CB FINANCIAL CORPORATION
AND SUBSIDIARY

2011 Annual Report

TABLE OF CONTENTS

Cornerstone Bank Web Address: www.thecornerstonebank.com

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

First Shareholder Services
Mail Code: FCC61
P.O. Box 29522
Raleigh, NC 27626-0522
1-866-215-2480

CB Financial Corporation

Dear Shareholders,

For the year ending December 31, 2011, we reported a loss of $877,323. Certainly that is not good But it marks a significant improvement compared to the previous year, ending December 31, 2010, when we lost $7,914,745 after losing $4,341,645 in 2009. In 2011 we worked hard to clean up our problem loans, vigorously attacked expenses, and turned an $8 million loss into a loss of less than $900,000. For a small bank like ours, that's a phenomenal turnaround.

Now, move the calendar forward by two months, to February 29, 2012. That's Leap Day and the date we closed our private offering, which brought in over $4 million of new capital. That success — an unheard accomplishment among community banks of our size — means that we can determine our own future, remain independent, and start reconstructing a community bank that was once a high performer among all North Carolina banks. We were severely hurt by the lingering economic recession, as were many banks. More than 20 banks in our state — large and small — are now closed, have been acquired, or are operating under new management. Even in our market we see new names over bank buildings.

A change in ownership could have happened to us, but the people of Wilson would not allow that. Even as our original shareholders lost heavily in the economy, those same shareholders stepped up to provide much needed capital. In a market where businesses closed, jobs were lost, and some customers were driven into bankruptcy because they simply could no longer pay back loans, we discovered the strength of the community and the people who valued our local bank.

We hope that the massive loan losses are a thing of the past. We have improved our financial position and are rebuilding our capital. Even though we feel a sense of relief and following the successful capital raise and reduced losses. We are working hard taking steps that will move us back to profitability. All this has been achieved on our own. We never accepted federal bailout funds or funds from institutional investors. We raised the money locally.

Our letter here to preface our annual report is brief, simple, and uplifting. We lost money in recent years, rebuilt our capital, and are moving toward a brighter future. We remain committed to our community, just as our community remained committed to us. We continue to provide money, time and talent to various causes and sponsorships.

After proving that we were strong enough to survive the past three years, we as directors and senior management have to ask ourselves: How much stronger might we be three years from now? The good news is that we can plan the next three years and stay true to our original mission of serving the financial needs of the Wilson market. As a locally owned and locally managed bank, we think we are positioned and poised to serve this market well as it recovers from the worst recession since the Great Depression.

Stop by our offices and see for yourself. The banking experience is positive. And ownership in this bank still means something of value.

Sincerely,

John C. Anthony
Chairman of the Board

Norm Osborn
President and CEO

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, 2011 and 2010, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity (deficit) 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, 2011 and 2010 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
May 17, 2012

CB FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2011 and 2010

	2011	2010
ASSETS		
Cash and due from banks	$ 2,136,100	$ 3,579,241
Interest-earning deposits in banks	18,974,335	6,100,543
Federal funds sold	-	11,585,000
Total cash and cash equivalents	21,110,435	21,264,784
Time deposits	1,231,098	3,050,416
Investment securities available for sale, at fair value (Note D)	35,706,604	29,695,849
Loans (Note E)	82,246,643	104,499,161
Allowance for loan losses	(3,670,000)	(4,393,097)
NET LOANS	78,576,643	100,106,064
Accrued interest receivable	466,550	548,990
Stock in Federal Home Loan Bank of Atlanta, at cost	957,800	1,133,100
Premises and equipment, net of depreciation (Note F)	2,536,126	1,912,059
Bank-owned life insurance	3,522,425	3,385,271
Real estate owned	3,846,857	4,704,607
Other assets	1,248,512	1,182,875
TOTAL ASSETS	$ 149,203,050	$ 166,984,015
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Deposits:		
Demand	$ 13,370,678	$ 11,523,506
Savings	1,887,576	1,912,862
Money market and NOW	33,601,450	32,933,958
Time (Note G)	81,540,895	99,729,988
TOTAL DEPOSITS	130,400,599	146,100,314
Short term borrowings (Note H)	4,000,000	1,250,000
Long term borrowings (Note H)	10,000,000	14,000,000
Junior subordinated Note (Note H)	5,155,000	5,155,000
Accrued interest payable	216,750	99,638
Accrued expenses and other liabilities	854,291	880,708
TOTAL LIABILITIES	150,626,640	167,485,660
Commitments (Notes L and N)		
Stockholders' equity (Notes K and N):		
Preferred stock, 20,000,000 shares authorized, 244,302 issued and outstanding	2,458,434	2,458,434
Common stock, no par value, 80,000,000 shares authorized; 843,715 shares issued and outstanding	8,556,168	8,556,168
Retained earnings (deficit)	(12,651,074)	(11,773,751)
Accumulated other comprehensive income	212,882	257,504
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(1,423,590)	(501,645)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 149,203,050	$ 166,984,015

See accompanying notes

CB FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2011 and 2010

	2011	2010
INTEREST INCOME		
Loans	$ 4,797,139	$ 6,175,171
Investment securities—taxable	916,668	973,301
Investment securities—tax exempt	199,657	361,398
Federal funds sold	6,362	14,530
Interest-earning deposits in banks	53,234	55,535
Other interest and dividends	8,696	15,668
TOTAL INTEREST INCOME	5,981,756	7,595,603
INTEREST EXPENSE		
Money market, NOW and savings deposits	78,687	164,939
Time deposits	1,913,415	2,444,424
Short term borrowings	1,423	7,750
Long term borrowings	568,109	610,503
TOTAL INTEREST EXPENSE	2,561,634	3,227,616
NET INTEREST INCOME	3,420,122	4,367,987
PROVISION FOR LOAN LOSSES (Note E)	567,201	7,504,065
NET INTEREST INCOME (LOSS) AFTER PROVISION FOR LOAN LOSSES	2,852,921	(3,136,078)
NON-INTEREST INCOME		
Service charges on deposit accounts	269,752	312,704
Mortgage operations	29,701	95,659
Gain on sale of investment securities	674,519	319,349
Income from bank owned life insurance	137,155	145,551
Other income	294,701	436,003
TOTAL NON-INTEREST INCOME	1,405,828	1,309,266
NON-INTEREST EXPENSE		
Salaries and employee benefits	2,278,247	2,509,647
Occupancy and equipment	318,295	339,514
Data processing expenses	642,511	664,879
Expense on other real estate owned, net	493,993	594,426
Other (Note J)	1,356,716	1,735,858
TOTAL NON-INTEREST EXPENSE	5,089,762	5,844,324
LOSS BEFORE INCOME TAXES	(831,013)	(7,671,136)
INCOME TAXES (Note I)	46,310	243,609
NET LOSS	(877,323)	(7,914,745)
PREFERRED STOCK DIVIDENDS	-	-
LOSS APPLICABLE TO COMMON STOCKHOLDERS	$ (877,323)	$ (7,914,745)
NET LOSS PER COMMON SHARE		
Basic	$ (1.04)	$ (9.38)
Diluted	(1.04)	(9.38)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	843,715	843,715
Diluted	843,715	843,715

