CB Financial Corporation
and Subsidiary

2012 Annual Report

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
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CB Financial Corporation

Fellow Stockholders:

It seems not many people watch or follow boxing any more, especially the heavyweight bouts made famous by the likes of Muhammad Ali, Joe Frazier, Larry Holmes, George Foreman, Ken Norton… or more recently Mike Tyson and Evander Holyfield. Holyfield last won the crown in 2000. Ironically, that's when Cornerstone Bank opened for business.

Boxing, like banking, has changed a lot in those 13 years. And over time, banks we believed were the "heavyweights" — Wachovia, Centura and First Union — lost the fight and disappeared, along with more than 20 other banks in North Carolina.

In the past four years, banks in general and our Bank in particular have been through 15 rounds of a grueling fight. Wall Street banks damaged the entire nation's economy, Internet banks came and went, while community banks (Main Street banks) fought to hold on to something of great value: the Jimmy Stewart/George Bailey, small-town banker who was visible, accessible, fair and admired by the community he strived to serve.

In the past four years, we've been beaten, wounded, scarred, clobbered, and knocked down a few times, but we're still standing at the bell. We lost a few rounds, but we were never knocked out. Over the past four years, we've diligently, carefully and fairly fought through a high number of underperforming loans. Poor loans were purged from the books of many community banks, as well as some regional and national banks. In our case, we worked hard to salvage situations that affected our customers – our friends and neighbors and fellow business owners.

For the first time in four years, we believe that most of our problem loans are behind us. Since April of last year, our problem assets have substantially improved, with classified assets down 52% and past dues down almost 50%. Our hard work over this difficult period is now showing results in our bottom line. During the first quarter of 2013 our Bank reflected a small loss of $13,975, a significant improvement compared to 2012 and prior years. Specifically, for 2012 we lost $1.155 million — certainly not as good as we had hoped.

The 2012 loss was caused in large part by two issues. First, a significant commercial property that we had previously foreclosed on was put under contract to sell at a loss of $400,000. In this case, liquidating the property quickly, even at such a loss, was the better option as we sought to minimize future losses, including substantial ongoing carrying costs. Secondly, as a consequence of our successful 2012 capital campaign, we incurred new interest expense of $203,325. Nevertheless, we can see progress.

While we've slugged it out round-by-round with problem assets and earnings difficulties, we've been able to maintain key staff who have fought a good fight and weathered some tough rounds. We've maintained key customers who realize the value of a locally-owned and locally-managed bank. Our Board is intact and as committed as ever to help us return to the pre-2009 days of success. We've also managed, however difficult, to remain loyal to the community that has been so loyal to us. We continued to support events such as the Brittany Willis Memorial Soccer Showcase, the Theater of the American South, the Wilson Chamber of Commerce and the Wilson Arts Council. We continued to support our schools, with tools in financial and character education.

Part of our survival story — and it is a good one — has much to do with the support of our shareholders and the people of Wilson. We successfully completed an “accredited investor” capital campaign in 2012, followed by another capital campaign in early 2013 that was made available to all of our North Carolina shareholders. Both campaigns were successful in that almost $4.4 million was brought in to help the Company’s capital position — which is the lifeblood of any bank.

How big was the response of those campaigns? How successful were we? There are no banks — zero banks — in our state that have had such a successful local capital campaign. We did what others could not; and without local support some of those banks are now gone or under new name and management. The success of those capital campaigns was big. How rare was that? We are not aware of many successful community capital campaigns anywhere in the country. But it happened in Wilson, for Cornerstone Bank. Our community’s loyalty to our Bank, and the loyalty of our Bank to our community, is well documented.

We took a beating, but so did Ali and Frazier and Norton and Foreman. All went the distance, and all became champions. All found a way to fight back. After proving that we were strong enough to survive the past four years, we as directors and senior management are eager for the next bout … the recovery and regeneration of our Bank and the Wilson Community.

In the meantime, we are open for business. We have money to lend. We’re making loans — quality loans to people with good credit. As always, we welcome you to stop by our office and see how we’re doing. The banking experience here is positive. And ownership in our Bank still means something of value.

