Section 1: 10-Q (FORM 10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

X **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2019

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ___________ to ___________

Commission File Number 001-36613

Middlefield Banc Corp.

(Exact Name of Registrant as Specified in its Charter)

Ohio	34-1585111
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification No.
15985 East High Street, Middlefield, Ohio	44062-0035
Address of Principal Executive Offices	Zip Code

440-632-1666
Registrant's Telephone Number, Including Area Code

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

Securities Registered Pursuant to Section 12(b) of The Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, Without Par Value	MBCN	The NASDAQ Stock Market, LLC (NASDAQ Capital Market)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes **X** No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes **X** No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐
Accelerated filer **X**
Non-accelerated filer ☐
Smaller reporting company **X**
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No **X**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
Outstanding at May 7, 2019: 3,256,721

MIDDLEFIELD BANC CORP.

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MIDDLEFIELD BANC CORP.
CONSOLIDATED BALANCE SHEET
(Dollar amounts in thousands, except share data)
(Unaudited)

	March 31, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	$ 121,045	$ 107,933
Equity securities, at fair value	674	616
Investment securities available for sale, at fair value	98,114	98,322
Loans held for sale	1,230	597
Loans	1,004,484	992,109
Less allowance for loan and lease losses	7,206	7,428
Net loans	997,278	984,681
Premises and equipment, net	15,741	13,003
Goodwill	15,071	15,071
Core deposit intangibles	2,312	2,397
Bank-owned life insurance	16,185	16,080
Accrued interest receivable and other assets	13,285	9,698
TOTAL ASSETS	$ 1,280,935	$ 1,248,398
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 194,298	$ 203,410
Interest-bearing demand	107,246	92,104
Money market	178,668	196,685
Savings	184,662	222,954
Time	375,357	300,914
Total deposits	1,040,231	1,016,067
Short-term borrowings:		
Federal funds purchased	-	398
Federal Home Loan Bank advances	91,000	90,000
Total short-term borrowings	91,000	90,398
Other borrowings	11,518	8,803
Accrued interest payable and other liabilities	6,487	4,840
TOTAL LIABILITIES	1,149,236	1,120,108
STOCKHOLDERS' EQUITY		
Common stock, no par value; 10,000,000 shares authorized, 3,642,535 and 3,630,497 shares issued; 3,256,370 and 3,244,332 shares outstanding	86,437	85,925
Retained earnings	58,139	56,037
Accumulated other comprehensive income (loss)	641	(154)
Treasury stock, at cost; 386,165 shares	(13,518)	(13,518)
TOTAL STOCKHOLDERS' EQUITY	131,699	128,290
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,280,935	$ 1,248,398

See accompanying notes to unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.
CONSOLIDATED STATEMENT OF INCOME
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2019	2018
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	$ 12,510	$ 11,054
Interest-earning deposits in other institutions	187	119
Federal funds sold	7	14
Investment securities:		
Taxable interest	179	169
Tax-exempt interest	565	525
Dividends on stock	58	59
Total interest and dividend income	13,506	11,940
INTEREST EXPENSE		
Deposits	2,945	1,640
Short-term borrowings	213	276
Other borrowings	96	122
Total interest expense	3,254	2,038
NET INTEREST INCOME	10,252	9,902
Provision for loan losses	240	210
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,012	9,692
NONINTEREST INCOME		
Service charges on deposit accounts	508	453
Gain on equity securities	58	18
Earnings on bank-owned life insurance	105	112
Gain on sale of loans	37	4
Other income	402	199
Total noninterest income	1,110	786
NONINTEREST EXPENSE		
Salaries and employee benefits	4,124	3,979
Occupancy expense	553	536
Equipment expense	235	233
Data processing costs	465	477
Ohio state franchise tax	259	115
Federal deposit insurance expense	130	150
Professional fees	431	445
Advertising expense	203	228
Software amortization expense	145	150
Core deposit intangible amortization	85	91
Other expense	870	941
Total noninterest expense	7,500	7,345
Income before income taxes	3,622	3,133
Income taxes	611	528
NET INCOME	$ 3,011	$ 2,605
EARNINGS PER SHARE		
Basic	$ 0.93	$ 0.81
Diluted	$ 0.92	$ 0.80

See accompanying notes to unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Dollar amounts in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Net income	$ 3,011	$ 2,605
Other comprehensive income (loss):		
Net unrealized holding gain (loss) on available-for-sale investment securities	1,006	(1,912)
Tax effect	(211)	402
Total other comprehensive income (loss)	795	(1,510)
Comprehensive income	$ 3,806	$ 1,095

See accompanying notes to unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
(Dollar amounts in thousands, except share and per share data)
(Unaudited)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
	Shares	Amount				
Balance, December 31, 2018	3,630,497	$ 85,925	$ 56,037	$ (154)	$ (13,518)	$ 128,290
Net income			3,011			3,011
Other comprehensive income				795		795
Dividend reinvestment and purchase plan	4,522	196				196
Stock-based compensation, net	7,516	316				316
Cash dividends ($0.28 per share)			(909)			(909)
Balance, March 31, 2019	3,642,535	$ 86,437	$ 58,139	$ 641	$ (13,518)	$ 131,699

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
	Shares	Amount				
Balance, December 31, 2017	3,603,881	$ 84,859	$ 47,431	$ 1,091	$ (13,518)	$ 119,863
Change in accounting principle for adoption of ASU 2016-01			141	(141)		-
Change in accounting principle for adoption of ASU 2018-02			(187)	187		-
Net income			2,605			2,605
Other comprehensive loss				(1,510)		(1,510)
Dividend reinvestment and purchase plan	3,278	161				161
Stock-based compensation, net	1,990	96				96
Cash dividends ($0.33 per share)			(1,063)			(1,063)
Balance, March 31, 2018	3,609,149	$ 85,116	$ 48,927	$ (373)	$ (13,518)	$ 120,152

See accompanying notes to unaudited consolidated financial statements.

MIDDLEFIELD BANC CORP.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollar amounts in thousands)
(Unaudited)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
OPERATING ACTIVITIES		
Net income	$ 3,011	$ 2,605
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	240	210
Gain on equity securities	(58)	(18)
Depreciation and amortization of premises and equipment, net	259	231
Software amortization expense	145	150
Financing lease amortization expense	69	-
Amortization of premium and discount on investment securities, net	94	104
Accretion of deferred loan fees, net	(259)	(341)
Amortization of core deposit intangibles	85	91
Stock-based compensation expense	186	96
Restricted stock cash portion	(44)	-
Origination of loans held for sale	(2,556)	(1,783)
Proceeds from sale of loans	1,960	1,313
Gain on sale of loans	(37)	(4)
Earnings on bank-owned life insurance	(105)	(112)
Deferred income tax	295	131
Net gain on other real estate owned	(43)	-
(Increase) decrease in accrued interest receivable	(200)	19
Increase (decrease) in accrued interest payable	192	(5)
Other, net	(2,553)	(737)
Net cash provided by operating activities	681	1,950
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from repayments and maturities	3,799	1,380
Purchases	(2,679)	-
Increase in loans, net	(12,616)	(8,669)
Proceeds from the sale of other real estate owned	225	-
Purchase of premises and equipment	(295)	(603)
Purchase of restricted stock	-	(90)
Net cash used in investing activities	(11,566)	(7,982)
FINANCING ACTIVITIES		
Net increase in deposits	24,164	66,379
Increase (decrease) in short-term borrowings, net	602	(56,036)
Repayment of other borrowings	(56)	(10,037)
Proceeds from dividend reinvestment and purchase plan	196	161
Cash dividends	(909)	(1,063)
Net cash provided by (used in) financing activities	23,997	(596)
Increase (decrease) in cash and cash equivalents	13,112	(6,628)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	107,933	39,886
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 121,045	$ 33,258

See accompanying notes to unaudited consolidated financial statements.

	Three Months Ended March 31, 2019	2018
SUPPLEMENTAL INFORMATION		
Cash paid during the year for:		
Interest on deposits and borrowings	$ 3,062	$ 2,043
Noncash operating transactions:		
Operating lease assets added to other, net	$ (2,101)	$ -
Operating lease liabilities added to other, net	2,101	-
Noncash investing transactions:		
Transfers from loans to other real estate owned	$ 38	$ -
Transfer of equity securities from investment securities available for sale, at fair value	-	(625)
Finance lease assets added to premises and equipment	(2,771)	-
Noncash financing transactions:		
Finance lease liabilities added to borrowed funds	$ 2,771	$ -

See accompanying notes to unaudited consolidated financial statements.

NOTE 1 - BASIS OF PRESENTATION

The consolidated financial statements of Middlefield Banc Corp. ("Company") include its bank subsidiary, The Middlefield Banking Company (“MBC” or “Middlefield Bank”), and a nonbank asset resolution subsidiary EMORECO, Inc. All significant inter-company items have been eliminated.

On March 13, 2019, MBC established a wholly owned subsidiary named Middlefield Investments, Inc. (MII), headquartered in Middlefield, Ohio. This operating subsidiary exists to hold and manage a portion of MBC’s investment portfolio. At March 31, 2019, MII’s assets consist of one cash account. MII may only hold and manage investments for MBC, and may not engage in any other activity without prior approval of the Ohio Division of Financial Institutions. All significant inter-company items have been eliminated between MBC and this subsidiary.

The unaudited condensed consolidated financial statements have been prepared in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Form 10-K for the year ended December 31, 2018. The interim consolidated financial statements include all adjustments (consisting of only normal recurring items) that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of operations for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year.

Recently Adopted Accounting Pronouncements –

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease is defined as one in which (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. On January 1, 2019, the Company adopted ASU 2016-02 which resulted in the recording of finance lease assets and liabilities of $2.8 million and operating lease assets and liabilities of $2.1 million on the Consolidated Balance Sheet. See Note 9 to the financial statements.

Recently Issued Accounting Pronouncements –

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (“CECL”)*, which changes the impairment model for most financial assets. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management’s current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The CECL model has been completed by the Company and runs concurrently with the existing incurred loss model each month. Management continues monitoring model output, with final assumption changes expected to be made in the third quarter. Management anticipates the model to be validated by a third-party by December 31, 2019.

NOTE 2 – REVENUE RECOGNITION

In accordance with ASC Topic 606, management determined that the primary sources of revenue, which emanate from interest income on loans and investments, along with noninterest revenue resulting from investment security gains, gains on the sale of loans, and BOLI income, are not within the scope of ASC 606. These revenue sources cumulatively comprise 92.0% of the total revenue of the Company.

The main types of noninterest income within the scope of the standard are as follows:

Service charges on deposit accounts – The Company has contracts with its deposit customers where fees are charged if the account balance falls below predetermined levels defined as compensating balances. These agreements can be cancelled at any time by either the Company or the deposit customer. Revenue from these transactions is recognized on a monthly basis as the Company has an unconditional right to the fee consideration. The Company also has transaction fees related to specific customer requests or activities that include overdraft fees, online banking fees, and other transaction fees. All of these fees are attributable to specific performance obligations of the Company where the revenue is recognized at a defined point in time, which is completion of the requested service/transaction.

Gains (losses) on sale of other real estate owned – Gains and losses are recognized at the completion of the property sale when the buyer obtains control of the real estate and all of the performance obligations of the Company have been satisfied. Evidence of the buyer obtaining control of the asset include transfer of the property title, physical possession of the asset, and the buyer obtaining control of the risks and rewards related to the asset. In situations where the Company agrees to provide financing to facilitate the sale, additional analysis is performed to ensure that the contract for sale identifies the buyer and seller, the asset to be transferred and the payment terms, that the contract has a true commercial substance and that amounts due from the buyer are reasonable. In situations where financing terms are not reflective of current market terms, the transaction price is discounted impacting the gain/loss and the carrying value of the asset.

The following table depicts the disaggregation of revenue derived from contracts with customers to depict the nature, amount, timing, and uncertainty of revenue and cash flows for the three months ended March 31:

Noninterest Income	2019	2018
(Dollar amounts in thousands)		
Service charges on deposit accounts:		
Overdraft fees	$ 248	$ 193
ATM banking fees	194	201
Service charges and other fees	66	59
Gain on equity securities [a]	58	18
Earnings on bank-owned life insurance [a]	105	112
Gain on sale of loans [a]	37	4
Other income	402	199
Total noninterest income	$ 1,110	$ 786

(a) Not within scope of ASC 606

NOTE 3 - STOCK-BASED COMPENSATION

The Company had no unvested stock options outstanding as of March 31, 2019 and 2018.

Stock option activity during the three months ended March 31, 2019 is as follows:

	Shares	Weighted-average Exercise Price Per Share
Outstanding, January 1, 2019	7,450	$ 17.55
Outstanding, March 31, 2019	7,450	$ 17.55
Exercisable, March 31, 2019	7,450	$ 17.55

The following table presents the activity during the three months ended March 31, 2019 related to awards of restricted stock:

	Units	Weighted-average Grant Date Fair Value Per Unit
Nonvested at January 1, 2019	21,072	$ 41.96
Granted	14,565	41.90
Vested	(4,970)	32.40
Nonvested at March 31, 2019	30,667	$ 43.48
Expected to vest at March 31, 2019	20,715	$ 41.22

The Company recognizes restricted stock forfeitures in the period they occur.

Share-based compensation expense of $90,000 and $55,000 was recognized for the three-month periods ended March 31, 2019 and 2018, respectively. Since the shares of restricted stock are historically paid out at the vesting date in a combination of shares and cash, the Company has recorded a liability related to this plan which totals $236,000 and $426,000 at March 31, 2019 and 2018, respectively.

The expected remaining compensation expense that will be recognized on restricted stock totals $351,000, of which $113,000 will be recognized in 2019, $110,000 will be recognized in 2020, $110,000 will be recognized in 2021, and $18,000 will be recognized in 2022.

NOTE 4 - EARNINGS PER SHARE

The Company provides dual presentation of basic and diluted earnings per share. Basic earnings per share is calculated by dividing net income by the average shares outstanding. Diluted earnings per share adds the dilutive effects of stock options and restricted stock to average shares outstanding.

The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings-per-share computation.

	For the Three Months Ended March 31,	
	2019	2018
Weighted-average common shares issued	3,635,304	3,606,427
Average treasury stock shares	(386,165)	(386,165)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	3,249,139	3,220,262
Additional common stock equivalents (stock options and restricted stock) used to calculate diluted earnings per share	6,145	17,807
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	3,255,284	3,238,069

Options to purchase 7,450 shares of common stock at $17.55 per share, were outstanding during the three months ended March 31, 2019. Also outstanding were 30,667 shares of restricted stock. None of the outstanding options or restricted stock were anti-dilutive.

Options to purchase 18,250 shares of common stock, at prices ranging from $17.55 to $23.00, were outstanding during the three months ended March 31, 2018. Also outstanding were 14,601 shares of restricted stock. None of the outstanding options or restricted stock were anti-dilutive.

NOTE 5 - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following levels:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair valued using other financial instruments, the parameters of which can be directly observed.

Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

This hierarchy requires the use of observable market data when available.

The following tables present the assets measured on a recurring basis on the Consolidated Balance Sheet at their fair value by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	March 31, 2019			
(Dollar amounts in thousands)	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
U.S. government agency securities	$ -	$ 7,182	$ -	$ 7,182
Obligations of states and political subdivisions	-	70,735	-	70,735
Mortgage-backed securities in government-sponsored entities	-	20,197	-	20,197
Total debt securities	-	98,114	-	98,114
Equity securities in financial institutions	674	-	-	674
Total	$ 674	$ 98,114	$ -	$ 98,788

	December 31, 2018			
(Dollar amounts in thousands)	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
U.S. government agency securities	$ -	$ 7,471	$ -	$ 7,471
Obligations of states and political subdivisions	-	73,093	-	73,093
Mortgage-backed securities in government-sponsored entities	-	17,758	-	17,758
Total debt securities	-	98,322	-	98,322
Equity securities in financial institutions	616	-	-	616
Total	$ 616	$ 98,322	$ -	$ 98,938

Investment Securities Available for Sale - The Company obtains fair values from an independent pricing service which represent quoted prices for similar assets, fair values determined by pricing models using a market approach that considers observable market data, such as interest rate volatilities, LIBOR yield curve, credit spreads and prices from market makers and live trading systems (Level II).

Equity Securities - Equity securities that are traded on a national securities exchange are valued at their last reported sales price as of the measurement date. Equity securities traded in the over-the-counter ("OTC") markets and listed securities for which no sale was reported on that date are generally valued at their last reported "bid" price if held long, and last reported "ask" price if sold short. To the extent equity securities are actively traded and valuation adjustments are not applied, they are categorized in Level I of the fair value hierarchy. Equity securities traded on inactive markets or valued by reference to similar instruments are generally categorized in Level II of the fair value hierarchy.

The following tables present the assets measured on a nonrecurring basis on the Consolidated Balance Sheet at their fair value by level within the fair value hierarchy. Collateral-dependent impaired loans are carried at fair value if they have been charged down to fair value or if a specific valuation allowance has been established. A new cost basis is established at the time a property is initially recorded in OREO. OREO properties are carried at fair value if a devaluation has been taken to the property's value subsequent to the initial measurement. No such devaluation occurred in the three months ended March 31, 2019.

