003	1,279,128	10,038,156	15,085,868	125,199	(1,744,909)	23,504,314	
Net income			3,273,163			3,273,163	\$3,273,163
Other comprehensive loss:							
Unrealized loss on available for sale securities net of reclassification adjustment, net of tax benefit of \$79,272				(153,881)		(153,881)	(153,881)
Comprehensive income							\$3,119,282
Exercise of stock options	521	14,198				14,199	
Sale of treasury stock	8,154	277,171				277,171	
Purchase of treasury stock					(1,224,864)	(1,224,864)	
Five percent stock dividend (including cash paid for fractional shares)	61,387	2,271,282	(2,283,646)			(12,364)	
Dividend reinvestment plan	6,298	215,120				215,120	
Cash dividends (\$.75 per share)			(1,070,833)			(1,070,833)	
Balance, December 31, 2004	1,355,488	12,815,927	15,004,552	(28,682)	(2,969,773)	24,822,024	
Net income			3,701,332			3,701,332	\$3,701,332
Other comprehensive loss:							
Unrealized loss on available for sale securities, net of tax benefit of \$334,058				(648,406)		(648,406)	(648,406)
Comprehensive income							\$3,052,926
Exercise of stock options	2,583	71,386				71,386	
Common stock issued	7,158	285,669				285,669	
Five percent stock dividend (including cash paid for fractional shares)	63,549	2,557,847	(2,572,949)			(15,102)	
Dividend reinvestment plan	6,209	245,506				245,506	
Cash dividends (\$.84 per share)			(1,173,044)			(1,173,044)	
Balance, December 31, 2005	1,434,987	15,976,335	14,959,891	(677,088)	(2,969,773)	27,289,365	
Net income			3,884,247			3,884,247	\$3,884,247
Other comprehensive income:							
Unrealized gain on available for sale securities, net of reclassification adjustment, net of taxes of \$80,416				156,101		156,101	156,101
Comprehensive income							\$4,040,348
Exercise of stock options	2,439	62,115				62,115	
Purchase of treasury stock					(238,534)	(238,534)	
Common stock issued	7,420	305,711				305,711	
Five percent stock dividend (including cash paid for fractional shares)	67,284	2,842,749	(2,859,600)			(16,851)	
Dividend reinvestment plan	7,757	320,347				320,347	
Cash dividends (\$.91 per share)			(1,298,567)			(1,298,567)	
Balance, December 31, 2006	1,519,887	\$19,507,257	\$14,685,971	\$(520,987)	\$(3,208,307)	\$30,463,934	
				2006	2005	2004	
Components of comprehensive income (loss):							
Change in net unrealized gain (loss) on investments available for sale				\$ 152,228	\$ (648,406)	\$ (218,808)	
Realized losses included in net income, net of taxes of \$1,995, \$0 and \$33,448				3,873	-	64,927	
TOTAL				\$ 156,101	\$ (648,406)	\$ 153,881	

See accompanying notes to consolidated financial statements.

Year Ended December 31,

Consolidated Statement of Cash Flows	2006	2005	2004
OPERATING ACTIVITIES			
Net income	\$ 3,884,247	\$ 3,701,332	\$ 3,273,163
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	60,000	302,000	174,000
Depreciation and amortization	578,592	448,386	403,916
Amortization of premium and discount on investment securities	233,044	289,111	260,198
Amortization of net deferred loan fees	(78,577)	(139,722)	(134,758)
Investment securities losses	5,868	-	98,375
Earnings on bank-owned life insurance	(239,761)	(208,677)	(221,919)
Deferred income taxes	(58,058)	(85,339)	(33,704)
Increase in accrued interest receivable	(87,907)	(217,022)	(75,303)
Increase (decrease) in accrued interest payable	350,939	155,449	(25,617)
Other, net	(142,067)	(280,533)	299,533
Net cash provided by operating activities	4,506,320	3,964,985	4,017,884
INVESTING ACTIVITIES			
Decrease (increase) in interest-bearing deposits in other institutions, net	-	614,506	(75,359)
Investment securities available for sale:			
Proceeds from repayments and maturities	11,109,971	11,361,937	14,857,656
Purchases	(16,932,389)	(13,279,687)	(27,638,162)
Proceeds from sales	658,976	-	4,912,619
Investment securities held to maturity:			
Proceeds from repayments and maturities	95,643	-	1,639,200
Increase in loans, net	(15,109,371)	(18,346,125)	(22,710,211)
Purchase of Federal Home Loan Bank stock	(93,000)	(63,300)	(53,300)
Purchase of bank-owned life insurance	(1,000,000)	-	-
Purchase of premises and equipment	(585,837)	(455,570)	(213,580)
Net cash used for investing activities	(21,856,007)	(20,168,239)	(29,281,137)
FINANCING ACTIVITIES			
Net increase in deposits	21,600,553	9,564,189	20,045,541
Increase (decrease) in short-term borrowings, net	(5,101,176)	4,839,151	1,426,944
Proceeds from other borrowings	16,248,000	7,000,000	9,000,000
Repayment of other borrowings	(6,713,473)	(4,105,113)	(2,982,337)
Purchase of treasury stock	(238,534)	-	(1,224,864)
Exercise of stock options	62,115	71,386	14,198
Common stock issued	305,711	285,669	277,171
Proceeds from dividend reinvestment plan	320,347	245,506	215,120
Cash dividends	(1,315,418)	(1,188,146)	(1,083,197)
Net cash provided by financing activities	25,168,125	16,712,642	25,688,576
Increase in cash and cash equivalents	7,818,438	509,388	425,323
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,821,164	5,311,776	4,886,453
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 13,639,602	\$ 5,821,164	\$ 5,311,776
SUPPLEMENTAL INFORMATION			
Cash paid during the year for:			
Interest on deposits and borrowings	\$ 8,216,503	\$ 6,499,165	\$ 5,794,515
Income taxes	1,498,363	1,540,000	1,280,000

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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 U.S. generally accepted accounting principles. 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.

Notes to Consolidated Financial Statements

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 creditworthiness 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 3 to 20 years for furniture, fixtures, and equipment and 3 to 40 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.

Bank-Owned Life Insurance (BOLI)

The Company owns insurance on the lives of a certain group of key employees. The policies were purchased to help offset the increase in the costs of various fringe benefit plans including healthcare. The cash surrender value of these policies is included

as an asset on the consolidated statements of financial condition, and any increases in the cash surrender value are recorded as noninterest income on the consolidated statements of income. In the event of the death of an insured individual under these policies, the Company would receive a death benefit, which would be recorded as noninterest income.

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

In December 2004, the FASB issued FAS No. 123R, Share-Based Payment, which revised FAS 123, Accounting for Stock-Based Compensation, and superseded APB Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25") and related interpretations. FAS 123R requires the grant-date fair value of all share-based payment awards that are expected to vest, including employee share options, to be recognized as employee compensation expense over the requisite service period. The Company adopted FAS 123R on January 1, 2006 and applied the modified prospective transition method. Under this transition method, the Company (1) did not restate any prior periods and (2) are recognizing compensation expense for all share-based payment awards that were outstanding, but not yet vested, as of January 1, 2006, based upon the same estimated grant-date fair values and service periods used to prepare the FAS 123 pro-forma disclosures.

Prior to adopting FAS 123R, the Company accounted for share-based payment awards using the intrinsic value method of APB 25 and related interpretations. Under APB 25, the Company did not record compensation expense for employee share options, unless the awards were modified, because the share options were granted with exercise prices equal to or greater than the fair value of our stock on the date of grant. The following table illustrates the effect on reported net income and earnings per share applicable to common shareholders for the years ended December 31, 2005 and 2004, had we accounted for our share-based compensation plans using the fair value method of FAS 123:

	2005	2004
Net income as reported:	\$3,701,331	\$3,273,163
Less pro forma expense related to option	60,259	57,308
Pro forma net income	\$3,641,072	\$3,215,855
Basic net income per common share:		
As reported	\$ 2.63	\$ 2.29
Pro forma	2.59	2.25
Diluted net income per common share:		
As reported	\$ 2.59	\$ 2.27
Pro forma	2.55	2.23

Notes to Consolidated Financial Statements

During the year ended December 31, 2006, the Company recorded no compensation as no options vested during the year. As of December 31, 2006, there was approximately \$26,435 of unrecognized compensation cost related to unvested share-based compensation awards granted. That cost is expected to be recognized in 2007.

FAS 123R requires that the cash flows from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for stock-based awards (excess tax benefits) be classified as financing cash flows. Prior to the adoption of FAS 123R, such excess tax benefits were presented as operating cash flows. Accordingly, there have been no excess tax benefits that have been classified as a financing cash inflow for the year ended December 31, 2006 in the Consolidated Statements of Cash Flows.

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 that 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 option is amortized into compensation expense on a straight-line basis between the grant date for the option and each vesting date. 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)
2002	2.72 %	4.19 %	27.04 %	9.94
2003	2.72	4.25	14.00	9.94
2004	2.39	4.00	8.79	9.94
2005	2.35	4.49	18.05	9.94
2006	2.27	4.67	7.18	9.94

The weighted average fair value of each stock option granted for 2006, 2005 and 2004 was \$7.55, \$9.96 and \$4.76, respectively. The total intrinsic value of options exercised during the years ended December 31, 2006, 2005, and 2004, was \$16,219, \$16,458, and \$4,060, respectively.

Cash Flow Information

The Company has defined cash and cash equivalents as those amounts included in the Consolidated Balance Sheet captions and “Cash and due from banks,” “Federal funds sold,” and “Interest-bearing deposits with other institutions” with original maturities of less than 90 days.

Advertising Costs

Advertising costs are expensed as the costs are incurred. Advertising expenses amounted to \$331,644, \$302,679 and \$253,858, for 2006, 2005, and 2004, respectively.

Reclassification of Comparative Amounts

Certain comparative amounts for prior years have been reclassified to conform to current year presentations. Such reclassifications did not affect net income or retained earnings.

Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“FAS”) No. 155, *Accounting for Certain Hybrid Instruments, an amendment of FASB Statements No. 133 and 140*. FAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. This statement is effective for all financial instruments acquired or issued after the beginning of an entity’s first fiscal year that begins after September 15, 2006. The adoption of this standard is not expected to have a material effect on the Company’s results of operations or financial position.