Sincerely,

John C. Anthony

John Anthony
Chairman of the Board

Norman Osborn
President and CEO

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of CB Financial Corporation and subsidiary which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity (deficit), and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Elliott Davis, PLLC

Charlotte, North Carolina
May 20, 2013

CB Financial Corporation and Subsidiary

Consolidated Balance Sheets

December 31, 2012 and 2011

	2012	2011
Assets		
Cash and due from banks	$ 2,273,101	$ 2,136,100
Interest-earning deposits in banks	17,097,409	18,974,335
Total cash and cash equivalents	19,370,510	21,110,435
Time deposits	490,000	1,231,098
Investment securities available for sale, at fair value	35,051,944	35,706,604
Loans	69,897,937	82,246,643
Allowance for loan losses	(2,867,620)	(3,670,000)
Net loans	67,030,317	78,576,643
Accrued interest receivable	365,631	466,550
Stock in Federal Home Loan Bank of Atlanta, at cost	673,600	957,800
Premises and equipment, net of depreciation	2,440,204	2,536,126
Bank-owned life insurance	3,650,717	3,522,425
Real estate owned	5,336,581	3,846,857
Other assets	1,291,793	1,248,512
Total assets	$ 135,701,297	$ 149,203,050
Liabilities and Stockholders' Equity (Deficit)		
Deposits:		
Demand	$ 12,095,254	$ 13,370,678
Savings	1,751,593	1,887,576
Money market and NOW	33,988,666	33,601,450
Time	70,091,420	81,540,895
Total deposits	117,926,933	130,400,599
Borrowings	10,000,000	14,000,000
Subordinated debt	5,155,000	5,155,000
Mandatorily convertible debt	4,040,000	-
Accrued interest payable	399,718	216,750
Accrued expenses and other liabilities	558,671	854,291
Total liabilities	138,080,322	150,626,640
Commitments and contingencies (Notes M and O)		
Stockholders' equity (deficit):		
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 deficit	(13,806,091)	(12,651,074)
Accumulated other comprehensive income	412,464	212,882
Total stockholders' equity (deficit)	(2,379,025)	(1,423,590)
Total liabilities and stockholders' equity (deficit)	$ 135,701,297	$ 149,203,050

See accompanying notes

CB Financial Corporation and Subsidiary

Consolidated Statements of Operations

December 31, 2012 and 2011

	2012	2011
Interest income		
Loans	$ 3,881,245	$ 4,797,139
Investment securities—taxable	876,165	916,668
Investment securities—tax exempt	-	199,657
Federal funds sold	-	6,362
Interest-earning deposits in banks	54,530	53,234
Other interest and dividends	39,901	8,696
Total interest income	4,851,841	5,981,756
Interest expense		
Money market, NOW and savings deposits	60,970	78,687
Time deposits	1,297,249	1,913,415
Short term borrowings	386,720	1,423
Long term borrowings	330,118	568,109
Total interest expense	2,075,057	2,561,634
Net interest income	2,776,784	3,420,122
Provision for loan losses	(57,139)	567,201
Net interest income after provision for loan losses	2,833,923	2,852,921
Non-interest income		
Service charges on deposit accounts	206,782	269,752
Mortgage operations	79,573	29,701
Gain on sale of investment securities	2,746	674,519
Income from bank owned life insurance	128,292	137,155
Other income	103,867	294,701
Total non-interest income	521,260	1,405,828
Non-interest expense		
Salaries and employee benefits	1,943,859	2,278,247
Occupancy and equipment	268,958	318,295
Data processing expenses	573,194	642,511
Expense on real estate owned, net	758,168	493,993
Other	1,091,227	1,356,716
Total non-interest expense	4,635,406	5,089,762
Loss before income taxes	(1,280,223)	(831,013)
Income tax expense (benefit)	(125,206)	46,310
Net loss	(1,155,017)	(877,323)
Loss to common stockholders	$ (1,155,017)	$ (877,323)
Net loss per common share		
Basic	$ (1.37)	$ (1.04)
Diluted	(1.37)	(1.04)
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, 2012 and 2011

	2012	2011
Net loss	$ (1,155,017)	$ (877,323)
Other comprehensive income (loss):		
Unrealized gains on investment securities:		
Unrealized gains arising during the year	327,534	601,906
Tax related to unrealized gains	(126,263)	(231,699)
Reclassification of realized gains during the year	(2,746)	(674,519)
Tax expense related to realized gains	1,057	259,690
Total other comprehensive income (loss)	199,582	(44,622)
Comprehensive loss	$ (955,435)	$ (921,945)