	March 31, 2019			
(Dollar amounts in thousands)	Level I	Level II	Level III	Total
Assets measured on a non-recurring basis:				
Impaired loans	$ -	$ -	$ 4,604	$ 4,604

	December 31, 2018			
(Dollar amounts in thousands)	Level I	Level II	Level III	Total
Assets measured on a non-recurring basis:				
Impaired loans	$ -	$ -	$ 1,075	$ 1,075

Impaired Loans – The Company has measured impairment on collateral-dependent impaired loans generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties. In some cases, management may adjust the appraised value due to the age of the appraisal, changes in market conditions, or observable deterioration of the property since the appraisal was completed. Additionally, management makes estimates about expected costs to sell the property which are also included in the net realizable value. If the fair value of the collateral-dependent loan is less than the carrying amount of the loan, a specific reserve for the loan is made in the allowance for loan losses or a charge-off is taken to reduce the loan to the fair value of the collateral (less estimated selling costs) and the loan is included in the above table as a Level III measurement. If the fair value of the collateral exceeds the carrying amount of the loan, then the loan is not included in the above table as it is not currently being carried at its fair value. The fair values in the above table exclude estimated selling costs of $1.8 million and $492,000 as of March 31, 2019 and December 31, 2018, respectively.

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Company uses Level III inputs to determine fair value:

	Quantitative Information about Level III Fair Value Measurements			
(Dollar amounts in thousands)	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
March 31, 2019				
Impaired loans	$ 4,604	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to 27.8% (2.3%)

	Quantitative Information about Level III Fair Value Measurements			
(Dollar amounts in thousands)	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
December 31, 2018				
Impaired loans	$ 1,075	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to 100.0% (40.6%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various level III inputs which are not identifiable, less any associated allowance.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

The estimated fair value of the Company's financial instruments not recorded at fair value on a recurring basis is as follows:

	March 31, 2019				
	Carrying Value	Level I	Level II	Level III	Total Fair Value
	(Dollar amounts in thousands)				
Financial assets:					
Cash and cash equivalents	$ 121,045	$ 121,045	$ -	$ -	$ 121,045
Loans held for sale	1,230	-	1,230	-	1,230
Net loans	997,278	-	-	993,098	993,098
Bank-owned life insurance	16,185	16,185	-	-	16,185
Federal Home Loan Bank stock	3,679	3,679	-	-	3,679
Accrued interest receivable	3,833	3,833	-	-	3,833
Financial liabilities:					
Deposits	$ 1,040,231	$ 664,874	$ -	$ 375,132	$ 1,040,006
Short-term borrowings	91,000	91,000	-	-	91,000
Other borrowings	11,518	-	-	11,550	11,550
Accrued interest payable	936	936	-	-	936

	December 31, 2018				
	Carrying Value	Level I	Level II	Level III	Total Fair Value
	(Dollar amounts in thousands)				
Financial assets:					
Cash and cash equivalents	$ 107,933	$ 107,933	$ -	$ -	$ 107,933
Loans held for sale	597	-	597	-	597
Net loans	984,681	-	-	973,124	973,124
Bank-owned life insurance	16,080	16,080	-	-	16,080
Federal Home Loan Bank stock	3,679	3,679	-	-	3,679
Accrued interest receivable	3,633	3,633	-	-	3,633
Financial liabilities:					
Deposits	$ 1,016,067	$ 715,153	$ -	$ 298,891	$ 1,014,044
Short-term borrowings	90,398	90,398	-	-	90,398
Other borrowings	8,803	-	-	8,827	8,827
Accrued interest payable	744	744	-	-	744

All financial instruments included in the above tables, with the exception of net loans, deposits, and other borrowings, are carried at cost, which approximates the fair value of the instrument.

NOTE 6 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in accumulated other comprehensive income (loss) ("AOCI") by component net of tax for the three months ended March 31, 2019 and 2018, respectively:

(Dollars in thousands)		Unrealized gains on available-for-sale securities (a)
Balance as of December 31, 2018	$	(154)
Other comprehensive income		795
Balance at March 31, 2019	$	641
Balance as of December 31, 2017	$	1,091
Other comprehensive loss		(1,510)
Change in accounting principle, ASC 2016-01 [(b)]		(141)
Change in accounting principle, ASC 2018-02 [(b)]		187
Period change		(1,464)
Balance at March 31, 2018	$	(373)

(a) All amounts are net of tax. Amounts in parentheses indicate debits to AOCI.
(b) Reclassifications are the result of the adoption of ASUs 2016-01 and 2018-02 effective for the Company beginning January 1, 2018. The reclassifications are presented within the Consolidated Statement of Changes in Stockholders' Equity for the affected transitional periods.

There were no other reclassifications of amounts from accumulated other comprehensive income for the three months ended March 31, 2019 and 2018.

NOTE 7 – INVESTMENT AND EQUITY SECURITIES

The amortized cost and fair values of investment securities available for sale are as follows:

	March 31, 2019							
(Dollar amounts in thousands)		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
U.S. government agency securities	$	7,120	$	111	$	(49)	$	7,182
Obligations of states and political subdivisions:								
Taxable		501		8		-		509
Tax-exempt		69,233		1,057		(64)		70,226
Mortgage-backed securities in government-sponsored entities		20,448		112		(363)		20,197
Total	$	97,302	$	1,288	$	(476)	$	98,114

(Dollar amounts in thousands)	December 31, 2018 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agency securities	$ 7,442	$ 90	$ (61)	$ 7,471
Obligations of states and political subdivisions:				
Taxable	502	10	-	512
Tax-exempt	72,387	667	(473)	72,581
Mortgage-backed securities in government-sponsored entities	18,185	88	(515)	17,758
Total	$ 98,516	$ 855	$ (1,049)	$ 98,322

The Company recognized net gains on equity investments of $58,000 and $18,000 for the three months ended March 31, 2019 and 2018, respectively. No net gains on sold equity securities were realized during this period.

The amortized cost and fair value of debt securities at March 31, 2019, 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.

(Dollar amounts in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 6,479	$ 6,519
Due after one year through five years	1,665	1,683
Due after five years through ten years	13,024	13,074
Due after ten years	76,134	76,838
Total	$ 97,302	$ 98,114

There were no securities sold during the three months ended March 31, 2019 and 2018, respectively.

Investment securities with an approximate carrying value of $59.5 million and $63.5 million at March 31, 2019 and December 31, 2018, respectively, were pledged to secure deposits and for other purposes as required by law.

The following tables show 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.

	March 31, 2019					
	Less than Twelve Months		Twelve Months or Greater		Total	
(Dollar amounts in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ -	$ -	$ 2,927	$ (49)	$ 2,927	$ (49)
Obligations of states and political subdivisions:						
Tax-exempt	926	(4)	7,954	(60)	8,880	(64)
Mortgage-backed securities in government-sponsored entities	2,063	(4)	12,074	(359)	14,137	(363)
Total	$ 2,989	$ (8)	$ 22,955	$ (468)	$ 25,944	$ (476)

	December 31, 2018					
	Less than Twelve Months		Twelve Months or Greater		Total	
(Dollar amounts in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agency securities	$ -	$ -	$ 4,105	$ (61)	$ 4,105	$ (61)
Obligations of states and political subdivisions:						
Tax-exempt	20,451	(286)	11,053	(187)	31,504	(473)
Mortgage-backed securities in government-sponsored entities	2,068	(9)	12,257	(506)	14,325	(515)
Total	$ 22,519	$ (295)	$ 27,415	$ (754)	$ 49,934	$ (1,049)

There were 39 securities considered temporarily impaired at March 31, 2019.

On a quarterly basis, the Company performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment ("OTTI"). A debt security is considered impaired if the fair value is less than its amortized cost basis at the reporting date. The Company assesses whether the unrealized loss is other than temporary.

OTTI losses are recognized in earnings when the Company has the intent to sell the debt security or it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. However, even if the Company does not expect to sell a debt security, it must evaluate expected cash flows to be received and determine if a credit loss has occurred.

An unrealized loss is generally deemed to be other than temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. As a result, the credit loss of an OTTI is recorded as a component of investment securities gains (losses) in the accompanying Consolidated Statement of Income, while the remaining portion of the impairment loss is recognized in other comprehensive income, provided the Company does not intend to sell the underlying debt security and it is "more likely than not" that the Company will not have to sell the debt security prior to recovery.

Debt securities issued by U.S. government agencies, U.S. government-sponsored enterprises, and state and political subdivisions accounted for 100% of the total available-for-sale portfolio as of March 31, 2019 and no credit losses are expected, given the explicit and implicit guarantees provided by the U.S. federal government and the lack of prolonged unrealized loss positions within the obligations of the state and political subdivisions security portfolio. The Company considers the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

- The length of time and the extent to which the fair value has been less than the amortized cost basis.
- Changes in the near-term prospects of the underlying collateral of a security such as changes in default rates, loss severity given default and significant changes in prepayment assumptions;
- The level of cash flows generated from the underlying collateral supporting the principal and interest payments of the debt securities; and,
- Any adverse change to the credit conditions and liquidity of the issuer, taking into consideration the latest information available about the overall financial condition of the issuer, credit ratings, recent legislation and government actions affecting the issuer's industry and actions taken by the issuer to deal with the present economic climate.

For the three months ended March 31, 2019 and 2018, there were no available-for-sale debt securities with an unrealized loss that suffered OTTI. Management does not believe any individual unrealized loss as of March 31, 2019 or December 31, 2018 represented an other-than-temporary impairment. The unrealized losses on debt securities are primarily the result of interest rate changes. These conditions will not prohibit the Company from receiving its contractual principal and interest payments on these debt securities. The fair value of these debt securities is expected to recover as payments are received on these securities and they approach maturity. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

NOTE 8 - LOANS AND RELATED ALLOWANCE FOR LOAN AND LEASE LOSSES

Major classifications of loans are summarized as follows (in thousands):

	March 31, 2019	December 31, 2018
Commercial and industrial	$ 85,756	$ 83,857
Real estate - construction	58,019	56,731
Real estate - mortgage:		
Residential	340,483	336,487
Commercial	504,289	498,247
Consumer installment	15,937	16,787
	1,004,484	992,109
Less: Allowance for loan and lease losses	(7,206)	(7,428)
Net loans	$ 997,278	$ 984,681

The amounts above include deferred loan origination costs of $1.4 million and $1.6 million at March 31, 2019 and December 31, 2018.

The Company's primary business activity is with customers located within its local Northeastern Ohio trade area, eastern Geauga County, and contiguous counties. The Company also serves the central Ohio market with offices in Dublin, Sunbury, Westerville, and Powell, Ohio. Commercial, residential, consumer, and agricultural loans are granted. Although the Company has a diversified loan portfolio, loans outstanding to individuals and businesses are dependent upon the local economic conditions in the Company's immediate trade area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances net of the allowance for loan and lease losses. Interest income is recognized 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 payments received on nonaccrual loans are applied against the unpaid principal balance until accrual status is restored.

Loan origination fees and certain direct loan origination costs are deferred with the net amount amortized over the contractual life of the loan as an adjustment of the related loan's yield.

The following tables summarize the primary segments of the loan portfolio and allowance for loan and lease losses (in thousands):

March 31, 2019	Commercial and industrial	Real estate-construction	Real Estate - Mortgage: Residential	Real Estate - Mortgage: Commercial	Consumer installment	Total
Loans:						
Individually evaluated for impairment	$ 1,825	$ 3,239	$ 1,856	$ 9,049	$ 2	$ 15,971
Collectively evaluated for impairment	83,931	54,780	338,627	495,240	15,935	988,513
Total loans	$ 85,756	$ 58,019	$ 340,483	$ 504,289	$ 15,937	$ 1,004,484

December 31, 2018	Commercial and industrial	Real estate-construction	Real Estate - Mortgage: Residential	Real Estate - Mortgage: Commercial	Consumer installment	Total
Loans:						
Individually evaluated for impairment	$ 2,570	$ -	$ 1,970	$ 9,533	$ 2	$ 14,075
Collectively evaluated for impairment	81,287	56,731	334,517	488,714	16,785	978,034
Total loans	$ 83,857	$ 56,731	$ 336,487	$ 498,247	$ 16,787	$ 992,109

March 31, 2019	Commercial and industrial	Real estate-construction	Real Estate - Mortgage: Residential	Real Estate - Mortgage: Commercial	Consumer installment	Total
Allowance for loan and lease losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 203	$ 661	$ 45	$ 54	$ -	$ 963
Collectively evaluated for impairment	383	87	1,578	4,107	88	6,243
Total ending allowance balance	$ 586	$ 748	$ 1,623	$ 4,161	$ 88	$ 7,206

December 31, 2018	Commercial and industrial	Real estate-construction	Real Estate - Mortgage: Residential	Real Estate - Mortgage: Commercial	Consumer installment	Total
Allowance for loan and lease losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 667	$ -	$ 43	$ 643	$ 1	$ 1,354
Collectively evaluated for impairment	302	100	1,538	4,008	126	6,074
Total ending allowance balance	$ 969	$ 100	$ 1,581	$ 4,651	$ 127	$ 7,428

The Company’s loan portfolio is segmented to a level that allows management to monitor risk and performance. The portfolio is segmented into Commercial and Industrial (“C&I”), Real Estate Construction, Real Estate - Mortgage which is further segmented into Residential and Commercial Real Estate (“CRE”), and Consumer Installment Loans. The C&I loan segment consists of loans made for the purpose of financing the activities of commercial customers. The residential mortgage loan segment consists of loans made for the purpose of financing the activities of residential homeowners. The commercial mortgage loan segment consists of loans made for the purpose of financing the activities of commercial real estate owners and operators. The consumer loan segment consists primarily of installment loans and overdraft lines of credit connected with customer deposit accounts. The increases in the allowance for loan loss for C&I, Real Estate Construction, Residential, and CRE portfolios were partially offset by a decrease in the allowance for the Consumer Installment portfolio.

Management evaluates individual loans in all of the commercial segments for possible impairment based on guidance established by the Board of Directors. Loans are considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The Company does not separately evaluate individual consumer and residential mortgage loans for impairment, unless such loans are part of a larger relationship that is impaired, or the loan was modified in a troubled debt restructuring.

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of the following methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs. The method is selected on a loan-by-loan basis, with management primarily utilizing the present value of expected cash flows. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

The following tables present impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary (in thousands):

	March 31, 2019		
	Impaired Loans		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial and industrial	$ 671	$ 1,169	$ -
Real estate - mortgage:			
Residential	1,496	1,660	-
Commercial	2,621	2,887	-
Consumer installment	2	2	-
Total	$ 4,790	$ 5,718	$ -
With an allowance recorded:			
Commercial and industrial	$ 1,154	$ 1,365	$ 203
Real estate - construction	3,239	3,239	661
Real estate - mortgage:			
Residential	360	411	45
Commercial	6,428	6,446	54
Total	$ 11,181	$ 11,461	$ 963
Total:			
Commercial and industrial	$ 1,825	$ 2,534	$ 203
Real estate - construction	3,239	3,239	661
Real estate - mortgage:			
Residential	1,856	2,071	45
Commercial	9,049	9,333	54
Consumer installment	2	2	-
Total	$ 15,971	$ 17,179	$ 963

December 31, 2018			
Impaired Loans			
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial and industrial	$ 207	$ 413	$ -
Real estate - mortgage:			
Residential	1,306	1,462	-
Commercial	1,867	2,186	-
Total	$ 3,380	$ 4,061	$ -
With an allowance recorded:			
Commercial and industrial	$ 2,363	$ 3,013	$ 667
Real estate - mortgage:			
Residential	664	715	43
Commercial	7,666	7,676	643
Consumer installment	2	2	1
Total	$ 10,695	$ 11,406	$ 1,354
Total:			
Commercial and industrial	$ 2,570	$ 3,426	$ 667
Real estate - mortgage:			
Residential	1,970	2,177	43
Commercial	9,533	9,862	643
Consumer installment	2	2	1
Total	$ 14,075	$ 15,467	$ 1,354

The tables above include troubled debt restructuring totaling $3.8 million as of March 31, 2019 and $4.4 million as of December 31, 2018.

The following tables present the average balance and interest income by class, recognized on impaired loans (in thousands):

	For the Three Months Ended March 31, 2019		For the Three Months Ended March 31, 2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial and industrial	$ 2,198	$ 30	$ 5,631	$ 187
Real estate - construction	1,620	45	283	-
Real estate - mortgage:				
Residential	1,913	12	2,892	21
Commercial	9,291	98	6,719	136
Consumer installment	2	-	4	-
Total	$ 15,024	$ 185	$ 15,529	$ 344

Management uses a nine-point internal risk-rating system to monitor the credit quality of the overall loan portfolio. The first five categories are considered not criticized and are aggregated as Pass rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. Any portion of a loan that has been charged off is placed in the Loss category.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan-rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, repossession, or death, occurs to raise awareness of a possible credit event. The Company's Commercial Loan Officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. The Credit Department performs an annual review of all commercial relationships with loan balances of $500,000 or greater. Confirmation of the appropriate risk grade is included in the review on an ongoing basis. The Company engages an external consultant to conduct loan reviews on a semiannual basis. Generally, the external consultant reviews commercial relationships greater than $250,000 and/or criticized relationships greater than $125,000. Detailed reviews, including plans for resolution, are performed on loans classified as Substandard on a quarterly basis. Loans in the Special Mention and Substandard categories that are collectively evaluated for impairment are given separate consideration in the determination of the allowance.

