CB FINANCIAL CORPORATION
AND SUBSIDIARY

2008 Annual Report

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Cornerstone Bank Web Address: www.thecornerstonebank.com

For stock transfers and change of address on shares owned please contact our Stock Transfer Agent

First-Citizens Bank & Trust Company
Corporate Trust Dept.
100 East Tryon Road
Raleigh, NC 27603
1-877-685-0576

CB Financial Corporation

April 21, 2009

Dear Stockholders,

Your 2008 annual report for CB Financial Corporation, the single bank holding company for Cornerstone Bank, arrives without delay. You will discover that, unfortunately, we posted a loss of $819,107 for 2008, but we are not alone in the banking world. The financial industry took a beating in 2008. Several large, high-profile banks are now under a new name. Some smaller — even community banks are no longer around. Insurance firms failed, brokerage firms melted down, and recessions spread worldwide. That affected every one of us. We saw $4 per gallon gas last summer, incredibly higher prices at the grocery store, and way too many losses of jobs every day. We saw retirement incomes shrivel, and certain executive bonuses made us shiver. That, too, affected every one of us. We saw record numbers of foreclosures and bankruptcies. It was a very bad year.

Some of it reached home.

And as a community bank, serving only our area, we have to view the problems in a different way. It's one thing to sit in a lofty office in a large city, and discuss a bankruptcy for a customer who is hundreds of miles away, wearing a face that's never been seen by the decision-makers. It's something else when you live in the same town, maybe on the same street, with that customer you see at church, go to ballgames with kids, or run into at the pharmacy. It's a face you know well. And the pain is very real.

We aggressively confronted our share of "troublesome" loans in 2008. That's the biggest influence on profits. We pushed a higher-than-normal volume of dollars into loan loss reserves, over $2.7 million, which impacted our earnings. At the same time we charged off almost $2.1 million in troubled loans. Some of these loans will be collected, some will not. We continue to work through those problems — again, those are not faceless, unknown customers in a far away town.

That's the bad news.

While 2009 will continue to be a challenging year for banking as the recession lingers, we see glimmers of hope that the economy is starting to turn the corner. And while we will continue to face our share of local challenges, we are cautiously optimistic that the 2009 performance of the Company will be much improved.

The really good news is that we maintained a healthy cushion of capital during an extremely difficult banking year. Capital is the real test of a bank's strength, safety and soundness. It is the cushion banks must have to withstand tough economic times, and we are certainly in a tough economic climate nationally and locally. Having adequate capital is what allows a bank to keep growing and prosper. Those banks that do not remain "well capitalized" during this recession will be merged, bought or liquidated. Not having adequate capital will get the name changed on your building. It is our intention to maintain healthy capital levels and add additional capital as necessary to remain "well capitalized" to protect the Company and our stockholders from unforeseen economic changes.

We also made some tough and prudent decisions as we moved into 2009. Our senior management voluntarily accepted lower salaries until the economy and the Company improves. Our Directors waived their retainer fees. We did not expand in number of branches, did not add to staff, and held spending to a sensible threshold.

That does not mean we did nothing. We opened a residential mortgage lending office in Wake County. How smart was that move? We are covered up with mortgage business, with new mortgages and refinances due to rates that are at a 60-year low. These are good loans and they are profitable.

We supported a loan production office in Johnston County, serving Wake, Johnston, and Harnett Counties in growing areas.

We also are focused on our core business: of being a community bank, well serving the needs of the immediate market. We continue to add numbers of customers and accounts, showing that we are providing something relevant. We remain consistent and persistent in being sure our pricing structure is fair to customers and to stockholders. Could we make more money? Sure, but with each decision we make, we now ask three questions: (1) is it good for our customer; (2) is it good for our stockholders; (3) is it good for your Bank (and our employees). All of these questions must be answered yes.

We must *do things right*, and just as importantly, we must *do the right things.*

Are we happy about losing money for 2008? Of course not. Are we aware of the conditions behind the loss? Of course. Are we optimistic about turning the red numbers into black? We are indeed. Is there a quick fix for the economy? Not that we know of. Will recovery appear in 2009, 2010, or beyond? We don't know exactly, but we are confident of an economic recovery.

All good questions. But add these: Are we happy with our Board and our senior management team? A resounding yes. Are we convinced this Company is following its community-minded mission? Absolutely.

When we opened nine years ago, we encouraged shareholders to view this as a long-term investment. The earnings over the past nine years have been good, including profitability every quarter from the fifth quarter of existence until the second quarter of 2008. Your Company has returned over $5.4 million to the bottom line since that fifth quarter.

We lost money in 2008. The economics of Wall Street did hit Main Street. But this is temporary. This is America. In fact, this is Wilson, NC and we're going to be just fine.
We are solidly behind the performance and the future of CB Financial Corporation and Cornerstone Bank.

Thank you for being a part of our Company, and we encourage you to become even more active with additional products and services. Regardless, stop by to say hello to our people. You can be sure that your senior management is on the job, visible and accessible every day.

Sincerely,

John C. Anthony
Chairman of the Board

Norman B. Osborn
President and CEO

Elliott Davis

Elliott Davis, PLLC
Accountants and Business Advisors

Independent Auditor's Report

To the Stockholders and the Board of Directors
CB Financial Corporation
Wilson, North Carolina

We have audited the accompanying consolidated balance sheets of CB Financial Corporation and subsidiary (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CB Financial Corporation and subsidiary at December 31, 2008 and 2007 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Elliott Davis, PLLC

Galax, Virginia
April 21, 2009

CB FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007

	2008	2007
ASSETS		
Cash and due from banks	$ 3,102,844	$ 4,542,979
Interest-earning deposits in banks	4,517,689	3,887,097
Federal funds sold	-	2,000,000
Time deposits	606,500	4,373,069
Investment securities available for sale, at fair value (Note D)	40,074,904	39,729,461
Loans (Note E)	145,895,371	130,860,639
Allowance for loan losses	(2,532,773)	(2,001,345)
NET LOANS	143,362,598	128,859,294
Accrued interest receivable	883,285	952,967
Stock in Federal Home Loan Bank of Atlanta, at cost	1,480,900	596,700
Premises and equipment, net of depreciation (Note F)	2,118,168	2,196,682
Bank-owned life insurance	4,722,287	4,533,353
Real estate owned	1,033,059	656,620
Other assets	2,803,409	1,771,991
TOTAL ASSETS	$ 204,705,643	$ 194,100,213
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand	$ 12,005,482	$ 14,244,295
Savings	1,223,303	1,644,594
Money market and NOW	38,575,817	40,975,544
Time (Note G)	110,046,545	112,226,976
TOTAL DEPOSITS	161,851,147	169,091,409
Short term borrowings (Note H)	6,000,000	-
Long term borrowings (Note H)	22,905,000	11,405,000
Federal funds purchased	1,494,000	-
Accrued interest payable	232,386	229,949
Accrued expenses and other liabilities	490,252	299,725
TOTAL LIABILITIES	192,972,785	181,026,083
Commitments (Notes L and N)		
Stockholders' equity (Notes K and N):		
Preferred stock, 20,000,000 shares authorized, 244,302 issued	2,458,434	-
Common stock, no par value, 80,000,000 shares authorized; 843,715 and 1,126,802 shares issued and outstanding, respectively	8,542,744	10,658,628
Retained earnings	482,639	2,335,206
Accumulated other comprehensive gain (loss)	249,041	80,296
TOTAL STOCKHOLDERS' EQUITY	11,732,858	13,074,130
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 204,705,643	$ 194,100,213

See accompanying notes.