In March 2006, the FASB issued FAS No. 156, *Accounting for Servicing of Financial Assets*. This statement, which is an amendment to FAS No. 140, will simplify the accounting for servicing assets and liabilities, such as those common with mortgage securitization activities. Specifically, FAS No. 156 addresses the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting. FAS No. 156 also clarifies when an obligation to service financial assets should be separately recognized as a servicing asset or a servicing liability; requires that a separately recognized servicing asset or servicing liability be initially measured at fair value, if practicable; and permits an entity with a separately recognized servicing asset or servicing liability to choose either of the amortization or fair value methods for subsequent measurement. The provisions of FAS No. 156 are effective as of the beginning of the first fiscal year that begins after September 15, 2006. The adoption of this standard is not expected to have a material effect on the Company’s results of operations or financial position.

In September 2006, the FASB issued FAS No. 157, *Fair Value Measurements*, which provides enhanced guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require or permit assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is permitted. The adoption of this standard is not expected to have a material effect on the Company’s results of operations or financial position.

In September 2006, the FASB issued FAS No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. FAS No. 158 requires that a company recognize the overfunded or underfunded status of its defined benefit post retirement plans (other than multiemployer plans) as an asset or liability in its statement of financial position and that it recognize changes in the funded status in the year in which the changes occur through other comprehensive income. FAS No. 158 also requires the measurement of defined benefit plan assets and obligations as of the fiscal year-end, in addition to footnote disclosures. FAS No. 158 is effective for fiscal years ending after December 15, 2006. The adoption of this standard is not expected to have a material effect on the Company’s results of operations or financial position.

In June 2006, the FASB issued FASB Interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes*. FIN 48 is an interpretation of FAS No. 109, *Accounting for Income Taxes*, and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. This Interpretation clarifies that management is expected to evaluate an income tax position taken or expected to be taken for likelihood of realization before recording any amounts for such position in the financial statement. FIN 48 also requires expanded disclosure with respect to income tax positions taken that are not certain to be realized. This Interpretation is effective for fiscal years beginning after December 15, 2006, and will require management to evaluate every open tax position that exists in every jurisdiction on the date of initial adoption. The Company is currently evaluating the impact the adoption of the standard will have on the Company’s results of operations.

Notes to Consolidated Financial Statements

In September 2006, the FASB reached consensus on the guidance provided by Emerging Issues Task Force Issue 06-4 (“EITF 06-4”), *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. The guidance is applicable to endorsement split-dollar life insurance arrangements, whereby the employer owns and controls the insurance policy, that are associated with a postretirement benefit. EITF 06-4 requires that for a split-dollar life insurance arrangement within the scope of the issue, an employer should recognize a liability for future benefits in accordance with FAS No. 106 (if, in substance, a postretirement benefit plan exists) or Accounting Principles Board Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact the adoption of the standard will have on the Company’s results of operations or financial condition.

In September 2006, the FASB reached consensus on the guidance provided by Emerging Issues Task Force Issue 06-5 (“EITF 06-5”), *Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance*. EITF 06-5 states that a policyholder should consider any additional amounts included in the contractual terms of the insurance policy other than the cash surrender value in determining the amount that could be realized under the insurance contract. EITF 06-5 also states that a policyholder should determine the amount that could be realized under the life insurance contract assuming the surrender of an individual-life by individual-life policy (or certificate by certificate in a group policy). EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact the adoption of the standard will have on the Company’s results of operations or financial condition.

2. EARNINGS PER SHARE

There are no convertible securities that 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.

	2006	2005	2004
Weighted-average common shares outstanding	1,510,917	1,496,931	1,484,496
Average treasury stock shares	(92,809)	(89,333)	(55,588)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	1,418,108	1,407,598	1,428,908
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	21,904	21,167	12,937
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	1,440,012	1,428,765	1,441,845

There were no options to purchase shares of common stock that were anti-dilutive.

3. STOCK DIVIDEND

The Board of Directors approved a 5 percent stock dividend to stockholders of record as of December 1, 2006, payable December 15, 2006. As a result of the dividend, 67,284 additional shares of the Company's common stock were issued, common stock was increased by \$2,842,749, and retained earnings decreased by \$2,859,600.

The Board of Directors approved a 5 percent stock dividend to stockholders of record as of December 1, 2005, payable December 14, 2005. As a result of the dividend, 63,549 additional shares of the Company's common stock were issued, common stock was increased by \$2,557,847, and retained earnings decreased by \$2,572,949.

The Board of Directors approved a 5 percent stock dividend to stockholders of record as of December 1, 2004, payable December 15, 2004. As a result of the dividend, 61,387 additional shares of the Company's common stock were issued, common stock was increased by \$2,271,282, and retained earnings decreased by \$2,283,646.

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.

4. INVESTMENT SECURITIES AVAILABLE FOR SALE

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

2006	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	\$ 7,253,348	\$ 1,911	\$ (110,073)	\$ 7,145,186
Obligations of states and political subdivisions:				
Taxable	748,877	-	(22,205)	726,672
Tax-exempt	38,181,724	139,789	(353,231)	37,968,282
Mortgage-backed securities	16,959,278	377	(490,850)	16,468,805
Total debt securities	63,143,227	142,077	(976,359)	62,308,945
Equity securities	694,283	48,207	(3,300)	739,190
Total	\$63,837,510	\$190,284	\$ (979,659)	\$63,048,135

2005	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	\$ 7,260,666	\$ 10,229	\$ (111,690)	\$ 7,159,205
Obligations of states and political subdivisions:				
Taxable	748,530	-	(23,178)	725,352
Tax-exempt	28,231,048	97,897	(330,847)	27,998,098
Mortgage-backed securities	22,228,515	15,432	(639,968)	21,603,979
Total debt securities	58,468,759	123,558	(1,105,683)	57,486,634
Equity securities	444,264	1,050	(44,818)	400,496
Total	\$58,913,023	\$124,608	\$ (1,150,501)	\$57,887,130

Notes to Consolidated Financial Statements

The amortized cost and fair value of debt securities at December 31, 2006, 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	Fair Value
Due in one year or less	\$ 4,985,309	\$ 4,969,797
Due after one year through five years	11,805,080	11,648,162
Due after five years through ten years	10,860,559	10,773,532
Due after ten years	35,492,279	34,917,454
Total	\$63,143,227	\$62,308,945

Investment securities with an approximate carrying value of \$21,121,334 and \$22,867,265 at December 31, 2006 and 2005, 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, 2006, 2005, and 2004.

	2006	2005	2004
Proceeds from sales	\$658,976	\$ -	\$ 4,912,619
Gross gains	-	-	-
Gross losses	5,868	-	98,375

5. INVESTMENT SECURITIES HELD TO MATURITY

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2006				
Obligations of states and political subdivisions:	\$125,853	\$ 8,453	\$ -	\$ 134,306
Total	\$125,853	\$ 8,453	-	\$ 134,306

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2005				
Obligations of states and political subdivisions:	\$221,453	\$ 11,514	\$ -	\$ 232,967
Total	\$221,453	\$ 11,514	-	\$ 232,967

The amortized cost and fair value of debt securities at December 31, 2006, 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	Fair Value
Due after one year through five years	\$ 25,853	\$ 26,931
Due after five years through ten year	100,000	107,375
Total	\$ 125,853	\$ 134,306

Investment securities held to maturity with carrying values of approximately \$89,957 and fair values of approximately \$90,857 at December 31, 2005, were pledged to secure public deposits and other purposes required by law. There were no investment securities held to maturity that were pledged at December 31, 2006.

6. UNREALIZED LOSSES ON SECURITIES

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, 2006.

2006	Less Than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	\$ 495,470	\$ (2,518)	\$ 5,995,855	\$(107,555)	\$ 6,491,325	\$ (110,073)
Obligations of states and political subdivisions	12,725,091	(149,101)	12,310,231	(226,335)	25,035,322	(375,436)
Mortgage-backed securities	486,318	(11,214)	15,927,958	(479,636)	16,414,276	(490,850)
Equity securities	42,650	(3,300)	-	-	42,650	(3,300)
Total	\$13,749,529	\$(166,133)	\$34,234,044	\$(813,526)	\$47,983,573	\$ (979,659)

2005	Less Than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	\$ 3,576,063	\$ (43,743)	\$ 2,421,251	\$(67,947)	\$ 5,997,314	\$ (111,690)
Obligations of states and political subdivisions	16,016,108	(236,088)	4,576,188	(117,937)	20,592,296	(354,025)
Mortgage-backed securities	6,205,491	(119,155)	14,511,847	(520,813)	20,717,338	(639,968)
Equity securities	353,495	(44,818)	-	-	353,495	(44,818)
Total	\$26,151,157	\$(443,804)	\$21,509,286	\$(706,697)	\$47,660,443	\$(1,150,501)

The policy of the Company is to recognize an other-than-temporary impairment on equity securities where the fair value has been significantly below cost for three consecutive quarters. For fixed maturity investments with unrealized losses due to interest rates where the Company has the positive intent and ability to hold the investment for a period of time sufficient to allow a market recovery, declines in value below cost are not assumed to be other than temporary. There are 150 securities that are considered temporarily impaired at December 31, 2006. The Company reviews its position quarterly and has asserted that at December 31, 2006, the declines outlined in the above table represent temporary declines and the Company does have the intent and ability either to hold those securities to maturity or to allow a market recovery.

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.

Notes to Consolidated Financial Statements

7. LOANS

Major classifications of loans are summarized as follows:

	2006	2005
Commercial and industrial	\$ 68,496,089	\$ 65,161,490
Real estate - construction	2,457,928	2,724,958
Real estate - mortgage:		
Residential	162,916,830	151,981,388
Commercial	9,948,568	8,208,572
Consumer installment	5,371,119	5,978,389
	249,190,534	234,054,797
Less allowance for loan losses	2,848,887	2,841,098
Net loans	\$ 246,341,647	\$ 231,213,699

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, 2006 and 2005, loans outstanding to individuals and businesses are dependent upon the local economic conditions in its immediate trade area.

Nonperforming loans consist of commercial and consumer loans which are on a nonaccrual basis and loans contractually past due 90 days or more but are not on nonaccrual status because they are well secured or in the process of collection.

Information regarding nonperforming loans at December 31 is as follows:

	2006	2005
90 days or more past due and accruing interest	\$ 208,778	\$ 326,633
Nonaccrual loans	1,180,248	1,487,446
Total nonperforming loans	\$ 1,389,026	\$ 1,814,079

Information regarding impaired loans at December 31 is as follows:

	2006	2005
Impaired loans without a related allowance for loan loss	-	-
Impaired loans with a related allowance for loan loss	289,754	1,106,221
Related allowance for loan loss	71,214	224,155
Average recorded investment in impaired loans	231,376	764,396
Interest income recognized	3,177	23,152

8. ALLOWANCE FOR LOAN LOSSES

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

	2006	2005	2004
Balance, January 1	\$ 2,841,098	\$ 2,623,431	\$ 2,521,270
Add:			
Provisions charged to operations	60,000	302,000	174,000
Recoveries	27,809	95,077	46,643
Less loans charged off	80,020	179,410	118,482
Balance, December 31	\$ 2,848,887	\$ 2,841,098	\$ 2,623,431

9. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	2006	2005
Land and land improvements	\$ 1,537,930	\$ 1,295,938
Building and leasehold improvements	7,149,204	6,999,015
Furniture, fixtures, and equipment	3,335,681	3,142,025
	12,022,815	11,436,978
Less accumulated depreciation and amortization	5,280,350	4,812,202
Total	\$ 6,742,465	\$ 6,624,776

Depreciation and amortization charged to operations was \$468,148 in 2006, \$448,386 in 2005, and \$403,916 in 2004.