The primary risk of commercial and industrial loans is related to deterioration in the value of collateral securing the loan should foreclosure become necessary. C&I loans are, by nature, secured by less substantial collateral than real estate-secured loans. The primary risk of real estate construction loans is potential delays and disputes during the completion process. The primary risk of residential real estate loans is current economic uncertainties along with the slow recovery in the housing market. The primary risk of commercial real estate loans is loss of income of the owner or occupier of the property and the inability of the market to sustain rent levels. Consumer installment loans historically have experienced higher delinquency rates. Consumer installments are typically secured by less substantial collateral than other types of credits.

The following tables present the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk-rating system (in thousands):

March 31, 2019	Pass	Special Mention	Substandard	Doubtful	Total Loans
Commercial and industrial	$ 80,203	$ 3,204	$ 2,349	$ -	$ 85,756
Real estate - construction	53,458	1,322	3,239	-	58,019
Real estate - mortgage:					
Residential	335,486	547	4,450	-	340,483
Commercial	489,289	6,744	8,256	-	504,289
Consumer installment	15,927	-	10	-	15,937
Total	$ 974,363	$ 11,817	$ 18,304	$ -	$ 1,004,484

December 31, 2018	Pass	Special Mention	Substandard	Doubtful	Total Loans
Commercial and industrial	$ 77,002	$ 4,572	$ 2,283	$ -	$ 83,857
Real estate - construction	55,397	1,334	-	-	56,731
Real estate - mortgage:					
Residential	332,475	553	3,459	-	336,487
Commercial	483,516	6,617	8,114	-	498,247
Consumer installment	16,776	-	11	-	16,787
Total	$ 965,166	$ 13,076	$ 13,867	$ -	$ 992,109

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due.

Nonperforming assets are nonaccrual loans including nonaccrual TDRs, loans 90 days or more past due, EMORECO assets, other real estate owned, and repossessed assets. A loan is classified as nonaccrual when, in the opinion of management, there are serious doubts about collectability of interest and principal. 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 principal and interest is doubtful. Payments received on nonaccrual loans are applied against the principal balance.

The following tables present the aging of the recorded investment in past-due loans by class of loans (in thousands):

March 31, 2019	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days+ Past Due	Total Past Due	Total Loans
Commercial and industrial	$ 85,157	$ 279	$ 73	$ 247	$ 599	$ 85,756
Real estate - construction	54,515	265	3,239	-	3,504	58,019
Real estate - mortgage:						
Residential	335,148	2,816	1,094	1,425	5,335	340,483
Commercial	502,895	499	422	473	1,394	504,289
Consumer installment	15,918	17	2	-	19	15,937
Total	$ 993,633	$ 3,876	$ 4,830	$ 2,145	$ 10,851	$ 1,004,484

December 31, 2018	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days+ Past Due	Total Past Due	Total Loans
Commercial and industrial	$ 82,770	$ 288	$ 213	$ 586	$ 1,087	$ 83,857
Real estate - construction	56,731	-	-	-	-	56,731
Real estate - mortgage:						
Residential	331,379	2,612	1,083	1,413	5,108	336,487
Commercial	496,597	664	-	986	1,650	498,247
Consumer installment	16,768	19	-	-	19	16,787
Total	$ 984,245	$ 3,583	$ 1,296	$ 2,985	$ 7,864	$ 992,109

The following tables present the recorded investment in non-accrual loans and loans past due over 89 days still on accrual by class of loans (in thousands):

March 31, 2019	Nonaccrual	90+ Days Past Due and Accruing
Commercial and industrial	$ 1,004	$ -
Real estate - construction	3,239	-
Real estate - mortgage:		
Residential	3,844	-
Commercial	2,379	-
Consumer installment	6	-
Total	$ 10,472	$ -

December 31, 2018		Nonaccrual		90+ Days Past Due and Accruing
Commercial and industrial	$	996	$	91
Real estate - construction		-		-
Real estate - mortgage:				
Residential		2,731		754
Commercial		2,864		100
Consumer installment		4		-
Total	$	6,595	$	945

Interest income that would have been recorded had these loans not been placed on nonaccrual status was $91,000 for the three months ended March 31, 2019 and $456,000 for the year ended December 31, 2018.

An allowance for loan and lease losses ("ALLL") is maintained to absorb losses from the loan portfolio. The ALLL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of nonperforming loans.

The Company's methodology for determining the ALLL is based on the requirements of ASC Section 310-10-35 for loans individually evaluated for impairment (discussed above) and ASC Subtopic 450-20 for loans collectively evaluated for impairment, as well as the Interagency Policy Statement on the Allowance for Loan and Lease Losses and other bank regulatory guidance. The total of the two components represents the Company's ALLL. Management also performs impairment analyses on TDRs, which may result in specific reserves.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative factors.

The classes described above, which are based on the purpose code assigned to each loan, provide the starting point for the ALLL analysis. Management tracks the historical net charge-off activity at the purpose code level. The historical charge-off factor was calculated using the last twelve consecutive historical quarters.

Management has identified a number of additional qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The additional factors that are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources are: national and local economic trends and conditions; levels of and trends in delinquency rates and nonaccrual loans; trends in volumes and terms of loans; effects of changes in lending policies; experience, ability, and depth of lending staff; value of underlying collateral; and concentrations of credit from a loan type, industry and/or geographic standpoint.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALLL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALLL.

The following tables summarize the primary segments of the loan portfolio and the activity within those segments (in thousands):

		Commercial and industrial		Real estate-construction		Real estate-residential mortgage		Real estate-commercial mortgage		Consumer installment		Total
ALLL balance at December 31, 2018	$	969	$	100	$	1,581	$	4,651	$	127	$	7,428
Charge-offs		(347)		-		(91)		(32)		(47)		(517)
Recoveries		16		23		14		1		1		55
Provision		(52)		625		119		(459)		7		240
ALLL balance at March 31, 2019	$	586	$	748	$	1,623	$	4,161	$	88	$	7,206

	Commercial and industrial	Real estate-construction	Real estate-residential mortgage	Real estate-commercial mortgage	Consumer installment	Total
ALLL balance at December 31, 2017	$ 999	$ 313	$ 1,760	$ 4,036	$ 82	$ 7,190
Charge-offs	(9)	-	-	-	(4)	(13)
Recoveries	109	17	20	-	18	164
Provision	157	(238)	2	287	2	210
ALLL balance at March 31, 2018	$ 1,256	$ 92	$ 1,782	$ 4,323	$ 98	$ 7,551

The provision fluctuations during the three-month period ended March 31, 2019 allocated to:

- commercial and industrial loans are due to the charge-off of a large relationship of $336,000 from a previous reserve of $358,000.
- real estate construction loans are due to the addition of a large loan requiring a reserve of $661,000.
- commercial real estate loans are due to the payoff of one relationship that had a previous reserve balance of $435,000.

The following tables summarize troubled debt restructurings (in thousands):

	For the Three Months Ended March 31, 2018				
	Number of Contracts				
Troubled Debt Restructurings	Term Modification	Other	Total	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and industrial	2	-	2	$ 6,977	$ 6,977
Residential real estate	2	-	2	63	63

There were no troubled debt restructurings during the three months ended March 31, 2019.

There were no subsequent defaults of troubled debt restructurings for the three months ended March 31, 2019 and March 31, 2018.

NOTE 9 – LEASES

Lease Commitments

The Company utilizes leases for seven of its branch locations. As of March 31, 2019, net assets recorded under leases amounted to $4.8 million and have remaining lease terms of 1 year to 18 years. As of March 31, 2019, finance lease assets included in premises and equipment, net totaled $2.7 million and operating lease assets included in accrued interest receivable and other assets on the Consolidated Balance Sheet totaled $2.1 million. The Company did not acquire any property under leases during the three months ended March 31, 2019. As of March 31, 2019, finance lease obligations included in other borrowings totaled $2.7 million and operating lease obligations included in accrued interest payable and other liabilities on the Consolidated Balance Sheet totaled $2.1 million.

Lease costs incurred for the three-month period ended March 31, 2019 are as follows:

Lease Costs:	
Finance lease cost:	
Amortization of right-of-use asset	$ 69
Interest Expense	39
Other	2
Operating lease cost	83
Total lease cost	$ 193

The following table displays the weighed-average term and discount rates for both operating and finance leases outstanding as of March 31, 2019:

	Operating	Finance
Weighted-average term (years)	5.4	11.3
Weighted-average discount rate	3.2%	3.3%

The following table displays the undiscounted cash flows due related to operating and finance leases as of March 31, 2019, along with a reconciliation to the discounted amount recorded on the March 31, 2019 balance sheet:

	Operating	Finance
Undiscounted cash flows due within:		
2019	$ 226	$ 248
2020	294	343
2021	278	356
2022	279	363
2023	279	363
2024 and thereafter	1,466	1,664
Total undiscoutned cash flows	2,822	3,337
Impact of present value discount	(771)	(635)
Amount reported on balance sheet	$ 2,051	$ 2,702

As of March 31, 2019, the Company had no additional purchase obligations for leases executed but not yet recorded.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis provide further detail to the financial condition and results of operations of the Company. The MD&A should be read in conjunction with the notes and financial statements presented in this report.

The information contained or incorporated by reference in this report on Form 10-Q contains forward-looking statements, including certain plans, expectations, goals, and projections, which are subject to numerous assumptions, risks, and uncertainties. Actual results could differ materially from those contained or implied by such statements for a variety of factors, including: changes in economic conditions; movements in interest rates; competitive pressures on product pricing and services; success and timing of business strategies; the nature, extent, and timing of government actions and reforms; and extended disruption of vital infrastructure. All forward-looking statements included in this report on Form 10-Q are based on information available at the time of the report. Middlefield Banc Corp. assumes no obligation to update any forward-looking statement.

CHANGES IN FINANCIAL CONDITION

General. The Company's total assets ended the March 31, 2019 quarter at $1.28 billion, an increase of $32.5 million from December 31, 2018. For the same time period, cash and cash equivalents increased $13.1 million, or 12.1%, while net loans increased $12.6 million, or 1.3%. Total liabilities increased $29.1 million or 2.6%, while stockholders' equity increased $3.4 million, or 2.7%.

Cash and cash equivalents. Cash and cash equivalents increased $13.1 million, or 12.1%, to $121.0 million at March 31, 2019 from $107.9 million at December 31, 2018. Deposits from customers into savings and checking accounts, loan and securities repayments, and proceeds from borrowed funds typically increase these accounts. Decreases result from customer withdrawals, new loan originations, purchases of investment securities and repayments of borrowed funds.

Investment securities. Investment securities available for sale on March 31, 2019 totaled $98.1 million, a decrease of $208,000, or 0.2%, from $98.3 million at December 31, 2018. During this period the Company recorded repayments, calls, and maturities of $3.8 million. Securities purchased were $2.7 million and there were no securities sold during this period. The Company recorded $58,000 in gains on equity securities as of March 31, 2019 on the Company's Consolidated Statement of Income and Consolidated Statement of Cash Flows. This gain is the result of remeasurements of fair value of the equity securities held during this three-month period.

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, commercial and industrial loans, 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, construction and consumer loans. The portfolio is well disbursed, geographically, with the four branches in the central Ohio market comprising 23% of the Company's total loans. Since December 31, 2017, however, 70.5% of all loan growth has come from the central Ohio footprint. Net loans receivable increased $12.6 million, or 1.3%, to $997.3 million as of March 31, 2019 from $984.7 million at December 31, 2018 due to loan growth targeted in the range of mid to high single digits. Included in the total increase for loans receivable were increases in the commercial real estate, residential, commercial and industrial, and real estate-construction portfolios of $6.0 million, or 1.2%, $4.0 million, or 1.2%, $1.9 million, or 2.3%, and $1.3 million, or 2.3%, respectively. Also included in the total increase to loans receivable was a decrease in the consumer installment portfolio of $850,000, or 5.1%.

The Company's Mortgage Banking operation generates loans for sale to FHLMC. Loans held for sale on March 31, 2019 totaled $1.2 million, an increase of $633,000, or 106.0%, from December 31, 2018. This increase is the result of more saleable loans being funded at quarter end.

The federal banking regulators have issued guidance for those institutions which are deemed to have concentrations in commercial real estate lending. Pursuant to the supervisory criteria contained in the guidance for identifying institutions with a potential commercial real estate concentration risk, institutions which have (1) total reported loans for construction, land development, and other land acquisitions which represent 100% or more of an institution's total risk-based capital; or (2) total commercial real estate loans representing 300% or more of the institution's total risk-based capital and the institution's commercial real estate loan portfolio has increased 50% or more during the prior 36 months are identified as having potential commercial real estate concentration risk. Institutions which are deemed to have concentrations in commercial real estate lending are expected to employ heightened levels of risk management with respect to their commercial real estate portfolios, and may be required to hold higher levels of capital. The Company, like many community banks, has a concentration in commercial real estate loans, and the Company has experienced growth in its commercial real estate portfolio in recent years. At March 31, 2019 non-owner-occupied commercial real estate loans (including construction, land and land development loans) represent 375.7% of total risk-based capital. Construction, land and land development loans represent 48% of total risk-based capital. Management has extensive experience in commercial real estate lending, and has implemented and continues to maintain heightened risk management procedures, and strong underwriting criteria with respect to its commercial real estate portfolio. Loan monitoring practices include but are not limited to periodic stress testing analysis to evaluate changes to cash flows, owing to interest rate increases and declines in net operating income. Nevertheless, we may be required to maintain higher levels of capital as a result of our commercial real estate concentrations, which could require us to obtain additional capital, and may adversely affect shareholder returns. The Company has an extensive capital planning policy, which includes pro-forma projections including stress testing within which the Board of Directors has established internal minimum targets for regulatory capital ratios that are in excess of well-capitalized ratios.

Allowance for Loan and Lease Losses and Asset Quality. The allowance for loan and lease losses decreased $222,000, or 3.0%, to $7.2 million at March 31, 2019 from $7.4 million at December 31, 2018. For the three months ended March 31, 2019, net loan charge-offs totaled $462,000, or 0.19% of average loans, compared to net recoveries of $151,000, or 0.06%, for the same period in 2018. To maintain the allowance for loan and lease losses, the Company recorded a provision for loan loss of $240,000 in the three-month period ended March 31, 2019. During the three months ended March 31, 2019, one central Ohio loan of $3.2 million negatively affected nonperforming loans. The reserve for this credit is $661,000. The issue is isolated to this particular borrower and it is not indicative of a trend in the market, portfolio, or an issue in underwriting. Offsetting this amount is a reserve reduction of $358,000 due to a charge off of $336,000, as well as reserve reduction of $435,000 from the payoff of one commercial real estate relationship.

Management analyzes the adequacy of the allowance for loan and lease losses regularly through reviews of the performance of the loan portfolio considering economic conditions, changes in interest rates and the effect of such changes on real estate values, and changes in the amount and composition of the loan portfolio. The allowance for loan and lease losses is a significant estimate that is particularly susceptible to changes in the near term. Management's analysis includes a review of all loans designated as impaired, historical loan loss experience, the estimated fair value of the underlying collateral, economic conditions, current interest rates, trends in the borrower's industry and other factors that management believes warrant recognition in providing for an appropriate allowance for loan and lease losses. Future additions or reductions to the allowance for loan and lease losses will be dependent on these factors. Additionally, the Company uses an outside party to conduct an independent review of commercial and commercial real estate loans that is designed to validate management conclusions of risk ratings and the appropriateness of the allowance allocated to these loans. The Company uses the results of this review to help determine the effectiveness of policies and procedures and to assess the adequacy of the allowance for loan and lease losses allocated to these types of loans. Management believes the allowance for loan and lease losses is appropriately stated at March 31, 2019. Based on the variables involved and management's judgments about uncertain outcomes, the determination of the allowance for loan and lease losses is considered a critical accounting policy.

Nonperforming assets. Nonperforming assets include nonaccrual loans, loans 90 days or more past due, other real estate, and repossessed assets. Real estate owned is written down to fair value at its initial recording and continually monitored for changes in fair value. A loan is classified as nonaccrual when, in the opinion of management, there are serious doubts about collectability of interest and principal. 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 principal and interest is doubtful. Payments received on nonaccrual loans are applied against principal until doubt about collectability ceases.