CB FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2008 and 2007

	2008	2007
INTEREST INCOME		
Loans	$ 8,758,272	$ 10,650,169
Investment securities—taxable	1,920,805	1,147,102
Investment securities—tax exempt	97,725	473,976
Federal funds sold	13,867	331,385
Interest-earning deposits in banks	34,001	142,167
Other interest and dividends	236,719	106,957
TOTAL INTEREST INCOME	11,061,389	12,851,756
INTEREST EXPENSE		
Money market, NOW and savings deposits	748,770	1,045,479
Time deposits	3,815,497	5,291,451
Short term borrowings	49,704	-
Long term borrowings	975,179	618,252
TOTAL INTEREST EXPENSE	5,589,150	6,955,182
NET INTEREST INCOME	5,472,239	5,896,574
PROVISION FOR LOAN LOSSES (Note E)	2,718,096	489,255
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,754,143	5,407,319
NON-INTEREST INCOME		
Service charges on deposit accounts	523,821	564,820
Mortgage operations	161,889	299,001
Gain/loss on sale of investment securities	33,545	-
Income from bank owned insurance	189,839	145,909
Other income	420,955	189,471
TOTAL NON-INTEREST INCOME	1,330,049	1,199,201
NON-INTEREST EXPENSE		
Salaries and employee benefits	3,277,947	2,735,232
Occupancy and equipment	392,717	417,714
Data processing expenses	727,769	578,395
Expense on other real estate owned	51,702	160,825
Other (Note J)	1,452,044	1,204,421
TOTAL NON-INTEREST EXPENSE	5,902,179	5,096,587
INCOME (LOSS) BEFORE INCOME TAXES	(1,817,987)	1,509,933
INCOME TAXES (Note I)	(1,001,000)	387,000
NET INCOME (LOSS)	(816,987)	1,122,933
PREFERRED STOCK DIVIDENDS	(2,120)	-
INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ (819,107)	$ 1,122,933
NET INCOME (LOSS) PER COMMON SHARE		
Basic	$ (0.97)	$ 1.00
Diluted	(0.97)	.96
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	843,176	1,123,686
Diluted	843,176	1,175,746

See accompanying notes.

CB FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2008 and 2007

	2008	2007
NET INCOME (LOSS)	$ (816,987)	$ 1,122,933
OTHER COMPREHENSIVE INCOME:		
Securities available for sale:		
Unrealized holding gains on available-for-sale securities	274,694	219,603
Tax effect	(105,949)	(84,657)
TOTAL OTHER COMPREHENSIVE INCOME	168,745	134,946
COMPREHENSIVE INCOME (LOSS)	$ (648,242)	$ 1,257,879

See accompanying notes.

CB FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2008 and 2007

	Common Stock	Preferred Stock A	Preferred Stock B	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2006	$ 10,586,164	$ -	$ -	$1,212,273	$ (54,650)	$ 11,743,787
Comprehensive income						
Net income	-	-	-	1,122,933	-	1,122,933
Other comprehensive income	-	-	-	-	134,946	134,946
Issuance of common stock	44,902	-	-	-	-	44,902
Stock based compensation expense	27,562	-	-	-	-	27,562
Balance, December 31, 2007	10,658,628	-	-	2,335,206	80,296	13,074,130
Comprehensive loss						
Net loss	-	-	-	(816,987)	-	(816,987)
Other comprehensive income	-	-	-	-	168,745	168,745
Reorganization	(2,970,894)	1,742,789	486,565	-	-	(741,540)
5% stock dividend	804,380	185,640	43,440	(1,033,460)	-	-
Cash dividend	-	-	-	(2,120)	-	(2,120)
Issuance of common stock	8,743	-	-	-	-	8,743
Stock based compensation expense	41,887	-	-	-	-	41,887
Balance, December 31, 2008	$ 8,542,744	$ 1,928,429	$ 530,005	$ 482,639	$ 249,041	$ 11,732,858

	Shares Outstanding		
	Common	Preferred A	Preferred B
Balance, December 31, 2006	1,070,169	-	-
Issuance of common stock	2,976	-	-
Balance, December 31, 2007	1,073,145	-	-
Reorganization	(270,189)	182,028	50,820
5% stock dividend	40,219	9,282	2,172
Issuance of common stock	540	-	-
Balance, December 31, 2008	843,715	191,310	52,992

See accompanying notes.

CB FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (816,987)	$ 1,122,933
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and accretion	105,284	92,269
Non-cash stock compensation expense	41,887	27,562
Impairment of cost method investments	73,870	-
Realized gain on available for sale securities	(33,715)	-
Loss on sale of bank equipment	1,055	5,893
(Gain) loss on sale of real estate owned	(24,747)	127,814
Real estate donated to church	-	5,000
Write down of real estate owned	46,105	-
Provision for loan losses	2,718,096	489,255
Earnings on bank-owned life insurance	(188,934)	(143,736)
Deferred income tax benefit	(208,000)	(235,000)
Change in assets and liabilities:		
Decrease (increase) in accrued interest receivable	69,682	(66,121)
Increase in other assets	(831,392)	(89,277)
Increase (decrease) in accrued interest payable	2,437	(40,660)
Increase (decrease) in accrued expenses and other liabilities	190,527	(27,791)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,145,168	1,268,141
CASH FLOWS FROM INVESTING ACTIVITIES		
Net maturities (purchases) of time deposits	3,766,569	(3,233,069)
Purchase of available for sale investments	(9,539,871)	(16,752,789)
Sales of available for sale investments	2,650,697	-
Proceeds from sale of real estate owned	251,015	432,366
Net increase to real estate owned	(40,572)	(97,114)
Proceeds from maturities and calls of available for sale investment	6,883,639	6,968,707
Net increase in loans	(17,866,984)	(11,109,487)
Net purchase of Federal Home Loan Bank stock	(884,200)	(3,100)
Purchase of investments accounted for under the cost method	(144,500)	(127,500)
Sale of investments accounted for under the cost method	10,000	-
Purchase bank owned life insurance	-	(3,000,000)
Purchases of bank premises and equipment	(59,325)	(24,315)
NET CASH USED BY INVESTING ACTIVITIES	(14,973,532)	(26,946,301)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in deposits	(7,240,262)	21,680,453
Issuance of common stock	8,743	44,902
Reorganization	(741,540)	-
Cash dividends	(2,120)	-
Increase in FHLB advances	17,500,000	-
Net increase in federal funds purchased	1,494,000	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	11,018,821	21,725,355
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,809,543)	(3,952,805)
CASH AND CASH EQUIVALENTS, BEGINNING	10,430,076	14,382,881
CASH AND CASH EQUIVALENTS, ENDING	$ 7,620,533	$ 10,430,076

Continued

	2008	2007
CASH AND CASH EQUIVALENTS		
Cash and due from banks	$ 3,102,844	$ 4,542,979
Interest-earning deposits in banks	4,517,689	3,887,097
Federal funds sold	-	2,000,000
	$ 7,620,533	$ 10,430,076
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$ 5,586,713	$ 6,995,842
Income taxes paid	10,000	714,381
Unrealized loss on investment securities available for sale, net	168,745	134,946
Transfer from loans to real estate owned	608,240	672,731
Transfer from loans to other assets	37,345	-
Reorganization transfer from common to preferred stock	2,229,354	-

See accompanying notes.