10. OTHER ASSETS

The components of other assets are as follows:

	2006	2005
FHLB stock	\$ 1,507,300	\$ 1,414,300
Accrued interest on investment securities	346,099	347,580
Accrued interest on loans	764,656	675,268
Deferred tax asset, net	847,456	869,816
Other	615,748	506,023
Total	\$ 4,081,259	\$ 3,812,987

Notes to Consolidated Financial Statements

11. DEPOSITS

Time deposits at December 31, 2006, mature \$86,529,430, \$45,157,774, \$8,791,675, \$4,733,459, and \$4,125,843 during 2007, 2008, 2009, 2010, and 2011, respectively.

Time deposits include certificates of deposit in denominations of \$100,000 or more. Such deposits aggregated \$36,344,299 and \$27,398,766 at December 31, 2006 and 2005, respectively.

Maturities on time deposits of \$100,000 or more at December 31, 2006, are as follows:

Within three months	\$ 4,991,253
Beyond three but within six months	6,024,266
Beyond six but within twelve months	7,345,317
Beyond one year	17,983,463
Total	\$36,344,299

12. SHORT-TERM BORROWINGS

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

	2006	2005
Balance at year-end	\$1,609,738	\$ 6,710,914
Average balance outstanding	3,281,340	1,844,018
Maximum month-end balance	8,245,406	6,710,914
Weighted-average rate at year-end	4.35%	4.38%
Weighted-average rate during the year	5.10%	5.63%

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 8.0 percent, from Lorain National Bank. At December 31, 2006 and December 31, 2005, there were no outstanding balances of this line.

13. OTHER BORROWINGS

Other borrowings consist of advances from the FHLB as follows:

Description	Maturity range		Weighted-average interest rate	Stated interest rate range		2006	2005
	from	to		from	to		
Fixed rate	09/13/07	08/04/08	4.33%	3.37%	5.38%	\$ 7,000,000	\$ 2,510,000
Fixed rate amortizing	07/01/07	06/01/25	4.19	2.70	6.40	12,864,738	16,068,211
Convertible	09/04/08	07/28/10	5.64	5.36	6.45	8,000,000	8,000,000
Junior subordinated debt	12/21/37	12/21/37	6.58	6.58	6.58	8,248,000	-
						\$36,112,738	\$26,578,211

The scheduled maturities of advances outstanding are as follows:

	Year Ending December 31,	
	2006	
	Amount	Weighted-Average Rate
2007	\$ 8,967,420	4.09%
2008	11,339,778	5.07
2009	2,186,199	4.28
2010	3,092,373	5.48
2011	802,624	3.70
Beyond 2011	9,724,344	6.16
	\$36,112,738	4.76%

The Bank entered into a ten-year “Convertible Select” fixed commitment advance arrangement 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, June 1, 2009, February 1, 2012, June 4, 2012, February 2, 2013, February 26, 2014, July 28, 2014, September 13, 2014, June 1, 2015, June 4, 2017, February 1, 2018, February 26, 2019, February 1, 2023, and June 1, 2025, 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 \$133 million at December 31, 2006.

In December 2006, the Company formed a special purpose entity (“Entity”) to issue \$8,000,000 of floating rate, obligated mandatorily redeemable securities and \$248,000 in common securities as part of a pooled offering. The rate is fixed through January 2012 at 6.58 percent and floats quarterly thereafter, equal to LIBOR plus 1.67 percent. The Entity may redeem them, in whole or in part, at face value after January 30, 2012. The Company borrowed the proceeds of the issuance from the Entity in December 2006 in the form of an \$8,248,000 note payable, which is included in the liabilities section of the Company’s Consolidated Balance Sheet. Debt issue costs of \$248,000 have been capitalized and are being amortized through the first call date.

Notes to Consolidated Financial Statements

14. OTHER LIABILITIES

The components of other liabilities are as follows:

	2006	2005
Accrued interest payable	\$ 888,855	\$ 537,916
Other	726,246	648,145
Total	\$1,615,101	\$1,186,061

15. INCOME TAXES

The provision for federal income taxes consists of:

	2006	2005	2004
Current payable	\$1,530,001	\$1,500,495	\$1,363,704
Deferred	(58,058)	(85,339)	(33,704)
Total provision	\$1,471,943	\$1,415,156	\$1,330,000

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:

	2006	2005
Deferred tax assets:		
Allowance for loan losses	\$ 899,689	\$ 897,040
Net unrealized loss on securities	268,386	348,804
Supplemental retirement plan	93,045	68,716
Gross deferred tax assets	1,261,120	1,314,560
Deferred tax liabilities:		
Deferred origination fees, net	106,328	136,037
Premises and equipment	116,635	145,392
Other	190,701	163,315
Gross deferred tax liabilities	413,664	444,744
Net deferred tax assets	\$ 847,456	\$ 869,816

No valuation allowance was established at December 31, 2006 and 2005, 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:

	2006		2005		2004	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Provision at statutory rate	\$1,821,105	34.0 %	\$1,739,606	34.0 %	\$1,565,076	34.0 %
Tax-free income	(437,874)	(8.2)	(295,146)	5.8	(208,593)	(6.1)
Nondeductible interest expense	54,673	1.0	38,639	0.8	26,485	0.6
Other	34,039	0.7	(67,923)	(1.4)	(52,968)	0.4
Actual tax expense and effective rate	\$1,471,943	27.5 %	\$1,415,176	27.6 %	\$1,330,000	28.9 %

16. 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 2006, 2005, and 2004 to this plan amounted to \$71,516, \$62,755, and \$63,083, and respectively.

Supplemental Retirement Plan

The Bank maintains a Directors Retirement Plan to provide postretirement 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 following table illustrates the components of the net periodic pension cost for the Directors retirement plans for the years ended:

	Directors' Retirement Plan		
	2006	2005	2004
Components of net periodic pension costs			
Service cost	\$ 9,510	\$ 12,756	\$25,684
Interest cost	9,791	9,948	8,380
Net periodic pension cost	\$19,301	\$ 22,704	\$34,064

Notes to Consolidated Financial Statements

Stock Option and Restricted Stock Plan

The Company maintains a stock option and restricted stock plan (“the Plan”) for granting incentive stock options, nonqualified stock options, and restricted stock for key officers and employees and nonemployee directors of the Company. A total of 139,621 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:

	2006	Weighted-average Exercise Price	2005	Weighted-average Exercise Price
Outstanding, January 1	78,020	\$26.79	72,078	\$25.17
Granted	3,500	42.25	9,240	38.57
Exercised	(2,561)	24.25	(2,865)	25.07
Forfeited	(5,352)	27.75	(433)	20.40
Outstanding, December 31	73,607	\$27.54	78,020	\$26.79
Exercisable at year-end	70,107	26.80	78,020	26.79

The following table summarizes the characteristics of stock options at December 31, 2006:

Grant Date	Exercise Price	Shares	Outstanding		Exercisable	
			Contractual Average Life	Average Exercise Price	Shares	Average Exercise Price
June 14, 1999	\$24.88	4,834	2.45	\$24.88	4,834	\$24.88
November 23, 1999	24.28	2,798	2.90	24.28	2,798	24.28
December 11, 2000	18.80	11,049	3.95	18.80	11,049	18.80
December 9, 2002	23.45	9,584	5.94	23.45	9,584	23.45
December 8, 2003	25.50	19,924	6.94	25.50	19,924	25.50
May 12, 2004	28.73	1,274	7.33	28.73	1,274	28.73
December 13, 2004	31.97	12,454	7.95	31.97	12,454	31.97
December 14, 2005	38.57	8,190	8.95	38.57	8,190	38.57
December 10, 2006	42.25	3,500	9.95	42.25	-	42.25
		73,607			70,107	

For the years ended December 31, 2006, 2005, and 2004, the Company granted 90 shares, 80 shares, and 884 shares, respectively, of common stock under the restricted stock plan. The Company recognizes compensation expense in the amount of fair value of the common stock at the grant date and as an addition to stockholders’ equity.

17. 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 composed of the following:

	2006	2005
Commitments to extend credit	\$46,092,201	\$45,678,316
Standby letters of credit	121,598	125,000
Total	\$46,213,799	\$45,803,316

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.

18. 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 that 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 for 2007 approximates \$4,563,000 plus 2007 profits retained up to the date of the dividend declaration.

Notes to Consolidated Financial Statements

19. 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 1 capital to risk-weighted assets and of Tier 1 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, 2006 and 2005, 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 that shows the Company met all regulatory capital requirements.

	2006		2005	
	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-weighted Assets)				
Actual	\$41,978,838	18.05%	\$30,593,729	14.41%
For Capital Adequacy Purposes	18,605,783	8.00	16,997,337	8.00
To Be Well Capitalized	23,257,229	10.00	21,246,671	10.00
Tier I Capital (to Risk-weighted Assets)				
Actual	\$39,109,743	16.82%	\$27,937,566	13.16%
For Capital Adequacy Purposes	9,302,892	4.00	8,500,442	4.00
To Be Well Capitalized	13,954,337	6.00	12,750,662	6.00
Tier I Capital (to Average Assets)				
Actual	\$39,109,743	11.82%	\$27,937,566	9.10%
For Capital Adequacy Purposes	13,236,186	4.00	12,273,560	4.00
To Be Well Capitalized	16,545,233	5.00	15,341,950	5.00

The Bank's actual capital ratios are presented in the following table that shows the Bank met all regulatory capital requirements.