	Asset Quality History				
(Dollar amounts in thousands)	3/31/2019	12/31/2018	9/30/2018	6/30/2018	3/31/2018
Nonperforming loans	$ 10,472	$ 7,540	$ 7,288	$ 8,372	$ 8,747
Other real estate owned	126	270	257	181	212
Nonperforming assets	$ 10,598	$ 7,810	$ 7,545	$ 8,553	$ 8,959
Allowance for loan and lease losses	7,206	7,428	7,494	7,502	7,551
Ratios					
Nonperforming loans to total loans	1.04%	0.76%	0.75%	0.89%	0.94%
Nonperforming assets to total assets	0.83%	0.63%	0.63%	0.73%	0.81%
Allowance for loan and lease losses to total loans	0.72%	0.75%	0.77%	0.79%	0.81%
Allowance for loan and lease losses to nonperforming loans	68.81%	98.51%	102.83%	89.61%	86.33%

Nonperforming loans exclude troubled debt restructurings (TDRs) that are performing in accordance with their terms over a prescribed period of time. TDRs are those loans which the Company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. The Company has 38 TDRs accruing interest with a balance of $3.8 million as of March 31, 2019. A TDR that yields a market interest rate at the time of restructuring and is in compliance with its modified terms is no longer reported as TDR in calendar years after the year in which the restructuring took place. To be in compliance with its modified terms, a loan that is a TDR must not be in nonaccrual status and must be current or less than 30 days past due on its contractual principal and interest payments under the modified repayment terms. Nonperforming loans secured by real estate totaled $9.5 million as of March 31, 2019, an increase of $3.9 million from $5.6 million at December 31, 2018.

A major factor in determining the appropriateness of the allowance for loan and lease losses is the type of collateral which secures the loans. Of the total nonperforming loans at March 31, 2019, 90.4% were secured by real estate. Although this does not insure against all losses, real estate typically provides for at least partial recovery, even in a distressed-sale and declining-value environment. The Company's objective is to minimize the future loss exposure of the Company.

The allowance for loan and lease losses to total loans ratio decreased from 0.75% as of December 31, 2018 to 0.72% as of March 31, 2019.

Deposits. The Company considers various sources when evaluating funding needs, including but not limited to deposits, which are a significant source of funds, totaling $1.04 billion or 90.9% of the Company's total funding sources at March 31, 2019. Total deposits increased $24.2 million, or 2.4%, at March 31, 2019 from $1.02 billion at December 31, 2018. The total increase in deposits is net of increases in time and interest-bearing demand deposits of $74.4 million, or 24.7%, and $15.1 million, or 16.4%, respectively, and decreases in savings, money market, and noninterest-bearing demand deposits of $38.3 million, or 17.2%, $18.0 million, or 9.2%, and $9.1 million, or 4.5%, respectively, at March 31, 2019.

Borrowed funds. The Company uses short-term and long-term borrowings as another source of funding for asset growth and liquidity needs. These borrowings primarily include FHLB advances, junior subordinated debt, short-term borrowings from other banks, and federal funds purchased. Short-term borrowings increased $602,000, or 0.7%, to $91.0 million as of March 31, 2019. Other borrowings increased $2.7 million, or 30.8%, to $11.5 million as of March 31, 2019 from $8.8 million as of December 31, 2018. This increase is due to the adoption of ASU 2016-02, "*Leases (Topic 842)*" effective January 1, 2019, which resulted in the recording of financial lease liabilities in the amount of $2.7 million (see Note 9).

Stockholders' equity. Stockholders' equity increased $3.4 million, or 2.7%, to $131.7 million at March 31, 2019 from $128.3 million at December 31, 2018. This growth was the result of increases in retained earnings, AOCI, and common stock, $2.1 million, $795,000, and $512,000, respectively. The change in retained earnings is due to the year-to-date net income offset by dividends paid, the change is AOCI is due to fair value adjustments of available-for-sale securities, and the change in common stock is due to regular stock grants and dividend reinvestment and purchase plan distributions.

RESULTS OF OPERATIONS

General. Net income for the three months ended March 31, 2019, was $3.0 million, a $406,000, or 15.6%, increase from the amount earned during the same period in 2018. Diluted earnings per share for the quarter increased to $0.92, compared to $0.80 from the same period in 2018.

The Company's annualized return on average assets ("ROA") and return on average equity ("ROE") for the quarter were 1.01% and 9.36%, respectively, compared with 0.94% and 8.73% for the same period in 2018.

Net interest income. Net interest income, the primary source of revenue for the Company, is determined by the interest rate spread, which is defined as the difference between income on earning assets and the cost of funds supporting those assets, and the relative amounts of interest-earning assets and interest-bearing liabilities. Management periodically adjusts the mix of assets and liabilities, as well as the rates earned or paid on those assets and liabilities, in order to manage and improve net interest income. The level of interest rates and changes in the amount and composition of interest-earning assets and liabilities affect the Company's net interest income. Management's goal is to maintain a balance between steady net interest income growth and the risks associated with interest rate fluctuations.

Net interest income for the three months ended March 31, 2019 totaled $10.3 million, an increase of 3.5% from that reported in the comparable period of 2018. The net interest margin was 3.70% for the first quarter of 2019, down from the 3.82% reported for the same quarter of 2018. Beta is used to measure the impact of FOMC interest rate changes to the income statement. Although deposit betas outpaced those of assets during the three months ended March 31, 2019, the net interest margin continues to compare favorably against peer banks.

Interest and dividend income. Interest and dividend income increased $1.6 million, or 13.1%, for the three months ended March 31, 2019, compared to the same period in the prior year. This is attributable to an increase in interest and fees on loans of $1.5 million.

Interest and fees earned on loans receivable increased $1.5 million, or 13.2%, for the three months ended March 31, 2019, compared to the same period in the prior year. This is attributable to an increase in average loan balances of $70.0 million, accompanied by a 25 basis point increase in the average yield to 5.07%.

Net interest earned on securities increased by $50,000 for the three months ended March 31, 2019 when compared to the same period in the prior year. The average balance of investment securities increased $3.8 million, or 4.1%, while the 3.80% yield on the investment portfolio increased by 19 basis points, from 3.61%, for the same period in the prior year.

Interest expense. Interest expense increased $1.2 million, or 59.7%, for the three months ended March 31, 2019, compared to the same period in the prior year. The increase is attributable to increases in the average balances of certificates of deposit and money market deposits of $68.3 million, or 27.1%, and $43.9 million, or 29.2%, respectively. This increase was accompanied by increases in costs of 92, 77, 76, 50, and 34 basis points for the average balances of short-term borrowings, other borrowings, money market deposits, certificates of deposit, and savings deposits, respectively. The overall increase in deposits was utilized to pay down short-term borrowings and other borrowings, the average balance of which decreased by $38.0 million, or 51.8%, and $9.9 million, or 42.4%, respectively.

Provision for loan losses. The provision for loan losses represents the charge to income necessary to adjust the allowance for loan and lease losses to an amount that represents management's assessment of the estimated probable incurred credit losses inherent in the loan portfolio. Each quarter management performs a review of estimated probable incurred credit losses in the loan portfolio. Based on this review, a provision for loan losses of $240,000 was recorded for the quarter ended March 31, 2019, an increase of $30,000, or 14.3%, from the quarter ended March 31, 2018. Nonperforming loans were $10.5 million, or 1.04%, of total loans at March 31, 2019 compared with $8.8 million, or 0.94%, at March 31, 2018. For the three months ended March 31, 2019, net loan charge-offs totaled $462,000, or 0.19% of average loans, compared to net recoveries of $151,000, or 0.06%, for the first quarter of 2018.

Noninterest income. Noninterest income increased $324,000, or 41.2%, for the three months ended March 31, 2019 over the comparable 2018 period. This increase was the result of an increase in other income of $203,000, or 102.0%, which is due to increases in revenue from investment services and a reclassification of recoveries on student loans to income.

Noninterest expense. Noninterest expense of $7.5 million for the first quarter 2019 was 2.1%, or $155,000, higher than the first quarter of 2018. Salaries and employee benefits and Ohio state franchise tax increased $145,000, or 3.6%, and $144,000, or 125.2%, respectively. These increases were offset by decreases in other expense and advertising expense of $71,000, or 7.5%, and $25,000, or 11.0%, respectively. The salary increase is mostly due to annual pay adjustments and an increase in employees. The increase in Ohio state franchise tax is due to timing of the related accrued liability.

Provision for income taxes. The Company recognized $611,000 in income tax expense, which reflected an effective tax rate of 16.9% for the three months ended March 31, 2019, as compared to $528,000 with an effective tax rate of 16.9% for the comparable 2018 period.

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 nonaccrual loans and exclude the allowance for loan and lease losses, and interest income includes accretion of net deferred loan fees. Yields on tax-exempt securities and loans (tax exempt for federal income tax purposes) are shown on a fully tax-equivalent basis utilizing a federal tax rate of 21%. Yields and rates have been calculated on an annualized basis utilizing monthly interest amounts.

	For the Three Months Ended March 31,					
	2019			2018		
(Dollars in thousands)	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Interest-earning assets:						
Loans receivable [3]	$ 1,000,343	$ 12,510	5.07%	$ 930,325	$ 11,054	4.82%
Investment securities [3]	97,484	744	3.80%	93,689	694	3.61%
Interest-earning deposits with other banks [4]	45,283	252	2.26%	42,199	192	1.85%
Total interest-earning assets	1,143,110	13,506	4.85%	1,066,213	11,940	4.57%
Noninterest-earning assets	60,576			53,516		
Total assets	$ 1,203,686			$ 1,119,729		
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 96,402	$ 72	0.30%	$ 88,200	$ 59	0.28%
Money market deposits	194,236	755	1.58%	150,321	304	0.82%
Savings deposits	207,848	417	0.81%	215,556	251	0.47%
Certificates of deposit	320,243	1,701	2.15%	251,902	1,026	1.65%
Short-term borrowings	35,390	213	2.44%	73,403	276	1.52%
Other borrowings	13,447	96	2.90%	23,326	122	2.12%
Total interest-bearing liabilities	867,566	3,254	1.52%	802,708	2,038	1.03%
Noninterest-bearing liabilities:						
Noninterest-bearing demand deposits	198,286			191,960		
Other liabilities	7,384			4,060		
Stockholders' equity	130,450			121,001		
Total liabilities and stockholders' equity	$ 1,203,686			$ 1,119,729		
Net interest income		$ 10,252			$ 9,902	
Interest rate spread [1]			3.33%			3.54%
Net interest margin [2]			3.70%			3.82%
Ratio of average interest-earning assets to average interest-bearing liabilities			131.76%			132.83%

(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 interest margin represents net interest income as a percentage of average interest-earning assets.
(3) Tax-equivalent adjustments to calculate the yield on tax-exempt securities and loans were $170 and $140 for the three months ended March 31, 2019 and 2018, respectively.
(4) Includes dividends received on restricted stock.

Analysis of Changes in Net Interest Income. The following table analyzes the changes in interest income and interest expense, between the three-month periods ended March 31, 2019 and 2018, in terms of: (1) changes in volume of interest-earning assets and interest-bearing liabilities and (2) changes in yields and rates. The table reflects the extent to which changes in the Company's interest income and interest expense are attributable to changes in rate (change in rate multiplied by prior period volume), changes in volume (changes in volume multiplied by prior period rate) and changes attributable to the combined impact of volume/rate (change in rate multiplied by change in volume). The changes attributable to the combined impact of volume/rate are allocated on a consistent basis between the volume and rate variances.

	2019 versus 2018		
		Increase (decrease) due to	
(Dollars in thousands)	Volume	Rate	Total
Interest-earning assets:			
Loans receivable	$ 832	$ 624	$ 1,456
Investment securities	34	16	50
Interest-earning deposits with other banks	14	46	60
Total interest-earning assets	880	686	1,566
Interest-bearing liabilities:			
Interest-bearing demand deposits	6	7	13
Money market deposits	89	362	451
Savings deposits	(9)	175	166
Certificates of deposit	278	397	675
Short-term borrowings	(143)	80	(63)
Other borrowings	(52)	26	(26)
Total interest-bearing liabilities	169	1,047	1,216
Net interest income	$ 711	$ (361)	$ 350

LIQUIDITY

Management's objective in managing liquidity is maintaining the ability to continue meeting the cash flow needs of banking customers, such as borrowings or deposit withdrawals, as well as the Company's own financial commitments. The principal sources of liquidity are net income, loan payments, maturing and principal reductions on securities and sales of securities available for sale, federal funds sold and cash and deposits with banks. The Company expects to introduce a new line of retail deposit products during the second quarter of 2019. These products were created to more closely align with customer expectations while expanding the Company's core funding base. Along with its liquid assets, the Company has additional sources of liquidity available to ensure that adequate funds are available as needed. These include, but are not limited to, the purchase of federal funds, and the ability to borrow funds under line of credit agreements with correspondent banks and a borrowing agreement with the Federal Home Loan Bank of Cincinnati, and the adjustment of interest rates to obtain depositors. Management believes the Company has the capital adequacy, profitability and reputation to meet the current and projected needs of its customers.

For the three months ended March 31, 2019, the adjustments to reconcile net income to net cash from operating activities consisted mainly of depreciation and amortization of premises and equipment, the provision for loan losses, net amortization of securities and net changes in other assets and liabilities. For a more detailed illustration of sources and uses of cash, refer to the Condensed Consolidated Statements of Cash Flows.

INFLATION

Substantially all of the Company's assets and liabilities relate to banking activities and are monetary in nature. The consolidated financial statements and related financial data are presented in accordance with GAAP. GAAP currently requires the Company to measure the financial position and results of operations in terms of historical dollars, with the exception of securities available for sale, impaired loans and other real estate loans that are measured at fair value. Changes in the value of money due to rising inflation can cause purchasing power loss.

Management's opinion is that movements in interest rates affect the financial condition and results of operations to a greater degree than changes in the rate of inflation. It should be noted that interest rates and inflation do affect each other, but do not always move in correlation with each other. The Company's ability to match the interest sensitivity of its financial assets to the interest sensitivity of its liabilities in its asset/liability management may tend to minimize the effect of changes in interest rates on the Company's performance.

REGULATORY MATTERS

The Company is subject to the regulatory requirements of the Federal Reserve System as a bank holding company. The bank subsidiary is subject to regulations of the Federal Deposit Insurance Corporation (“FDIC”) and the Ohio Division of Financial Institutions.

The Federal Reserve Board and the FDIC have extensive authority to prevent and to remedy unsafe and unsound practices and violations of applicable laws and regulations by institutions and holding companies. The agencies may assess civil money penalties, issue cease-and-desist or removal orders, seek injunctions, and publicly disclose those actions. In addition, the Ohio Division of Financial Institutions possesses enforcement powers to address violations of Ohio banking law by Ohio-chartered banks.

REGULATORY CAPITAL REQUIREMENTS

Financial institution regulators have established guidelines for minimum capital ratios for banks, thrifts and bank and thrift holding companies. The net unrealized gain or loss on available-for-sale securities is generally not included in computing regulatory capital. In order to avoid limitations on capital distributions, including dividend payments, Middlefield Bank and the Company must each hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The implementation of the capital ratio buffer began January 1, 2016 at the 0.625% level and has been fully phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reached 2.5% on January 1, 2019). Within the tabular presentation that follows is the adequately capitalized ratio plus capital conservation buffer that includes the fully phased-in 2.50% buffer.

Middlefield Bank and the Company met each of the well-capitalized ratio guidelines at March 31, 2019. The following table indicates the capital ratios for Middlefield Bank and Company at March 31, 2019 and December 31, 2018.

	As of March 31, 2019			
	Leverage	Tier 1 Risk Based	Common Equity Tier 1	Total Risk Based
The Middlefield Banking Company	9.65%	11.08%	11.08%	11.79%
Middlefield Banc Corp.	10.26%	11.87%	11.09%	12.57%
Adequately capitalized ratio	4.00%	6.00%	4.50%	8.00%
Adequately capitalized ratio plus fully phased-in capital conservation buffer	4.00%	8.50%	7.00%	10.50%
Well-capitalized ratio (Bank only)	5.00%	8.00%	6.50%	10.00%

	As of December 31, 2018			
	Leverage	Tier 1 Risk Based	Common Equity Tier 1	Total Risk Based
The Middlefield Banking Company	9.60%	11.09%	11.09%	11.83%
Middlefield Banc Corp.	10.55%	10.35%	9.65%	11.00%
Adequately capitalized ratio	4.00%	6.00%	4.50%	8.00%
Adequately capitalized ratio plus fully phased-in capital conservation buffer	4.00%	8.50%	7.00%	10.50%
Well-capitalized ratio (Bank only)	5.00%	8.00%	6.50%	10.00%

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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 re-pricing or maturity of 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 a strong asset/liability management process in order to insulate the Company from material and prolonged increases in interest rates.

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.

Interest Rate Sensitivity Simulation Analysis

The Company engages an external consultant to facilitate income simulation modeling on a quarterly basis. This modeling measures interest rate risk and sensitivity. The Asset and Liability Management Committee of the Company believes the various rate scenarios of the simulation modeling enables the Company to more accurately evaluate and manage the exposure of interest rate fluctuations on net interest income, the yield curve, various loan and mortgage-backed security prepayments, and deposit decay assumptions.

Earnings simulation modeling and assumptions about the timing and volatility of cash flows are critical in net portfolio equity valuation analysis. Particularly important are the assumptions driving mortgage prepayments and 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 all rate risk measures.

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

Net interest income simulation ("NII") - Projected net interest income over the next twelve months will not be reduced by more than 10% given a gradual shift (i.e., over 12 months) in interest rates of up to 200 basis points (+ or -) and assuming no balance sheet growth.

Portfolio equity simulation - Portfolio equity is the net present value of the Company's existing assets and liabilities. The Company uses an Economic Value of Equity ("EVE") analysis which shows the estimated changes in portfolio equity taking certain long-term shock rates into consideration. Given a 200 basis point immediate and permanent increase in market interest rates, portfolio equity may not correspondingly decrease or increase by more than 20% of stockholders' equity. Given a 200 basis point immediate and permanent decrease in market interest rates, portfolio equity may not correspondingly decrease or increase by more than 10% of stockholders' equity.