NOTE A - ORGANIZATION AND OPERATIONS

Cornerstone Bank (the "Bank") was incorporated on March 14, 2000 and began banking operations on March 15, 2000. The Bank is engaged in general commercial and retail banking in eastern North Carolina, principally in Wilson County, and operates under the banking laws of North Carolina and the rules and regulations of the Federal Deposit Insurance Corporation and the North Carolina Commissioner of Banks. The Bank undergoes periodic examinations by those regulatory authorities.

In June 2005, the stockholders of the Bank approved an Agreement and Plan of Reorganization pursuant to which the Bank became a wholly owned banking subsidiary of CB Financial Corporation (the "Company"), a North Carolina corporation formed as a holding company for the Bank. At the closing of the holding company reorganization (the "Reorganization"), one share of the Company's no par value common stock was exchanged for each of the outstanding shares of the Bank's $5.00 par value common stock. The Company currently has no operations and conducts no business on its own other than its ownership of the Bank and the common shares of CB Financial Capital Trust I, a Connecticut statutory trust to facilitate the issuance of $5 million of trust preferred securities.

On February 26, 2008, a meeting of the stockholders was held and various amendments to the Company's Articles of Incorporation were approved that resulted in a reduction in the number of common stockholders to fewer than 300, thereby enabling a plan to deregister the Company's common stock under the Securities Exchange Act of 1934, as amended, and, therefore, terminate its obligations to file reports with the Securities and Exchange Commission. The amendments to the Company's Articles of Incorporation provided for the following: (i) a 1-for-132 reverse stock split of the Company's common stock with a cash payout for fractional shares resulting from the reverse split (the "Reverse Stock Split"), (ii) a 132-for-1 forward stock split to be effective following the Reverse Stock Split (the "Forward Stock Split"), (iii) the conversion of all outstanding shares of Common Stock held by record shareholders owning fewer than 264 shares following the Reverse Stock Split and the Forward Stock Split to a new class of Series B Preferred Stock and (iv) the conversion of all outstanding shares of Common Stock held by record shareholders owning 264 or more shares, but fewer than 792 shares, following the Reverse Stock Split and the Forward Stock Split to a new class of Series A Preferred Stock. Stockholders received cash in lieu of any fractional shares resulting from the transactions equal to $20.00 for each pre-split share. Such payments totaled $741,540.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of CB Financial Corporation and Cornerstone Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and (ii) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to management's determination of the allowance for loan losses and the valuation of deferred tax assets.

Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet captions "Cash and due from banks," "Interest-earning deposits in banks" and "Federal funds sold."

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities Available for Sale

Investment securities available for sale are reported at fair value and consist of debt instruments that are not classified as either trading securities or as held to maturity securities. Unrealized holding gains and losses, net of deferred income tax, on available for sale securities are reported as a net amount in accumulated other comprehensive income. Gains and losses on the sale of investment securities available for sale are determined using the specific-identification method. Declines in the fair value of individual investment securities available for sale below their cost that are other than temporary would result in write-downs of the individual securities to their fair value. Such write-downs would be included in earnings as realized losses. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on three basic principles of accounting: (i) Statement of Financial Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies", which requires that losses be accrued when they are probable of occurring and estimable, (ii) SFAS No. 114, "Accounting by Creditors for Impairment of a Loan", which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market, and the loan balance, and (iii) SFAS No. 118, "Accounting by Creditors for Impairment of a Loan, Income Recognition and Disclosures – an amendment of SFAS 114", which allows a creditor to use existing methods for recognizing interest income on an impaired loan.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions and environmental factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired, for which an allowance is established when the discounted cash flows (or collateral value or observable market price) of the loan is lower than its carrying value. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. Historical losses are categorized into risk-similar loan pools and a loss ratio factor, based on a five year average loss history, is applied to each group's loan balances to determine the allocation.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses, continued

Qualitative and environmental factors include external risk factors that management believes affect the overall lending environment of the Company. Environmental factors that management of the Company routinely analyze include levels and trends in delinquencies and impaired loans, levels and trends in charge-offs and recoveries, trends in volume and terms of loans, effects of changes in risk selection and underwriting practices, experience, ability, and depth of lending management and staff, national and local economic trends and conditions, banking industry conditions, and the effect of changes in credit concentrations.

Mortgage Operations

The Bank originates single family, residential first mortgage loans on a presold basis. The Bank recognizes certain origination and service release fees upon the sale, which are included in non-interest income on the statements of operations under the caption “Mortgage operations.”

Premises and Equipment

The Company’s premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Estimated useful lives are 35 years for buildings, 3 to 15 years for furniture, fixtures and equipment and 2 to 5 years for computers and related equipment. Repairs and maintenance costs are charged to operations as incurred and additions and improvements to premises and equipment are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts and any gains or losses are reflected in current operations.

Stock in Federal Home Loan Bank of Atlanta and Investments accounted for under the Cost Method

As a requirement for membership, the Company invests in stock of the Federal Home Loan Bank of Atlanta (“FHLB”), which is carried at cost. Because of the redemption provisions of the FHLB, the Company estimated that fair value equals cost and that this investment was not impaired at December 31, 2008.

Periodically, the Company invests in nonmarketable equity securities which are accounted for under the cost method. These investments are carried at cost unless a determination has been made that they are impaired. During 2008, management identified a change in the circumstances of one of these investments that resulted in a write down in its fair value of $73,870. These investments are included in other assets in the accompanying consolidated balance sheets.

Real Estate Owned

Real estate acquired through, or in lieu of, loan foreclosure is initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, valuations of the property are periodically performed by management and the real estate is carried at the lower of cost or fair value minus estimated cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other non-interest expense.

Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are also recognized for operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes, continued

The Company has elected to defer Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109," in accordance with FASB Staff Position FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises." It is the Bank's policy to evaluate uncertain tax positions pursuant to Statement of Financial Accounting Standard ("SFAS") No. 5, "Accounting for Contingencies." As of December 31, 2008 and 2007, the Company had no uncertain tax positions requiring disclosure or recognition.

Comprehensive Income

The Company reports as comprehensive income all changes in stockholders' equity during the year from sources other than stockholders. Other comprehensive income refers to all components (revenues, expenses, gains, and losses) of comprehensive income that are excluded from net income. The Company's only component of other comprehensive income is unrealized gains and losses on investment securities available for sale.

Advertising Costs

Advertising costs are expensed as incurred.

Stock Compensation Plans

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 123 (revised 2004), "*Share-Based Payment*", which was issued by the Financial Accounting Standards Board ("FASB") in December 2004. SFAS No. 123R revises SFAS No. 123 *Accounting for Stock Based Compensation,* and supersedes Accounting Principles Board Opinion ("APB") No. 25, "*Accounting for Stock Issued to Employees*", and its related interpretations. SFAS No. 123R requires recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (usually the vesting period). SFAS No. 123R also requires measurement of the cost of employee services received in exchange for an award based on the grant-date fair value of the award. SFAS No. 123R also amends SFAS No. 95 "*Statement of Cash Flows*", to require that excess tax benefits be reported as financing cash inflows, rather than as a reduction of taxes paid, which is included within operating cash flows.

