



## AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

### AUDIT COMMITTEE CHARTER FEBRUARY 8, 2016

**1. PURPOSE.** The Audit Committee is a committee consisting entirely of members of Middlefield Banc Corp.'s board of directors. The Committee is established for the purpose of overseeing the accounting and financial reporting processes of the Company and audits of its financial statements. In that regard, the Committee assists the board in monitoring (1) the integrity of the Company's financial statements, (2) the independent auditor's qualifications and independence, (3) the performance of the Company's internal audit function and independent auditors, and (4) the compliance by the Company with legal and regulatory requirements. The Committee also will oversee the Company's process for monitoring compliance with the Company's policies, Code of Ethics, and Code of Ethics for Financial Professionals. Unless in context references to the Company clearly mean Middlefield Banc Corp. alone, references to the Company generally shall be taken to include any subsidiaries of Middlefield Banc Corp. References to independent auditors or independent auditor shall mean a registered public accounting firm registered with the Public Company Accounting Oversight Board (PCAOB) established under Title I of the Sarbanes-Oxley Act of 2002.

#### **2. MEMBERSHIP AND QUALIFICATION.**

*Appointment.* The members of the Committee shall be appointed annually by the board. The board may, at any time and at its discretion, change the membership of the Committee. The board shall designate one member of the Committee to be Committee Chairperson.

*At Least Three Members, All of Whom Shall Be Independent.* The Committee shall consist of at least three directors, each of whom must be and remain independent. A Committee member shall not be considered independent if he or she fails to satisfy the standards of independence set forth in (a) section 10A(m)(3) of the Securities Exchange Act of 1934 (15 U.S.C. 78f(m)(3)), (b) Securities and Exchange Commission (SEC) Rule 10A-3(b)(1) (17 CFR 240.10A-3(b)(1)), and (c) NASDAQ Listing Rule 5605(a)(2), whether because he or she accepts consulting, advisory, or other compensatory fees from the Company or any subsidiary, or because he or she is an affiliated person of the Company or a subsidiary, or for other reasons under those laws. No member of the Committee may accept any consulting, advising, or other compensatory fee from the Company except for service on the board of directors or a committee or committees of the board. In addition, no member of the Committee shall have participated in the preparation of the Company's financial statements in the past three years.

*All Committee Members must Be Financially Literate, but May Not Serve on More than Three Audit Committees of Public Companies.* Each member of the Committee must, in the judgment of the board, be financially literate and be able to read and understand the Company's basic financial statements. To help meet these requirements, the audit committee will provide its members with annual continuing education opportunities in financial reporting and other areas relevant to the Committee. Committee members shall not simultaneously serve on the audit committee of more than two other public companies.

*At Least One Audit Committee Member Should Be a Financial Expert.* At least one member of the Committee should be an "audit committee financial expert," as that term is defined in SEC rules (Regulation S-K Item 407(d)(5); 17 CFR 229.407(d)(5)). The board of directors shall decide whether a member of the Committee is an "audit committee financial expert." If none of the independent directors on Middlefield Banc Corp.'s board of directors would qualify as an audit committee financial expert under SEC rules, the Committee shall nevertheless be properly constituted without such an expert. But in that case, the Company's Form 10-K annual report or annual meeting proxy statement must disclose that the Company's audit committee does not have an audit committee financial expert and it must disclose why the Company does not have such an expert.

### **3. MEETINGS AND OTHER ACTIONS.**

*Frequency of Meetings.* The Committee will meet as often as it determines is necessary, but not less than quarterly. The Committee may also act by unanimous written consent in lieu of a meeting. The Committee shall meet separately as needed with management, with the Company's internal auditors, and with the Company's independent auditors. The Committee shall meet at such other times as it considers necessary to fulfill its responsibilities.

*Notice of Meetings and Conduct of Meetings.* Meetings may be called by the Committee Chairman or by a majority of Committee members. All meetings and other actions of the Committee shall be according to the Company's regulations, including provisions governing notice of meetings and waivers of notice, the number of Committee members required to take actions at meetings and by written consent, and other related matters. Unless contrary to the regulations, a majority of the members of the Committee shall constitute a quorum, and any act of a majority of the members present at any meeting at which a quorum is present shall be the act of the Committee. The Committee may request that members of management or representatives of the independent auditors be present at any Committee meeting.

*Committee Reports to the Board of Directors.* Reports of meetings of and actions taken at meetings or by consent of the Committee since the most recent board meeting shall be made by the Committee Chairman or his or her delegate to the board at the time of or before the board's next regularly scheduled meeting after the Committee meeting or action. The report shall be accompanied by any recommendations from the Committee to the board. In addition, the Committee Chairman or his or her delegate shall be available to answer any questions the other directors may have regarding the matters considered and actions taken by the Committee.