The following table presents the simulated impact of a 200 basis point upward or 200 basis point downward shift of market interest rates on net interest income, and the change in portfolio equity. This analysis was done assuming the interest-earning asset and interest-bearing liability levels at March 31, 2019 and December 31, 2018 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 March 31, 2019 and December 31, 2018 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 March 31, 2019 and December 31, 2018 for portfolio equity:

	March 31, 2019		December 31, 2018	
Change in Rates	% Change in NII	% Change in EVE	% Change in NII	% Change in EVE
+200bp	0.17%	16.10%	(0.12)%	12.40%
-200bp	(3.62)%	(47.80)%	(3.33)%	(40.90)%

CRITICAL ACCOUNTING ESTIMATES

The Company's critical accounting estimates involving the more significant judgments and assumptions used in the preparation of the consolidated financial statements as of March 31, 2019, have remained unchanged from December 31, 2018.

Item 4. Controls and Procedures

Controls and Procedures Disclosure

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

As of the end of the period covered by this quarterly report, an evaluation was carried out under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are, to the best of their knowledge, effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to the date of their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that there were no significant changes in internal control or in other factors that could significantly affect the Company's internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

A material weakness is a significant deficiency (as defined in Public Company Accounting Oversight Board Auditing Standard No. 2), or a combination of significant deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by management or employees in the normal course of performing their assigned functions.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company and MBC may be involved in litigation relating to claims arising out of their normal course of business. Currently, the Company and MBC are not involved in any legal proceedings the outcome of which, in management's opinion, would be material to their financial condition or results of operations.

Item 1a. There are no material changes to the risk factors set forth in Part I, Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the year ended December 31, 2018. Please refer to that section for disclosures regarding the risks and uncertainties related to the Company's business.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults by the Company on its Senior Securities

None

Item 4. Mine Safety Disclosures

N/A

Item 5. Other information

None

Item 6. Exhibits

Exhibit list for Middlefield Banc Corp.'s Form 10-Q Quarterly Report for the Period Ended March 31, 2019

Exhibit Number	**Description**	**Location**
3.1	Second Amended and Restated Articles of Incorporation of Middlefield Banc Corp., as amended	Incorporated by reference to Exhibit 3.1 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2005, filed on March 29, 2006
3.2	Regulations of Middlefield Banc Corp.	Incorporated by reference to Exhibit 3.2 of Middlefield Banc Corp.'s registration statement on Form 10 filed on April 17, 2001
4	Specimen stock certificate	Incorporated by reference to Exhibit 4 of Middlefield Banc Corp.'s registration statement on Form 10 filed on April 17, 2001
4.1	Amended and Restated Trust Agreement, dated as of December 21, 2006, between Middlefield Banc Corp., as Depositor, Wilmington Trust Company, as Property trustee, Wilmington Trust Company, as Delaware Trustee, and Administrative Trustees	Incorporated by reference to Exhibit 4.1 of Middlefield Banc Corp.'s Form 8-K Current Report filed on December 27, 2006
4.2	Junior Subordinated Indenture, dated as of December 21, 2006, between Middlefield Banc Corp. and Wilmington Trust Company	Incorporated by reference to Exhibit 4.2 of Middlefield Banc Corp.'s Form 8-K Current Report filed on December 27, 2006
4.3	Guarantee Agreement, dated as of December 21, 2006, between Middlefield Banc Corp. and Wilmington Trust Company	Incorporated by reference to Exhibit 4.3 of Middlefield Banc Corp.'s Form 8-K Current Report filed on December 27, 2006
10.1.0*	2017 Omnibus Equity Plan	Incorporated by reference to Middlefield Banc Corp.'s definitive proxy statement for the 2017 Annual Meeting of Shareholders, Appendix A, filed on April 4, 2017
10.1.1*	2007 Omnibus Equity Plan	Incorporated by reference to Middlefield Banc Corp.'s definitive proxy statement for the 2008 Annual Meeting of Shareholders, Appendix A, filed on April 7, 2008

10.2*	Change in Control Agreement between Middlefield Banc Corp. and Thomas G. Caldwell	Incorporated by reference to Exhibit 10.2 of Middlefield Banc Corp.'s Form 8-K Current Report filed on March 12, 2019
10.3*	Change in Control Agreement between Middlefield Banc Corp. and James R. Heslop, II	Incorporated by reference to Exhibit 10.3 of Middlefield Banc Corp.'s Form 8-K Current Report filed on March 12, 2019
10.4	Federal Home Loan Bank of Cincinnati Agreement for Advances and Security Agreement dated September 14, 2000	Incorporated by reference to Exhibit 10.4 of Middlefield Banc Corp.'s registration statement on Form 10 filed on April 17, 2001
10.4.1*	Severance Agreement between Middlefield Banc Corp. and Teresa M. Hetrick, dated January 7, 2008	Incorporated by reference to Exhibit 10.4.1 of Middlefield Banc Corp.'s Form 8-K Current Report filed on January 9, 2008
10.4.2*	Change in Control Agreement between Middlefield Banc Corp. and Charles O. Moore	Incorporated by reference to Exhibit 10.4.2 of Middlefield Banc Corp.'s Form 8-K Current Report filed on March 12, 2019
10.4.3*	Change in Control Agreement between Middlefield Banc Corp. and Donald L. Stacy	Incorporated by reference to Exhibit 10.4.3 of Middlefield Banc Corp.'s Form 8-K Current Report filed on March 12, 2019
10.4.4*	Severance Agreement between Middlefield Banc Corp. and Alfred F. Thompson Jr., dated January 7, 2008	Incorporated by reference to Exhibit 10.4.4 of Middlefield Banc Corp.'s Form 8-K Current Report filed on January 9, 2008
10.5	[reserved]	
10.6*	Amended Director Retirement Agreement with Richard T. Coyne	Incorporated by reference to Exhibit 10.6 of Middlefield Banc Corp.'s Form 8-K Current Report filed on January 9, 2008
10.7*	Amended Director Retirement Agreement with Frances H. Frank	Incorporated by reference to Exhibit 10.7 of Middlefield Banc Corp.'s Form 8-K Current Report filed on January 9, 2008
10.8*	[reserved]	
10.9*	[reserved]	
10.10*	Director Retirement Agreement with Donald D. Hunter	Incorporated by reference to Exhibit 10.10 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year Ended December 31, 2001, filed on March 28, 2002

10.11*	Director Retirement Agreement with Martin S. Paul	Incorporated by reference to Exhibit 10.11 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year Ended December 31, 2001, filed on March 28, 2002
10.12*	[reserved]	
10.13*	[reserved]	
10.14*	Executive Survivor Income Agreement (aka DBO agreement [death benefit only]) with Donald L. Stacy	Incorporated by reference to Exhibit 10.14 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004
10.15*	DBO Agreement with Jay P. Giles	Incorporated by reference to Exhibit 10.15 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004
10.16*	DBO Agreement with Alfred F. Thompson Jr.	Incorporated by reference to Exhibit 10.16 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004
10.17*	DBO Agreement with Teresa M. Hetrick	Incorporated by reference to Exhibit 10.18 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004
10.18 *	Executive Deferred Compensation Agreement with Jay P. Giles	Incorporated by reference to Exhibit 10.18 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year Ended December 31, 2011, filed on March 20, 2012
10.19	[reserved]	
10.20*	DBO Agreement with James R. Heslop, II	Incorporated by reference to Exhibit 10.20 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004
10.21*	DBO Agreement with Thomas G. Caldwell	Incorporated by reference to Exhibit 10.21 of Middlefield Banc Corp.'s Annual Report on Form 10-K for the Year Ended December 31, 2003, filed on March 30, 2004
10.22*	Annual Incentive Plan	Incorporated by reference to Exhibit 10.22 of Middlefield Banc Corp.'s Form 8-K Current Report filed on March 12, 2019

10.22.1*	[reserved]	
10.23*	Amended Executive Deferred Compensation Agreement with Thomas G. Caldwell	Incorporated by reference to Exhibit 10.23 of Middlefield Banc Corp.'s Form 8-K Current Report filed on May 9, 2008
10.24*	Amended Executive Deferred Compensation Agreement with James R. Heslop, II	Incorporated by reference to Exhibit 10.24 of Middlefield Banc Corp.'s Form 8-K Current Report filed on May 9, 2008
10.25*	Amended Executive Deferred Compensation Agreement with Donald L. Stacy	Incorporated by reference to Exhibit 10.25 of Middlefield Banc Corp.'s Form 8-K Current Report filed on May 9, 2008
10.26*	Executive Variable Benefit Deferred Compensation Agreement with James R. Heslop, II	Incorporated by reference to Exhibit 10.26 of Middlefield Banc Corp.'s Form 8-K Current Report filed on July 11, 2018
10.27*	Executive Variable Benefit Deferred Compensation Agreement with Donald L. Stacy	Incorporated by reference to Exhibit 10.27 of Middlefield Banc Corp.'s Form 8-K Current Report filed on July 11, 2018
10.28*	Executive Deferred Compensation Agreement with Charles O. Moore	Incorporated by reference to Exhibit 10.28 of Middlefield Banc Corp.'s Form 10-Q Current Report filed on August 7, 2018
10.29*	Form of conditional stock award under the 2007 Omnibus Equity Plan	Incorporated by reference to Exhibit 10.29 of Middlefield Banc Corp.'s Form 8-K Current Report filed on March 4, 2016
10.29.1	Form of conditional stock award under the 2017 Omnibus Equity Plan	Incorporated by reference to Exhibit 10.29 of Middlefield Banc Corp.'s Form 8-K Current Report filed on July 24, 2017
10.30**	Executive Deferred Compensation Agreement with Michael L. Allen	filed herewith
10.31**	Executive Deferred Compensation Agreement with John D. Lane	filed herewith

31.1	Rule 13a-14(a) certification of Chief Executive Officer	filed herewith
31.2	Rule 13a-14(a) certification of Chief Financial Officer	filed herewith
32	Rule 13a-14(b) certification	filed herewith
99.1	Form of Indemnification Agreement with directors of Middlefield Banc Corp. and with executive officers of Middlefield Banc Corp. and The Middlefield Banking Company	Incorporated by reference to Exhibit 99.1 of Middlefield Banc Corp.'s registration statement on Form 10, Amendment No. 1, filed on June 14, 2001
101.INS***	XBRL Instance	furnished herewith
101.SCH***	XBRL Taxonomy Extension Schema	furnished herewith
101.CAL***	XBRL Taxonomy Extension Calculation	furnished herewith
101.DEF***	XBRL Taxonomy Extension Definition	furnished herewith
101.LAB***	XBRL Taxonomy Extension Labels	furnished herewith
101.PRE***	XBRL Taxonomy Extension Presentation	furnished herewith

* management contract or compensatory plan or arrangement

** management contracts or compensatory plan or arrangement, a schedule has been omitted pursuant to Item 601(a)(5) of Regulation S-K and will be provided on a supplemental basis to the Securities and Exchange Commission upon request

*** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned and hereunto duly authorized.

MIDDLEFIELD BANC CORP.

Date: May 7, 2019

By: /s/Thomas G. Caldwell

Thomas G. Caldwell

President and Chief Executive Officer

Date: May 7, 2019

By: /s/Donald L. Stacy

Donald L. Stacy

Principal Financial and Accounting Officer

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Section 2: EX-10.30 (EXHIBIT 10.30)

Exhibit 10.30

The Middlefield Banking Company
EXECUTIVE DEFERRED COMPENSATION AGREEMENT*

This **Executive Deferred Compensation Agreement** (this "Agreement") is entered into as of this 17th day of December, 2018, by and between The Middlefield Banking Company, an Ohio-chartered bank (the "Bank"), and Michael L. Allen, Chief Banking Officer of the Bank (the "Executive").

Whereas, to encourage the Executive to remain a Bank employee, the Bank desires to establish a noncontributory, defined contribution arrangement to provide a supplemental retirement income opportunity for the Executive, with contributions made solely by the Bank and benefits payable out of the Bank's general assets,

Whereas, none of the conditions or events included in the definition of the term "golden parachute payment" that is set forth in section 18(k)(4)(A)(ii) of the Federal Deposit Insurance Act [12 U.S.C. 1828(k)(4)(A)(ii)] and in Federal Deposit Insurance Corporation Rule 359.1(f)(1)(ii) [12 CFR 359.1(f)(1)(ii)] exists or, to the best knowledge of the Bank, is contemplated insofar as the Bank is concerned, and

Whereas, the parties hereto intend that this Agreement shall be considered an unfunded arrangement maintained primarily to provide supplemental retirement benefits for the Executive (who is a key employee and member of a select group of management), and to be considered a top hat plan for purposes of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Executive is fully advised of the Bank's financial status.

Now Therefore, in consideration of these premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Executive and the Bank hereby agree as follows.

ARTICLE 1
DEFINITIONS

1.1 "**Account Balance**" means the Bank's accounting of Annual Contributions made by the Bank, plus accrued interest.

1.2 "**Annual Contribution**" means the amount credited to the Account Balance after the end of each Plan Year for which the Performance Goals are achieved. The Annual Contribution will be conditional on achievement of the Performance Goals. The Annual Contribution amount in any Plan Year shall not be less than 5% or more than 15% of the Executive's Base Annual Salary. The Annual Contribution amount shall be changed no more frequently than annually.

1.3 "**Base Annual Salary**" means compensation of the type required to be reported as salary according to Securities and Exchange Commission Rule 229.402(c) (17 CFR 229.402(c)), specifically column (c) of that rule's Summary Compensation Table (or any successor provision), but excluding fees or any other form of compensation payable on account of service as a director. Base Annual Salary shall be calculated before reduction for amounts voluntarily deferred or contributed by the Executive pursuant to qualified plans.

1.4 "**Beneficiary**" means each designated person, or the estate of the deceased Executive, entitled to benefits, if any, upon the death of the Executive, determined according to Article 5.

* Schedule A has been omitted pursuant to Item 601(a)(5) of Regulation S-K and will be provided on a supplemental basis to the Securities and Exchange Commission upon request.

1.5 “**Beneficiary Designation Form**” means the form established from time to time by the Plan Administrator that the Executive completes, signs, and returns to the Plan Administrator to designate one or more Beneficiaries.

1.6 “**Change in Control**” shall mean a change in control as defined in Internal Revenue Code section 409A and rules, regulations, and guidance of general application thereunder issued by the Department of the Treasury, applying the percentage threshold specified in each of paragraphs (a) through (c) of this section 1.6 or the related percentage threshold specified in section 409A and rules, regulations, and guidance of general application thereunder, whichever is greater –

(a) *Change in ownership*: a change in ownership of Middlefield Banc Corp. (“Banc Corp.”), an Ohio corporation of which the Bank is a wholly owned subsidiary, occurs on the date any one person or group accumulates ownership of Banc Corp. stock constituting more than 50% of the total fair market value or total voting power of Banc Corp. stock,

(b) *Change in effective control*: (*x*) any one person or more than one person acting as a group acquires within a 12-month period ownership of Banc Corp. stock possessing 30% or more of the total voting power of Banc Corp., or (*y*) a majority of Banc Corp.’s board of directors is replaced during any 12-month period by directors whose appointment or election is not endorsed in advance by a majority of Banc Corp.’s board of directors, or

(c) *Change in ownership of a substantial portion of assets*: a change in ownership of a substantial portion of Banc Corp.’s assets occurs if in a 12-month period any one person or more than one person acting as a group acquires from Banc Corp. assets having a total gross fair market value equal to or exceeding 40% of the total gross fair market value of all of Banc Corp.’s assets immediately before the acquisition or acquisitions. For this purpose, gross fair market value means the value of Banc Corp.’s assets, or the value of the assets being disposed of, determined without regard to any liabilities associated with the assets.

1.7 “**Code**” means the Internal Revenue Code of 1986, as amended, and rules, regulations, and guidance of general application issued thereunder by the Department of the Treasury.

1.8 “**Effective Date**” means January 1, 2019.

1.9 “**Intentional**” for purposes of this Agreement, no act or failure to act on the Executive’s part will be considered intentional if it was due primarily to an error in judgment or negligence. An act or failure to act on the Executive’s part is intentional if it is not in good faith and if it is without a reasonable belief that the action or failure to act is in the Bank’s best interests. Any act or failure to act based upon authority granted by resolutions duly adopted by the board of directors or based upon the advice of counsel for the Bank is conclusively presumed to be in good faith and in the Bank’s best interests.

1.10 **“Normal Retirement Age”** means age 65.

1.11 “**Performance Goals**” means the performance criteria set forth in Schedule A attached to this Agreement and incorporated herein by this reference, which criteria have been established by the Bank’s board of directors. The Performance Goals may be changed by the board of directors no more frequently than annually. If the performance criteria are changed, a new Schedule A shall be substituted for and shall supersede the old Schedule A, and the new Schedule A shall be deemed to be incorporated by reference herein and to be a part of this Agreement. A change in Performance Goals shall not become effective for the Plan Year in which the change is made unless the change is made on or before March 31 of the Plan Year. The Plan Administrator shall have sole authority to determine whether the Performance Goals have been achieved for any Plan Year. The Plan Administrator’s determination that the Performance Goals for a Plan Year have or have not been achieved shall be conclusive and binding.