The Company adopted SFAS No. 123R using the modified prospective application as permitted under SFAS No. 123R. Accordingly, prior period amounts have not been restated. Under this application, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. Prior to the adoption of SFAS No. 123R, the Company used the intrinsic value method as prescribed by APB No. 25 and thus recognized no compensation expense for options granted with exercise prices equal to the fair market value of the Company's common stock on the date of grant.

Per Share Results

As discussed in Note A, shares of Series A and B Preferred Stock were issued in accordance with amendments to the Articles of Incorporation. Series A and Series B Preferred Stockholders are entitled to vote only as required by law, or upon any merger or acquisition of all or substantially all of the capital stock or assets of the Company. Series A Preferred Stockholders, except with respect to the Series B Preferred Dividend, are entitled to a preference in the distribution of dividends so that the holders of Series A shall receive dividends prior to the holders of common stock and Series B Preferred Stock.

Series B Preferred Stock may be converted to shares of common stock at the discretion of the Board of Directors. Both Series A and Series B Preferred Stock will automatically convert into shares of common stock immediately prior to the closing of a Change of Control.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Per Share Results, continued

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and Series B Preferred Stock, and are determined using the treasury stock method.

The basic and diluted weighted average common shares outstanding are as follows:

	2008	2007
Weighted average outstanding shares used for basic EPS	843,176	1,123,686
Plus incremental shares from assumed exercise of stock options and employee stock purchase plan purchases	-	52,060
Weighted average outstanding shares used for diluted EPS	843,176	1,175,746

For the year ended December 31, 2008, the conversion of Series B Preferred Stock and stock options are not considered in the computation of diluted earnings per share as the effect of their inclusion would have been anti-dilutive. There were no options that were anti-dilutive at December 31, 2007.

On February 26, 2008, the Company's Board of Directors declared a 5% stock dividend, which was distributed on April 14, 2008 to stockholders of record on March 31, 2008. All references to per share results and weighted average common and common equivalent shares outstanding have been adjusted to reflect the effects of these stock dividends.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board *(*"FASB"*)* issued *Statement of Financial Accounting Standard (*"SFAS"*)* No. 141(R), "Business Combinations," ("SFAS 141(R)") which replaces SFAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for acquisitions by the Company taking place on or after January 1, 2009. Early adoption is prohibited. Accordingly, a calendar year-end company is required to record and disclose business combinations following existing accounting guidance until January 1, 2009. The Company will assess the impact of SFAS 141(R) if and when a future acquisition occurs.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements, continued

Also, in December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51," ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Before this statement, limited guidance existed for reporting noncontrolling interests (minority interest). As a result, diversity in practice exists. In some cases minority interest is reported as a liability and in others it is reported in the mezzanine section between liabilities and equity. Specifically, SFAS 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financials statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interests. SFAS 160 was effective for the Company on January 1, 2009. SFAS 160 had no impact on the Company's financial position, results of operations or cash flows.

In February 2008, the FASB issued FASB Staff Position No. 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions," ("FSP 140-3"). This FSP provides guidance on accounting for a transfer of a financial asset and the transferor's repurchase financing of the asset. This FSP presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under SFAS 140. However, if certain criteria are met, the initial transfer and repurchase financing are not evaluated as a linked transaction and are evaluated separately under SFAS 140. FSP 140-3 was effective for the Company on January 1, 2009. The adoption of FSP 140-3 had no impact on the Company's financial position, results of operations or cash flows.

In May, 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles," ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS 162 is effective November 15, 2008. The FASB has stated that it does not expect SFAS 162 will result in a change in current practice. The application of SFAS 162 had no effect on the Company's financial position, results of operations or cash flows.

In June, 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities," ("FSP EITF 03-6-1"). The Staff Position provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and must be included in the earnings per share computation. FSP EITF 03-6-1 was effective January 1, 2009 and had no effect on the Company's financial position, results of operations, earnings per share or cash flows.

On October 10, 2008, the FASB issued FSP SFAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP SFAS 157-3"). This FSP clarifies the application of SFAS No. 157, "Fair Value Measurements" (see Note M) in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that asset is not active. The FSP is effective upon issuance, including prior periods for which financial statements have not been issued. For the Company, this FSP was effective for the quarter ended September 30, 2008.

The Company considered the guidance in the Press Release and in FSP SFAS 157-3 when conducting its review for other-than-temporary impairment as of December 31, 2008 as discussed in Note D.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements, continued

FSP FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises," ("FSP FIN 48-3") was issued in December 2008 to defer the effective date of FIN 48 for nonpublic enterprises to the annual financial statements for fiscal years beginning after December 15, 2008. Nonpublic companies are defined in amended SFAS 109, paragraph 289 as an enterprise other than one (a) whose debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally), (b) that is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets), or (c) whose financial statements are filed with a regulatory agency in preparation for the sale of any class of securities. Entities not required to adhere to FIN 48 are required to disclose their current accounting policy for uncertain tax positions. This Staff Position was effective upon issuance. The Company's current accounting policy for uncertain tax positions can be found in Note B.

FSP EITF 99-20-1, "Amendments to the Impairment Guidance of EIFT Issue No. 99-20," ("FSP EITF 99-20-1") was issued in January 2009. Prior to the Staff Position, other-than-temporary impairment was determined by using either EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transferor in Securitized Financial Assets," ("EITF 99-20") or SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," ("SFAS 115") depending on the type of security. EITF 99-20 required the use of market participant assumptions regarding future cash flows regarding the probability of collecting all cash flows previously projected. SFAS 115 determined impairment to be other than temporary if it was probable that the holder would be unable to collect all amounts due according to the contractual terms. To achieve a more consistent determination of other-than-temporary impairment, the Staff Position amends EITF 99-20 to determine any other-than-temporary impairment based on the guidance in SFAS 115, allowing management to use more judgment in determining any other-than-temporary impairment. The Staff Position is effective for interim and annual reporting periods ending after December 15, 2008 and shall be applied prospectively. Retroactive application is not permitted. Management has reviewed the Company's security portfolio and evaluated the portfolio for any other-than-temporary impairments as discussed in Note D.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Reclassifications

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation. The reclassifications had no effect on net income or stockholders' equity as previously reported.

NOTE C – RESTRICTIONS ON CASH

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2008 and 2007, these reserve balances amounted to $835,000 and $935,000, respectively.

NOTE D - INVESTMENT SECURITIES

The amortized cost and fair value of investment securities, with gross unrealized gains and losses, are as follows:

	December 31, 2008			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
2008				
Securities available for sale:				
Government sponsored enterprises	$ 1,335,295	$ 42,270	$ -	$ 1,377,565
Municipal securities	13,248,955	76,359	(298,365)	13,026,949
Mortgage-backed securities	25,085,292	603,614	(18,516)	25,670,390
	$ 39,669,542	$ 722,243	$ (316,881)	$ 40,074,904
2007				
Securities available for sale:				
Government sponsored enterprises	$ 7,055,708	$ 74,382	$ (4,618)	$ 7,125,472
Municipal securities	12,083,261	28,531	(109,423)	12,002,369
Mortgage-backed securities	20,459,823	221,737	(79,940)	20,601,620
	$ 39,598,792	$ 324,650	$ (193,981)	$ 39,729,461

The following table shows the gross unrealized losses and fair value of the Company's investment securities with unrealized losses that are deemed to be temporarily impaired aggregated by investment category and length of time that individual securities have been in a continuous, unrealized loss position at December 31, 2008. The unrealized losses on the Company's investment securities were caused by various reasons, but the Company feels that no material impairment of value is due to deteriorating financial condition of the issuers. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the Company has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Company does not consider those 10 investments to be other-than-temporarily impaired at December 31, 2008.