See accompanying notes

CB FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2011 and 2010

	2011	2010
NET LOSS	$ (877,323)	$ (7,914,745)
OTHER COMPREHENSIVE INCOME (LOSS):		
Securities available for sale:		
Unrealized holding gains (losses) on available for sale securities	601,904	(306,019)
Realized gains on available for sale securities	(674,519)	(319,349)
Net tax effect	27,993	241,121
TOTAL OTHER COMPREHENSIVE LOSS	(44,622)	(384,247)
COMPREHENSIVE LOSS	$ (921,945)	$ (8,298,992)

See accompanying notes

	Common Stock	Preferred Stock A	Preferred Stock B	Retained Deficit	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2009	$ 8,553,484	$ 1,928,429	$ 530,005	$ (3,859,006)	$ 641,751	$ 7,794,663
Comprehensive loss						
Net loss	-	-	-	(7,914,745)	-	(7,914,745)
Other comprehensive loss	-	-	-	-	(384,247)	(384,247)
Stock based compensation expense	2,684	-	-	-	-	2,684
Balance, December 31, 2010	8,556,168	1,928,429	530,005	(11,773,751)	257,504	(501,645)
Comprehensive loss						
Net loss	-	-	-	(877,323)	-	(877,323)
Other comprehensive loss	-	-	-	-	(44,622)	(44,622)
Balance, December 31, 2011	$ 8,556,168	$ 1,928,429	$ 530,005	$ (12,651,074)	$ 212,882	$ (1,423,590)

	Shares Outstanding		
	Common	Preferred A	Preferred B
Balance, December 31, 2009	843,715	191,310	52,992
No activity	-	-	-
Balance, December 31, 2010	843,715	191,310	52,992
No activity	-	-	-
Balance, December 31, 2011	843,715	191,310	52,992

See accompanying notes.

CB FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (877,323)	$ (7,914,745)
Adjustments to reconcile net loss to		
net cash provided (used) by operating activities:		
Depreciation and accretion, net	203,353	78,399
Non-cash stock compensation expense	-	2,684
Realized gain on available for sale securities	(674,519)	(319,349)
Loss on disposal of bank equipment	-	2,288
Loss on sale of real estate owned	12,273	35,193
Write down of real estate owned	307,417	331,181
Provision for loan losses	567,201	7,504,065
Earnings on bank-owned life insurance	(137,154)	(145,551)
Deferred income tax expense	46,310	243,609
Carry-back taxes received	-	1,330,816
Change in assets and liabilities:		
Decrease in accrued interest receivable	82,440	215,739
Increase in other assets	(83,955)	(91,902)
Increase (decrease) in accrued interest payable	117,112	(10,893)
Increase (decrease) in accrued expenses and other liabilities	(26,417)	24,222
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(463,262)	1,285,756
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases (maturities) of time deposits	1,819,318	(2,670,753)
Purchase of available for sale investments	(26,974,981)	(14,902,001)
Sales of available for sale investments	15,583,582	10,273,261
Proceeds from sale of real estate owned	4,446,912	1,498,890
Proceeds from maturities and calls of available for sale investments	5,877,459	9,018,313
Net decrease in loans	16,413,368	20,626,285
Net purchase of Federal Home Loan Bank stock	175,300	135,300
Redemption of bank owned life insurance	-	1,679,130
Purchases of bank premises and equipment	(82,330)	(2,855)
NET CASH PROVIDED BY INVESTING ACTIVITIES	17,258,628	25,655,570
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in deposits	(15,699,715)	(15,227,978)
Decrease in FHLB advances	(1,250,000)	(2,500,000)
NET CASH USED BY FINANCING ACTIVITIES	(16,949,715)	(17,727,978)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(154,349)	9,213,348
CASH AND CASH EQUIVALENTS, BEGINNING	21,264,784	12,051,436
CASH AND CASH EQUIVALENTS, ENDING	$ 21,110,435	$ 21,264,784
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$ 2,444,522	$ 3,238,509
Income taxes paid (refunded)	18,318	(1,330,816)
Change in unrealized gain on investment securities available for sale, net	(44,622)	(384,247)
Transfer from loans to real estate owned	4,548,852	3,193,179
Transfer of real estate owned to bank premises	640,000	-

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 stockholders 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 stockholders 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 real estate owned and 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 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 un-collectability 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.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status and other circumstances impacting the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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 is applied to each group’s loan balances to determine the allocation.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses, continued

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.

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 management 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, 2011.

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 2011 and 2010 no write downs were necessary. 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 expenses on other real estate owned.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. As of December 31, 2011 and 2010, the Bank has recorded a valuation allowance against all of its net deferred tax assets.

It is the Bank's policy to evaluate uncertain tax positions. As of December 31, 2011 and 2010, the Company had no uncertain tax positions requiring disclosure or recognition.

Comprehensive Income (Loss)

The Company reports as comprehensive income (loss) 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

The Company recognizes compensation cost relating to share-based payment transactions in the financial statements in accordance with generally accepted accounting principles. The cost is measured based on the fair value of the equity or liability instruments issued. The expense measures the cost of employee services received in exchange for stock options based on the grant-date fair value of the award, and recognizes the cost over the period the employee is required to provide services for the award.

Per Share Results

As discussed in Note A, shares of Series A and B Preferred Stock were issued in 2008 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.

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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Per Share Results, continued

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

	2011	2010
Weighted average outstanding shares used for basic EPS	843,715	843,715
Plus incremental shares from assumed exercise of stock options, employee stock purchase plan purchases and preferred stock conversion	-	-
Weighted average outstanding shares used for diluted EPS	843,715	843,715

For the years ended December 31, 2011 and December 31, 2010, 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.