	2006		2005	
	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-weighted Assets)				
Actual	\$ 32,220,571	13.88%	\$ 29,295,932	13.83%
For Capital Adequacy Purposes	18,568,960	8.00	16,942,444	8.00
To Be Well Capitalized	23,211,200	10.00	21,178,055	10.00
Tier I Capital (to Risk-weighted Assets)				
Actual	\$ 29,371,684	12.65%	\$ 26,646,282	12.58%
For Capital Adequacy Purposes	9,284,480	4.00	8,471,222	4.00
To Be Well Capitalized	13,926,720	6.00	12,706,833	6.00
Tier I Capital (to Average Assets)				
Actual	\$ 29,371,684	8.89%	\$ 26,646,282	8.68%
For Capital Adequacy Purposes	13,221,051	4.00	12,273,560	4.00
To Be Well Capitalized	16,526,314	5.00	15,341,950	5.00

20. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

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

	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 13,639,602	\$ 13,639,602	\$ 5,821,164	\$ 5,821,164
Investment securities:				
Available for sale	63,048,135	63,048,135	57,887,130	57,887,130
Held to maturity	125,853	134,306	221,453	232,967
Net loans	246,341,647	242,583,242	231,213,699	233,988,263
Bank-owned life insurance	6,872,743	6,872,743	5,632,982	5,632,982
Federal Home Loan Bank stock	1,507,300	1,507,300	1,414,300	1,414,300
Accrued interest receivable	1,110,755	1,110,755	1,022,848	1,022,848
Financial liabilities:				
Deposits	\$271,050,193	\$270,101,193	\$249,449,640	\$241,567,031
Short-term borrowings	1,609,738	1,609,738	6,710,914	6,710,914
Other borrowings	36,112,738	36,139,369	26,578,211	26,102,461
Accrued interest payable	888,855	888,855	537,916	537,916

Notes to Consolidated Financial Statements

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. Since 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 Cash Equivalents, 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 17.

21. AGREEMENT AND PLAN OF MERGER

On November 15, 2006, Middlefield Banc Corp. entered into an Agreement and Plan of Merger for the acquisition of Emerald Bank, an Ohio-chartered savings bank headquartered in Dublin, Ohio. Middlefield Banc Corp. organized an interim bank subsidiary under Ohio commercial bank law to carry out the merger with Emerald Bank. At the effective time of the merger, Emerald Bank will merge into the new interim subsidiary, which will be the surviving corporation and which will, thereafter, operate under the name Emerald Bank as a wholly owned commercial bank subsidiary of Middlefield Banc Corp. Subject to possible adjustment if Emerald Bank's stockholders' equity is not at least \$5.3 million at the end of the month immediately before the month in which the merger occurs, the total purchase price for Emerald Bank is expected to be \$7,326,890. One half of the merger consideration is payable in cash and the other half in shares of Middlefield Banc Corp. common stock. The merger is subject to bank regulatory approval and to approval of Emerald Bank stockholders.

22. PARENT COMPANY

Following are condensed financial statements for the Company.

CONDENSED BALANCE SHEET	December 31,	
	2006	2005
ASSETS		
Cash and due from banks	\$ 8,265,187	\$ 349,385
Interest-bearing deposits in other institutions	546,454	526,522
Investment securities available for sale	739,190	400,495
Other assets	371,177	14,882
Investment in subsidiary bank	28,821,058	25,998,081
TOTAL ASSETS	\$38,743,066	\$27,289,365
LIABILITIES		
Other borrowings	8,248,000	-
Other liabilities	31,132	-
STOCKHOLDERS' EQUITY	\$30,363,934	\$27,289,365
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	38,743,066	27,289,365

Notes to Consolidated Financial Statements

Year Ended December 31,			
CONDENSED STATEMENT OF INCOME	2006	2005	2004
INCOME			
Dividends from subsidiary bank	\$ 1,277,306	\$1,999,052	\$1,092,122
Interest income	19,931	12,017	5,369
TOTAL INCOME	1,297,237	2,011,069	1,097,491
EXPENSES			
Interest expensed	18,387	54,107	-
Other	180,651	163,275	168,524
TOTAL INCOME	199,038	217,382	168,524
Income before income tax benefit	1,098,199	1,793,687	928,967
Income tax benefit	(60,644)	(69,844)	(46,000)
Income before equity in undistributed net income of subsidiary	1,158,843	1,863,531	974,967
Equity in undistributed net income of subsidiary	2,725,404	1,837,801	2,298,196
NET INCOME	\$ 3,884,247	\$3,701,332	\$3,273,163

Year Ended December 31,			
CONDENSED STATEMENT OF CASH FLOWS	2006	2005	2004
OPERATING ACTIVITIES			
Net income	\$ 3,884,247	\$3,701,332	\$3,273,163
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiary	(2,725,404)	(1,837,801)	(2,298,196)
Other	15,865	-	-
Net cash provided by operating activities	1,174,708	1,863,531	974,967
INVESTING ACTIVITIES			
Decrease (increase) in interest-bearing deposits in other institutions	-	614,506	(75,359)
Deferred acquisition costs	(123,175)	-	-
Investment in unconsolidated subsidiary	(248,000)	-	-
Purchase of investment securities	(250,020)	(45,944)	(398,320)
Net cash provided by (used for) investing activities	(621,195)	568,562	(473,679)
FINANCING ACTIVITIES			
Net increase in short term borrowing	-	(1,200,000)	1,200,000
Proceeds from other borrowings	8,248,000	-	-
Purchase of treasury stock	(238,534)	-	(1,224,864)
Exercise of stock options	62,115	71,386	14,198
Common stock issued	305,711	285,669	277,171
Proceeds from dividend reinvestment plan	320,347	245,506	215,120
Cash dividends	(1,315,418)	(1,188,146)	(1,083,197)
Net cash used for financing activities	7,382,221	(1,785,585)	(601,572)
Increase (decrease) in cash	7,935,734	646,508	(100,284)
CASH AT BEGINNING OF YEAR	875,907	229,399	329,683
CASH AT END OF YEAR	\$ 8,811,641	\$ 875,907	\$ 229,399

23. SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

	Three Months Ended			
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006
Total interest income	\$4,560,636	\$4,790,313	\$4,976,078	\$5,167,523
Total interest expense	1,874,659	2,037,549	2,217,481	2,437,753
Net interest income	2,685,977	2,752,764	2,758,597	2,729,770
Provision for loan losses	75,000	75,000	90,000	(180,000)
Net interest income after provision for loan losses	2,610,977	2,677,764	2,668,597	2,909,770
Total noninterest income	550,326	594,655	643,602	638,872
Total noninterest expense	2,035,731	1,898,032	2,042,405	1,962,205
Income before income taxes	1,125,572	1,374,387	1,269,794	1,586,437
Income taxes	308,000	386,587	339,000	438,356
Net income	\$ 817,572	\$ 987,800	\$ 930,794	\$1,148,081
Per share data:				
Net income				
Basic	\$ 0.58	\$ 0.70	0.66	0.81
Diluted	0.57	0.69	0.65	0.79
Average shares outstanding				
Basic	1,414,837	1,413,943	1,419,287	1,425,652
Diluted	1,437,378	1,437,308	1,442,738	1,446,942

	Three Months Ended			
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005
Total interest income	\$4,115,912	\$4,274,683	\$4,427,392	\$4,560,517
Total interest expense	1,547,711	1,628,943	1,663,422	1,814,538
Net interest income	2,568,201	2,645,740	2,763,970	2,745,979
Provision for loan losses	60,000	60,000	75,000	107,000
Net interest income after provision for loan losses	2,508,201	2,585,740	2,688,970	2,638,979
Total noninterest income	481,104	526,515	559,275	552,343
Total noninterest expense	2,013,215	1,846,301	1,882,004	1,683,120
Income before income taxes	976,090	1,265,954	1,366,241	1,508,202
Income taxes	262,000	349,000	390,000	414,156
Net income	\$ 714,090	\$ 916,954	\$ 976,241	\$1,094,046
Per share data:				
Net income				
Basic	\$ 0.51	\$ 0.65	\$ 0.69	\$ 0.78
Diluted	0.51	0.64	0.68	0.76
Average shares outstanding				
Basic	1,396,290	1,401,902	1,405,230	1,409,210
Diluted	1,403,805	1,424,660	1,427,987	1,430,625



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, 2006 and 2005, 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, 2006. 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 the standards of the Public Company Accounting Oversight Board (United States). 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, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ending December 31, 2006, in conformity with U.S. generally accepted accounting principles.

S. R. Snodgrass, A.C.

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Wexford, PA
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Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The consolidated review and analysis of Middlefield Banc Corp. ("MBC" or "Company") is intended to assist the reader in evaluating the performance of MBC for the years ended December 31, 2006, 2005 and 2004. This information should be read in conjunction with the consolidated financial statements and accompanying notes to the financial statements.

MBC 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 seven locations.

The Bank is subject to examination and comprehensive regulation by the FDIC and the Ohio Department of Banking. MBC is a member of the Federal Home Loan Bank (FHLB) of Cincinnati, which is one of the twelve regional banks comprising the FHLB System.

This Management Discussion and Analysis section of the Annual Report contains certain 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.

These forward-looking statements may involve significant risks and uncertainties. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the results in these forward-looking statements.

Significant Financial Events in 2006

During the fourth quarter of 2006, the banking subsidiary, The Middlefield Banking Company, opened a full service branch office in Newbury, Geauga County. Additionally, a loan production office was established in the City of Cortland in Trumbull County. The bank has announced plans to develop a full-service branch office within that community within the next 18 months.

On November 15, 2006 Middlefield Banc Corp. entered into an Agreement and Plan of Merger for the acquisition of Emerald Bank, an Ohio-chartered savings bank headquartered in Dublin, Ohio. Middlefield Banc Corp. organized an interim bank subsidiary under Ohio commercial bank law to carry out the merger with Emerald Bank. The Agreement and Plan of Merger was amended on January 3, 2007 to make the new interim bank subsidiary, known as EB Interim Bank, a party to the agreement. At the effective time of the merger Emerald Bank will merge into the new interim subsidiary, which will be the surviving corporation and which will thereafter operate under the name Emerald Bank as a wholly owned commercial bank subsidiary of Middlefield Banc Corp. Subject to possible adjustment if Emerald Bank's stockholders' equity is not at least \$5.3 million at

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the end of the month immediately before the month in which the merger occurs, the total purchase price for Emerald Bank is expected to be \$7,326,890. One half of the merger consideration is payable in cash and the other half in shares of Middlefield Banc Corp. common stock. The merger is subject to bank regulatory approval and to approval of Emerald Bank stockholders.

MBC's board of directors declared a 5 percent share dividend for shareholders of record on December 1, 2006, and a quarterly cash dividend of \$0.24 per common share. On December 15, 2006, shareholders of record received additional stock shares equal to 5% of their holdings. Payment of the fourth quarter cash dividend in the amount of \$0.24 per share was on the total holdings including the share dividend. All share and related price and dividend amounts discussed herein have been adjusted to reflect this stock dividend where applicable.

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.

The allowance for loan losses at December 31, 2006 and 2005 totaled \$2.8 million. The overall level of non-performing loans declined and credit losses were lower than anticipated with the full year net charge-off level being \$52,000, or 0.02% of average loans.