1.12 “**Plan Administrator**” or “**Administrator**” means the plan administrator described in Article 8.

1.13 “**Plan Year**” means the calendar year. The first Plan Year shall begin on the Effective Date and end on December 31, 2019.

1.14 “**Separation from Service**” means separation from service as defined in Treasury Regulation 1.409A-1(h), other than because of the Executive’s death.

1.15 “**Termination with Cause**” and “**Cause**” shall have the same definition specified in any effective severance or employment agreement existing on the date hereof or hereafter entered into between the Executive and the Bank or between the Executive and Banc Corp. If the Executive is not a party to a severance or employment agreement containing a definition, Termination with Cause means the Bank terminates the Executive’s employment because of –

(a) the Executive’s gross negligence or gross neglect of duties or intentional and material failure to perform stated duties after written notice thereof, or

(b) disloyalty or dishonesty by the Executive in the performance of duties or breach of the Executive’s fiduciary duties for personal profit, in any case whether in the Executive’s capacity as a director or officer, or

(c) intentional wrongful damage by the Executive to the business or property of the Bank or its affiliates, including without limitation the reputation of the Bank, which in the judgement of the Bank causes material harm to the Bank or affiliates, or

(d) a willful violation by the Executive of any applicable law or significant policy of the Bank or an affiliate that, in the Bank’s judgement, results in an adverse effect on the Bank or the affiliate, regardless of whether the violation leads to criminal prosecution or conviction. For purposes of this Agreement applicable laws include any statute, rule, regulatory order, statement of policy, or final cease-and-desist order of any governmental agency or body having regulatory authority over the Bank, or

(e) the occurrence of any event that results in the Executive being excluded from coverage, or having coverage limited for the Executive as compared to other executives of the Bank, under the Bank’s blanket bond or other fidelity or insurance policy covering its directors, officers, or employees, or

(f) the Executive is removed from office or permanently prohibited from participating in the Bank’s affairs by an order issued under section 8(e)(4) or section 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. 1818(e)(4) or (g)(1), or

(g) conviction of the Executive for or plea of no contest to a felony or conviction of or plea of no contest to a misdemeanor involving moral turpitude, or the actual incarceration of the Executive for 45 consecutive days or more.

ARTICLE 2
DEFERRAL ACCOUNT

2.1 Annual Contribution. The Bank shall establish an Account Balance on its books. Within three months after the end of each Plan Year the Bank shall credit the Annual Contribution to the Account Balance provided the Performance Goals were achieved for the Plan Year. Contributions to the Account Balance by the Executive are prohibited. Discretionary contributions by the Bank are likewise prohibited. The Annual Contribution will not be made by the Bank for the Plan Year in which the Executive attains Normal Retirement Age or for any year thereafter. However, if the Performance Goals are achieved for the Plan Year in which the Executive attains Normal Retirement Age (and if Separation from Service does not occur before Normal Retirement Age), the Bank will make a final contribution in an amount equal to the Annual Contribution multiplied by a percentage. The percentage is equal the number of days in the Plan Year before the Executive attained Normal Retirement Age, divided by 365. If the Performance Goals are achieved for a Plan Year in which the Executive dies before Separation from Service and before attaining Normal Retirement Age, the Bank shall make a final contribution in an amount equal to the Annual Contribution multiplied by a percentage. The percentage shall equal the number of days in the Plan Year before the Executive's death divided by 365.

2.2 Interest. At the end of each Plan Year and until the first to occur of (*x*) Normal Retirement Age, (*y*) the Executive's death, or (*z*) the Executive's Separation from Service, interest is to be credited on the Account Balance at an annual rate of interest for that Plan Year, compounded monthly on the first day of the month, equal to the prime interest rate as published in *The Wall Street Journal* (the "Index"). After the first to occur of (*x*) Normal Retirement Age, (*y*) the Executive's death, or (*z*) the Executive's Separation from Service, interest shall be credited on the Account Balance at an annual rate equal to the yield on a 10-year corporate bond rated Aa by Moody's, rounded to the nearest ¼%.

2.3 Statement of Account. Within 120 days after the end of each Plan Year, the Bank shall provide to the Executive a statement of the Account Balance at the end of the Plan Year. Each annual statement of the Account Balance shall supersede the previous year's statement of the Account Balance.

2.4 Accounting Device Only. The Account Balance is solely a device for measuring amounts to be paid under this Agreement. The Account Balance is not a trust fund of any kind. The Executive is a general unsecured creditor of the Bank for the payment of benefits. The benefits represent the mere promise by the Bank to pay benefits. The Executive's rights are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by the Executive's creditors.

ARTICLE 3
BENEFITS DURING LIFETIME

3.1 Normal Retirement Age. Unless Separation from Service or a Change in Control occurs before Normal Retirement Age, when the Executive attains Normal Retirement Age the Bank will pay to the Executive the Account Balance as of the end of the month in which the Executive attains Normal Retirement Age, instead of any other benefit under this Agreement. Beginning on the first day of the month after the month in which the Executive attains Normal Retirement Age, the Account Balance will be paid to the Executive in 180 substantially equal monthly installments. The Bank will credit interest according to the formula of section 2.2, compounded monthly, until the Account Balance is paid in full. If the Executive's Separation from Service is a Termination with Cause, no further benefits will be paid under this Agreement and this Agreement will terminate.

3.2 Separation from Service. If Separation from Service occurs before Normal Retirement Age for reasons other than death or Termination with Cause, instead of any other benefit under this Agreement the Bank will pay to the Executive the Account Balance as of the end of the month immediately before the month in which payments commence, unless the Change-in-Control benefit has been paid under section 3.3. Beginning on the first day of the later of (*x*) the seventh month after the month in which Separation from Service occurs or (*y*) the month after the month in which the Executive attains Normal Retirement Age, the Bank will pay the Account Balance in 180 substantially equal monthly installments. The Bank will credit interest according to the formula of section 2.2, compounded monthly, until the Account Balance is paid in full.

3.3 Change in Control. If a Change in Control occurs both before the Executive attains Normal Retirement Age and before the Executive's Separation from Service, instead of any other benefit payable under this Agreement the Bank will pay to the Executive the entire Account Balance in a single lump sum on the day of the Change in Control. Payment of the Change-in-Control benefit fully discharges the Bank from all obligations under this Agreement, except the legal fee reimbursement obligation under section 9.11.

3.4 Payout of Normal Retirement Benefit or Separation from Service Benefit after a Change in Control. If when a Change in Control occurs the Executive is receiving the benefit under section 3.1, the Bank will pay the remaining benefits to the Executive in a single lump sum on the day of the Change in Control. If when a Change in Control occurs the Executive is receiving or is entitled at Normal Retirement Age to receive the benefit under section 3.2, the Bank will pay the remaining benefits to the Executive in a single lump sum three business days after the later of (*x*) the date of the Change in Control or (*y*) the first day of the seventh month after the month in which the Executive's Separation from Service occurs. The lump-sum payment due to the Executive as a result of a Change in Control is the amount equal to the Account Balance remaining unpaid.

3.5 One Benefit Only. Despite anything to the contrary in this Agreement, the Executive and Beneficiary are entitled to one benefit only under this Agreement, which is determined by the first event to occur that is dealt with by this Agreement. Except as provided in section 3.4, later occurrence of events dealt with by this Agreement do not entitle the Executive or Beneficiary to other or additional benefits under this Agreement.

3.6 Savings Clause Relating to Compliance with Code Section 409A. Despite any contrary provision of this Agreement, if when the Executive's employment terminates the Executive is a specified employee, as defined in Code section 409A, and if any payments under Article 3 of this Agreement will result in additional tax or interest to the Executive because of section 409A, the Executive shall not be entitled to the payments under Article 3 until the earliest of (*x*) the date that is at least six months after termination of the Executive's employment for reasons other than the Executive's death, (*y*) the date of the Executive's death, or (*z*) any earlier date that does not result in additional tax or interest to the Executive under section 409A.

ARTICLE 4
DEATH BENEFITS

After the Executive's death, the Bank shall pay to the Executive's Beneficiary the Account Balance as of the date of the Executive's death. The Account Balance shall be paid to the Executive's Beneficiary in a single lump sum, 90 days after the date of the Executive's death. However, if the Executive dies after termination of this Agreement under Article 6, the Executive's Beneficiary shall be entitled to no benefits under this Agreement.

ARTICLE 5
BENEFICIARIES

5.1 Beneficiary Designations. The Executive shall have the right to designate at any time a Beneficiary to receive any benefits payable under this Agreement after the Executive's death. The Beneficiary designated under this Agreement may be the same as or different from the beneficiary designation under any other benefit plan of the Bank in which the Executive participates.

5.2 Beneficiary Designation Change. The Executive shall designate a Beneficiary by completing and signing the Beneficiary Designation Form and delivering it to the Plan Administrator or its designated agent. The Executive's Beneficiary designation shall be deemed automatically revoked if the Beneficiary predeceases the Executive or if the Executive names a spouse as Beneficiary and the marriage is subsequently dissolved. The Executive shall have the right to change a Beneficiary by completing, signing, and otherwise complying with the terms of the Beneficiary Designation Form and the Plan Administrator's rules and procedures, as in effect from time to time. Upon the acceptance by the Plan Administrator of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be cancelled. The Plan Administrator shall be entitled to rely on the last Beneficiary Designation Form filed by the Executive and accepted by the Plan Administrator before the Executive's death.

5.3 Acknowledgment. No designation or change in designation of a Beneficiary shall be effective until received, accepted, and acknowledged in writing by the Plan Administrator or its designated agent.

5.4 No Beneficiary Designation. If the Executive dies without a valid beneficiary designation or if all designated Beneficiaries predecease the Executive, the Executive's spouse shall be the designated Beneficiary. If the Executive has no surviving spouse, the benefits shall be paid to the Executive's estate.

5.5 Facility of Payment. If a benefit is payable to a minor, to a person declared incapacitated, or to a person incapable of handling the disposition of his or her property, the Bank may pay the benefit to the guardian, legal representative, or person having the care or custody of the minor, incapacitated person, or incapable person. The Bank may require proof of incapacity, minority, or guardianship as it may deem appropriate before distribution of the benefit. Distribution shall completely discharge the Bank from all liability for the benefit.

ARTICLE 6
GENERAL LIMITATIONS

6.1 Termination with Cause. Despite any contrary provision of this Agreement, the Bank shall not pay any benefit under this Agreement and this Agreement shall terminate if Separation from Service is a Termination with Cause.

6.2 Removal. Despite any contrary provision of this Agreement, if the Executive is removed from office or permanently prohibited from participating in the Bank's affairs by an order issued under section 8(e)(4) or (g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. 1818(e)(4) or (g)(1), all obligations of the Bank under this Agreement shall terminate as of the effective date of the order.

6.3 Default. Despite any contrary provision of this Agreement, if the Bank is in "default" or "in danger of default", as those terms are defined in section 3(x) of the Federal Deposit Insurance Act, 12 U.S.C. 1813(x), all obligations under this Agreement shall terminate.

ARTICLE 7
CLAIMS AND REVIEW PROCEDURES

7.1 Claims Procedure. The Bank will notify any person or entity that makes a claim for benefits under this Agreement (the "Claimant") in writing, within 90 days after receiving Claimant's written application for benefits, of his or her eligibility or noneligibility for benefits under the Agreement. If the Plan Administrator determines that the Claimant is not eligible for benefits or full benefits, the notice will state (*w*) the specific reasons for denial, (*x*) a specific reference to the provisions of the Agreement on which the denial is based, (*y*) a description of any additional information or material necessary for the Claimant to perfect his or her claim, and a description of why it is needed, and (*z*) an explanation of the Agreement's claims review procedure and other appropriate information concerning steps to be taken if the Claimant wishes to have the claim reviewed. If the Plan Administrator determines that there are special circumstances requiring additional time to make a decision, the Bank will notify the Claimant of the special circumstances and the date by which a decision is expected to be made and may extend the time for up to an additional 90 days.

7.2 Review Procedure. If the Claimant is determined by the Plan Administrator not to be eligible for benefits, or if the Claimant believes that he or she is entitled to greater or different benefits, the Claimant will have the opportunity to have his or her claim reviewed by the Bank by filing a petition for review with the Bank within 60 days after receipt of the notice issued by the Bank. The Claimant's petition must state the specific reasons the Claimant believes entitle him or her to benefits or to greater or different benefits. Within 60 days after receipt by the Bank of the petition, the Plan Administrator will give the Claimant (and counsel, if any) an opportunity to present his or her position verbally or in writing, and the Claimant (or counsel) will have the right to review the pertinent documents. The Plan Administrator will notify the Claimant of the Plan Administrator's decision in writing within the 60-day period, stating specifically the basis of its decision, written in a manner to be understood by the Claimant, and the specific provisions of the Agreement on which the decision is based. If, because of the need for a hearing, the 60-day period is not sufficient, the decision may be deferred for up to another 60 days at the election of the Plan Administrator but notice of this deferral will be given to the Claimant.

ARTICLE 8
ADMINISTRATION OF AGREEMENT

8.1 Plan Administrator Duties. This Agreement shall be administered by a Plan Administrator consisting of the board or such committee or persons as the board shall appoint. The Executive may not be a member of the Plan Administrator. The Plan Administrator shall have the discretion and authority to (*x*) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Agreement and (*y*) decide or resolve any and all questions that may arise, including interpretations of this Agreement.

8.2 Agents. In the administration of this Agreement, the Plan Administrator may employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel, who may be counsel to the Bank.

8.3 Binding Effect of Decisions. The decision or action of the Plan Administrator concerning any question arising out of the administration, interpretation, and application of the Agreement and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Agreement. Neither the Executive nor any Beneficiary shall be deemed to have any right, vested or unvested, regarding the continuing effect of any decision or action of the Plan Administrator.

8.4 Indemnity of Plan Administrator. The Bank shall indemnify and hold harmless the members of the Plan Administrator against any and all claims, losses, damages, expenses, or liabilities arising from any action or failure to act with respect to this Agreement, except in the case of willful misconduct by the Plan Administrator or any of its members.

8.5 Bank Information. To enable the Plan Administrator to perform its functions, the Bank shall supply full and timely information to the Plan Administrator on all matters relating to the date and circumstances of the retirement, death, or Separation from Service of the Executive and such other pertinent information as the Plan Administrator may reasonably require.

Article 9
MISCELLANEOUS

9.1 Amendments and Termination. This Agreement may be amended solely by a written agreement signed by the Bank and by the Executive, except that the Bank's Plan Administrator may on its own change the financial condition or conditions constituting the Performance Goals, which change shall constitute an amendment of this Agreement, provided that written notice of the change is given to the Executive as promptly as practicable after the change is adopted by the Plan Administrator. This Agreement may be terminated by the Bank without the Executive's consent. Unless Article 6 provides that the Executive is not entitled to payment or unless when termination occurs the Executive has already received payment of benefits under this Agreement, the Bank must pay the Account Balance in a single lump sum to the Executive if the Bank terminates this Agreement. The lump-sum termination payment will be made to the Executive consistent with the terms of the Code section 409A plan-termination exception to the prohibition against accelerated payment [Rule 1.409A-3(j)(4)(ix)].

9.2 Binding Effect. This Agreement shall bind the Executive and the Bank and their beneficiaries, survivors, executors, successors, administrators, and transferees.

9.3 Successors; **Binding Agreement**. By an assumption agreement in form and substance satisfactory to the Executive, the Bank shall require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the Bank's business or assets to expressly assume and agree to perform this Agreement in the same manner and to the same extent the Bank would be required to perform this Agreement had no succession occurred.

9.4 No Guarantee of Employment. This Agreement is not an employment policy or contract. It does not give the Executive the right to remain an employee of the Bank nor does it interfere with the Bank's right to discharge the Executive. It also does not require the Executive to remain an employee or interfere with the Executive's right to terminate employment at any time.

9.5 Non-Transferability. Benefits under this Agreement may not be sold, transferred, assigned, pledged, attached, or encumbered.

9.6 Tax Withholding. The Bank shall withhold any taxes that are required to be withheld from the benefits provided under this Agreement.

9.7 Applicable Law. This Agreement and all rights hereunder shall be governed by the laws of the State of Ohio, except to the extent the laws of the United States of America otherwise require.

9.8 Unfunded Arrangement. The Executive and the Beneficiary are general unsecured creditors of the Bank for the payment of benefits under this Agreement. The benefits represent the mere promise by the Bank to pay benefits. The rights to benefits are not subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors. Any insurance on the Executive's life is a general asset of the Bank to which the Executive and the Beneficiary have no preferred or secured claim.

9.9 Entire Agreement. This Agreement constitutes the entire agreement between the Bank and the Executive concerning the subject matter. No rights are granted to the Executive under this Agreement other than those specifically set forth.

9.10 Tax Consequences. The Bank does not insure or guarantee the tax consequences of payments provided hereunder for matters beyond its control. The Bank shall not be liable in any way to Executive if any payment or benefit which is to be provided pursuant to this Agreement and which is considered deferred compensation subject to Code section 409A otherwise fails to comply with, or be exempt from, the requirements of Code section 409A.