Recent Accounting Pronouncements

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and/or disclosure of financial information by the Company.

In July 2010, the Receivables topic of the Accounting Standards Codification ("ASC") was amended by Accounting Standards Update ("ASU") 2010-20 to require expanded disclosures related to a company's allowance for credit losses and the credit quality of its financing receivables. The amendments require the allowance disclosures to be provided on a disaggregated basis. The Company has included these disclosures in Note E.

In April 2011 the FASB issued ASU 2011-02 to assist creditors with their determination of when a restructuring is a Troubled Debt Restructuring ("TDR"). The determination is based on whether the restructuring constitutes a concession and whether the debtor is experiencing financial difficulties as both events must be present. The new guidance is effective for the Company beginning January 1, 2012 and is not expected to have a material effect on the Company's TDR determinations.

ASU 2011-04 was issued in May 2011 to amend the Fair Value Measurement topic of the ASC by clarifying the application of existing fair value measurement and disclosure requirements and by changing particular principles or requirements for measuring fair value or for disclosing information about fair value measurements. The amendments were effective for the Company beginning January 1, 2012 but are not expected to have a material effect on the financial statements.

The Comprehensive Income topic of the ASC was amended in June 2011. The amendment eliminates the option to present other comprehensive income as a part of the statement of changes in stockholders' equity and requires consecutive presentation of the statement of net income and other comprehensive income. The amendments will be applicable to the Company for the year ended December 31, 2012 and will be applied retrospectively. In December 2011, the topic was further amended to defer the effective date of presenting reclassification adjustments from other comprehensive income to net income on the face of the financial statements. Companies should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect prior to the amendments while FASB redeliberates future requirements.

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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation. The reclassifications had no effect on net loss or stockholders' equity as previously reported.

Subsequent Events

These financial statements have not been updated for subsequent events occurring after May 17, 2012 which is the date these financial statements were available to be issued.

NOTE C – RESTRICTIONS ON CASH

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2011 and 2010, these reserve balances amounted to $667,000 and $651,000, respectively.

NOTE D - INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2011				
Securities available for sale				
Government sponsored enterprises	$ 2,939,226	$ 147,684	$ -	$ 3,086,910
Municipal securities	4,282,894	114,124	(703)	4,396,315
Mortgage-backed securities	28,080,234	211,613	(73,468)	28,218,379
Other equity securities	57,745	-	(52,745)	5,000
	$ 35,360,099	$ 473,421	$ (126,916)	$ 35,706,604
2010				
Securities available for sale				
Government sponsored enterprises	$ 2,376,589	$ 75,615	$ (37,584)	$ 2,414,620
Municipal securities	4,981,458	7,098	(124,772)	4,863,784
Mortgage-backed securities	21,860,938	757,697	(212,753)	22,405,882
Other equity securities	57,745	-	(46,182)	11,563
	$ 29,276,730	$ 840,410	$ (421,291)	$ 29,695,849

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, 2011 and 2010. 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 investments to be other-than-temporarily impaired at December 31, 2011.

NOTE D - INVESTMENT SECURITIES (Continued)

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2011						
Securities available for sale						
Municipal securities	$ -	$ -	$ 428,128	$ 703	$ 428,128	$ 703
Government sponsored enterprises	-	-	-	-	-	-
Other equity securities	-	-	5,000	52,745	5,000	52,745
Mortgage-backed securities	12,062,333	64,701	1,692,858	8,767	13,755,191	73,468
Total temporarily impaired available for sale securities	$12,062,333	$ 64,701	$ 2,125,986	$ 62,215	$14,188,319	$ 126,916
2010						
Securities available for sale						
Municipal securities	$ 2,606,942	$ 55,753	$ 1,022,739	$ 69,019	$ 3,629,681	$ 124,772
Government sponsored enterprises	974,780	37,584	-	-	974,780	37,584
Other equity securities	11,563	46,182	-	-	11,563	46,182
Mortgage-backed securities	9,273,357	212,753	-	-	9,273,357	212,753
Total temporarily impaired available for sale securities	$12,866,642	$ 352,272	$ 1,022,739	$ 69,019	$13,889,381	$ 421,291

Securities with a carrying value of $30.6 million and $23.8 million at December 31, 2011 and 2010, respectively, were pledged to secure borrowings.

For the years ended December 31, 2011 and 2010, proceeds from sales of securities available for sale amounted to $15,583,582 and $10,273,261, respectively. From the sales, gross realized gains amounted to $674,519 and $339,099 and gross realized losses amounted to $0 and $19,750 for the years ended December 31, 2011 and 2010, respectively.

The amortized cost and fair value, of the Company's investment securities available for sale at December 31, 2011, 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.

NOTE D - INVESTMENT SECURITIES (Continued)

	Amortized Cost	Fair Value
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	2,939,226	3,086,910
Due after ten years	-	-
	2,939,226	3,086,910
Mortgage-backed securities		
Due within one year	3,796,693	3,805,195
Due after one but within five years	11,232,681	11,279,896
Due after five but within ten years	6,216,285	6,249,271
Due after ten years	6,834,575	6,884,017
	28,080,234	28,218,379
Municipal securities		
Due within one year	-	-
Due after one but within five years	2,082,277	2,142,968
Due after five but within ten years	976,747	1,020,109
Due after ten years	1,223,870	1,233,238
	4,282,894	4,396,315
Other equity security		
No stated maturity	57,745	5,000
	$ 35,360,099	$ 35,706,604

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, 2011 and 2010:

	2011	2010
	(Dollars in thousands)	
Commercial and agriculture	$ 37,743	$ 47,906
Construction & development	10,616	15,474
Farmland	514	1,014
1-4 residential	27,150	32,598
Multifamily	3,013	3,268
Consumer and other	3,211	4,239
Total loans	82,247	104,499
Less:		
Allowance for loan losses	(3,670)	(4,393)
Net loans receivable	$ 78,577	$ 100,106

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.

NOTE E – LOANS (Continued)

There were $7.6 million in restructured loans as of December 31, 2011 and $12.8 million in restructured loans as of December 31, 2010.