	December 31, 2008					
	Less Than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Securities available for sale:						
Government sponsored enterprises	$ -	$ -	$ -	$ -	$ -	$ -
Municipal securities	2,931,726	100,554	5,110,703	197,811	8,042,429	298,365
Mortgage-backed securities	3,210,788	12,028	699,297	6,488	3,910,085	18,516
Total temporarily impaired available for sale securities	$6,142,514	$ 112,582	$5,810,000	$ 204,299	$11,952,514	$ 316,881

NOTE D - INVESTMENT SECURITIES (Continued)

	December 31, 2007					
	Less Than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Securities available for sale:						
Government sponsored enterprises	$ -	$ -	$ 627,268	$ 4,618	$ 627,268	$ 4,618
Municipal securities	3,549,234	52,583	4,078,315	56,840	7,627,549	109,423
Mortgage-backed securities	-	-	4,911,598	79,940	4,911,598	79,940
Total temporarily impaired available for sale securities	$3,549,234	$ 52,583	$9,617,181	$ 141,398	$13,166,415	$ 193,981

Securities with a carrying value of $18.3 million and $5.8 million at December 31, 2008 and 2007, respectively, were pledged to secure borrowings.

For the years ended December 31, 2008 and 2007, proceeds from sales of securities available for sale amounted to $2,650,697 and $0, respectively. From the sales, gross realized gains amounted to $33,715 and $0 and there were no gross realized losses for the years ended December 31, 2008 and 2007, respectively.

The amortized cost, fair value and weighted average yield, based on amortized cost, of the Company's investment securities available for sale at December 31, 2008, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value	Weighted Average/ Yield
	(Dollars in thousands)		
Securities available for sale			
Government sponsored enterprises			
Due within one year	$ -	$ -	-
Due after one but within five years	-	-	-
Due after five but within ten years	1,335	1,378	5.61%
	1,335	1,378	5.61%
Mortgage-backed securities			
Due after one but within five years	346	349	3.88%
Due after five but within ten years	382	385	4.57%
Due after ten years	24,357	24,936	5.36%
	25,085	25,670	5.33%
Municipal securities			
Due within one year	651	653	2.95%
Due after one but within five years	919	942	3.64%
Due after five but within ten years	1,798	1,837	3.93%
Due after ten years	9,881	9,595	4.02%
	13,249	13,027	3.93%
	$ 39,669	$ 40,075	4.87%

For purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of underlying collateral. The mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal prepayments.

NOTE E - LOANS

Following is a summary of loans at December 31, 2008 and 2007:

	2008		2007	
	Amount	Percent of total	Amount	Percent of total
	(Dollars in thousands)			
Residential - mortgage	$ 5,708	3.91%	$ 5,513	4.21%
Residential - construction	4,126	2.83%	3,575	2.73%
Home equity lines of credit	11,090	7.60%	8,980	6.86%
Commercial and industrial loans	115,567	79.19%	104,404	79.77%
Loans to individuals	9,439	6.47%	8,415	6.43%
Total loans	145,930	100.00%	130,887	100.00%
Less:				
Allowance for loan losses	(2,533)		(2,001)	
Deferred loan fees and costs, net	(35)		(27)	
Net loans receivable	$ 143,362		$ 128,859	

Loans are primarily made in Wilson County, North Carolina. Real estate loans can be affected by the condition of the local real estate market. Commercial and installment loans can be affected by local economic conditions.

There was one restructured loan for approximately $1.3 million at December 31, 2008 and one restructured loan for approximately $7,000 at December 31, 2007.

The following is a summary of information pertaining to impaired and non-accrual loans:

	December 31,	
	2008	2007
	(in thousands)	
Impaired loans without a valuation allowance	$ 10,218	$ 171
Impaired loans with a valuation allowance	6,554	2,423
Total impaired loans	$ 16,772	$ 2,594
Valuation allowance related to impaired loans	$ 1,720	$ 1,393
Total non-accrual loans	$ 9,259	$ 2,566
Total loans past due ninety days or more and still accruing	$ 1	$ 17

	Years Ended December 31,	
	2008	2007
	(in thousands)	
Average investment in impaired loans	$ 10,030	$ 897
Interest income recognized on impaired loans	$ 1,313	$ 158
Interest income recognized on a cash basis on impaired loans	$ 937	$ 158

No additional funds are committed to be advanced in connection with impaired loans.

NOTE E – LOANS (Continued)

Following is a summary of activity in the allowance for loan losses for the years indicated:

	At or for the Years Ended December 31, 2008	2007
	(Dollars in thousands)	
Allowance for loan losses at beginning of year	$ 2,001	$ 1,687
Provision for loan losses	2,718	489
	4,719	2,176
Loans charged-off:		
Residential - mortgage	(481)	(20)
Home equity lines of credit	(8)	(39)
Multi-family residential	-	(26)
Commercial and industrial	(1,747)	(108)
Loans to individuals	(103)	(78)
Total charge-offs	(2,339)	(271)

	At or for the Years Ended December 31, 2008	2007
	(Dollars in thousands)	
Recoveries of loans previously charged-off:		
Commercial and industrial	123	15
Multi-family residential	-	5
Home equity lines of credit	-	18
Loans to individuals	29	58
Total recoveries	152	96
Net charge-offs	(2,187)	(175)
Allowance for loan losses at end of year	$ 2,532	$ 2,001
Net charge-offs as a percent of average loans outstanding during the year	1.65%	.14%
Allowance for loan losses as a percent of loans at period end	1.73%	1.53%

Following is a summary of allocation of the allowance for loan losses to the indicated categories of loans and the percentage that all loans in each category bears to total loans outstanding:

	At December 31, 2008 Amount	2008 % of Total Loans	2007 Amount	2007 % of Total Loans
	(Dollars in thousands)			
Residential - mortgage	$ 290	11.45%	$ 56	2.80%
Residential - construction	28	1.10%	64	3.20%
Home equity lines of credit	194	7.67%	121	6.04%
Commercial and industrial loans	1,885	74.45%	1,523	76.11%
Loans to individuals	135	5.33%	237	11.85%
Total	$ 2,532	100%	$ 2,001	100%

NOTE E - LOANS (Continued)

At December 31, 2008, the Company had loan commitments outstanding of $2.0 million, pre-approved but unused lines of credit totaling $23.2 million and commercial and standby letters of credit of $363,248. In management's opinion, these commitments represent no more than normal lending risk to the Company and will be funded from normal sources of liquidity.

The Company has had loan transactions with its directors and executive officers. Such loans were made in the ordinary course of business and on substantially the same terms and collateral as those for comparable transactions prevailing at the time. Such loans did not involve more than the normal risk of collectability or present other unfavorable features. A summary of related party loan transactions is as follows (in thousands):

	2008	2007
Balance at beginning of year	$ 3,379	$ 3,717
Borrowings	1,747	1,952
Repayments	(441)	(2,290)
Balance at end of year	$ 4,685	$ 3,379

NOTE F - PREMISES AND EQUIPMENT

Following is a summary of the Company's premises and equipment at December 31, 2008 and 2007:

	2008	2007
Land	$ 848,037	$ 848,037
Buildings	1,248,465	1,248,465
Leasehold improvements	52,471	43,451
Furniture and equipment	922,208	881,655
	3,071,181	3,021,608
Less accumulated depreciation	(953,013)	(824,926)
Total	$ 2,118,168	$ 2,196,682

Depreciation and amortization amounting to $136,784 and $133,468 for the years ended December 31, 2008 and 2007, respectively, is included in occupancy and equipment expense and data processing expense.