Changes in Financial Condition

General. The Company's total assets increased \$29.6 million or 9.5% to \$340.9 million at December 31, 2006 from \$311.2 million at December 31, 2005. This increase was composed of a net increase in securities of \$5.2 million, net loans receivable of \$15.1 million and cash and cash equivalents of \$13.1 million.

The increase in the Company's total assets reflects a corresponding increase in total liabilities of \$26.5 million or 9.3% to \$310.4 million at December 31, 2006 from \$283.9 million at December 31, 2005 and a increase in total stockholders' equity of \$3.2 million or 11.6% to \$30.5 million at December 31, 2006 from \$27.3 million at December 31, 2005. The increase in total liabilities was primarily due to increases in deposits, junior subordinated debt and other borrowing of \$21.6, \$8.3 and \$1.3 million respectively. The increase was partially offset by a \$5.1 million decline in short-term borrowing. The net increase in total stockholders' equity can be attributed to an increase in common stock and net income offset by an increase in treasury stock of \$239,000.

Cash on hand, Interest-earning deposits and Federal funds sold. Cash on hand, interest-earning deposits and federal funds sold represent cash equivalents which increased a combined \$7.8 million or 134.5% to \$13.6 million at December 31, 2006 from \$5.8 million at December 31, 2005. Deposits from customers into savings and checking accounts, loan and security repayments and proceeds from borrowed funds typically increase these accounts. Decreases result from customer withdrawals, new loan originations, security purchases and repayments of borrowed funds. The net increase in 2006 can be attributed principally to increases in deposits and trust preferred securities.

Securities. The Company's loan and securities portfolios represent its two largest balance sheet asset classifications, respectively. The Company's securities portfolio increased \$5.2 million or 8.9% to \$63.2 million at December 31, 2006 from \$58.1 million at December 31, 2005. During 2006, the Company recorded purchases of available for sale securities of \$16.9 million, consisting of municipal bonds. Partially offsetting the purchases were \$11.1 million of maturities and repayments that principally relates to mortgage-backed securities. The Company's deposits and borrowings primarily fund the securities portfolio.

Loans receivable. The loans receivable category consists primarily of single family mortgage loans used to purchase or refinance personal residences located within the Company's market area and commercial real estate loans used to finance properties that are used in the borrowers businesses or to finance investor-owned rental properties, and to a lesser extent commercial and consumer loans. Net loans receivable increased \$15.1 million or 6.5% to \$246.3 million at December 31, 2006 from \$231.2 million at December 31, 2005. Included in this growth were increases in most types of loans including commercial, home equity and mortgage loans with growth of \$5.2, \$2.1, and \$8.0 million respectively. The result was an increase to the yield on the Company's loan portfolio from 6.75% in 2005 to 7.11% in 2006.

FHLB stock. FHLB stock increased \$93,000 or 6.6% to \$1,507,000 at December 31, 2006 from \$1,414,000 at December 31, 2005, primarily as a result of the increase in total assets of the bank that is used to calculate the minimum stock requirement.

Bank owned life insurance. Bank owned life insurance (BOLI) is universal life insurance, purchased by the Bank, on the lives of the Bank's officers. The beneficial aspects of these universal life insurance policies are tax-free earnings and a tax-free death benefit, which are realized by the Bank as the owner of the policies. BOLI increased by \$1.2 million to \$6.9 million as of December 31, 2006 from \$5.6 million at the end of 2005 as a result of additional life insurance, purchased by the Bank, on the lives of the Bank's officers and the earnings of the underlying insurance policies.

Deposits. The Company considers various sources when evaluating funding needs, including but not limited to deposits, which represented 90.2% of the Company's total funding sources at December 31, 2006. Total deposits increased \$21.6 million or 8.7% to \$271.1 million at December 31, 2006 from \$249.5 million at December 31, 2005.

Deposit growth in 2006 was centered in certificates of deposit with a 23.7% or \$28.6 million increase. Growth in demand deposits, both interest bearing and non-interest bearing, was off-set by a decline in savings balances as depositors moved funds to higher yielding instruments.

Borrowed funds. The Company utilizes short and long-term borrowings as another source of funding used for asset growth and liquidity needs. These borrowings primarily include FHLB advances, junior subordinated debt and repurchase agreement borrowings. Borrowed funds increased \$4.4 million or 13.3% to \$37.7 million at December 31, 2006 from \$33.3 million at December 31, 2005. Junior subordinated debt and FHLB advances increased \$8.2 million and 1.3 million respectively with short-term borrowing declining \$5.1 million. The decline in borrowed funds for the year was due to deposit growth outpacing the growth in the loan portfolio by \$6.6 million for the year.

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Stockholders' equity. Stockholders' equity increased by \$3.2 million or 11.6% to \$30.5 million at December 31, 2006 from \$27.3 million at December 31, 2005. The net increase in total stockholders' equity can be attributed to net income of \$3.9 million, partially offset by cash dividends of \$1.3 million and the purchase of \$239,000 in treasury stock.

Changes in Results of Operations

2006 Results Compared to 2005 Results

General. The Company reported net income of \$3.9 million and \$3.7 million for 2006 and 2005, respectively. The \$183,000 or 4.9% increase in net income between 2006 and 2005 can primarily be attributed to an increase in interest income of \$2.1 million, and an increase in non-interest income of \$308,000, which were partially offset by an increase in interest expense of \$1.9 million and an increase in non-interest expense of \$513,000. Basic earnings per share increased by \$.11 a share or 4.2% to \$2.74 at December 31, 2006 from \$2.63 at December 31, 2005.

Average Balance Sheet and Yield/Rate Analysis. The following table sets forth, for the periods indicated, information concerning the total dollar amounts of interest income from interest-earning assets and the resultant average yields, the total dollar amounts of interest expense on interest-bearing liabilities and the resultant average costs, net interest income, interest rate spread and the net interest margin earned on average interest-earning assets. For purposes of this table, average balances are calculated using monthly averages and the average loan balances include non-accrual loans and exclude the allowance for loan losses, and interest income includes accretion of net deferred loan fees. Yields on tax-exempt securities (tax-exempt for federal income tax purposes) are shown on a fully tax equivalent basis utilizing a federal tax rate of 34%.

For The Year Ended December 31,

	2006			2005			2004		
	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	\$240,452	\$17,093	7.11%	\$222,926	\$15,041	6.75%	\$204,191	\$13,618	6.67%
Investments securities	57,520	2,181	4.72%	59,370	2,218	4.49%	54,413	2,004	4.25%
Interest-bearing deposits with other banks	4,503	221	4.91%	2,698	120	4.45%	5,723	111	1.94%
Total interest-earning assets	302,475	19,495	6.62%	284,994	17,379	6.25%	264,327	15,733	6.07%
Noninterest-earning assets	16,231			16,926			15,030		
Total assets	\$318,706			\$301,920			\$279,357		
Interest-bearing liabilities:									
Interest - bearing demand deposits	11,280	133	1.18%	9,371	75	0.80%	8,759	56	0.64%
Money market deposits	13,675	374	2.73%	15,016	297	1.98%	15,145	277	1.83%
Savings deposits	57,831	910	1.57%	69,680	1,047	1.50%	73,067	1,030	1.41%
Certificates of deposit	135,763	5,740	4.23%	115,969	4,101	3.54%	103,022	3,543	3.44%
Borrowings	30,767	1,410	4.58%	26,577	1,135	4.27%	20,630	863	4.18%
Total interest-bearing liabilities	249,316	8,567	3.44%	236,613	6,655	2.81%	220,623	5,769	2.61%
Noninterest-bearing liabilities	40,799			39,682			34,236		
Other liabilities	28,591			25,625			24,498		
Stockholders' equity									
Total liabilities and stockholders' equity	\$318,706			\$301,920			\$279,357		
Net interest income		\$10,928			\$10,724			\$ 9,964	
Interest rate spread (1)			3.19%			3.44%			3.46%
Net yield on interest-earning assets (2)			3.79%			3.92%			3.89%
Ratio of average interest-earning assets to average interest-bearing liabilities			121.32%			120.45%			119.81%

(1) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(2) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

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	2006 versus 2005 Increase (decrease) due to			2005 versus 2004 Increase (decrease) due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income		(In thousands)			(In thousands)	
Loans receivable	\$ 63	\$1,989	\$2,052	\$1,249	\$174	\$2,052
Investments securities	(4)	(33)	(37)	211	3	(37)
Other interest-earning assets	8	93	101	(59)	68	101
Total interest-earning assets	67	2,049	2,116	1,401	245	2,116
Interest expense						
Interest - bearing demand deposits	7	51	58	4	15	58
Money market deposits	(10)	87	77	(2)	22	77
Savings deposits	(8)	(129)	(137)	(48)	65	(137)
Certificates of deposit	137	1,502	1,639	445	113	1,639
Other interest-bearing liabilities	13	262	275	249	23	275
Total interest-bearing liabilities	139	1,773	1,912	648	238	1,912
Change in net interest income	\$(71)	\$ 275	\$ 204	\$ 753	\$ 7	\$ 760

Net interest income. Net interest income, which is the Company's largest revenue source, is the difference between interest income on earning assets and interest expense paid on liabilities. Net interest income is affected by the changes in interest rates and the composition of interest earning assets and liabilities. Net interest income increased by \$203,000 or 1.9% to \$10.9 million for 2006, compared to \$10.7 million for 2005. This increase in net interest income can be attributed to an increase in interest income of approximately \$2.1 million, offset partially by an increase in interest expense of \$1.9 million.

Interest income. Interest income increased \$2.1 million or 12.2% to \$19.5 million for 2006, compared to \$17.4 million for 2005. This increase in interest income can be attributed to an increase in interest earned on loans receivable of \$2.1 million.

Interest earned on loans receivable increased \$2.1 million or 14.0% to \$17.1 million for 2006, compared to \$15.0 million for 2005. This increase was primarily attributable to an increase in the average balance of loans outstanding of \$17.5 million or 7.9% to \$240.5 million for the year ended December 31, 2006 as compared to \$222.9 million for the year ended December 31, 2005. In addition to growth there was also an increase in the loan yield to 7.11% for 2006, compared to 6.75% for 2005.

Interest earned on securities declined \$37,000 to \$2.2 million for 2006, compared to \$2.2 million for 2005. This decrease was primarily attributable to a decline in the average balance of securities of \$1.9 million to \$57.5 million for the year ended December 31, 2006 as compared to \$59.4 million for the year ended December 31, 2005.