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):

	2011	2010
Balance at beginning of year	$ 4,312	$ 5,318
Borrowings	175	458
Repayments	(840)	(1,464)
Balance at end of year	$ 3,647	$ 4,312

Allowance for Loan Losses

The allowance for loan losses is maintained at a level believed to be sufficient to provide for estimated loan losses based on evaluating known and inherent risks in the loan portfolio. The allowance is provided based upon management's comprehensive analysis of the pertinent factors underlying the quality of the loan portfolio. These factors include changes in the amount and composition of the loan portfolio, delinquency levels, actual loss experience, current economic conditions, and detailed analysis of individual loans for which the full collectability may not be assured. The detailed analysis includes methods to estimate the fair value of loan collateral and the existence of potential alternative sources of repayment. The allowance consists of specific and general components. The specific component relates to loans that are deemed impaired. For such loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the recorded value of that loan. The general component covers the remaining loan portfolio not evaluated individually for impairment, and is based on historical loss experience adjusted for qualitative factors. The appropriateness of the allowance for loan losses on loans is estimated based upon these factors and trends identified by management at the time financial statements are prepared.

A provision for loan losses is charged against operations and is added to the allowance for loan losses based on quarterly comprehensive analyses of the loan portfolio. The allowance for loan losses is allocated to certain loan categories based on the relative risk characteristics, asset classifications and actual loss experience of the loan portfolio. While management has allocated the allowance for loan losses to various loan portfolio segments, the allowance is general in nature and is available for the loan portfolio in its entirety.

NOTE E – LOANS (Continued)

Allowance for Loan Losses, continued

The following table presents activity in the allowance by loan category and information on the loans evaluated individually for impairment and collectively evaluated for impairment as of December 31, 2011 (in thousands):

Allowance for Loan Losses and Recorded Investment in Loans

	Commercial & Agricultural	Multifamily Residential	Construction & Development	Farmland	Residential	Consumer & Other	Total
December 31, 2011							
Allowance for loan losses:							
Beginning Balance	$ 2,888	$ 141	$ 163	$ 15	$ 1,144	$ 42	$ 4,393
Charge-offs	(728)	(253)	(118)	-	(660)	(105)	(1,864)
Recoveries	458	-	61	-	32	23	574
Provision	(902)	290	307	(2)	761	113	567
Ending Balance	$ 1,716	$ 178	$ 413	$ 13	$ 1,277	$ 73	$ 3,670
Ending balance: individually evaluated for impairment	$ 1,326	$ 25	$ 278	$ -	$ 556	$ 21	$ 2,206
Ending balance: collectively evaluated for impairment	$ 390	$ 153	$ 135	$ 13	$ 721	$ 52	$ 1,464
Loans outstanding:							
Ending balance	$ 37,743	$ 3,013	$ 10,616	$ 514	$ 27,150	$ 3,211	$ 82,247
Ending balance: individually evaluated for impairment	$ 6,815	$ 425	$ 1,632	$ -	$ 2,762	$ 37	$ 11,671
Ending balance: collectively evaluated for impairment	$ 30,928	$ 2,588	$ 8,984	$ 514	$ 24,388	$ 3,174	$ 70,576

The following table presents activity in the allowance for the year ended December 31, 2010 (in thousands):

Allowance for Loan Losses

Allowance for loan losses at beginning of year	$ 2,886
Provision for loan losses	7,504
	10,390
Loans charged-off	
Commercial & Agricultural	(5,222)
Residential	(1,282)
Consumer & Other	(122)
Total charge-offs	(6,626)
Recoveries of loans previously charged-off	
Commercial & industrial	548
Residential	52
Consumer & Other	29
Total recoveries	629
Net charge-offs	(5,997)
Allowance for loan losses at end of year	$ 4,393

NOTE E – LOANS (Continued)

Allowance for Loan Losses, continued

Management closely monitors the quality of the loan portfolio and has established a loan review process designed to help grade the quality of the Bank's loan portfolio. The Bank's loan ratings coincide with the "Substandard," "Doubtful" and "Loss" classifications used by federal regulators in their examination of financial institutions. Generally, an asset is considered Substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. Substandard assets include those characterized by the distinct possibility that the insured financial institution will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all the weaknesses inherent in assets classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable. Assets classified as Loss are those considered uncollectible, and of such little value that its continuance on the books is not warranted. Assets that do not currently expose the insured financial institutions to sufficient risk to warrant classification in one of the aforementioned categories but otherwise possess weaknesses are designated "Special Mention." Management also maintains a listing of loans designated "Watch". These loans represent borrowers with declining earnings, strained cash flow, increasing leverage and/or weakening market fundamentals that indicate above average risk. As of December 31, 2011 and December 31, 2010, the Bank had no loans graded "Doubtful" or "Loss" included in the balance of total loans outstanding.

The following table lists the loan grades utilized by the Bank and the corresponding total of outstanding loans in each category as of December 31, 2011 (in thousands):

Credit Risk Profile by Internally Assigned Grades

	Loan Grades				
	Pass	Special Mention	Substandard	Doubtful & Loss	Total
December 31, 2011					
Commercial & agriculture	$ 18,965	$ 5,770	$ 13,008	$ -	$ 37,743
Construction & development	4,651	1,125	4,563	277	10,616
Farmland	514	-	-	-	514
Residential	19,601	2,116	5,299	134	27,150
Multifamily	1,765	81	1,167	-	3,013
Consumer & other	2,881	221	108	1	3,211
Total	$ 48,377	$ 9,313	$ 24,145	$ 412	$ 82,247

Loans may be placed in nonaccrual status 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. Payments received are first applied to principal, and any remaining funds are then applied to interest. Loans are removed from nonaccrual status when they are deemed a loss and charged to the allowance, transferred to foreclosed assets, or returned to accrual status based upon performance consistent with the original terms of the loan or a subsequent restructuring thereof.