*The Committee Shall Not Delegate its Authority.* Unless otherwise authorized by the board and except as may be allowed by this Audit Committee Charter, the Committee shall not delegate any of its authority to any subcommittee.

### **4. COMMITTEE AUTHORITY AND RESPONSIBILITIES.**

*(a) Internal Controls.* In conjunction with management, the independent auditors, and the internal auditors, the Committee shall consider the adequacy of the Company's financial reporting systems and business process controls at least as frequently as every quarter, discussing significant exposures and the actions management has taken to monitor and control exposures. The Committee shall also review (i) any significant findings noted by the independent auditors or by the internal auditors in the course of their audits, as well as management responses and (ii) the Company's internal controls report prior to the filing of the Company's Form 10-K.

*(b) Accounting and Financial Reporting Generally.* In its general oversight of the Company's financial reporting, the Committee shall —

1) *Evaluate Accounting and Financial Reporting Issues and New Pronouncements:* evaluate significant accounting and reporting issues identified by management, the independent auditors, or the internal auditors or otherwise identified in the course of the Committee's review of the Company's financial statements and its discussions with auditors, including recent professional and regulatory pronouncements considered by the Company or auditors to be particularly relevant to the Company,

2) *Review Accounting and Financial Reporting Choices and Critical Accounting Policies:* review with management and independent auditors management's proposals regarding (a) new accounting pronouncements, (b) the adoption of or proposed changes in material accounting principles and practices employed in the preparation of the Company's financial statements, (c) alternative principles and practices that could have been employed by the Company and the reasons for selecting the principles and practices employed, (d) the financial impacts of the principles and practices employed compared to those of the other alternatives available, and (e) the use of any "pro forma" or "adjusted" non-GAAP information, which must in the case of public disclosures comply with the SEC's Regulation G (17 CFR 244.100 – 244.102) and in the case of filings with the SEC comply also with Regulation S-K (17 CFR 229.10, Item 10),

3) *Meet Quarterly in Private Sessions with and Solicit the Opinions of Independent and Internal Auditors:* (a) meet at least quarterly in private sessions – without any other members of management being present – with independent auditors and with the Company’s internal auditors to discuss matters that the Committee or the auditors believe should be discussed, and (b) inquire of the independent and internal auditors whether they have any concerns about accounting or reporting risks or exposures, the quality of the Company’s accounting practices and whether the Company employs any aggressive accounting practices, any business transactions that could affect the fair presentation of the Company’s financial condition or results of operations, or any weaknesses in the Company’s internal control systems,

4) *Allow for Confidential Submission of Complaints:* establish procedures for (a) the receipt, retention, and treatment of any complaints received by the Company regarding accounting, internal controls, or auditing matters, and (b) the confidential and anonymous submission by employees of the Company or subsidiaries of any concerns regarding questionable accounting or auditing matters, and

5) *Review the Chief Executive Officer’s and the Chief Financial Officer’s Certifications:* review disclosures made to the Committee by the Company’s CEO and CFO during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company’s internal controls.

(c) *Earnings Releases.* The Committee shall discuss and review earnings releases and related Form 8-K Item 2.02 disclosure, as well as financial information and earnings guidance with management prior to the release of earnings as appropriate. The Committee’s discussion of earnings releases, as well as financial information and earnings guidance, may be general (*i.e.*, discussion of the types of information to be disclosed and the type of presentations to be made). The Committee need not discuss in advance each earnings release or each instance in which the Company may provide earnings guidance.

(d) *Annual Financial Statements.* For the audit of the Company’s annual financial statements, the Committee shall —

1) *Consider the Audit Scope Before the Audit:* review with the independent auditors the proposed audit scope and planning and staffing of the audit,

2) *Discuss Privately with the Independent Auditors the Results of the Audit:* discuss privately with the independent auditors whether there have been any audit problems or difficulties and any related responses by management. The Committee shall discuss with the independent auditors (a) whether management has placed any restrictions on the scope of the independent auditors’ work or their access to information, (b) whether any accounting adjustments have been noted or proposed by the independent auditors but not adopted, and inquire whether there have been any communications between the audit team and the audit firm’s national office regarding auditing or accounting issues raised in the Company’s audit, (c) any “management” or “internal control” letters issued or proposed to be issued by the independent auditors to the Company, as well as any other material written communications between the independent auditors and management that the independent auditors or management brings to the Committee’s attention, and (d) any other matters required to be communicated to the Committee by the independent auditors under auditing standards established from time to time by the PCAOB and SEC rules.