9.11 Payment of Legal Fees. The Bank is aware that after a Change in Control management of the Bank could cause or attempt to cause the Bank to refuse to comply with its obligations under this Agreement or could institute or cause or attempt to cause the Bank to institute litigation seeking to have this Agreement declared unenforceable or could take or attempt to take other action to deny the Executive the benefits intended under this Agreement. In these circumstances the purpose of this Agreement would be frustrated. The Bank desires that the Executive not be required to incur the expenses associated with the enforcement of rights under this Agreement, whether by litigation or other legal action, because the cost and expense thereof would substantially detract from the benefits intended to be granted to the Executive hereunder. The Bank desires that the Executive not be forced to negotiate settlement of rights under this Agreement under threat of incurring expenses. Accordingly, if after a Change in Control occurs it appears to the Executive that (*x*) the Bank has failed to comply with any of its obligations under this Agreement, or (*y*) the Bank or any other person has taken any action to declare this Agreement void or unenforceable, or instituted any litigation or other legal action designed to deny, diminish, or to recover from the Executive the benefits intended to be provided to the Executive hereunder, the Bank irrevocably authorizes the Executive from time to time to retain counsel of the Executive's choice, at the Bank's expense as provided in this section 9.11, to represent the Executive in the initiation or defense of any litigation or other legal action, whether by or against the Bank or any director, officer, stockholder, or other person affiliated with the Bank, in any jurisdiction. Despite any existing or previous attorney-client relationship between the Bank and any counsel chosen by the Executive under this section 9.11, the Bank irrevocably consents to the Executive entering into an attorney-client relationship with that counsel, and the Bank and the Executive agree that a confidential relationship shall exist between the Executive and that counsel. The fees and expenses of counsel selected from time to time by the Executive as provided in this section shall be paid or reimbursed to the Executive by the Bank on a regular, periodic basis upon presentation by the Executive of a statement or statements prepared by counsel in accordance with counsel's customary practices, up to a maximum aggregate amount of $500,000, whether suit be brought or not, and whether or not incurred in trial, bankruptcy, or appellate proceedings. The Bank's obligation to pay the Executive's legal fees under this section 9.11 operates separately from and in addition to any legal fee reimbursement obligation the Bank may have with the Executive under any separate employment, severance, or other agreement between the Executive and the Bank. Despite anything in this section 9.11 to the contrary however, the Bank shall not be required to pay or reimburse the Executive's legal expenses if doing so would violate section 18(k) of the Federal Deposit Insurance Act [12 U.S.C. 1828(k)] and Rule 359.3 of the Federal Deposit Insurance Corporation [12 CFR 359.3].

9.12 Severability. If any provision of this Agreement is held invalid, such invalidity shall not affect any other provision of this Agreement not held invalid, and each such other provision shall continue in full force and effect to the full extent consistent with law. If any provision of this Agreement is held invalid in part, such invalidity shall not affect the remainder of the provision not held invalid, and the remainder of such provision together with all other provisions of this Agreement shall continue in full force and effect to the full extent consistent with law.

9.13 Waiver. A waiver by either party of any of the terms or conditions of this Agreement in any one instance shall not be considered a waiver of the terms or conditions for the future or a waiver of any subsequent breach. All remedies, rights, undertakings, obligations, and agreements contained in this Agreement shall be cumulative, and none of them shall be in limitation of any other remedy, right, undertaking, obligation or agreement of either party.

9.14 Captions and Counterparts. Captions in this Agreement are included for convenience only and shall not affect the interpretation or construction of the Agreement or any of its provisions. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original and all of which taken together shall constitute a single agreement.

9.15 Notice. All notices, requests, demands, and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered by hand or mailed, certified or registered mail, return receipt requested, with postage prepaid. Unless otherwise changed by notice, notice shall be properly addressed to the Executive if addressed to the address of the Executive on the books and records of the Bank at the time of the delivery of such notice, and properly addressed to the Bank if addressed to the Board of Directors, The Middlefield Banking Company, 15985 East High Street, Middlefield, Ohio 44062-0035.

In Witness Whereof, the Executive and a duly authorized Bank officer have executed this Executive Deferred Compensation Agreement as of the date first written above.

EXECUTIVE:

/s/ Michael L. Allen
Michael L. Allen

BANK:
The Middlefield Banking Company

By: /s/ James R. Heslop II
Its: Executive Vice President and C.O.O.

The Middlefield Banking Company
Executive Deferred Compensation Agreement
Beneficiary Designation

I designate the following as beneficiary under this Executive Deferred Compensation Agreement of benefits payable after my death.

Primary:____

____

Contingent:____

____

Note: To name a trust as beneficiary, please provide the name of the trustee(s) and the <u>exact</u> name and date of the trust agreement.

I understand that I may change these beneficiary designations by filing a new written designation with the Bank. I further understand that the designations will be automatically revoked if the beneficiary predeceases me, or, if I have named my spouse as beneficiary and our marriage is subsequently dissolved.

Signature: ____________________________
Michael L. Allen

Date: ____________________, 2018

Received by the Bank this __ day of _____, 2018

By: ____________________________

Title: ____________________________

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Section 3: EX-10.31 (EXHIBIT 10.31)

Exhibit 10.31

The Middlefield Banking Company
EXECUTIVE DEFERRED COMPENSATION AGREEMENT

This **Executive Deferred Compensation Agreement** (this "Agreement") is entered into as of this 17th day of December, 2018, by and between The Middlefield Banking Company, an Ohio-chartered bank (the "Bank"), and John D. Lane, Chief Credit and Risk Officer of the Bank (the "Executive").

Whereas, to encourage the Executive to remain a Bank employee, the Bank desires to establish a noncontributory, defined contribution arrangement to provide a supplemental retirement income opportunity for the Executive, with contributions made solely by the Bank and benefits payable out of the Bank's general assets,

Whereas, none of the conditions or events included in the definition of the term "golden parachute payment" that is set forth in section 18(k)(4)(A)(ii) of the Federal Deposit Insurance Act [12 U.S.C. 1828(k)(4)(A)(ii)] and in Federal Deposit Insurance Corporation Rule 359.1(f)(1)(ii) [12 CFR 359.1(f)(1)(ii)] exists or, to the best knowledge of the Bank, is contemplated insofar as the Bank is concerned, and

Whereas, the parties hereto intend that this Agreement shall be considered an unfunded arrangement maintained primarily to provide supplemental retirement benefits for the Executive (who is a key employee and member of a select group of management), and to be considered a top hat plan for purposes of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Executive is fully advised of the Bank's financial status.

Now Therefore, in consideration of these premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Executive and the Bank hereby agree as follows.

ARTICLE 1
DEFINITIONS

1.1 "**Account Balance**" means the Bank's accounting of Annual Contributions made by the Bank, plus accrued interest.

1.2 "**Annual Contribution**" means the amount credited to the Account Balance after the end of each Plan Year for which the Performance Goals are achieved. The Annual Contribution will be conditional on achievement of the Performance Goals. The Annual Contribution amount in any Plan Year shall not be less than 5% or more than 15% of the Executive's Base Annual Salary. The Annual Contribution amount shall be changed no more frequently than annually.

1.3 "**Base Annual Salary**" means compensation of the type required to be reported as salary according to Securities and Exchange Commission Rule 229.402(c) (17 CFR 229.402(c)), specifically column (c) of that rule's Summary Compensation Table (or any successor provision), but excluding fees or any other form of compensation payable on account of service as a director. Base Annual Salary shall be calculated before reduction for amounts voluntarily deferred or contributed by the Executive pursuant to qualified plans.

* Schedule A has been omitted pursuant to Item 601(a)(5) of Regulation S-K and will be provided on a supplemental basis to the Securities and Exchange Commission upon request.

1.4 "**Beneficiary**" means each designated person, or the estate of the deceased Executive, entitled to benefits, if any, upon the death of the Executive, determined according to Article 5.

1.5 "**Beneficiary Designation Form**" means the form established from time to time by the Plan Administrator that the Executive completes, signs, and returns to the Plan Administrator to designate one or more Beneficiaries.

1.6 "**Change in Control**" shall mean a change in control as defined in Internal Revenue Code section 409A and rules, regulations, and guidance of general application thereunder issued by the Department of the Treasury, applying the percentage threshold specified in each of paragraphs (a) through (c) of this section 1.6 or the related percentage threshold specified in section 409A and rules, regulations, and guidance of general application thereunder, whichever is greater –

(a) *Change in ownership*: a change in ownership of Middlefield Banc Corp. ("Banc Corp."), an Ohio corporation of which the Bank is a wholly owned subsidiary, occurs on the date any one person or group accumulates ownership of Banc Corp. stock constituting more than 50% of the total fair market value or total voting power of Banc Corp. stock,

(b) *Change in effective control*: (*x*) any one person or more than one person acting as a group acquires within a 12-month period ownership of Banc Corp. stock possessing 30% or more of the total voting power of Banc Corp., or (*y*) a majority of Banc Corp.'s board of directors is replaced during any 12-month period by directors whose appointment or election is not endorsed in advance by a majority of Banc Corp.'s board of directors, or

(c) *Change in ownership of a substantial portion of assets*: a change in ownership of a substantial portion of Banc Corp.'s assets occurs if in a 12-month period any one person or more than one person acting as a group acquires from Banc Corp. assets having a total gross fair market value equal to or exceeding 40% of the total gross fair market value of all of Banc Corp.'s assets immediately before the acquisition or acquisitions. For this purpose, gross fair market value means the value of Banc Corp.'s assets, or the value of the assets being disposed of, determined without regard to any liabilities associated with the assets.

1.7 "**Code**" means the Internal Revenue Code of 1986, as amended, and rules, regulations, and guidance of general application issued thereunder by the Department of the Treasury.

1.8 "**Effective Date**" means January 1, 2019.

1.9 "**Intentional**" for purposes of this Agreement, no act or failure to act on the Executive's part will be considered intentional if it was due primarily to an error in judgment or negligence. An act or failure to act on the Executive's part is intentional if it is not in good faith and if it is without a reasonable belief that the action or failure to act is in the Bank's best interests. Any act or failure to act based upon authority granted by resolutions duly adopted by the board of directors or based upon the advice of counsel for the Bank is conclusively presumed to be in good faith and in the Bank's best interests.

1.10 **"Normal Retirement Age"** means age 65.

1.11 "**Performance Goals**" means the performance criteria set forth in Schedule A attached to this Agreement and incorporated herein by this reference, which criteria have been established by the Bank's board of directors. The Performance Goals may be changed by the board of directors no more frequently than annually. If the performance criteria are changed, a new Schedule A shall be substituted for and shall supersede the old Schedule A, and the new Schedule A shall be deemed to be incorporated by reference herein and to be a part of this Agreement. A change in Performance Goals shall not become effective for the Plan Year in which the change is made unless the change is made on or before March 31 of the Plan Year. The Plan Administrator shall have sole authority to determine whether the Performance Goals have been achieved for any Plan Year. The Plan Administrator's determination that the Performance Goals for a Plan Year have or have not been achieved shall be conclusive and binding.

1.12 “**Plan Administrator**” or “**Administrator**” means the plan administrator described in Article 8.

1.13 “**Plan Year**” means the calendar year. The first Plan Year shall begin on the Effective Date and end on December 31, 2019.

1.14 “**Separation from Service**” means separation from service as defined in Treasury Regulation 1.409A-1(h), other than because of the Executive’s death.

1.15 “**Termination with Cause**” and “**Cause**” shall have the same definition specified in any effective severance or employment agreement existing on the date hereof or hereafter entered into between the Executive and the Bank or between the Executive and Banc Corp. If the Executive is not a party to a severance or employment agreement containing a definition, Termination with Cause means the Bank terminates the Executive’s employment because of –

(a) the Executive’s gross negligence or gross neglect of duties or intentional and material failure to perform stated duties after written notice thereof, or

(b) disloyalty or dishonesty by the Executive in the performance of duties or breach of the Executive’s fiduciary duties for personal profit, in any case whether in the Executive’s capacity as a director or officer, or

(c) intentional wrongful damage by the Executive to the business or property of the Bank or its affiliates, including without limitation the reputation of the Bank, which in the judgement of the Bank causes material harm to the Bank or affiliates, or

(d) a willful violation by the Executive of any applicable law or significant policy of the Bank or an affiliate that, in the Bank’s judgement, results in an adverse effect on the Bank or the affiliate, regardless of whether the violation leads to criminal prosecution or conviction. For purposes of this Agreement applicable laws include any statute, rule, regulatory order, statement of policy, or final cease-and-desist order of any governmental agency or body having regulatory authority over the Bank, or

(e) the occurrence of any event that results in the Executive being excluded from coverage, or having coverage limited for the Executive as compared to other executives of the Bank, under the Bank’s blanket bond or other fidelity or insurance policy covering its directors, officers, or employees, or

(f) the Executive is removed from office or permanently prohibited from participating in the Bank’s affairs by an order issued under section 8(e)(4) or section 8(g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. 1818(e)(4) or (g)(1), or

(g) conviction of the Executive for or plea of no contest to a felony or conviction of or plea of no contest to a misdemeanor involving moral turpitude, or the actual incarceration of the Executive for 45 consecutive days or more.

ARTICLE 2
DEFERRAL ACCOUNT

2.1 Annual Contribution. The Bank shall establish an Account Balance on its books. Within three months after the end of each Plan Year the Bank shall credit the Annual Contribution to the Account Balance provided the Performance Goals were achieved for the Plan Year. Contributions to the Account Balance by the Executive are prohibited. Discretionary contributions by the Bank are likewise prohibited. The Annual Contribution will not be made by the Bank for the Plan Year in which the Executive attains Normal Retirement Age or for any year thereafter. However, if the Performance Goals are achieved for the Plan Year in which the Executive attains Normal Retirement Age (and if Separation from Service does not occur before Normal Retirement Age), the Bank will make a final contribution in an amount equal to the Annual Contribution multiplied by a percentage. The percentage is equal the number of days in the Plan Year before the Executive attained Normal Retirement Age, divided by 365. If the Performance Goals are achieved for a Plan Year in which the Executive dies before Separation from Service and before attaining Normal Retirement Age, the Bank shall make a final contribution in an amount equal to the Annual Contribution multiplied by a percentage. The percentage shall equal the number of days in the Plan Year before the Executive's death divided by 365.

2.2 Interest. At the end of each Plan Year and until the first to occur of (*x*) Normal Retirement Age, (*y*) the Executive's death, or (*z*) the Executive's Separation from Service, interest is to be credited on the Account Balance at an annual rate of interest for that Plan Year, compounded monthly on the first day of the month, equal to the prime interest rate as published in *The Wall Street Journal* (the "Index"). After the first to occur of (*x*) Normal Retirement Age, (*y*) the Executive's death, or (*z*) the Executive's Separation from Service, interest shall be credited on the Account Balance at an annual rate equal to the yield on a 10-year corporate bond rated Aa by Moody's, rounded to the nearest ¼%.

2.3 Statement of Account. Within 120 days after the end of each Plan Year, the Bank shall provide to the Executive a statement of the Account Balance at the end of the Plan Year. Each annual statement of the Account Balance shall supersede the previous year's statement of the Account Balance.

2.4 Accounting Device Only. The Account Balance is solely a device for measuring amounts to be paid under this Agreement. The Account Balance is not a trust fund of any kind. The Executive is a general unsecured creditor of the Bank for the payment of benefits. The benefits represent the mere promise by the Bank to pay benefits. The Executive's rights are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by the Executive's creditors.

ARTICLE 3
BENEFITS DURING LIFETIME

3.1 Normal Retirement Age. Unless Separation from Service or a Change in Control occurs before Normal Retirement Age, when the Executive attains Normal Retirement Age the Bank will pay to the Executive the Account Balance as of the end of the month in which the Executive attains Normal Retirement Age, instead of any other benefit under this Agreement. Beginning on the first day of the month after the month in which the Executive attains Normal Retirement Age, the Account Balance will be paid to the Executive in 180 substantially equal monthly installments. The Bank will credit interest according to the formula of section 2.2, compounded monthly, until the Account Balance is paid in full. If the Executive's Separation from Service is a Termination with Cause, no further benefits will be paid under this Agreement and this Agreement will terminate.

3.2 Separation from Service. If Separation from Service occurs before Normal Retirement Age for reasons other than death or Termination with Cause, instead of any other benefit under this Agreement the Bank will pay to the Executive the Account Balance as of the end of the month immediately before the month in which payments commence, unless the Change-in-Control benefit has been paid under section 3.3. Beginning on the first day of the later of (*x*) the seventh month after the month in which Separation from Service occurs or (*y*) the month after the month in which the Executive attains Normal Retirement Age, the Bank will pay the Account Balance in 180 substantially equal monthly installments. The Bank will credit interest according to the formula of section 2.2, compounded monthly, until the Account Balance is paid in full.

3.3 Change in Control. If a Change in Control occurs both before the Executive attains Normal Retirement Age and before the Executive's Separation from Service, instead of any other benefit payable under this Agreement the Bank will pay to the Executive the entire Account Balance in a single lump sum on the day of the Change in Control. Payment of the Change-in-Control benefit fully discharges the Bank from all obligations under this Agreement, except the legal fee reimbursement obligation under section 9.11.