The following table presents an age analysis of nonaccrual and past due loans by category as of December 31, 2011 (in thousands):

Analysis of Past Due and Nonaccrual Loans

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90+ Days Past Due and Still Accruing	Nonaccrual Loans
December 31, 2011								
Commercial & Agriculture	$ 522	$ 289	$ 3,439	$ 4,250	$ 33,493	$ 37,743	$ -	$ 3,794
Construction & development	25	23	1,667	1,715	8,901	10,616	-	1,705
Farmland	-	-	-	-	514	514	-	-
Residential	567	145	425	1,137	26,013	27,150	-	1,648
Multifamily	-	-	221	221	2,792	3,013	-	20
Consumer & other	2	35	-	37	3,174	3,211	-	50
Total	$ 1,116	$ 492	$ 5,752	$ 7,360	$ 74,887	$ 82,247	$ -	$ 7,217

NOTE E – LOANS (Continued)

Impaired Loans

A loan is considered impaired when it is probable that the Bank will be unable to collect all contractual principal and interest payments due in accordance with the original or modified terms of the loan agreement. Smaller balance homogenous loans may be collectively evaluated for impairment. Impaired loans are measured based on the estimated fair value of the collateral less estimated cost to sell if the loan is considered collateral dependent. Impaired loans not considered to be collateral dependent are measured based on the present value of expected future cash flows. The valuation of real estate collateral is subjective in nature and may be adjusted in future periods because of changes in economic conditions. Management considers third-party appraisals, as well as independent fair market value assessments in determining the estimated fair value of particular properties. In addition, as certain of these third-party appraisals and independent fair market value assessments are only updated periodically, changes in the values of specific properties may have occurred subsequent to the most recent appraisals. Accordingly, the amounts of any such potential changes and any related adjustments are generally recorded at the time such information is received. When the measurement of the impaired loan is less than the recorded investment in the loan, impairment is recognized by creating or adjusting an allocation of the allowance for loan losses and uncollected accrued interest is reversed against interest income. If ultimate collection of principal is in doubt, all cash receipts on impaired loans are applied to reduce the principal balance.

The following table is a summary of information related to impaired loans as of December 31, 2011 (in thousands):

Impaired Loans

	Recorded Investment [1]	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2011					
With no related allowance recorded:					
Commercial & agricultural	$ 2,713	$ 2,828	$ -	$ 2,884	$ 24
Construction & development	11	14	-	11	-
Farmland	-	-	-	-	-
Residential	889	1,217	-	1,038	10
Multifamily	221	369	-	313	-
Consumer & other	35	61	-	37	-
Subtotal	3,869	4,489	-	4,283	34
With an allowance recorded:					
Commercial $ agriculture	4,103	4,143	1,326	4,188	154
Construction & development	1,621	1,621	278	1,621	-
Farmland	-	-	-	-	-
Residential	1,872	1,888	556	1,900	89
Multifamily	204	204	25	209	11
Consumer & other	2	2	21	2	-
Subtotal	7,802	7,858	2,206	7,920	254
Totals:					
Commercial & agriculture	6,816	6,971	1,326	7,072	178
Construction & development	1,632	1,635	278	1,632	-
Farmland	-	-	-	-	-
Residential	2,761	3,105	556	2,938	99
Multifamily	425	573	25	522	11
Consumer & other	37	63	21	39	-
Total	$ 11,671	$ 12,347	$ 2,206	$ 12,203	$ 288

(1) Recorded investment is the loan balance, net of any charge-offs and deferred fees and costs.

NOTE E – LOANS (Continued)

Impaired Loans, continued

The following is a summary of information related to impaired and nonaccrual loans as of December 31, 2010 (in thousands):

Impaired and Nonaccrual Loans

Impaired loans without a valuation allowance	$	9,969
Impaired loans with a valuation allowance		10,126
Total impaired loans	$	20,095
Valuation allowance related to impaired loans	$	3,074
Total nonaccrual loans	$	12,498
Total loans past due ninety days or more and still accruing	$	-
Average investment in impaired loans	$	27,235
Interest income recognized on impaired loans	$	1,584
Interest income recognized on a cash basis on impaired loans	$	1,487

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

Troubled Debt Restructuring

A troubled debt restructured loan is a loan for which the Bank, for reasons related to the borrower's financial difficulties, grants a concession to the borrower that the Bank would not otherwise consider.

The loan terms which have been modified or restructured due to a borrower's financial difficulty, include but are not limited to: a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions, deferrals and renewals. Troubled debt restructured loans are considered impaired and are individually evaluated for impairment.

The following table sets forth information with respect to the Bank's troubled debt restructurings during 2011 (in thousands):

Modifications

	2011		
	Number of Contracts	**Pre-Modification Outstanding Recorded Investment (1)**	**Post-Modification Outstanding Recorded Investment (1)**
Troubled Debt Restructurings			
Extended payments			
Commercial & agricultural	8	$ 1,638	$ 1,638
Residential	1	123	123
Consumer & other	1	17	17
Other concession			
Commercial & agricultural	2	33	33

NOTE E – LOANS (Continued)

Troubled Debt Restructuring, continued

	Number of Contracts	Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted		
Commercial & agricultural	2	$ 33
Consumer & other	1	17

As of December 31, 2011, the Bank had 3 loans that had previously been restructured that were in default. Restructured loans are deemed to be in default if they become past due by 30 days or more.

NOTE F - PREMISES AND EQUIPMENT

Following is a summary of the Company's premises and equipment at December 31, 2011 and 2010:

	2011	2010
Land	$ 848,037	$ 848,037
Buildings	1,905,700	1,248,465
Leasehold improvements	55,932	52,471
Furniture and equipment	970,925	934,132
	3,780,594	3,083,105
Less accumulated depreciation	(1,244,468)	(1,171,046)
Total	$ 2,536,126	$ 1,912,059

Depreciation and amortization amounting to $98,260 and $108,148 for the years ended December 31, 2011 and 2010, respectively, is included in occupancy and equipment expense and data processing expense.

The Company leases a branch facility and certain equipment under separate agreements that expire at various dates through October 31, 2012. Future non cancelable payments under these leases are $32,400 for 2012.

Rental expense amounting to $66,752 and $90,605 during the years ended December 31, 2011 and 2010, respectively, is included in occupancy and equipment expense on the accompanying consolidated statements of operations.

NOTE G - DEPOSITS

At December 31, 2011, the scheduled maturities of time deposits (dollars in thousands) are as follows:

2012	$ 30,095
2013	32,035
2014	15,800
2015	2,233
2016	1,378
Total	$ 81,541

The above table includes time deposits of $100,000 and over, which at December 31, 2011, totaled $45.5 million. Of that total, $4.5 million had scheduled maturities within three months; $2.9 million after three but within six months; $5.6 million after six but within twelve months; and $32.5 million after twelve months.

NOTE H - BORROWINGS

In 2011 and 2010 the Company did not have an unsecured federal funds line.

The Company has a $11.1 million line of credit with the Federal Reserve Bank that is secured by mortgage backed securities. The Company did not use the line of credit in 2011 or 2010.

The Company has borrowings from the Federal Home Loan Bank of Atlanta (FHLB). Advances from the FHLB are secured by eligible securities and are listed below. The FHLB has placed a $15,250,000 cap on the amount the Company can borrow.