3) *Review the Audited Financial Statements and Management’s Discussion and Analysis Before Filing:* meet with management, internal auditors, and the independent auditors to review the annual financial statements and related notes, as well as the related Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A), before they are filed with the SEC or otherwise publicly released, and inquire whether the financial statements and related notes are prepared in accordance with U.S. generally accepted accounting principles (GAAP),

4) *Review the Valuation of Assets and Liabilities:* examine judgmental areas such as those involving valuation of assets and liabilities, including, for example, the accounting for and disclosure of loan losses; environmental liability; litigation reserves; and other commitments and contingencies,

5) *Review Related-Party Transactions:* review any material related-party transaction that occurred in the most recent fiscal year, including the transaction's business purpose, pricing, and fairness, and

6) *Prepare a Report of its Review for Public Disclosure:* the Committee also shall make a recommendation to the board regarding inclusion of the financial statements, notes, and MD&A in the Company's Annual Report on Form 10-K, and make such reports in the Company's proxy statement or annual report of the Committee's activities and evaluations as may be required by SEC rules (17 CFR 229.407(d), Regulation S-K Item 407(d); 17 CFR 240.14a-101, Schedule 14A Item 7(d)).

**(e) Interim Financial Statements.** For interim financial statements, the Committee shall (1) meet with management, internal auditors, and the independent auditors to review the interim financial statements and related notes, as well as the related MD&A, before filing, and inquire whether the financial statements and notes are prepared in accordance with GAAP, and (2) confirm that the Company's interim financial statements and related notes included in Form 10-Q have been reviewed by the Company's independent auditors using professional standards and procedures for conducting such reviews, as established by GAAP and consistent with SEC rules (Regulation S-X Rule 10-01(d), 17 CFR 210.10-01(d)).

**(f) Compliance with Laws and Regulations Relating to Financial Reporting and Tax Matters.** In its oversight of the Company's compliance with laws and regulations, the Committee shall review periodically the Company's procedures for monitoring compliance with laws and regulations. The Committee shall consider and discuss significant findings of reviews or examinations of the Company or its subsidiaries by regulatory agencies, such as the Federal Deposit Insurance Corporation, the Ohio Division of Financial Institutions, the SEC, and the Federal Reserve Board.

**(g) Compliance Oversight and Approval of Related Party Transactions.** The Committee shall –

- discuss with management and the internal auditors the Company's processes regarding compliance with applicable laws and with the Company's Code of Ethics and Code of Ethics for Financial Professionals,
- obtain reports from management, the Company's chief internal auditor, and the independent auditors regarding compliance by the Company with applicable legal requirements (including suspicious activity reports and regulatory examination reports), and with the Company's Code of Ethics and Code of Ethics for Financial Professionals,
- from time to time advise the board of directors with respect to the same, and
- obtain from the independent auditors any reports required to be furnished to the Committee under Section 10A of the Securities Exchange Act of 1934.

The Committee shall be responsible for evaluating and deciding whether to approve related party transactions, including any transaction of the kind required by the SEC's Regulation S-K, Item 404, to be disclosed.

**(h) Internal Auditors.** In its oversight of the internal audit function, the Committee shall —

1) *Consider the Adequacy of the Company's Internal Audit Function and Review Significant Management Reports:* whether the internal auditing function is performed by internal auditing staff employed by the Company or by an outside auditing firm, ensure that internal audits are performed on a regular basis, including appropriate review and approval of the Company's internal transactions and accounting, and periodically consider the responsibilities, budget, and staffing of the Company's internal audit function and whether the internal audit

department has sufficient resources to carry out its responsibilities. The Committee shall review significant reports to management prepared by the internal auditing function, as well as management's responses,

2) *Annually Review the Internal Audit Plan*: annually review the internal audit plan and its scope, and

3) *Have Veto Authority over Important Internal Audit Personnel Changes*: exercise veto authority over the appointment, replacement, reassignment, or dismissal of the chief internal auditor (or outside auditing firm, which may not be the Company's independent auditors) having primary responsibility for the Company's internal auditing function.