See accompanying notes

CB Financial Corporation and Subsidiary

Consolidated Statements of Changes In Stockholders' Equity (Deficit)
Years Ended December 31, 2012 and 2011

	Common Stock	Preferred Stock A	Preferred Stock B	Retained Earnings	Accumulated Other Comprehensive Income	Total
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)
Comprehensive loss						
Net loss	-	-	-	(1,155,017)	-	(1,155,017)
Other comprehensive income	-	-	-	-	199,582	199,582
Balance, December 31, 2012	$ 8,556,168	$ 1,928,429	$ 530,005	$ (13,806,091)	$ 412,464	$ (2,379,025)

	Shares Outstanding		
	Common	Preferred A	Preferred B
Balance, December 31, 2010	843,715	191,310	52,992
No activity	-	-	-
Balance, December 31, 2011	843,715	191,310	52,992
No activity	-	-	-
Balance, December 31, 2012	843,715	191,310	52,992

See accompanying notes.

CB Financial Corporation and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Net loss	$ (1,155,017)	$ (877,323)
Adjustments to reconcile net loss to		
net cash used in operating activities:		
Depreciation and amortization, net	99,781	98,260
Amortization and accretion of investment securities available for sale, net	320,212	105,093
Realized gain on investment securities available for sale	(2,746)	(674,519)
Loss on sale of real estate owned	34,485	12,273
Write down of real estate owned	553,148	307,417
Provision for loan losses	(57,139)	567,201
Earnings on bank-owned life insurance	(128,292)	(137,154)
Deferred loan income	(9,444)	(24,367)
Deferred income tax expense (benefit)	(125,206)	46,310
Change in assets and liabilities:		
Accrued interest receivable	100,919	82,440
Other assets	(40,535)	(83,955)
Accrued interest payable	182,968	117,112
Accrued expenses and other liabilities	(295,620)	(26,417)
Net cash used in operating activities	(522,486)	(487,629)
Cash flows from investing activities		
Net decrease in time deposits with banks	741,098	1,819,318
Purchase of available for sale investments	(8,162,888)	(26,974,981)
Sales of available for sale investments	1,678,152	15,583,582
Proceeds from maturities and calls of available for sale investments	7,143,972	5,877,459
Proceeds from sale of real estate owned	1,801,727	4,446,912
Net decrease in loans	7,733,825	16,389,001
Proceeds from sales of Federal Home Loan Bank stock	284,200	175,300
Purchases of bank premises and equipment	(3,859)	(82,330)
Net cash provided by investing activities	11,216,227	17,234,261
Cash flows from financing activities		
Net decrease in deposits	(12,473,666)	(15,699,715)
Issuance of subordinated debt	4,040,000	-
Borrowings on FHLB advances	5,000,000	-
Payments on FHLB advances	(9,000,000)	(1,250,000)
Net cash used in financing activities	(12,433,666)	(16,949,715)
Net decrease in cash and cash equivalents	(1,739,925)	(154,349)
Cash and cash equivalents, beginning	21,110,435	21,264,784
Cash and cash equivalents, ending	$ 19,370,510	$ 21,110,435
Supplemental disclosures of cash flow information		
Interest paid	$ 1,892,089	$ 2,444,522
Income taxes refunded	-	18,318
Change in unrealized gain on investment securities available for sale, net	199,582	(44,622)
Transfer from loans to real estate owned	3,879,084	4,548,852
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, the valuation of real estate owned and deferred tax assets.

Note B. Summary of Significant Accounting Policies, Continued

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."

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.

Note B. Summary of Significant Accounting Policies, Continued

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.

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.

Note B. Summary of Significant Accounting Policies, Continued

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, 2012.

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 2012 and 2011 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 real estate owned.

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, 2012 and 2011, the Bank had recorded valuation allowances against all of its net deferred tax assets.

It is the Bank's policy to evaluate uncertain tax positions. As of December 31, 2012 and 2011, 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.

Note B. Summary of Significant Accounting Policies, Continued

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. No preferred dividends were declared in 2012 or 2011.