Advances from the FHLB of Atlanta consisted of the following at December 31, 2011 and 2010:

Maturity	Interest Rate	2011	2010
September 8, 2015	3.93%	$ 5,000,000	$ 5,000,000
July 16, 2012	3.90%	1,250,000	1,250,000
February 26, 2012	1.08%	1,500,000	1,500,000
June 12, 2013	2.02%	1,250,000	1,250,000
November 12, 2013	2.26%	2,500,000	2,500,000
March 8, 2011	.62%	-	1,250,000
March 7, 2012	3.24%	1,250,000	1,250,000
March 7, 2013	3.53%	1,250,000	1,250,000
		$ 14,000,000	$ 15,250,000

Advances maturing in 2012 have been disclosed as short term borrowings on the consolidated balance sheet.

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. 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. The Company elected to defer interest payments on the Notes starting on March 15, 2010. Interest payable on the Notes amounted to $198,000 at December 31, 2011.

NOTE I - INCOME TAXES

The significant components of the provision for income taxes for 2011 and 2010 are as follows:

	2011	2010
Current tax provision		
Federal	$ -	$ -
State	-	-
	-	-
Deferred tax provision		
Federal	(375,766)	(2,821,305)
State	(50,109)	(195,150)
Valuation allowance	472,185	3,260,064
	46,310	243,609
Provision for income taxes	$ 46,310	$ 243,609

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:

	2011	2010
Tax expense computed at the statutory federal rate	$ (282,544)	$ (2,608,186)
Increase (decrease) resulting from		
State income taxes, net of federal tax effect	(33,072)	(128,799)
Nontaxable income	(112,626)	(164,102)
Other, net	2,367	(115,368)
Valuation allowance	472,185	3,260,064
Provision for income taxes	$ 46,310	$ 243,609

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, 2011 and 2010 are as follows:

	2011	2010
Deferred tax assets relating to		
Allowance for loan losses	$ 674,445	$ 903,676
Pre-opening costs and expenses	1,131	1,264
Interest income on non-accrual loans	374,472	321,849
Retirement and stock compensation	230,072	230,072
Investment and OREO impairment	179,020	175,372
Operating loss carryforwards	3,730,831	3,119,710
Other	11,145	10,331
Total deferred tax assets	5,201,116	4,762,274
Valuation allowance	4,958,012	4,485,827
Total net deferred tax assets	243,104	276,447
Deferred tax liabilities relating to		
Premises and equipment differences	(67,750)	(58,619)
Prepaid expenses	(25,318)	(26,929)
Investment securities available for sale	(133,578)	(161,570)
Other	(16,458)	(29,329)
Total deferred tax liabilities	(243,104)	(276,447)
Net deferred tax asset	$ -	$ -

NOTE I - INCOME TAXES (Continued)

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. Management has determined that it is more likely than not that the deferred tax asset at December 31, 2011 and 2010 will not be realized, and accordingly, has established a valuation allowance.

The Company is subject to U.S. federal and North Carolina state income tax. Tax authorities in various jurisdictions may examine the Company and the Bank. With few exceptions, the Company and the Bank are not subject to federal and state income tax examinations for taxable years prior to 2008.

NOTE J - OTHER NON-INTEREST EXPENSE

The major components of other non-interest expense for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Postage, printing and office supplies	$ 44,153	$ 58,103
Advertising and promotion	64,291	115,706
Professional services	390,264	540,714
FDIC insurance premiums	568,861	621,630
Other	289,147	399,705
Total	$ 1,356,716	$ 1,735,858

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.

As of December 31, 2011, the most recent notification from the FDIC categorized the Bank as inadequately capitalized under the regulatory framework for prompt corrective action. 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	Under Consent Order
As of December 31, 2011				
Tier 1 capital (to risk-weighted assets)	$ 3,650	3.97%	4.00%	8.00%
Total capital - (to risk-weighted assets)	4,830	5.25%	8.00%	12.00%
Leverage - Tier 1 capital (to average assets)	3,650	2.42%	4.00%	n/a
As of December 31, 2010				
Tier 1 capital (to risk-weighted assets)	$ 4,351	3.65%	4.00%	8.00%
Total capital - (to risk-weighted assets)	5,878	4.93%	8.00%	12.00%
Leverage - Tier 1 capital (to average assets)	4,351	2.59%	4.00%	n/a

NOTE K - REGULATORY MATTERS (Continued)

The Bank, the North Carolina Commissioner of Banks and the Federal Deposit Insurance Corporation entered into a Consent Order effective February 11, 2010. Although the Bank neither admits nor denies any unsafe or unsound banking practices or violations of law or regulation, in the Consent Order the Bank agreed with the Commissioner and the FDIC (the "Supervisory Authorities") to undertake a number of actions:

- The Board of Directors of the Bank will enhance its supervision of the Bank's activities, including by increasing the frequency of its meetings, developing a directors' education program, and appointing a special Directors' Committee. The Committee will oversee the efforts of the Bank's management in complying with the Consent Order and will regularly report to the full Board.
- The Bank Board will assess the Bank's management team to ensure that the Bank's executive officers have the skills, training, abilities and experience needed to cause the Bank to comply with the Consent Order, operate in a safe and sound manner, comply with applicable laws and regulations, and strengthen all areas of the Bank's operations that are not currently in compliance with the Consent Order. The Board will also assess the Bank's management and staffing needs in order to determine if additional resources should be added to the management team.
- The Bank will maintain Tier 1 Capital of at least 8% of total assets (exclusive of the Bank's allowance for loan losses) and a Total Risk Based Capital Ratio of at least 12% during the effectiveness of the Consent Order.
- The Bank will develop and implement a plan for achieving and maintaining the foregoing capital levels, which plan may include sales of stock by CB Financial Corporation and contributions of the sales proceeds by CB Financial Corporation to the capital of the Bank.
- The Board will review the Bank's allowance for loan losses to determine its adequacy and will enhance its periodic reviews of the allowance to ensure its continuing adequacy. Deficiencies noted will be promptly remedied by charges to earnings.
- The Bank will develop and implement a strategic plan covering at least three years and containing long-term goals designed to improve the condition of the Bank.
- The Bank charged off all of its assets (loans) classified "Loss" and 50% of its assets (loans) classified "Doubtful" promptly following the effectiveness of the Consent Order.
- The Bank will not extend additional credit to any borrower who had a loan with the Bank that was charged off or who has a current loan that is classified "Loss" or "Doubtful". The Bank also will not extend additional credit to any borrower who has a current loan that is classified "Substandard". With the approval of the Supervisory Authorities, a further extension of credit may be made to a borrower with a "Substandard" loan if such extension would be in the best interests of the Bank.
- The Bank will formulate a detailed plan to collect, charge off or improve the quality of each of its "Substandard" or "Doubtful" loans as of May 26, 2009 of more than $200,000 and will promptly implement the plan. The Board will closely monitor the Bank's progress in fulfilling the requirements of this plan.
- The Bank will reduce loans classified as "Substandard" or "Doubtful" in accordance with a schedule required by the Supervisory Authorities. The schedule requires an aggregate reduction by 75% within 720 days of the effectiveness of the Consent Order.
- The Bank will prepare plans and policies to correct all weaknesses in its loan underwriting, loan administration, and loan portfolio management noted by the Supervisory Authorities. These plans and policies are to be implemented within 90 days of the effectiveness of the Consent Order.
- Within 60 days of the effectiveness of the Consent Order, the Bank will develop a plan to systematically reduce the concentration of a significant portion of its extensions of credit in a limited group of borrowers. Additionally, the Bank will prepare a risk segmentation analysis with respect to certain commercial real estate industry concentrations of credit identified by the Supervisory Authorities.
- The Bank will enhance its review of its liquidity by engaging in a monthly analysis. It will also develop a liquidity contingency plan.