(i) **Independent Auditors**. In its oversight of the Company's independent auditors, the Committee shall —

1) *Exclusive Authority over Engagement of the Company's Independent Auditors*: have exclusive authority (subject, if applicable, to shareholder ratification) over the appointment, compensation, retention, and oversight of the work of the independent auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services, including resolution of any disagreements between management and the independent auditors regarding financial reporting. The independent auditors may not provide the non-audit services described in section 10A(g) of the Securities Exchange Act of 1934 or that are inconsistent with the rules of the SEC or the PCAOB (or other similar body as may be established from time to time). The independent auditors may provide audit and other non-audit services, including tax services, if and only if approved in advance by the Committee. The independent auditors shall report directly to the Committee. The Committee may delegate to a subcommittee consisting of one or more of its members the authority to approve audit and non-audit services, provided that decisions of the subcommittee are presented to the full Committee for action at its next meeting,

2) *Auditor Independence*: (a) obtain and review, at least annually, a written report from the independent auditors that describes all relationships between the independent auditors and the Company, including the amount and nature of all related compensation and (b) discuss with the independent auditors the impact on the auditors' objectivity and independence of any disclosed relationships as required by professional standards. The Committee shall evaluate the qualifications, performance, and independence of the independent auditors, including considering whether the auditor's quality controls are adequate and whether the provision of permitted non-audit services is compatible with maintaining the auditor's independence, taking into account the opinions of management and internal auditors. The Audit Committee shall present its conclusions with respect to the independent auditor to the board,

3) *Independent Auditor's Internal Reviews, Peer Reviews, and Investigations*: obtain and review a report from the independent auditors at least annually regarding (a) the independent auditor's internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years concerning an independent audit carried out by the firm, and (c) any steps taken to deal with any those issues,

4) *Independent Auditor Rotation*: review and evaluate the lead (or coordinating) partner of the independent auditors and confirm that the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for review of the audit complies with section 10A(j) of the Securities Exchange Act of 1934. The Committee shall consider whether it is appropriate to implement a policy of rotating the independent auditing firm on a regular basis to ensure continuing auditor independence, and

5) *Veto Authority Over the Hiring of Former Independent Auditor Personnel*: exercise veto authority over a proposal of the Company or any of its subsidiaries to employ anyone who has served as a member of the independent auditors' audit team assigned to the Company's audit within the previous year.

(j) **Other Responsibilities**. The Committee also shall —

1) *Assess the Company's Financial Exposure*: without superseding the authority of any other board committee having primary oversight authority, review and discuss with management and internal auditors, and as appropriate with independent auditors, the Company's policies and practices for risk assessment and risk

management, including the Company's major financial risk exposures, the effect of off-balance sheet structures on the Company's financial statements, steps taken by management to monitor and control exposures, and the Company's litigation management and insurance management processes,

2) *Monitor Litigation and Special Investigations*: monitor major litigation and significant internal or external special investigations, and if deemed appropriate initiate special investigations into matters within the Committee's scope of responsibilities or as delegated by the board of directors, and perform other oversight functions as requested by the full board,

3) *Monitor Information Security and Business Continuity Programs*: monitor the systems that management has established to implement the Company's information security and business continuity programs, and

4) *Conduct an Annual Self-Evaluation and an Assessment of this Charter*: perform an annual self-evaluation, annually reassess the adequacy of the Audit Committee Charter, and if appropriate propose changes in the Charter to the board.

**5. FUNDING AND RESOURCES.** The Company shall provide to the Committee appropriate funding, as determined by the Committee, for payment of (a) compensation of the independent auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services for the Company, (b) compensation of any advisers employed by the Committee, and (c) ordinary administrative expenses of the Committee that are necessary or appropriate to carry out its duties. In addition to the Committee's exclusive authority to engage the Company's independent auditors, the Committee shall have the right to engage its own independent accounting experts, lawyers, and other consultants to assist and advise the Committee in the discharge of its responsibilities, as the Committee considers necessary. In carrying out its duties and responsibilities, the Committee shall also have the authority to meet with and seek any information it requires from employees, officers, directors, or external parties. The Committee may also work with other committees of the board or the board directly to investigate matters of interest to the Committee.

**6. THE ROLE OF THE AUDIT COMMITTEE IS LIMITED.** Although the powers and responsibilities of the Committee set forth in this Charter are extensive, it is not the Committee's duty to plan or conduct audits, to determine that the Company's financial statements and disclosures are complete and accurate, or to determine that the Company's financial statements are prepared in accordance with GAAP and applicable rules and regulations. These are the responsibilities of management and the independent auditors. Likewise, it is the duty of management to ensure compliance with laws and compliance with the Company's Code of Ethics and Code of Ethics for Financial Professionals.

In performing the Committee's duties and responsibilities, a Committee member is entitled to rely in good faith on information, opinions, reports, or statements prepared or presented by (i) one or more officers or employees of the Company whom the Committee member reasonably believes to be reliable and competent in the matters presented, (ii) counsel, independent auditors, or other persons as to matters which the Committee member reasonably believes to be within the professional or expert competence of such person, or (iii) another committee of the board as to matters within its designated authority which committee the Committee member reasonably believes to merit confidence.

**7. DISCLOSURE OF CHARTER.** This Charter will be made available on the Company's website at [www.middlefieldbank.com](http://www.middlefieldbank.com).