The Company leases a branch facility, two operations offices, and certain equipment under separate agreements that expire at various dates through October 31, 2012. Future rentals under these leases are as follows:

2009	$ 89,045
2010	83,045
2011	59,802
2012	32,400
	$ 264,292

Rental expense amounting to $90,110 and $100,964 during the years ended December 31, 2008 and 2007, respectively, is included in occupancy and equipment expense on the accompanying consolidated statements of operations.

NOTE G - DEPOSITS

At December 31, 2008, the scheduled maturities of time deposits (dollars in thousands) are as follows:

2009	$ 87,506
2010	7,449
2011	6,739
2012	1,807
2013	6,344
2014	201
Total	$ 110,046

The above table includes time deposits of $100,000 and over, which at December 31, 2008, totaled $38.5 million. Of that total, $10.8 million had scheduled maturities within three months; $9.2 million after three but within six months; $10.4 million after six but within twelve months; and $8.1 million after twelve months. Time deposits of $100,000 and over totaled $42.1 million at December 31, 2007.

NOTE H - BORROWINGS

The Company may purchase federal funds through unsecured federal funds lines of credit totaling $21.2 million. These lines are intended for short-term borrowings and are subject to restrictions limiting the frequency and term of advances. These lines of credit are payable on demand and bear interest based upon the daily federal funds rate. The outstanding balance at the end of 2008 was $1,494,000 under these lines of credit. There were no advances under these lines at December 31, 2007. The year to date average amounts outstanding under these lines of credit were $1,663,762 for 2008 and $0 for 2007.

The Company also has an available line of credit with the Federal Reserve that is currently secured by municipal securities. The line is approximately 75% of the market value of the securities, or approximately $8.9 million as of December 31, 2008. There were no borrowings from the Federal Reserve during either 2008 or 2007.

The Company has an available line of credit with the FHLB equal to 20% of total assets. Advances under this line are secured by eligible securities and qualifying first mortgage loans. The balance of qualifying pledged first mortgage loans as of December 31, 2008 was approximately $6.5 million and $21.2 million securities were pledged.

Advances from the FHLB of Atlanta consisted of the following at December 31, 2008 and 2007:

Maturity	Interest Rate	2008	2007
September 8, 2015	3.93%	$ 5,000,000	$ 5,000,000
July 16, 2012	3.90%	1,250,000	1,250,000
January 20, 2009	3.31%	3,000,000	-
March 2, 2009	2.57%	1,500,000	-
August 28, 2009	2.60%	1,500,000	-
February 26, 2010	2.74%	1,500,000	-
March 8, 2010	2.56%	1,250,000	-
May 7, 2010	3.21%	2,500,000	-
March 7, 2011	2.90%	1,250,000	-
May 12, 2011	3.36%	2,500,000	-
March 7, 2012	3.24%	1,250,000	-
March 7, 2013	3.53%	1,250,000	-
		$ 23,750,000	$ 6,250,000

Advances maturing in 2009 have been disclosed as short term borrowings on the consolidated balance sheet.

NOTE H - BORROWINGS (Continued)

On July 8, 2005, the Company formed CB Financial Capital Trust I, a Connecticut statutory trust (the "Trust"). On July 12, 2005, the Trust issued and sold $5,000,000 of the Trust's Floating rate preferred securities (the "Trust Preferred Securities") to an institutional investor in a private placement and issued $155,000 in common securities (the "Common Securities") to the Company. The Trust Preferred Securities are fully and unconditionally guaranteed on a subordinated basis by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment. The proceeds from the Trust's sale of the Trust Preferred Securities and its sale of the Common Securities were used by the Trust to purchase $5,155,000 of the Company's Floating junior subordinated notes (the "Notes"). The net proceeds to the Company from its sale of the Notes to the Trust were invested in the Bank as additional capital to support growth and for other general corporate purposes. The Notes and the Trust Preferred Securities bear an interest rate of 185 basis points over the three-month LIBOR (London Inter-Bank Offered Rate). The Trust Preferred Securities generally rank equal to the Common Securities in priority of payment, but will rank prior to Common Securities if, and so long as, the Company fails to make principal or interest payment on the Notes. The Notes and Trust Preferred Securities each have 30-year lives and will each be callable by the Company or the Trust, at their option, on or after September 15, 2010. The Company has the option to defer interest for up to five years on the debentures. The Notes qualify as Tier I capital under Federal Reserve Board guidelines. Consistent with the provisions of FASB Interpretation ("FIN") No. 46, "*Consolidation of Variable Interest Entities*," the Company has not included the Trust in the consolidated entity. However, the Notes issued by the Company and purchased by the Trust are included on the consolidated balance sheet. In addition, the related interest expense continues to be included on the consolidated income statement.

NOTE I - INCOME TAXES

The significant components of the provision for income taxes for 2008 and 2007 are as follows:

	2008	2007
Current tax provision:		
Federal	$ (672,000)	$ 485,000
State	(121,000)	137,000
	(793,000)	622,000
Deferred tax provision:		
Federal	(173,000)	(193,000)
State	(35,000)	(42,000
	(208,000)	(235,000)
Provision for income taxes	$ (1,001,000)	$ 387,000

The difference between the provision for income taxes and the amounts computed by applying the statutory federal income tax rate of 34% to income before income taxes is summarized below:

	2008	2007
Tax expense computed at the statutory federal rate	$ (618,000)	$ 513,000
Increase (decrease) resulting from:		
State income taxes, net of federal tax effect	(104,000)	63,000
Nontaxable income	(239,000)	(147,000)
Other, net	(40,000)	(42,000)
Provision for income taxes	$ (1,001,000)	$ 387,000

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred taxes at December 31, 2008 and 2007 are as follows:

NOTE I - INCOME TAXES (Continued)

	2008	2007
Deferred tax assets relating to:		
Allowance for loan losses	$ 635,000	$ 596,000
Pre-opening costs and expenses	2,000	2,000
Retirement and stock compensation	132,000	40,000
Investment and OREO impairment	78,000	-
Other	20,000	42,000
Total deferred tax assets	867,000	680,000
Deferred tax liabilities relating to:		
Premises and equipment differences	(72,000)	(94,000)
Prepaid expenses	(15,000)	(18,000)
Investment securities available for sale	(156,000)	(51,000)
Other	(12,000)	(8,000)
Total deferred tax liabilities	(255,000)	(171,000)
Net deferred tax asset	$ 612,000	$ 509,000

NOTE J - OTHER NON-INTEREST EXPENSE

The major components of other non-interest expense for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Postage, printing and office supplies	$ 85,835	$ 98,426
Advertising and promotion	125,774	140,452
Professional services	488,167	371,108
FDIC insurance premiums	132,157	88,716
Other	620,111	505,719
Total	$ 1,452,044	$ 1,204,421

NOTE K - REGULATORY MATTERS

The Company is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios, as set forth in the table below. Management believes, as of December 31, 2008, that the Company meets all capital adequacy requirements to which it is subject. At December 31, 2008 and 2007, the Company’s total risk-based capital, Tier 1 risk-based capital, and leverage ratios were 11.42%, 10.17%, and 8.09% and 13.31%, 12.05% and 9.30%, respectively.