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.

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

	2012	2011
Weighted average outstanding shares used for basic EPS	843,715	843,715
Plus incremental dilutive 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, 2012 and December 31, 2011, 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:

The FASB amended the Comprehensive Income topic of the ASC in February 2013. The amendments addresses reporting of amounts reclassified out of accumulated other comprehensive income. Specifically, the amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments do require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, in certain circumstances an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The amendments will be effective for the Company on a prospective basis for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

Note B. Summary of Significant Accounting Policies, Continued

In February 2013 the FASB also amended the Financial Instruments topic of the ASC to address the scope and applicability of a certain disclosures to nonpublic entities. The amendments clarify that the requirement to disclose "the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)" does not apply to nonpublic entities for items that are not measured at fair value in the statement of financial position but for which fair value is disclosed. These amendments had no material effect on its financial statements.

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 consolidated financial position, results of operations and cash flows.

Reclassifications:

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 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 20, 2013 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, 2012 and 2011, these reserve balances amounted to $762,000 and $667,000, 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
2012				
Securities available for sale				
Government sponsored enterprises	$ 11,864,848	$ 407,465	$ (2,935)	$ 12,269,378
Municipal securities	3,300,270	118,094	-	3,418,364
Mortgage-backed securities	19,157,788	221,565	(19,213)	19,360,140
Other equity securities	57,745	-	(53,683)	4,062
	$ 34,380,651	$ 747,124	$ (75,831)	$ 35,051,944

Note D. Investment Securities, Continued

	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

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, 2012 and 2011. 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 did not consider those investments to be other-than-temporarily impaired at December 31, 2012 or 2011, respectively.

	December 31, 2012					
	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	$ 979,225	$ 2,935	$ -	$ -	$ 979,225	$ 2,935
Municipal securities	-	-	-	-	-	-
Mortgage-backed securities	4,287,089	12,244	667,737	6,969	4,954,826	19,213
Other equity securities	-	-	4,062	53,683	4,062	53,683
Total temporarily impaired available for sale securities	$ 5,266,314	$ 15,179	$ 671,799	$ 60,652	$ 5,938,113	$ 75,831

	December 31, 2011					
	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	-	-	428,128	703	428,128	703
Mortgage-backed securities	12,062,333	64,701	1,692,858	8,767	13,755,191	73,468
Other equity securities	-	-	5,000	52,745	5,000	52,745
Total temporarily impaired available for sale securities	$12,062,333	$ 64,701	$ 2,125,986	$ 62,215	$14,188,319	$ 126,916

Securities with a carrying value of $14.3 million and $30.6 million at December 31, 2012 and 2011, respectively, were pledged to secure borrowings.

Note D. Investment Securities, Continued

For the years ended December 31, 2012 and 2011, proceeds from sales of securities available for sale amounted to $1,680,898 and $15,583,582, respectively. From the sales, gross realized gains amounted to $2,746 and $674,519 and there were no gross realized losses for the years ended December 31, 2012 and 2011, respectively.

The amortized cost and fair value, of the Company's investment securities available for sale at December 31, 2012, 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
Securities available for sale		
Due in less than one year	$ 5,948,967	$ 6,004,589
Due in one to five years	14,581,256	14,795,154
Due in five to ten years	11,439,332	11,853,323
Due after ten years	2,353,351	2,394,816
Securities with no stated maturity	57,745	4,062
Total	$ 34,380,651	$ 35,051,944

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, 2012 and 2011:

	2012		2011	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Commercial and agriculture	$ 30,570	43.7%	$ 37,743	45.9%
Construction and development	8,961	12.8%	10,616	12.9%
Farmland	445	0.6%	514	0.6%
1-4 residential mortgage	24,993	35.8%	27,150	33.0%
Multifamily	2,568	3.7%	3,013	3.7%
Consumer and other	2,361	3.4%	3,211	3.9%
Total loans	69,898	100%	82,247	100%
Less:				
Allowance for loan losses	(2,868)		(3,670)	
Net loans receivable	$ 67,030		$ 78,577	

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

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):

	2012	2011
Balance at beginning of year	$ 3,647	$ 4,312
Borrowings	238	175
Repayments	(697)	(840)
Balance at end of year	$ 3,188	$ 3,647

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.