Interest expense. Interest expense increased by \$1.9 million or 28.7% to \$8.6 million for 2006, compared to \$6.7 million for 2005. This increase in interest expense can be attributed to both an increase in the average balance of interest-bearing liabilities along with a 63 basis point increase in the rate paid on these liabilities. For the year ended December 31, 2006 the average balance of interest-bearing liabilities grew by \$12.7 million to \$249.3 million as compared to \$236.6 million for the year ended December 31, 2005. Interest incurred on deposits grew by \$1.6 million for the year from \$5.5 million in 2005 to \$7.2 million for year-end 2006. This change was due to a shift in deposit growth from savings accounts to higher cost certificates. Interest incurred on FHLB advances, repurchase agreements, junior subordinated debt and other borrowings increased \$276,000 or 24.3% to \$1.4 million for 2006, compared to \$1.1 million for 2005. This increase was primarily attributable to an increase in the average balance of FHLB advances and repurchase accounts.

Loan Loss Provision. 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 \$60,000 in 2006 as compared to \$302,000 in 2005. The loan loss provision is based upon management's assessment of a variety of factors, including types and amounts of non-performing 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.

Non-interest income. Non-interest income increased \$308,000 or 14.5% to \$2.4 million for 2006, compared to \$2.1 million for 2005. This increase can be attributed to increases in fees and service charges of \$221,000, earning of bank-owned life insurance of \$31,000 and other income of \$61,000. Partially offsetting these increases was a loss realized on the sale of investment securities of \$6,000.

Non-interest expense. Non-interest expenses increased \$514,000 or 6.9% to \$7.9 million for 2006, compared to \$7.4 million for 2005. The growth can be attributed to increases in other expenses, compensation and employee benefits and state franchise tax which, increased \$235,000, \$107,000 and \$75,000 respectively.

Compensation and employee benefits expense increased \$107,000 or 3.0% to \$3.7 million for 2006, compared to \$3.6 million for 2005. This increase can be attributed to increases in payroll expenses and officer and director retirement of \$117,000, and \$24,000, respectively.

Internet expense increased \$41,000 or 220% to \$61,000 for 2006, compared to \$19,000 for 2005. The increase to internet expense is a reflection of the Company's commitment to continually improve technology in order to enhance service to its customer base. Exams and auditing increased \$34,000 or 22.5% to \$186,000 for 2006, compared to \$152,000 for 2005. This increase was due to the additional cost of complying with **Sarbanes-Oxley Act of 2002** also known as the **Public Company Accounting Reform and Investor Protection Act of 2002**.

Provision for Income Taxes. The provision for income taxes increased \$57,000 or 4.0% to \$1.5 million for 2006, compared to \$1.4 million for 2005. This increase was primarily the result of an increase in income before income taxes of \$240,000 or 4.7% to \$5.4 million for 2006, compared to \$5.1 million for 2005.

2005 Results Compared to 2004 Results

General. The Company reported net income of \$3.7 million and \$3.3 million for 2005 and 2004, respectively. The \$428,000 or 13% increase in net income between 2005 and 2004 can primarily be attributed to a increase in interest income of \$1.7 million, and an increase in non-interest income of \$340,000, which were partially offset by a increase in interest expense of \$886,000 and an increase in non-interest expense of \$459,000. Basic earnings per share increased by \$.34 a share or 14.9% to \$2.63 at December 31, 2005 from \$2.29 at December 31, 2004.

Net interest income. Net interest income, which is the Company's largest revenue source, is the difference between interest income on earning assets and interest expense paid on liabilities. Net interest income is affected by the changes in interest rates and the composition of interest earning assets and liabilities. Net interest income increased considerably by \$760,000 or 7.6%

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to \$10.7 million for 2005, compared to \$10.0 million for 2004. This increase in net interest income can be attributed to an increase in interest income of approximately \$1.7 million, offset partially by an increase in interest expense of \$886,000.

Interest income. Interest income increased \$1.7 million or 10.5% to \$17.4 million for 2005, compared to \$15.7 million for 2004. This increase in interest income can be attributed to an increase in interest earned on loans receivable of \$1.4 million and interest earned on securities of \$213,000.

Interest earned on loans receivable increased \$1.4 million or 10.5% to \$15.0 million for 2005, compared to \$13.6 million for 2004. This increase was primarily attributable to an increase in the average balance of loans outstanding of \$18.7 million or 9.2% to \$222.9 million for the year ended December 31, 2005 as compared to \$204.2 million for the year ended December 31, 2004. In addition to growth there was also an increase in the loan yield to 6.75% for 2005, compared to 6.67% for 2004.

Interest earned on securities increased \$214,000 or 10.7% to \$2.2 million for 2005, compared to \$2.0 million for 2004. This increase was primarily attributable to an increase in the average balance of securities of \$5.0 million to \$59.4 million for the year ended December 31, 2005 as compared to \$54.4 million for the year ended December 31, 2004.

Interest expense. Interest expense increased by \$886,000 or 15.4% to \$6.7 million for 2005, compared to \$5.8 million for 2004. This increase in interest expense can be attributed to both an increase in the average balance of interest-bearing liabilities along with a 20 basis point increase in the rate paid on these liabilities. For the year ended December 31, 2005 the average balance of interest-bearing liabilities grew by \$16.0 million to \$236.6 million as compared to \$220.6 million for the year ended December 31, 2004. Interest incurred on deposits grew by \$614,000 for the year from \$4.9 million in 2004 to \$5.5 million for year-end 2005. This change was due to a shift in deposit growth from savings accounts to higher cost certificates. Interest incurred on FHLB advances, repurchase agreements and other borrowings increased \$272,000 or 31.5% to \$1.1 million for 2005, compared to \$863,000 million for 2004. This increase was primarily attributable to an increase in the average balance of FHLB advances.

Loan Loss Provision. 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 \$302,000 in 2005 as compared to \$174,000 in 2004. The loan loss provision is based upon management's assessment of a variety of factors, including types and amounts of non-performing 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 2005 was principally a result of an increase in loan volume during the year.

Non-interest income. Non-interest income increased \$340,000 or 19.1% to \$2.1 million for 2005, compared to \$1.8 million for 2004. This increase can be attributed to increases in fees and service charges of \$177,000 and other income of \$77,000. In addition there was a loss realized on the sale of investment securities that was not duplicated in 2005. Partially offsetting these increases was a \$13,000 decline in the earnings on bank-owned life insurance.

Non-interest expense. Non-interest expenses increased \$459,000 or 6.6% to \$7.4 million for 2005, compared to \$7.0 million for 2004. The growth can be attributed to increases in compensation and employee benefits, data processing and equipment expense which, increased \$126,000, \$88,000 and \$76,000 respectively.

Compensation and employee benefits expense increased \$126,000 or 3.7% to \$3.6 million for 2005, compared to \$3.4 million for 2004. This increase can be attributed to increases in payroll expenses, group health insurance and the cost employee education of \$199,000, \$13,000 and \$12,000, respectively.

Data processing expense increased \$88,000 or 16.3% to \$626,000 for 2005, compared to \$538,000 for 2004. The increase to data processing expense is a reflection of the Company's commitment to continually improve technology in order to enhance service to its customer base.

Provision for Income Taxes. The provision for income taxes increased \$85,000 or 6.4% to \$1.4 million for 2005, compared to \$1.3 million for 2004. This increase was primarily the result of an increase in income before income taxes \$513,000 or 11.2% to \$5.1 million for 2005, compared to \$4.6 million for 2004.

Asset and Liability Management

The primary objective of the Company's asset and liability management function is to maximize the Company's net interest income while simultaneously maintaining an acceptable level of interest rate risk given the Company's operating environment, capital and liquidity requirements, performance objectives and overall business focus. The principal determinant of the exposure of the Company's earnings to interest rate risk is the timing difference between the re-pricing or maturity of interest-earning assets and the repricing or maturity of its interest-bearing liabilities. The Company's asset and liability management policies are designed to decrease interest rate sensitivity primarily by shortening the maturities of interest-earning assets while at the same time extending the maturities of interest-bearing liabilities. The Board of Directors of the Company continues to believe in strong asset/liability management in order to insulate the Company from material and prolonged increases in interest rates. As a result of this policy, the Company emphasizes a larger, more diversified portfolio of residential mortgage loans in the form of mortgage-backed securities. Mortgage-backed securities generally increase the quality of the Company's assets by virtue of the insurance or guarantees that back them, are more liquid than individual mortgage loans and may be used to collateralize borrowings or other obligations of the Company.

The Company's Board of Directors has established an Asset and Liability Management Committee consisting of outside directors and senior management. This committee, which meets quarterly, generally monitors various asset and liability management policies and strategies, which were implemented by the Company over the past few years.

Interest Rate Sensitivity Simulation Analysis

The Company utilizes income simulation modeling in measuring its interest rate risk and managing its interest rate sensitivity. The Asset and Liability Management Committee of the Company believes that simulation modeling enables the Company to more accurately evaluate and manage the possible effects on net interest income due to the exposure to changing market interest rates, the slope of the yield curve and different loan and mortgage-backed security prepayment and deposit decay assumptions under various interest rate scenarios.

Earnings simulation modeling, assumptions about the timing and variability of cash flows are critical in net portfolio equity valuation analysis. Particularly important are the assumptions driving mortgage prepayments and the assumptions about expected attrition of the core deposit portfolios. These assumptions are based on the Company's historical experience and industry standards and are applied consistently across the different rate risk measures.

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The Company has established the following guidelines for assessing interest rate risk:

Net interest income simulation. Given a 200 basis point parallel gradual increase or decrease in market interest rates, net interest income may not change by more than 10% for a one-year period.

Portfolio equity simulation. Portfolio equity is the net present value of the Company's existing assets and liabilities. Given a 200 basis point immediate and permanent increase or decrease in market interest rates, portfolio equity may not correspondingly decrease or increase by more than 20% of stockholders' equity.

The following table presents the simulated impact of a 200 basis point upward or downward shift of market interest rates on net interest income, and the change in portfolio equity. This analysis was done assuming that the interest-earning asset and interest-bearing liability levels at December 31, 2006 remained constant. The impact of the market rate movements was developed by simulating the effects of rates changing gradually over a one-year period from the December 31, 2006 levels for net interest income, and portfolio equity. The impact of market rate movements was developed by simulating the effects of an immediate and permanent change in rates at December 31, 2006 for portfolio equity:

	Increase +200 BP	Decrease -200 BP
Net interest income—increase(decrease)	3.8 %	(7.4)%
Portfolio equity—increase(decrease)	(2.6)%	(5.5)%

Allowance for Loan Losses. The allowance for loan losses represents the amount management estimates are 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, 2006, Middlefield's allowance for loan losses showed no change at \$2.8 million from December 31, 2005. The allowance now represents 1.14% of the gross loan portfolio as compared to 1.21% 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 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, 2006, 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 non-performing 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 following table sets forth information concerning the Middlefield's allowance for loan losses at the dates and for the periods presented.

