



Through the strong efforts of all those associated with Oxford Bank Corporation, its subsidiary, Oxford Bank, remains a healthy, resilient financial organization fiercely committed to its 123-year tradition as a "Main Street" community bank. Having said that, 2006 was a demanding year for anyone doing business in southeastern Michigan. And, while we are not excusing ourselves of any responsibility, we would be remiss if we did not comment on the various economic factors that played a part in the decline of our earnings over the past twelve months. Oxford Bank, as with most community banks in our State, was not immune to the unique conditions of our local economy. Yet, despite the fact that income expectations were not met, the Bank remained profitable; earning \$3,213,000 or \$2.51 per common share.



As the news media constantly reminds us, no other state economy has faced the myriad of negative issues Michigan has been burdened with. Significant declines in the automotive sector, have had a "tidal wave" impact throughout our entire region. High local unemployment and job losses associated with this decline have resulted in greater incidents of delinquent loans and home foreclosures, a stagnant housing market, and declining residential and commercial real estate values. Despite outstanding efforts by our management team in controlling credit quality, our financial statements reflected the necessity to increase the contribution to our loan loss reserve again during 2006. This addition, however, represents a significantly smaller year-to-year increase than was experienced in 2005 over 2004, and that in itself is a positive reflection on the Bank's ability to manage its delinquent credits in today's environment. Furthermore, the growing inventory of homes for sale in our service area, and the resulting deflation of prices, substantially reduced the values of our collateral. This, again, supported our prudent funding of the loan loss reserve, recognizing the board and managements' commitment to maintaining a safe and sound financial institution during these difficult times.

Finally, Oxford Bank, as is the case with most community banks, relies largely on net interest income, rather than customer fees, to generate overall earnings. And, like our peers, we continue to witness extreme downward pressure on our net interest margin. This has been largely effected by two factors: 1) an abnormally long period of time over which there has been a flattening of the yield curve and, 2) increased competition from a growing number of financial institutions within our local markets, which has created a very aggressive pricing atmosphere for both loan and deposit products. While these two factors are good for our borrowers and depositors alike, they do impede earnings for the Bank.

It is also important to note that our strategic decisions in June of 2006 to improve the long term quality of our earning assets, did negatively impact income for the short term. At the end of the first quarter, management opted not to try to grow the size of the Bank during a time when competition is driving up the cost of obtaining that growth. And, as reported in earlier correspondence, our senior management team initiated the sale of some low yielding bonds within our investment portfolio and redeployed these funds to higher yielding investments, including loans made locally. We also announced a mid-year decision to discontinue our indirect vehicle lending program with local automobile, watercraft, and recreational vehicle dealers. This move was a proactive measure designed to inoculate Oxford Bank from potentially adding further instances of delinquent and impaired vehicle loans to that portfolio. And, due to the size of our indirect loan portfolio, this move did contribute to the decision to not actively grow the higher cost funding side of the Bank. We are confident that each of these moves has helped to improve the quality of our earning assets, and should begin to increase the efficiency of our balance sheet as we move through 2007.

We are very pleased to report that despite these challenges, we were able to improve stockholder equity by 4.78 percent to \$49,882,000 as the year ended. Also, book value per share increased \$1.78 to end 2006 at \$38.98 per share, and total cash dividends paid increased by 1.79 percent over those paid in 2005. Rest assured that Oxford Bank, with nearly \$50 million in capital, remains a safe, and strong, institution.



While we manage through this difficult economic period, we remain excited about the future of our organization. Oxford Bank has an outstanding business model, and the backbone of that "model" is our people. The unmatched customer experience they provide enhances our ability to attract new business to our organization. We are proud of the numerous staff promotions earned during 2006, and of the seven individuals who were recognized by the board of directors with officer appointments and/or promotions.

Effective March 31, the board of directors named Jeffrey M. Davidson as the new president and chief executive officer of Oxford Bank Corporation, replacing Randall G. Fox. Jeff is also the president and chief executive officer of Oxford Bank. This appointment is the continuation of a succession plan initiated in 2003. Randy continues to perform his duties as chairman of both the Bank and Corporation.

Also in March, Angela J. Blackmer was hired as assistant vice president and senior credit analyst and Kelley L. Brede was promoted to assistant vice president. Angela has over five years of financial underwriting experience. Her responsibilities include the review of commercial loan requests, analysis of corporate financial statements, personal financial statements, collateral position, and the assignment of credit ratings. Kelley is a 14-year employee of Oxford Bank and the manager of the Bank's Main Office. In addition to her managerial responsibilities, Kelley also performs the duties of executive assistant to the president of the Bank.

In November, Patrick J. Thompson was hired as vice president and commercial loan officer. Patrick brings more than 37 years of banking and financial experience to his new position, the last 19 of which have centered on commercial lending and investment.

Finally, in December, the Board recognized the efforts of Anthony (Tony) P. Lasher and Sandra D. Whitehead by promoting each of them to assistant vice president, and of Nathan E. Davidson with his appointment to bank officer. Tony has been the head of the Bank's marketing department since 1999. He is responsible for overseeing and implementing all marketing, communications, and community relations efforts. Sandra, a 25-year employee, has been the Bank's items processing manager since 1996. She oversees all item processing activities as well as assists in the planning, development, and direction of systems analysis, programming, and operation of the Bank's in-house electronic data processing system. Nathan is the supervisor of the Bank's internal audit function. An employee since 2000, he is responsible for evaluating the development and implementation of the Bank's operational and administrative control procedures, and monitoring those processes on a day-to-day basis.

With 2007 forecasts for the local Michigan economy remaining unfriendly, we are aware that the next twelve months will provide numerous tests for Oxford Bank. However, we feel strongly that we have the right people and systems in place to meet these challenges. And, as with every year, our overriding objective is to continue to enhance stockholder value.

The directors, officers, and the entire staff join us in thanking you for your support during 2006. We look forward to seeing you at the Annual Meeting of Stockholders on March 27, 2007. As usual, it will be held in the Main Office of Oxford Bank at 7:00 p.m.

Very truly yours,



Randall G. Fox
Chairman
Oxford Bank Corporation



Jeffrey M. Davidson
President & CEO
Oxford Bank Corporation