3.4 Payout of Normal Retirement Benefit or Separation from Service Benefit after a Change in Control. If when a Change in Control occurs the Executive is receiving the benefit under section 3.1, the Bank will pay the remaining benefits to the Executive in a single lump sum on the day of the Change in Control. If when a Change in Control occurs the Executive is receiving or is entitled at Normal Retirement Age to receive the benefit under section 3.2, the Bank will pay the remaining benefits to the Executive in a single lump sum three business days after the later of (*x*) the date of the Change in Control or (*y*) the first day of the seventh month after the month in which the Executive's Separation from Service occurs. The lump-sum payment due to the Executive as a result of a Change in Control is the amount equal to the Account Balance remaining unpaid.

3.5 One Benefit Only. Despite anything to the contrary in this Agreement, the Executive and Beneficiary are entitled to one benefit only under this Agreement, which is determined by the first event to occur that is dealt with by this Agreement. Except as provided in section 3.4, later occurrence of events dealt with by this Agreement do not entitle the Executive or Beneficiary to other or additional benefits under this Agreement.

3.6 Savings Clause Relating to Compliance with Code Section 409A. Despite any contrary provision of this Agreement, if when the Executive's employment terminates the Executive is a specified employee, as defined in Code section 409A, and if any payments under Article 3 of this Agreement will result in additional tax or interest to the Executive because of section 409A, the Executive shall not be entitled to the payments under Article 3 until the earliest of (*x*) the date that is at least six months after termination of the Executive's employment for reasons other than the Executive's death, (*y*) the date of the Executive's death, or (*z*) any earlier date that does not result in additional tax or interest to the Executive under section 409A.

ARTICLE 4
DEATH BENEFITS

After the Executive's death, the Bank shall pay to the Executive's Beneficiary the Account Balance as of the date of the Executive's death. The Account Balance shall be paid to the Executive's Beneficiary in a single lump sum, 90 days after the date of the Executive's death. However, if the Executive dies after termination of this Agreement under Article 6, the Executive's Beneficiary shall be entitled to no benefits under this Agreement.

ARTICLE 5
BENEFICIARIES

5.1 Beneficiary Designations. The Executive shall have the right to designate at any time a Beneficiary to receive any benefits payable under this Agreement after the Executive's death. The Beneficiary designated under this Agreement may be the same as or different from the beneficiary designation under any other benefit plan of the Bank in which the Executive participates.

5.2 Beneficiary Designation Change. The Executive shall designate a Beneficiary by completing and signing the Beneficiary Designation Form and delivering it to the Plan Administrator or its designated agent. The Executive's Beneficiary designation shall be deemed automatically revoked if the Beneficiary predeceases the Executive or if the Executive names a spouse as Beneficiary and the marriage is subsequently dissolved. The Executive shall have the right to change a Beneficiary by completing, signing, and otherwise complying with the terms of the Beneficiary Designation Form and the Plan Administrator's rules and procedures, as in effect from time to time. Upon the acceptance by the Plan Administrator of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be cancelled. The Plan Administrator shall be entitled to rely on the last Beneficiary Designation Form filed by the Executive and accepted by the Plan Administrator before the Executive's death.

5.3 Acknowledgment. No designation or change in designation of a Beneficiary shall be effective until received, accepted, and acknowledged in writing by the Plan Administrator or its designated agent.

5.4 No Beneficiary Designation. If the Executive dies without a valid beneficiary designation or if all designated Beneficiaries predecease the Executive, the Executive's spouse shall be the designated Beneficiary. If the Executive has no surviving spouse, the benefits shall be paid to the Executive's estate.

5.5 Facility of Payment. If a benefit is payable to a minor, to a person declared incapacitated, or to a person incapable of handling the disposition of his or her property, the Bank may pay the benefit to the guardian, legal representative, or person having the care or custody of the minor, incapacitated person, or incapable person. The Bank may require proof of incapacity, minority, or guardianship as it may deem appropriate before distribution of the benefit. Distribution shall completely discharge the Bank from all liability for the benefit.

ARTICLE 6
GENERAL LIMITATIONS

6.1 Termination with Cause. Despite any contrary provision of this Agreement, the Bank shall not pay any benefit under this Agreement and this Agreement shall terminate if Separation from Service is a Termination with Cause.

6.2 Removal. Despite any contrary provision of this Agreement, if the Executive is removed from office or permanently prohibited from participating in the Bank's affairs by an order issued under section 8(e)(4) or (g)(1) of the Federal Deposit Insurance Act, 12 U.S.C. 1818(e)(4) or (g)(1), all obligations of the Bank under this Agreement shall terminate as of the effective date of the order.

6.3 Default. Despite any contrary provision of this Agreement, if the Bank is in "default" or "in danger of default", as those terms are defined in section 3(x) of the Federal Deposit Insurance Act, 12 U.S.C. 1813(x), all obligations under this Agreement shall terminate.

ARTICLE 7
CLAIMS AND REVIEW PROCEDURES

7.1 Claims Procedure. The Bank will notify any person or entity that makes a claim for benefits under this Agreement (the "Claimant") in writing, within 90 days after receiving Claimant's written application for benefits, of his or her eligibility or noneligibility for benefits under the Agreement. If the Plan Administrator determines that the Claimant is not eligible for benefits or full benefits, the notice will state (*w*) the specific reasons for denial, (*x*) a specific reference to the provisions of the Agreement on which the denial is based, (*y*) a description of any additional information or material necessary for the Claimant to perfect his or her claim, and a description of why it is needed, and (*z*) an explanation of the Agreement's claims review procedure and other appropriate information concerning steps to be taken if the Claimant wishes to have the claim reviewed. If the Plan Administrator determines that there are special circumstances requiring additional time to make a decision, the Bank will notify the Claimant of the special circumstances and the date by which a decision is expected to be made and may extend the time for up to an additional 90 days.

7.2 Review Procedure. If the Claimant is determined by the Plan Administrator not to be eligible for benefits, or if the Claimant believes that he or she is entitled to greater or different benefits, the Claimant will have the opportunity to have his or her claim reviewed by the Bank by filing a petition for review with the Bank within 60 days after receipt of the notice issued by the Bank. The Claimant's petition must state the specific reasons the Claimant believes entitle him or her to benefits or to greater or different benefits. Within 60 days after receipt by the Bank of the petition, the Plan Administrator will give the Claimant (and counsel, if any) an opportunity to present his or her position verbally or in writing, and the Claimant (or counsel) will have the right to review the pertinent documents. The Plan Administrator will notify the Claimant of the Plan Administrator's decision in writing within the 60-day period, stating specifically the basis of its decision, written in a manner to be understood by the Claimant, and the specific provisions of the Agreement on which the decision is based. If, because of the need for a hearing, the 60-day period is not sufficient, the decision may be deferred for up to another 60 days at the election of the Plan Administrator but notice of this deferral will be given to the Claimant.

ARTICLE 8
ADMINISTRATION OF AGREEMENT

8.1 Plan Administrator Duties. This Agreement shall be administered by a Plan Administrator consisting of the board or such committee or persons as the board shall appoint. The Executive may not be a member of the Plan Administrator. The Plan Administrator shall have the discretion and authority to (*x*) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Agreement and (*y*) decide or resolve any and all questions that may arise, including interpretations of this Agreement.

8.2 Agents. In the administration of this Agreement, the Plan Administrator may employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel, who may be counsel to the Bank.

8.3 Binding Effect of Decisions. The decision or action of the Plan Administrator concerning any question arising out of the administration, interpretation, and application of the Agreement and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Agreement. Neither the Executive nor any Beneficiary shall be deemed to have any right, vested or unvested, regarding the continuing effect of any decision or action of the Plan Administrator.

8.4 Indemnity of Plan Administrator. The Bank shall indemnify and hold harmless the members of the Plan Administrator against any and all claims, losses, damages, expenses, or liabilities arising from any action or failure to act with respect to this Agreement, except in the case of willful misconduct by the Plan Administrator or any of its members.

8.5 Bank Information. To enable the Plan Administrator to perform its functions, the Bank shall supply full and timely information to the Plan Administrator on all matters relating to the date and circumstances of the retirement, death, or Separation from Service of the Executive and such other pertinent information as the Plan Administrator may reasonably require.

Article 9
MISCELLANEOUS

9.1 Amendments and Termination. This Agreement may be amended solely by a written agreement signed by the Bank and by the Executive, except that the Bank's Plan Administrator may on its own change the financial condition or conditions constituting the Performance Goals, which change shall constitute an amendment of this Agreement, provided that written notice of the change is given to the Executive as promptly as practicable after the change is adopted by the Plan Administrator. This Agreement may be terminated by the Bank without the Executive's consent. Unless Article 6 provides that the Executive is not entitled to payment or unless when termination occurs the Executive has already received payment of benefits under this Agreement, the Bank must pay the Account Balance in a single lump sum to the Executive if the Bank terminates this Agreement. The lump-sum termination payment will be made to the Executive consistent with the terms of the Code section 409A plan-termination exception to the prohibition against accelerated payment [Rule 1.409A-3(j)(4)(ix)].

9.2 Binding Effect. This Agreement shall bind the Executive and the Bank and their beneficiaries, survivors, executors, successors, administrators, and transferees.

9.3 Successors; **Binding Agreement**. By an assumption agreement in form and substance satisfactory to the Executive, the Bank shall require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the Bank's business or assets to expressly assume and agree to perform this Agreement in the same manner and to the same extent the Bank would be required to perform this Agreement had no succession occurred.

9.4 No Guarantee of Employment. This Agreement is not an employment policy or contract. It does not give the Executive the right to remain an employee of the Bank nor does it interfere with the Bank's right to discharge the Executive. It also does not require the Executive to remain an employee or interfere with the Executive's right to terminate employment at any time.

9.5 Non-Transferability. Benefits under this Agreement may not be sold, transferred, assigned, pledged, attached, or encumbered.

9.6 Tax Withholding. The Bank shall withhold any taxes that are required to be withheld from the benefits provided under this Agreement.

9.7 Applicable Law. This Agreement and all rights hereunder shall be governed by the laws of the State of Ohio, except to the extent the laws of the United States of America otherwise require.

9.8 Unfunded Arrangement. The Executive and the Beneficiary are general unsecured creditors of the Bank for the payment of benefits under this Agreement. The benefits represent the mere promise by the Bank to pay benefits. The rights to benefits are not subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors. Any insurance on the Executive's life is a general asset of the Bank to which the Executive and the Beneficiary have no preferred or secured claim.

9.9 Entire Agreement. This Agreement constitutes the entire agreement between the Bank and the Executive concerning the subject matter. No rights are granted to the Executive under this Agreement other than those specifically set forth.

9.10 Tax Consequences. The Bank does not insure or guarantee the tax consequences of payments provided hereunder for matters beyond its control. The Bank shall not be liable in any way to Executive if any payment or benefit which is to be provided pursuant to this Agreement and which is considered deferred compensation subject to Code section 409A otherwise fails to comply with, or be exempt from, the requirements of Code section 409A.

9.11 Payment of Legal Fees. The Bank is aware that after a Change in Control management of the Bank could cause or attempt to cause the Bank to refuse to comply with its obligations under this Agreement or could institute or cause or attempt to cause the Bank to institute litigation seeking to have this Agreement declared unenforceable or could take or attempt to take other action to deny the Executive the benefits intended under this Agreement. In these circumstances the purpose of this Agreement would be frustrated. The Bank desires that the Executive not be required to incur the expenses associated with the enforcement of rights under this Agreement, whether by litigation or other legal action, because the cost and expense thereof would substantially detract from the benefits intended to be granted to the Executive hereunder. The Bank desires that the Executive not be forced to negotiate settlement of rights under this Agreement under threat of incurring expenses. Accordingly, if after a Change in Control occurs it appears to the Executive that (*x*) the Bank has failed to comply with any of its obligations under this Agreement, or (*y*) the Bank or any other person has taken any action to declare this Agreement void or unenforceable, or instituted any litigation or other legal action designed to deny, diminish, or to recover from the Executive the benefits intended to be provided to the Executive hereunder, the Bank irrevocably authorizes the Executive from time to time to retain counsel of the Executive's choice, at the Bank's expense as provided in this section 9.11, to represent the Executive in the initiation or defense of any litigation or other legal action, whether by or against the Bank or any director, officer, stockholder, or other person affiliated with the Bank, in any jurisdiction. Despite any existing or previous attorney-client relationship between the Bank and any counsel chosen by the Executive under this section 9.11, the Bank irrevocably consents to the Executive entering into an attorney-client relationship with that counsel, and the Bank and the Executive agree that a confidential relationship shall exist between the Executive and that counsel. The fees and expenses of counsel selected from time to time by the Executive as provided in this section shall be paid or reimbursed to the Executive by the Bank on a regular, periodic basis upon presentation by the Executive of a statement or statements prepared by counsel in accordance with counsel's customary practices, up to a maximum aggregate amount of $500,000, whether suit be brought or not, and whether or not incurred in trial, bankruptcy, or appellate proceedings. The Bank's obligation to pay the Executive's legal fees under this section 9.11 operates separately from and in addition to any legal fee reimbursement obligation the Bank may have with the Executive under any separate employment, severance, or other agreement between the Executive and the Bank. Despite anything in this section 9.11 to the contrary however, the Bank shall not be required to pay or reimburse the Executive's legal expenses if doing so would violate section 18(k) of the Federal Deposit Insurance Act [12 U.S.C. 1828(k)] and Rule 359.3 of the Federal Deposit Insurance Corporation [12 CFR 359.3].

9.12 Severability. If any provision of this Agreement is held invalid, such invalidity shall not affect any other provision of this Agreement not held invalid, and each such other provision shall continue in full force and effect to the full extent consistent with law. If any provision of this Agreement is held invalid in part, such invalidity shall not affect the remainder of the provision not held invalid, and the remainder of such provision together with all other provisions of this Agreement shall continue in full force and effect to the full extent consistent with law.

9.13 Waiver. A waiver by either party of any of the terms or conditions of this Agreement in any one instance shall not be considered a waiver of the terms or conditions for the future or a waiver of any subsequent breach. All remedies, rights, undertakings, obligations, and agreements contained in this Agreement shall be cumulative, and none of them shall be in limitation of any other remedy, right, undertaking, obligation or agreement of either party.

9.14 Captions and Counterparts. Captions in this Agreement are included for convenience only and shall not affect the interpretation or construction of the Agreement or any of its provisions. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original and all of which taken together shall constitute a single agreement.

9.15 Notice. All notices, requests, demands, and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered by hand or mailed, certified or registered mail, return receipt requested, with postage prepaid. Unless otherwise changed by notice, notice shall be properly addressed to the Executive if addressed to the address of the Executive on the books and records of the Bank at the time of the delivery of such notice, and properly addressed to the Bank if addressed to the Board of Directors, The Middlefield Banking Company, 15985 East High Street, Middlefield, Ohio 44062-0035.

In Witness Whereof, the Executive and a duly authorized Bank officer have executed this Executive Deferred Compensation Agreement as of the date first written above.

EXECUTIVE:

/s/ John D. Lane
John D. Lane

BANK:
The Middlefield Banking Company

By: /s/ James R. Heslop II
Its: Executive Vice President and C.O.O.

The Middlefield Banking Company
Executive Deferred Compensation Agreement
Beneficiary Designation

I designate the following as beneficiary under this Executive Deferred Compensation Agreement of benefits payable after my death.

Primary:____

____

Contingent:____

____

Note: To name a trust as beneficiary, please provide the name of the trustee(s) and the <u>exact</u> name and date of the trust agreement.

I understand that I may change these beneficiary designations by filing a new written designation with the Bank. I further understand that the designations will be automatically revoked if the beneficiary predeceases me, or, if I have named my spouse as beneficiary and our marriage is subsequently dissolved.

Signature: ____________________________
John D. Lane

Date: ____________________, 2018

Received by the Bank this ______ day of ________________, 2018

By: ________________________________

Title: ______________________________

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Section 4: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

Certification of Principal Executive Officer
Pursuant to Section 302 of the Securities Exchange Act of 1934

I, Thomas G. Caldwell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Middlefield Banc Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 7, 2019 /s/ Thomas G. Caldwell

Thomas G. Caldwell
President and Chief Executive Officer

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Section 5: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

Certification of Principal Executive Officer
Pursuant to Section 302 of the Securities Exchange Act of 1934

I, Donald L. Stacy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Middlefield Banc Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2019 /s/ Donald L. Stacy

Donald L. Stacy
Principal Financial and Accounting Officer

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Section 6: EX-32 (EXHIBIT 32)

mbc Middlefield Banc Corp

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Middlefield Banc Corp. (the "Company") on Form 10-Q for the period ending March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Thomas G. Caldwell, President, and Donald L. Stacy, Chief Financial Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/Thomas G. Caldwell	By: /s/Donald L. Stacy
Thomas G. Caldwell	Donald L. Stacy
President and Chief Executive Officer	Principal Financial and Accounting Officer

May 7, 2019

A signed original of this written statement required by Section 906 has been provided to Middlefield Banc Corp. and will be retained by Middlefield Banc Corp. and furnished to the Securities and Exchange Commission or its staff upon request.

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