	For the Years Ended December 31,		
	2006	2005	2004
	(Dollars in thousands)		
Allowance balance at beginning of period	\$ 2,841	\$ 2,623	\$ 2,521
Loans charged off:			
Commercial and industrial	(8)	(103)	(61)
Real estate-construction	-	-	-
Real estate-mortgage:	-	-	-
Residential	-	(15)	-
Commercial	-	-	-
Consumer installment	(72)	(61)	(57)
Total loans charged off	(80)	(179)	(118)
Recoveries of loans previously charged off:			
Commercial and industrial	-	64	27
Real estate-construction	-	-	-
Real estate-mortgage:	-	-	-
Residential	-	17	3
Commercial	-	-	-
Consumer installment	28	14	16
Total recoveries	28	95	46
Net loans recovered (charged off)	(52)	(84)	(72)
Provision for loan losses	60	302	174
Allowance balance at end of period	\$ 2,849	\$ 2,841	\$ 2,623
Loans outstanding:			
Average	\$240,452	\$222,926	\$204,191
End of period	249,191	234,055	215,653
Ratio of allowance for loan losses to loans outstanding at end of period	1.14 %	1.21%	1.22%
Net recoveries (charge offs) to average loans	(0.02)	(0.04)	(0.04)

Management's Discussion and Analysis

of Financial Condition and Results of Operations

The following 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.

At December 31,

	2006		2005		2004	
	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
Type of Loans:	(Dollars in thousands)		(Dollars in thousands)		(Dollars in thousands)	
Commercial and industrial	\$1,126	27.5%	\$1,151	27.6%	\$1,139	24.1%
Real estate construction	25	1.0	50	1.2	31	1.8
Mortgage:						
Residential	1,147	65.4	965	64.9	1,019	68.4
Commercial	158	4.0	297	3.5	145	3.2
Consumer installment	116	2.1	128	2.8	123	2.7
Unallocated	277	-	250	-	166	-
Total	\$2,849	100%	\$2,841	100%	\$2,623	100%

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 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, 2006 declined to 0.56% from 0.78% for 2005. The bank had nonaccrual loans of \$1,180,000 and \$1,487,000 at December 31, 2006 and 2005, 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 2006. 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 following table summarizes nonperforming assets by category.

	At December 31,		
	2006	2005	2004
Loans accounted for on a nonaccrual basis:			
Commercial and industrial	\$ 200	\$ 859	-
Real estate-construction	-	-	-
Real estate-mortgage:			
Residential	952	607	279
Commercial	-	-	-
Consumer installment	28	21	-
Total nonaccrual loans	1,180	1,487	279
Accruing loans which are contractually past due 90 days or more:			
Commercial and industrial	90	248	239
Real estate-construction	-	-	-
Real estate-mortgage:			
Residential	-	70	722
Commercial	110	-	206
Consumer installment	9	9	25
Total accruing loans which are contractually past due 90 days or more:	209	327	1,192
Total non-performing loans	1,389	1,814	1,471
Real estate owned	-	-	-
Other non-performing assets	-	-	-
Total non-performing assets	\$1,389	\$1,814	\$1,471
Total non-performing loans to total loans	0.56%	0.78%	0.68%
Total non-performing loans to total assets	0.41%	0.58%	0.51%
Total non-performing assets to total assets	0.41%	0.58%	0.51%

(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.

Liquidity and Capital Resources

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, 2006, cash and cash equivalents totaled \$13.6 million or 4.0% of total assets while investment securities classified as available for sale totaled \$63.1 million or 18.5% 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, junior subordinated debt, 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.

Management's Discussion and Analysis

of Financial Condition and Results of Operations

Operating activities provided net cash of \$4.5 million, \$4.0 million, and \$4.0 million for 2006, 2005, and 2004, respectively, generated principally from net income of \$3.9 million, \$3.7 million, and \$3.3 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 \$15.1 million, as well as investment purchases of \$16.9 million. Partially offsetting the usage of investment activities is \$11.1 million of proceeds from investment security maturities and repayments. For the same period ended 2005, investing activities used \$20.2 million in funds, principally for the net origination of loans and the purchase of investment securities of \$18.3 million and \$13.3 million, respectively. During the same period ended 2004, cash usages primarily consisted of loan originations of \$22.7 million, as well as investment purchases of \$27.6 million.

Financing activities consist of the solicitation and repayment of customer deposits, borrowings and repayments, treasury stock activity, and the payment of dividends. During 2006, net cash provided by financing activities totaled \$25.2 million, principally derived from an increase in deposit accounts in general, and certificates specifically. Also contributing to this influx of cash was proceeds from other borrowings of \$16.2 million. During 2005, net cash provided by financing activities totaled \$16.7 million, principally derived from an increase in deposit accounts. During the same period ended 2004, net cash provided by financing activities was \$25.7 million, principally derived from an increase in deposit accounts.

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, 2006, 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 14.68%, 13.46%, and 9.81%, and the Bank's were 13.88%, 12.65%, and 8.91%, respectively, at December 31, 2006.

Contractual Obligations: (In thousands)	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Short-term borrowing	\$ 1,610	\$ 1,610	-	-	-
Junior subordinated debt	8,248	-	-	-	8,248
Federal Home Loan Bank advances	27,865	6,092	11,378	2,000	8,395
Total	\$37,723	\$ 7,702	\$11,378	\$2,000	\$16,643

Commitments to Extend Credit (In thousands)	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Commitments to extend credit	\$46,092	\$46,092	-	-	-
Standby letters of credit	122	122	-	-	-
Total	\$46,214	\$46,214	\$ -	\$ -	\$ -

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.

Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters

Middlefield had approximately 937 stockholders of record as of February 6, 2007. 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 2006 and 2005, 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.

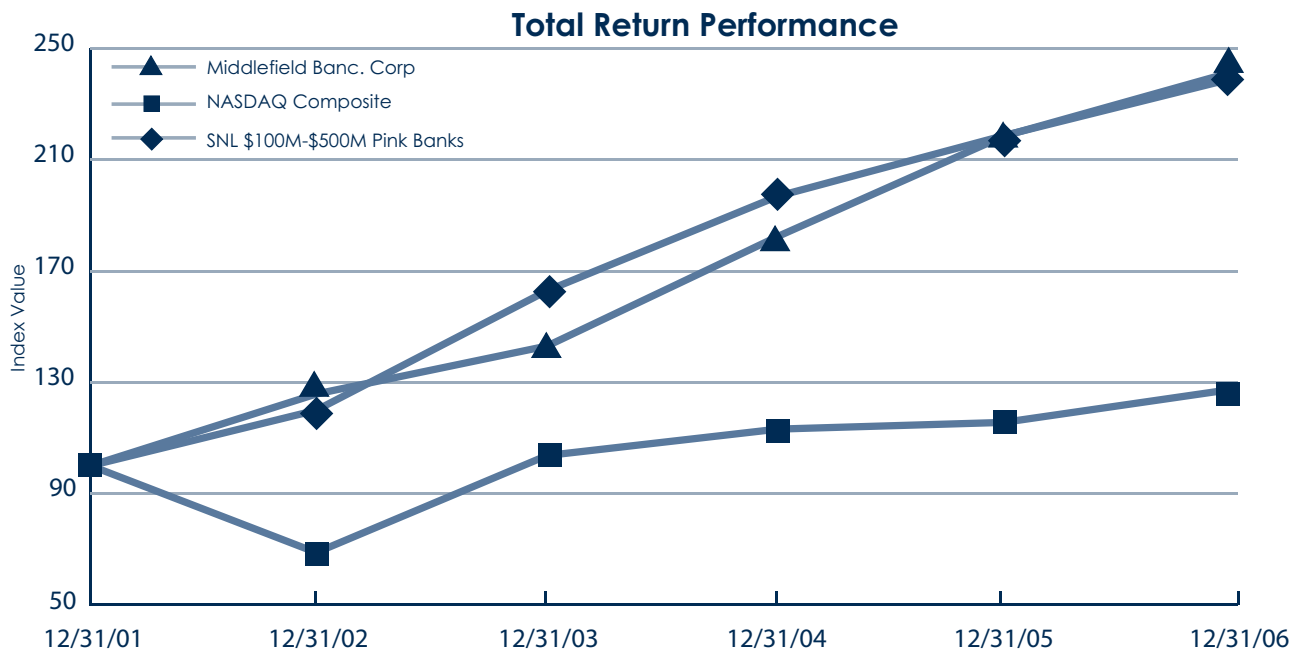
	High Bid	Low Bid	Cash Dividends per share
2006			
First Quarter	\$40.000	\$39.048	\$0.224
Second Quarter	\$39.524	\$39.524	\$0.224
Third Quarter	\$39.762	\$39.762	\$0.229
Fourth Quarter	\$42.250	\$42.250	\$0.240
2005			
First Quarter	\$36.011	\$35.970	\$0.200
Second Quarter	\$37.679	\$37.649	\$0.200
Third Quarter	\$36.627	\$36.583	\$0.213
Fourth Quarter	\$37.223	\$37.033	\$0.224

Management's Discussion and Analysis

of Financial Condition and Results of Operations

Comparative Performance Graph. The graph below compares the cumulative total shareholder return on Middlefield common stock to the cumulative total return of the Nasdaq Composite Index and the SNL \$100M–500M OTC-BB and Pink Banks index for which bid prices or trades are reported in the “pink sheets” of the National Quotation Bureau, LLC, a static paper-quotation medium printed weekly and distributed to broker/dealers, or on the OTC Bulletin Board, an electronic, screen-based market maintained by the National Association of Securities Dealers, Inc.’s subsidiary, NASD Regulation, Inc. The following comparison covers the period from December 31, 2001 to December 31, 2006. The graph assumes that \$100 was invested on December 31, 2001, and that all dividends were reinvested.