NOTE K - REGULATORY MATTERS (Continued)

- The Bank will forebear from soliciting and accepting “brokered deposits” and will comply with restrictions issued by the FDIC on the effective yields of deposit products offered by, among others, banks subject to consent orders.
- A limit upon growth of 5% per year will be observed by the Bank.
- The Bank will review the sensitivity of its assets and liabilities to changes in market rates on a monthly basis.
- The Bank will not pay dividends or make other forms of payment reducing capital to CB Financial Corporation without the prior approval of the Supervisory Authorities while the Consent Order is in effect.
- The Bank will correct any violations of laws and regulations identified by the Supervisory Authorities.
- The Bank will make quarterly progress reports to the Supervisory Authorities detailing the form and manner of actions taken to comply with the Consent Order.

The plans, policies and procedures which the Bank is required to prepare under the Consent Order are subject to approval by the Supervisory Authorities before implementation.

The Bank, its Board of Directors and its management are dedicated to fulfilling the requirements of the Consent Order at the earliest time possible. It is not practicable at this time, however, to predict when all such requirements will be met and the Consent Order will be released by the Supervisory Authorities. The Bank expects that the provisions of the Consent Order will have a significant impact upon its operations and the results of those operations, including materially reducing the Bank’s prospects for profitable operations in the near term. CB Financial Corporation believes, but can provide no assurance, that the Bank will successfully meet all of the requirements imposed by the Supervisory Authorities in the Consent Order.

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. The terms of the Consent Order also provide that the Bank will not pay dividends or make other forms of payment reducing capital to CB Financial Corporation without the prior approval of the Supervisory authorities while the Consent Order is in effect. The Bank is also required to maintain Tier 1 Capital of at least 8% to total assets and a Total Risk Based Capital ratio of at least 12% during the effectiveness of the consent order.

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.

NOTE L - OFF-BALANCE SHEET RISK (Continued)

A summary of the contract amount of the Company's exposure to off-balance sheet credit risk as of December 31, 2011 and 2010 is as follows:

	2011	2010
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 685,000	$ 525,000
Undisbursed lines of credit	14,442,303	14,655,147
Commercial and standby letters of credit	436,700	112,000

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 instrument 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. No estimation has been included for credit quality.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

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

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.

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, 2011 and 2010:

	2011		2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial assets				
Cash and due from banks	$ 2,136	$ 2,136	$ 3,579	$ 3,579
Interest-earning deposits in banks	18,974	18,974	6,101	6,101
Federal funds sold	-	-	11,585	11,585
Time deposits	1,231	1,231	3,050	3,050
Investment securities available for sale	35,707	35,707	29,696	29,696
Accrued interest receivable	467	467	549	549
Federal Home Loan Bank stock	958	958	1,133	1,133
Investment in bank-owned life insurance	3,522	3,522	3,385	3,385
Loans, net	78,577	79,936	100,106	101,720
Financial liabilities				
Deposits	130,401	131,711	146,100	147,957
Borrowings	19,155	19,874	20,405	21,116
Accrued interest payable	217	217	100	100

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

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

<u>Level 2</u> 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.

<u>Level 3</u> Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

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:

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

Where impairment of a loan is based on a loan’s observable market price or the fair value of the collateral of a collateral-dependent loan. 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.

Real Estate Owned

Foreclosed assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charged to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management’s estimation of the value of the collateral.

Recurring Fair Value

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

	Total	Level 1	Level 2	Level 3
December 31, 2011				
Investment securities available for sale:				
Municipal securities	$ 4,396	$ -	$ 4,396	$ -
Government sponsored enterprises	3,087	-	3,087	-
Other equity securities	5	-	5	-
Mortgage-backed securities	28,218	-	28,218	-
Total assets at fair value	$ 35,706	$ -	$ 35,706	$ -
Total liabilities valued at fair value	$ -	$ -	$ -	$ -
December 31, 2010				
Investment securities available for sale:				
Municipal securities	$ 4,864	$ -	$ 4,864	$ -
Government sponsored enterprises	2,415	-	2,415	-
Other equity securities	11	-	11	-
Mortgage-backed securities	22,406	-	22,406	-
Total assets at fair value	$ 29,696	$ -	$ 29,696	$ -
Total liabilities valued at fair value	$ -	$ -	$ -	$ -

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

Nonrecurring 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, 2011	**Total**	**Level 1**	**Level 2**	**Level 3**
Impaired loans	$ 11,671	$ -	$ -	$ 11,671
Real estate owned	3,847	-	-	3,847
Total assets at fair value	$ 15,518	$ -	$ -	$ 15,518
Total liabilities valued at fair value	$ -	$ -	$ -	$ -
December 31, 2010	**Total**	**Level 1**	**Level 2**	**Level 3**
Impaired loans	$ 20,095	$ -	$ -	$ 20,095
Real estate owned	4,705	-	-	4,705
Total assets at fair value	$ 24,800	$ -	$ -	$ 24,800
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. Until August 2009, the Company made matching contributions equal to 100 percent of the first 6 percent of an employee’s compensation contributed to the Plan. The match was suspended indefinitely at that time. Matching contributions vest to the employee equally over a four-year period.