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, 2012 (in thousands):

Note E. Loans, Continued

Allowance for Loan Losses and Recorded Investment in Loans

	Commercial and Agricultural	Multifamily Residential	Construction and Development	Farmland	1-4 Residential Mortgage	Consumer and Other	Total
December 31, 2012							
Allowance for loan losses:							
Beginning Balance	$ 1,716	$ 178	$ 413	$ 13	$ 1,277	$ 73	$ 3,670
Charge-offs	(773)	-	(50)	-	(179)	(15)	(1,017)
Recoveries	225	-	14	-	20	13	272
Provision	397	40	(313)	(11)	(137)	(33)	(57)
Ending Balance	$ 1,565	$ 218	$ 64	$ 2	$ 981	$ 38	$ 2,868
Ending balance: individually evaluated for impairment	$ 1,272	$ 85	$ 46	$ -	$ 626	$ 10	$ 2,039
Ending balance: collectively evaluated for impairment	$ 293	$ 133	$ 18	$ 2	$ 355	$ 28	$ 829
Loans outstanding:							
Ending balance	$ 30,570	$ 2,568	$ 8,961	$ 445	$ 24,993	$ 2,361	$ 69,898
Ending balance: individually evaluated for impairment	$ 5,385	$ 191	$ 2,120	$ -	$ 2,495	$ 59	$ 10,250
Ending balance: collectively evaluated for impairment	$ 25,185	$ 2,377	$ 6,841	$ 445	$ 22,498	$ 2,302	$ 59,648

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 and Agricultural	Multifamily Residential	Construction and Development	Farmland	1-4 Residential Mortgage	Consumer and 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

Note E. Loans, 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.

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, 2012 (in thousands):

Credit Risk Profile by Internally Assigned Grades

	Loan Grades				
	Pass	**Special Mention**	**Substandard**	**Doubtful & Loss**	**Total**
December 31, 2012					
Commercial and agriculture	$ 17,756	$ 5,414	$ 7,400	$ -	$ 30,570
Construction and development	4,994	1,644	2,322	-	8,960
Farmland	386	59	-	-	445
1-4 residential mortgage	17,684	2,237	5,072	-	24,993
Multifamily	1,803	574	190	-	2,567
Consumer and other	2,244	32	87	-	2,363
Total	$ 44,867	$ 9,960	$ 15,071	$ -	$ 69,898

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 and agriculture	$ 18,965	$ 5,770	$ 13,008	$ -	$ 37,743
Construction and development	4,651	1,125	4,563	277	10,616
Farmland	514	-	-	-	514
1-4 residential mortgage	19,601	2,116	5,299	134	27,150
Multifamily	1,765	81	1,167	-	3,013
Consumer and other	2,881	221	108	1	3,211
Total	$ 48,377	$ 9,313	$ 24,145	$ 412	$ 82,247

Note E. Loans, Continued

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, 2012 (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, 2012								
Commercial and agriculture	$ 9	$ 15	$ 570	$ 594	$ 29,976	$ 30,570	$ -	$ 2,011
Construction and development	-	-	1,654	1,654	7,307	8,961	-	2,908
Farmland	-	-	-	-	445	445	-	-
1-4 residential mortgage	894	487	544	1,925	23,068	24,993	-	1,364
Multifamily	-	-	-	-	2,568	2,568	-	-
Consumer and other	79	5	-	84	2,277	2,361	-	32
Total	$ 982	$ 507	$ 2,768	$ 4,257	$ 65,641	$ 69,898	$ -	$ 6,315

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 and agriculture	$ 522	$ 289	$ 3,439	$ 4,250	$ 33,493	$ 37,743	$ -	$ 3,794
Construction and development	25	23	1,667	1,715	8,901	10,616	-	1,705
Farmland	-	-	-	-	514	514	-	-
1-4 residential mortgage	567	145	425	1,137	26,013	27,150	-	1,648
Multifamily	-	-	221	221	2,792	3,013	-	20
Consumer and 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, 2012 (in thousands):