NOTE K - REGULATORY MATTERS (Continued)

As of December 31, 2008, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum amounts and ratios, as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts (in thousands) and ratios are also presented in the table below:

	For the Bank		Minimum Requirements	
	Capital Amount	Capital Ratio	For Capital Adequacy	To Be Well Capitalized
As of December 31, 2008				
Tier 1 capital (to risk-weighted assets)	$ 16,453	10.17%	4.0%	6.0%
Total capital -				
(to risk-weighted assets)	18,482	11.42%	8.0%	10.0%
Leverage - Tier 1 capital (to average assets)	16,453	8.09%	4.0%	5.0%
As of December 31, 2007				
Tier 1 capital (to risk-weighted assets)	$ 17,906	12.05%	4.0%	6.0%
Total capital				
(to risk-weighted assets)	19,765	13.31%	8.0%	10.0%
Leverage - Tier 1 capital (to average assets)	17,906	9.30%	4.0%	5.0%

The Bank may not declare or pay a cash dividend, or repurchase any of its capital stock, if the effect would cause the regulatory net worth of the Bank to fall to an amount which is less than the minimum required by the FDIC and the North Carolina Office of the Commissioner of Banks.

NOTE L - OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, undisbursed lines of credit, and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, upon extension of credit is based on management’s credit evaluation of the borrower. Collateral obtained varies but may include real estate, stocks, bonds, and certificates of deposit.

A summary of the contract amount of the Company’s exposure to off-balance sheet credit risk as of December 31, 2008 is as follows:

Financial instruments whose contract amounts represent credit risk:	
Commitments to extend credit	$ 2,000,000
Undisbursed lines of credit	23,216,156
Commercial and standby letters of credit	363,248

NOTE M - DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments include cash and due from banks, interest-earning deposits in banks, federal funds sold, time deposits, investments, loans, stock in the FHLB of Atlanta, bank-owned life insurance, deposit accounts and borrowings. Fair value estimates are made at a specific moment in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company’s entire holdings of a particular financial instrument. Because no active market readily exists for a portion of the Company’s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Due from Banks, Interest-Earning Deposits In Banks and Federal Funds Sold

The carrying amounts for cash and due from banks, interest-earning deposits in banks and federal funds sold approximate fair value because of the short maturities of those instruments.

Time Deposits

The fair value of time deposits is estimated using rates currently offered for instruments of similar maturity.

Investment Securities

Fair value for investment securities equals quoted market price if such information is available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans

For certain homogenous categories of loans, such as residential mortgages, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Stock in Federal Home Loan Bank of Atlanta

The fair value for FHLB stock approximates carrying value, based on the redemption provisions of the FHLB.

Investment in Bank-Owned Life Insurance

The carrying value of life insurance approximates fair value because this investment is carried at cash surrender value, as determined by the insurer.

Deposits and Borrowings

The fair value of demand, savings, money market and NOW deposits is the amount payable on demand at the reporting date. The fair value of time deposits and borrowings is estimated based on discounting cash flows using the rates currently offered for instruments of similar remaining maturities.

NOTE M - DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Financial Instruments with Off-Balance Sheet Risk

With regard to financial instruments with off-balance sheet risk discussed in Note L, it is not practicable to estimate the fair value of future financing commitments.

The carrying amounts and estimated fair values of the Company's financial instruments, none of which are held for trading purposes, are as follows at December 31, 2008 and 2007:

	2008		2007	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	(In thousands)			
Financial assets:				
Cash and due from banks	$ 3,078	$ 3,078	$ 4,543	$ 4,543
Interest-earning deposits in banks	4,543	4,543	3,887	3,887
Federal funds sold	-	-	2,000	2,000
Time deposits	607	607	4,373	4,373
Investment securities available for sale	40,705	40,705	39,729	39,729
Accrued interest receivable	883	883	953	953
Federal Home Loan Bank stock	1,481	1,481	597	597
Investment in bank-owned life insurance	4,722	4,722	4,533	4,533
Loans	145,895	155,408	128,859	130,133
Financial liabilities:				
Deposits	161,851	164,727	169,091	164,297
Borrowings & federal funds purchased	30,399	32,125	11,405	11,368
Accrued interest payable	232	232	230	230

FASB Statement No. 157, "Fair Value Measurements" ("SFAS No. 157"), defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following sections provide a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

NOTE M - DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Securities

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Currently, all of the Bank's securities are considered to be Level 2 securities.

Impaired Loans

SFAS No. 157 applies to loans measured for impairment using the practical expedients permitted by SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis (dollars in thousands):

December 31, 2008	**Total**	**Level 1**	**Level 2**	**Level 3**
Investment securities available for sale	$ 40,075	$ -	$ 40,075	$ -
Total assets at fair value	$ 40,075	$ -	$ 40,075	$ -
Total liabilities valued at fair value	$ -	$ -	$ -	$ -

The table below presents the recorded amount of assets and liabilities measured at fair value on a nonrecurring basis (dollars in thousands):

December 31, 2008	**Total**	**Level 1**	**Level 2**	**Level 3**
Impaired loans	$ 4,834	$ -	$ 4,834	$ -
Total assets at fair value	$ 4,834	$ -	$ 4,834	$ -
Total liabilities valued at fair value	$ -	$ -	$ -	$ -

NOTE N - EMPLOYEE AND DIRECTOR BENEFIT PLANS

401(k) Plan

The Company has a 401(k) Plan (the "Plan") in which substantially all employees participate. The Company makes matching contributions equal to 100 percent of the first 6 percent of an employee's compensation contributed to the Plan. Matching contributions vest to the employee equally over a four-year period. For the years ended December 31, 2008 and 2007, expense attributable to the Plan amounted to $102,805 and $98,682, respectively.

NOTE N - EMPLOYEE AND DIRECTOR BENEFIT PLANS (Continued)

Stock Option Plans

During 2002 the Company adopted, with shareholder approval, an Employee Stock Option Plan (the "Employee Plan") and a Director Stock Option Plan (the "Director Plan"). Each plan makes available options to purchase 84,298 shares (adjusted for all stock dividends) of the Company's common stock for an aggregate number of common shares reserved for options equal to 168,596. Option exercise prices are set by the Board of Directors at the date of grant, but shall not be less than 100% of fair market value of the related stock at the date of the grant. Options vest over five years. All unexercised options expire ten years after the date of grant.

The Company accounts for the plans in accordance with SFAS No. 123(R), *Share-Based Payment*, which requires that compensation cost relating to share-based payment transactions be recognized in the financial statements with measurement based upon the fair value of the equity or liability instruments issued. For the years ended December 31, 2008 and 2007, the Bank recognized $10,744 and $3,581 respectively, in compensation expense for stock options.

At December 31, 2008, unrecognized compensation costs amounted to $17,907 which will be expensed over the next 1.67 years.

The weighted average fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The expected volatility is based on historical volatility. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on historical exercise experience. The dividend yield assumption is based on the Bank's history and expectation of dividend payouts. No options were granted in 2008. Assumptions used in calculating the fair value of 2007 grants were: volatility rate of 10%, risk-free interest rate of 4.41%, yield rate of .75% and an expected life of 7 years which resulted in a weighted average grant date fair value of $4.64 per option.