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.

Compensation cost relating to share-based payment transactions are 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, 2011 and 2010, the Bank recognized $0 and $2,684 respectively, in compensation expense for stock options.

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 2011 or 2010.

NOTE N - EMPLOYEE AND DIRECTOR BENEFIT PLANS (Continued)

A summary of the Company's option plans as of and for the years ended December 31, 2011 and 2010 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, 2009	168,596	47,676	120,920	10.04	118,489	$ 9.85	$ -
Options granted/vested	-	-	-	-			
Options exercised	-	-	-	-			
Options forfeited	-	7,292	(7,292)	19.05			
At December 31, 2010	168,596	54,968	113,628	$ 9.46	113,628	$ 9.46	$ -
Options granted/vested	-	-	-	-			
Options exercised	-	-	-	-			
Options forfeited	-						
At December 31, 2011	168,596	54,968	113,628	$ 9.46	113,628	$ 9.46	$ -

The weighted average remaining life of all options outstanding as of December 31, 2011 is 1.67 years. The remaining contractual life of exercisable options is 1.67 years.

There is no active trading market for the Company's stock. However, given stock values of other community banks relative to book value and earnings, it is estimated that the Company's stock value, if an active trading market did exist, would be below the exercise price of all outstanding options. As a result, the aggregate intrinsic value of all options outstanding and exercisable was zero as of December 31, 2011 and 2010.

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, 2011, 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 no shares were purchased during 2011 and 2010.

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, 2011 and 2010 presented in thousands.

Condensed Balance Sheets
December 31, 2011 and 2010

	2011	2010
Assets		
Cash on deposit in subsidiary	$ 1	$ 10
Investment in subsidiary bank	3,895	4,636
Other assets	155	155
Total assets	$ 4,051	$ 4,801
Liabilities		
Junior subordinated debentures	$ 5,155	$ 5,155
Other liabilities	320	148
Total liabilities	5,475	5,303
Stockholders' equity		
Common stock	8,556	8,556
Preferred stock A & B	2,458	2,458
Retained earnings (deficit)	(12,651)	(11,774)
Accumulated other comprehensive income	213	258
Total stockholders' equity	(1,424)	(502)
Total liabilities and stockholders' equity	$ 4,051	$ 4,801

Condensed Statements of Operations
Years Ended December 31, 2011 and 2010

	2011	2010
Equity in undistributed net income of bank subsidiary	$ (696)	$ (7,758)
Dividends from bank subsidiary	-	73
Interest income	-	1
Other income	3	-
Interest expense	(109)	(112)
Other expense	(75)	(119)
Income tax benefit	-	-
Net loss	$ (877)	$ (7,915)

NOTE O - PARENT COMPANY FINANCIAL DATA (Continued)

Condensed Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Operating activities		
Net loss	$ (877)	$ (7,915)
Undistributed net loss (income) of bank subsidiary	696	7,758
Compensation expense	-	2
Increase(decrease) in other assets	-	13
Increase (decrease) in other liabilities	172	143
Net cash provided by operating activities	(9)	1
Financing activities	-	-
Net increase in cash	(9)	1
Cash, beginning of period	10	9
Cash, end of period	$ 1	$ 10

NOTE P –SUBSEQUENT EVENTS

On February 29, 2012, the Company closed a Private Placement Memorandum in the amount of $4 million for convertible subordinated notes that will automatically convert to shares of the Company's Series C Preferred Stock in 2014 and then will automatically convert to shares of Common Stock in 2016. Primarily all of the capital was invested in the Bank.

NOTE Q –GOING CONCERN CONSIDERATIONS

As shown in the notes to the financial statements, at December 31, 2011, the Company did not meet its regulatory capital requirements to be considered adequately capitalized. The Company incurred significant net losses for the years ended December 31, 2010 and 2009 as loan charge-offs remained high along with the level of impaired assets in relation to total assets. As a result by the end of 2010 the Company's capital ratios had declined to a level where it was considered to be undercapitalized. At the end of 2010 these factors created an uncertainty about the Company's ability to continue as a going concern. Effective February 11, 2010, Cornerstone Bank entered into a Consent Order with the NC Commissioner of Banks and the FDIC (collectively, the "Bank Regulators"). Pursuant to the Bank Consent Order the Bank agreed with the Bank Regulators to maintain Tier 1 Capital of at least 8% of total assets (exclusive of the Bank's allowance for loan losses) and a Total Risk Based Capital Ratio of at least 12% during the effectiveness of the Bank Consent Order and to undertake certain other actions described in Note K.

For the year ended December 31, 2011, the Company incurred a much smaller loss than in the previous two years as the level of loan charge offs decreased significantly and the credit quality of the Bank's loan portfolio began to stabilize. This trend of smaller losses continued into the first quarter of 2012 where the Company incurred a loss of $203,000. Also in the first quarter the Company completed a private placement offering that raised $4 million of additional capital (See Note P). Approximately $3 million of this amount was invested in Cornerstone Bank and had the effect of improving the Bank's Tier 1 leverage ratio to 4.50% and Total Risk Based Capital Ratio to 8.48% as of March 31, 2012. The Bank is now considered to be adequately capitalized according to regulatory definitions. The Company continues to search for additional sources of capital in order to reach the required capital levels in the Consent Order. In September it plans to conduct a rights offering to existing shareholders in an effort to raise additional capital.

Based on current capital levels and expected net interest margins, management expects the Company to be able to meet its obligations at least through December 31, 2012. If unanticipated market factors emerge or net interest margins are not met, or if the Company is unable to raise additional capital, successfully execute its plans, or comply with regulatory requirements, then its banking regulators could take further action, which could include actions that may have a material adverse effect on the Company's business, results of operations and financial position. Management believes that such regulatory action would be unlikely.

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.

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

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

Dora E. Kicklighter
Vice President, Chief Operations Officer

Allen T. Nelson, Jr.
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 Shareholder Services
Mail Code: FCC61
P.O. Box 29522
Raleigh, NC 27626-0522

Independent Auditors

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

Annual Stockholders' Meeting

The 2012 Annual Meeting of stockholders of CB Financial Corporation will be held at 10:00 a.m. on June 28, 2012, 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.