Impaired Loans

	Recorded Investment [1]	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2012					
With no related allowance recorded:					
Commercial and agriculture	$ 1,614	$ 1,800	$ -	$ 2,163	$ 83
Construction and development	1,734	1,734	-	872	6
Farmland	-	-	-	-	-
1-4 residential mortgage	848	906	-	868	59
Multifamily	-	-	-	111	-
Consumer and other	25	31	-	30	7
Subtotal	4,221	4,471	-	4,044	155
With an allowance recorded:					
Commercial and agriculture	3,771	3,771	1,272	3,937	265
Construction and development	386	386	46	1,003	18
Farmland	-	-	-	-	-
1-4 residential mortgage	1,647	1,647	626	1,760	94
Multifamily	191	191	85	197	10
Consumer and other	34	29	10	18	2
Subtotal	6,029	6,024	2,039	6,915	389
Totals:					
Commercial and agriculture	5,385	5,571	1,272	6,100	348
Construction and development	2,120	2,120	46	1,875	24
Farmland	-	-	-	-	-
1-4 residential mortgage	2,495	2,553	626	2,628	153
Multifamily	191	191	85	308	10
Consumer and other	59	60	10	48	9
Total	$ 10,250	$ 10,495	$ 2,039	$ 10,959	$ 544

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

Note E. Loans, Continued

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 and agriculture	$ 2,712	$ 2,828	$ -	$ 2,884	$ 24
Construction and development	11	14	-	11	-
Farmland	-	-	-	-	-
1-4 residential mortgage	890	1,217	-	1,038	10
Multifamily	221	369	-	313	-
Consumer and other	35	61	-	37	-
Subtotal	3,869	4,489	-	4,283	34
With an allowance recorded:					
Commercial and agriculture	4,103	4,143	1,326	4,188	154
Construction and development	1,621	1,621	278	1,621	-
Farmland	-	-	-	-	-
1-4 residential mortgage	1,872	1,888	556	1,900	89
Multifamily	204	204	25	209	11
Consumer and other	2	2	21	2	-
Subtotal	7,802	7,858	2,206	7,920	254
Totals:					
Commercial and agriculture	6,815	6,971	1,326	7,072	178
Construction and development	1,632	1,635	278	1,632	-
Farmland	-	-	-	-	-
1-4 residential mortgage	2,762	3,105	556	2,938	99
Multifamily	425	573	25	522	11
Consumer and other	37	63	21	39	-
Total	$ 11,671	$ 12,347	$ 2,206	$ 12,203	$ 2

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

Note E. Loans, Continued

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 as of December 31, 2012 (in thousands):

Modifications

	2012		
	Number of Contracts	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Troubled Debt Restructurings			
Commercial and agricultural	8	$ 885	$ 870
Construction and development	1	108	108
Farmland	-	-	-
1-4 residential mortgage	4	351	351
Multifamily	-	-	-
Consumer and other	1	25	25

During the year the Bank modified 14 loans that were considered to be TDRs. The terms were modified on all 14 of these loans.

	Number of Contracts	**Recorded Investment**
Troubled Debt Restructurings		
That Subsequently Defaulted		
Troubled debt restructurings:		
Commercial and agricultural	3	$ 274
Construction and development	-	-
Farmland	-	-
1-4 residential mortgage	4	351
Multifamily	-	-
Consumer and other	-	-

As of December 31, 2012, the Bank had 7 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 E. Loans, Continued

The following table sets forth information with respect to the Bank's troubled debt restructurings as of December 31, 2011 (in thousands):

Modifications

	2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment (1)	Post-Modification Outstanding Recorded Investment (1)
Troubled Debt Restructurings			
Commercial and agricultural	10	$ 1,671	$ 1,671
Construction and development	-	-	-
Farmland	-	-	-
1-4 residential mortgage	1	123	123
Multifamily	-	-	-
Consumer and other	1	17	17

During the year the Bank modified 12 loans that were considered to be TDRs. The terms were modified on all 12 of these loans.

	Number of Contracts	Recorded Investment
Troubled Debt Restructurings		
That Subsequently Defaulted		
Troubled debt restructurings:		
Commercial and agricultural	2	$ 33
Construction and development	-	-
Farmland	-	-
1-4 residential mortgage	-	-
Multifamily	-	-
Consumer and 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, 2012 and 2011:

	2012	2011
Land	$ 848,037	$ 848,037
Buildings	1,906,933	1,905,700
Leasehold improvements	55,932	55,932
Furniture and equipment	973,551	970,925
	3,784,453	3,780,594
Less accumulated depreciation	(1,344,249)	(1,244,468)
Total	$ 2,440,204	$ 2,536,126

Depreciation and amortization amounting to $99,781 and $98,260 for the years ended December 31, 2012 and 2011, respectively, is included in occupancy and equipment expense and data processing expense.