A summary of the Company's option plans as of and for the years ended December 31, 2008 and 2007 is as follows:

			Outstanding Options		Exercisable Options		
	Shares in Plans	Shares Available for Future Grants	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value
At December 31, 2006	160,568	32,086	128,482	$ 9.93	128,482	$ 9.93	$ -
Options granted/vested	-	(6,945)	6,945	20.00	-	-	-
Options exercised	-	-	-	-	-	-	-
Options forfeited	-	6,945	(6,945)	9.93	(6,945)	-	-
At December 31, 2007	160,568	32,086	128,482	$ 10.47	121,537	$ 9.93	$ 1,358,383
Stock dividend	8,028	1,616	6,412	N/A	6,065	N/A	
Options granted/vested	-	-	-	-	2,431	19.05	-
Options exercised	-	-	-	-		-	-
Options forfeited	-	-	-	-	-	-	-
At December 31, 2008	168,596	33,702	134,894	$ 9.98	130,033	$ 9.64	$ 1,351,638

The weighted average remaining life of all options outstanding as of December 31, 2008 is 4.89 years. The remaining contractual life of exercisable options is 4.74 years.

The aggregate intrinsic value of all options outstanding was $1,351,638 as of December 31, 2008. The aggregate intrinsic value of exercisable options at December 31, 2008 was $1,347,142.

NOTE N - EMPLOYEE AND DIRECTOR BENEFIT PLANS (Continued)

Employment Agreements

The Company has entered into an employment agreement with its chief executive officer to ensure a stable and competent management base. This agreement provides for benefits as spelled out in the contract and cannot be terminated by the Board of Directors, except for cause, without prejudicing the officer's right to receive certain vested rights, including compensation. In the event of a change in control of the Company, as outlined in the agreement, the acquirer will be bound to the terms of this contract.

The Company also has entered into agreements with four executive officers which provide for severance pay benefits in the event of a change in control of the Company resulting in the termination of such executive officers or diminished compensation, duties or benefits.

Employee Stock Purchase Plan

The Employee Stock Purchase Plan (the "Purchase Plan") is a voluntary plan that enables full-time employees of the Company and its subsidiary to purchase shares of our common stock. The Purchase Plan is administered by a committee of the Board of Directors, which has broad discretionary authority to administer the Purchase Plan. The Company's Board of Directors may amend or terminate the Purchase Plan at any time. The Purchase Plan is not intended to be qualified as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986, as amended.

Once a year, participants in the Purchase Plan purchase the Company's common stock at the lesser of: (a) eighty-five percent (85%) of the fair market value of the common stock on the date of grant, or (b) eighty-five percent (85%) of the fair market value of the common stock on the purchase date. Participants are permitted to purchase shares under the Purchase Plan up to a maximum purchase amount not to exceed $25,000 in fair market value.

As of December 31, 2008, 46,305 shares (adjusted for all stock dividends) of our common stock had been reserved for issuance under the Purchase Plan and 17,503 shares have been purchased under the plan, of which 540 shares were purchased during 2008 and 3,104 were purchased during 2007.

NOTE O - PARENT COMPANY FINANCIAL DATA

CB Financial Corporation became the holding company for Cornerstone Bank on June 8, 2005. Following are condensed financial statements of CB Financial Corporation as of and for the years ended December 31, 2008 and 2007 presented in thousands.

Condensed Balance Sheets
December 31, 2008 and 2007

	2008	2007
Assets:		
Cash on deposit in subsidiary	$ 9	$ 88
Investment in subsidiary bank	16,701	17,986
Other assets	185	169
Total assets	$ 16,895	$ 18,243
Liabilities:		
Junior subordinated debentures	$ 5,155	$ 5,155
Other liabilities	8	14
Total liabilities	5,163	5,169
Stockholders' equity:		
Common stock	8,543	10,659
Preferred stock A & B	2,458	-
Retained earnings	483	2,335
Accumulated other comprehensive gain	248	80
Total stockholders' equity	11,732	13,074
Total liabilities and stockholders' equity	$ 16,895	$ 18,243

Condensed Statements of Operations
Years Ended December 31, 2008 and 2007

	2008	2007
Equity in undistributed net income of bank subsidiary	$ (1,453)	$ 1,191
Dividends from bank subsidiary	910	275
Interest income	8	11
Interest expense	(265)	(382)
Other expense	(210)	(201)
Income tax benefit	191	228
Net income (loss)	$ (819)	$ 1,122

NOTE O - PARENT COMPANY FINANCIAL DATA (Continued)

Condensed Statements of Cash Flows
Years Ended December 31, 2008 and 2007

	2008	2007
Operating activities:		
Net income (loss)	$ (819)	$ 1,122
Undistributed net loss (income) of bank subsidiary	1,453	(1,191)
Compensation expense	42	28
Increase in other assets	(16)	(14)
Increase (decrease) in other liabilities	(6)	(2)
	654	(57)
Investing activities:		
Investment in subsidiary	-	-
Fractional shares paid	-	-
	-	-
Financing activities:		
Reorganization	(741)	-
Issuance of common stock	8	45
	(733)	45
Net decrease in cash	(79)	(12)
Cash, beginning of period	88	100
Cash, end of period	$ 9	$ 88

DIRECTORS

John C. Anthony
Partner: Anthony and Tabb CPA's

Robert E. Kirkland III
Owner/Manager of Barnes Motor & Parts Co., Inc.

Judy A. Muirhead
Owner/ Manager of JAM Properties, JAM Rentals and JAM Investments

W. Coalter Paxton III
President of Paxton Mini Storages, Inc. and PBS Storage, Inc. and Manager of Paxton Bonded Warehouse, Inc.

Norman B. Osborn
President and CEO
Cornerstone Bank

Gregory A. Turnage
Owner and President of PLT Construction Inc., PLT Concrete Services, Inc., PLT Utilities, Inc. and President of T. & H. Electric, Inc.

Rex D. Williams
Chief Financial Officer
Cornerstone Bank

S. Christopher Williford
President and Owner of Southern Piping Company, Inc.

David W. Woodard
Secretary for Cornerstone Bank
Law Partner, Connor, Bunn, Rogerson & Woodard

EXECUTIVE OFFICERS

Norman B. Osborn
President and CEO

G. Brooks Batchelor
Executive Vice President, Sr. Business Development Officer

Robert H. Ladd III
Executive Vice President, Chief Lending Officer

Robert W. Kernodle
Executive Vice President, Chief Information Officer

Dora E. Kicklighter
Vice President, Chief Operations Officer

Rex D. Williams
Chief Financial Officer

Office Locations

www.thecornerstonebank.com

3710 Nash Street North
Wilson, NC 27896

1435 Ward Boulevard
Wilson, NC 27893

Regulatory and Securities Counsel

Brooks, Pierce, McLendon
Humphrey & Leonard, L.L.P.
P. O. Box 26000
Greensboro, NC 27420

Stock Transfer Agent

First-Citizens Bank & Trust Company
Corporate Trust Dept.
100 East Tryon Road
Raleigh, NC 27603

Independent Auditors

Elliott Davis, PLLC
Certified Public Accountants
Post Office Box 760
Galax, VA 24333

Annual Stockholders Meeting

The 2009 Annual Meeting of stockholders of CB Financial Corporation will be held at 10:00 a.m. on May 28, 2009 at Something Different, 3342 Airport Boulevard, Wilson, North Carolina 27896.

This Annual Report serves as the annual financial disclosure statement furnished pursuant to the Federal Deposit Insurance Corporation's rules and regulations. This statement has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.