**COMPARISON OF THE CUMULATIVE TOTAL RETURN OF MIDDLEFIELD BANC CORP.,
THE SNL \$100M–\$500M OTC-BB AND PINK BANKS INDEX, AND THE NASDAQ — TOTAL US
FROM December 31, 2001, TO DECEMBER 31, 2006**



Index	Period Ending					
	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
Middlefield Banc Corp.	100.00	125.79	143.04	182.48	218.53	241.81
NASDAQ Composite	100.00	68.76	103.67	113.16	115.57	127.58
SNL \$100M–\$500M Pink Banks	100.00	119.95	162.94	196.93	218.70	239.40



[Progress]

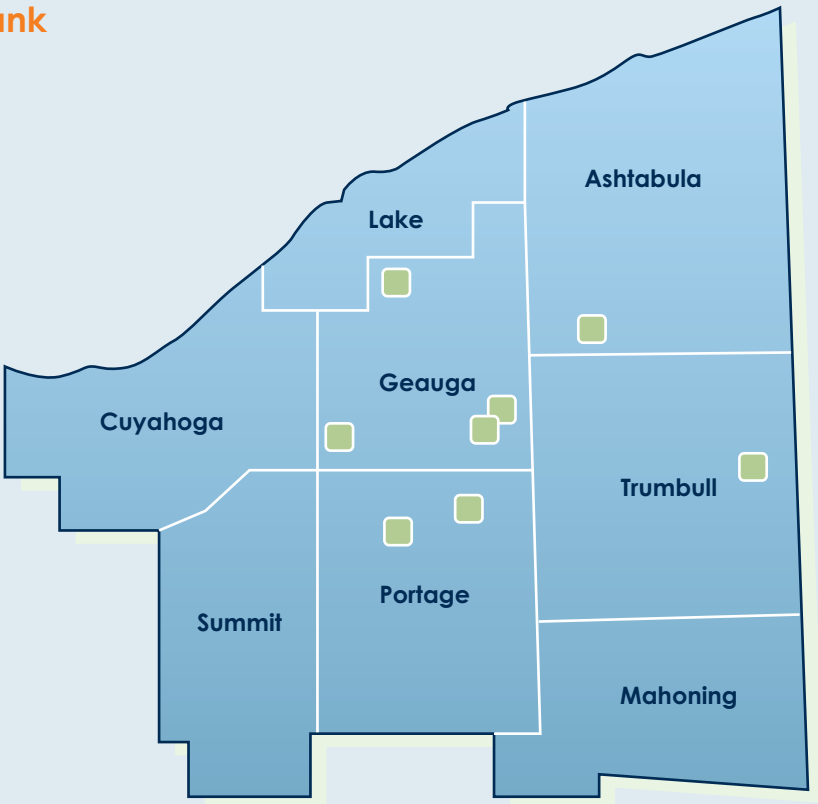
prog·ress [prog-res] *-n.*

gradual development or improvement of something

MBC Celebrating
20 years in
Lebanonville

Branch Locations

Redefining a Community Bank



Additional ATM Location

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

[Locations Map]



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 *Drive up ATM*
15545 West High Street, P.O. Box 35, Middlefield, Ohio 44062
888.801.1666 • 440.632.1666 • fax 440.632.9781



Garretttsville Branch *Drive up ATM*
 8058 State Street, Garretttsville, Ohio 44231
 888.801.2121 • 330.527.2121 • fax: 330.527.4210



Orwell Branch *Drive up ATM*
 30 South Maple Street, P.O. Box 66, Orwell, Ohio 44076
 888.801.1666 • 440.437.7200 • fax: 440.437.1111



Mantua Branch *Walk up ATM*
 10519 Main Street, P.O. Box 648, Mantua, Ohio 44255
 887.274.0881 • 330.274.0881 • fax: 330.274.0883



Newbury Branch *Drive up ATM*
 11110 Kinsman Road, P.O. Box 208, Newbury, Ohio 44065
 888.801.1666 • 440.564.7000 • fax 440.564.7004



Chardon Branch *Drive up ATM*
 348 Center Street, P.O. Box 1078, Chardon, Ohio 44024
 888.801.1666 • 440.286.1222 • fax: 440.286.1111



Cortland Loan Production Office
 130 Windsor Drive, P.O. Box 636, Cortland, Ohio 44410
 330.637.3208 • fax 330.637.3207

Staff & Directors

Staff

Main Office:

Louise Fenselon – 1984 – *Head Teller*
Bonnie Steele – 1985 – *Customer Services*
Diana Koller – 1998 – *Teller*
Jaime Dlugoz – 2004 – *Teller*
Sarah Brook – 2004 – *Teller*
Kori Wilson – 2005 – *Customer Services*
Dottie Brown – 2006 – *Teller**
Katie Hanish – 2006 – *Teller**
Jenna Janssen – 2006 – *Teller**
Amanda Wright – 2006 – *Teller**

West Branch:

Patti Russo – 1982 – *Customer Services*
Rachel Lilly – 1985 – *Head Teller*
Jennifer Gabrielson – 1997 – *Consumer Loan Officer*
Rachel Reese – 2005 – *Teller*
Sue Trumbull – 2005 – *Teller*
Amanda Cummings – 2006 – *Teller**
Amy Kothera – 2006 – *Teller**
Heather Petrick – 2006 – *Teller**
Kristina Stephens – 2006 – *Teller*

Garrettsville Branch:

Kathy Vanek – 1998 – *Branch Supervisor*
Vickie Moss – 1998 – *Teller*
Colleen Steele – 1998 – *Teller*
Ashley Durst – 2001 – *Teller*
Michelle Lutz – 2001 – *Head Teller*
Nicole Meszaros – 2005 – *Teller**
Dawn Semich – 2005 – *Customer Services*
Matt Bellin – 2006 – *Commercial Lender*
Leah Ebright – 2006 – *Teller**

Mantua Branch:

Joan Sweet – 2002 – *Branch Supervisor*
Rebecca Reinard – 2002 – *Teller*
Jodie Lawless – 2004 – *Teller*
Robin Whitaker – 2006 – *Teller**

** denotes part time*

Chardon Branch:

Amanda DiMeolo – 2001 – *Head Teller*
Gretchen Mihalic – 2001 – *Teller**
Jennifer Hess – 2003 – *Customer Services*
Kim Koynock – 2005 – *Teller**
Beverly Palinsky – 2005 – *Teller**

Orwell Branch:

Karen Graham – 2002 – *Branch Supervisor*
Tiffany Perkins – 2005 – *Teller*
Jeanette Meardith – 2006 – *Teller**
Jessica Slusher – 2006 – *Teller**
Lisa Swango – 2006 – *Teller*

Newbury Branch:

Jeremy Bailey – 2001 – *Branch Supervisor*
Sue Masink – 2005 – *Teller*
Elizabeth Hagood – 2006 – *Customer Services*
Joan Limpert – 2006 – *Teller*
Diane Thomas – 2006 – *Teller**

Loan Department:

Helen Stowe – 1985 – *Loan Administrative Assistant*
Jane Armstrong – 1998 – *Loan Collection Manager*
Vivian Helmick – 1998 – *Loan Administrative Assistant*
Carolyn Fackler – 2001 – *Loan Administrative Assistant*
Jamie Fleming – 2004 – *Loan Administrative Assistant*
Cody Madsen – 2005 – *Loan Administrative Assistant*
Sheila Grant – 2006 – *Loan Receptionist*
Brian Martinko – 2006 – *Lender*

Operations:

Karen Westover – 1983 – *Bookkeeper*
Pamela Malcuit – 1989 – *Bookkeeper*
Donna Williams – 1990 – *Bookkeeper*
Lauren Harth – 1995 – *Audit Assistant**
Tara Morgan – 1997 – *Proof Operator*
Derrick Pilarczyk – 1999 – *Facility Maintenance*
Lisa Sanborn – 2000 – *Bookkeeper*
Melody Askey – 2005 – *Compliance Assistant*
LynnRae Derthick – 2006 – *Float Teller*

Financial Services:

Thomas Hart – 2004 – *Financial Consultant*

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 Lender

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

Dennis E. Linville – 2006
Senior Vice President
Area Executive

Kathleen M. Johnson – 1971
Vice President
Chief Accounting Officer

Joann Vance – 1986
Vice President
Human Resource Administrator

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

Alfred F. Thompson, Jr. – 1996
Vice President
Loan Administration

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

Sharon R. Jarold – 2001
Vice President/Lending

Thomas Munson – 2003
Vice President/Lending

Karen Branham – 1983
Assistant Vice President

Gail Neikirk – 1983
Assistant Vice President

Christine A. Polzer – 1989
Assistant Vice President
Network Administrator

Thomas R. Neikirk – 1994
Assistant Vice President
West Branch Manager

Timothy McCreary – 2004
Assistant Vice President
Chardon Branch Manager

Marlin J. Moschell – 2000
Banking Officer

Sharon Clements – 2003
Banking Officer



Staff & Directors

Directors



Donald D. Hunter – 1977
Chairman
Retired Retail Merchant



Richard T. Coyne – 1997
Retired: Jaco Products
and Capital Plastics



Donald E. Villers – 1987
Retired: Copperweld Steel



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



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



James J. McCaskey – 2004
President
McCaskey Landscape and Design, LLC



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



Carolyn J. Turk, C.P.A. – 2004
Corporate Controller
Molded Fiber Glass Companies



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



William J. Skidmore – 2007*
Northeast Ohio Senior District Manager
Waste Management of Ohio, Inc.

* Denotes Director of The Middlefield Banking Company only

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
888.801.1666 • 440.632.1666
fax 440.632.1700

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

Market Makers

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

Sweney Cartwright & Co.
17 South High Street
Columbus, Ohio 43215
614.228.5391 • 800.334.7481

Ryan Beck & Company, Inc.
18 Columbia Turnpike
Florham, NJ 07932
800.342.2325

Howe Barnes Hoefler & Arnett, Inc.
222 South Riverside Plaza
Chicago, Illinois 60606
312.655.3000

Notice of Annual Meeting

The Annual Meeting of Shareholders of Middlefield Banc Corp. will be held at 1:00 p.m. on Wednesday, May 16, 2007, at:

Grandview Inn
13404 Old State Road
Middlefield, Ohio 44062

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.
2100 Corporate Drive, Suite 400
Wexford, Pennsylvania 15090-7647
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.

Market for Middlefield's Common Equity & Related Stockholder Matters

Middlefield had approximately 937 stockholders of record as of February 6, 2007. 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 2006 and 2005, 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.

	High Bid	Low Bid	Cash Dividends per share
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Second Quarter	\$37.679	\$37.649	\$0.200
Third Quarter	\$36.627	\$36.583	\$0.213
Fourth Quarter	\$37.223	\$37.033	\$0.224





[Dedicated to your future]

fu•ture [fyoo-cher] *-n.*
something that will exist or happen in time to come

Main Office
15985 East High Street
440.632.1666

West Branch
15545 West High Street
440.632.1666

Garrettsville Branch
8058 State Street
330.527.2121

Mantua Branch
10519 Main Street
330.274.0881

Chardon Branch
348 Center Street
440.286.1222

Orwell Branch
30 South Maple Street
440.437.7200

Newbury Branch
11110 Kinsman Road
440.564.7000

Cortland Loan
Production Office
130 Windsor Drive
330.637.3208





[www.middlefieldbank.com]

15985 East High Street, Middlefield, Ohio 888.801.1666