Note F. Premises and Equipment, Continued

Rental expense amounting to $43,380 and $66,752 during the years ended December 31, 2012 and 2011, respectively, is included in occupancy and equipment expense on the accompanying consolidated statements of operations. As of December 31, 2012, the Company had no future minimum rental payments required under non-cancelable operating leases that have a remaining lease term in excess of one year.

Note G. Real Estate Owned

The following summarizes the activity in real estate owned:

	2012	2011
Balance, beginning of year	$ 3,846,857	$ 4,704,607
Additions	3,879,084	4,548,852
Transfer of real estate owned to bank premises	-	(640,000)
Sales	(1,836,212)	(4,459,185)
Writedowns	(553,148)	(307,417)
Balance, end of year	$ 5,336,581	$ 3,846,857

Note H. Deposits

At December 31, 2012, the scheduled maturities of time deposits (dollars in thousands) are as follows:

2013	$ 46,686
2014	18,030
2015	3,692
2016	1,371
2017	312
Total	$ 70,091

The above table includes time deposits of $100,000 and over, which at December 31, 2012, totaled $40.3 million.

Note I. Borrowings

In 2012 and 2011 the Company did not have an unsecured federal funds line.

The Company has a $12.9 million line of credit with the Federal Reserve Bank, which is secured by substantially all of the Company's mortgage backed securities. The Company did not use the line of credit in 2012 or 2011.

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.

Note I. Borrowings, Continued

Advances from the FHLB of Atlanta consisted of the following at December 31, 2012 and 2011:

Maturity	Interest Rate	2012	2011
September 8, 2015	3.93%	$ -	$ 5,000,000
July 16, 2012	3.90%	-	1,250,000
February 26, 2012	1.08%	-	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 7, 2012	3.24%	-	1,250,000
December 13, 2017	2.85%	5,000,000	-
March 7, 2013	3.53%	1,250,000	1,250,000
		$ 10,000,000	$ 14,000,000

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 $325,000 and $198,000 at December 31, 2012 and 2011, respectively.

On February 29, 2012, the Company closed on its Subscription Agreement (the "Agreement"), which provided for a private placement issuance and sale of $4,040,000 of notes ("Notes") to investors. A portion of the proceeds from the issuance of the Notes were invested in the Bank and used as additional capital to enhance the capital position of the Company. The Notes bear an interest rate of 6% per annum, with interest payments due quarterly. On the second anniversary of the date of issuance of the Notes, each Note shall convert to Series C Preferred Shares, at the rate of one Series C Preferred Share for each $2.50, or part thereof, of principal then outstanding on the Note. Series C Preferred Shares shall then later convert to Common Shares. Interest expense related to the Notes for the year ended December 31, 2012 was $203,000.

Note J. Income Taxes

The significant components of the provision for income taxes for 2012 and 2011 are as follows:

	2012	2011
Current tax provision		
Federal	$ -	$ -
State	-	-
	-	-
Deferred tax provision		
Federal	(243,409)	(375,766)
State	(1,257)	(50,109)
Valuation allowance	119,460	472,185
	(125,206)	46,310
Provision for income taxes	$ (125,206)	$ 46,310

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:

	2012	2011
Tax expense computed at the statutory federal rate	$ (435,276)	$ (282,544)
Increase (decrease) resulting from		
State income taxes, net of federal tax effect	(830)	(33,072)
Nontaxable income	(914)	(112,626)
Other, net	192,354	2,367
Valuation allowance	119,460	472,185
Provision for income taxes	$ (125,206)	$ 46,310

Note J. Income Taxes, Continued

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, 2012 and 2011 are as follows:

	2012	2011
Deferred tax assets relating to		
Allowance for loan losses	$ 458,890	$ 674,445
Pre-opening costs and expenses	998	1,131
Interest income on non-accrual loans	374,472	374,472
Retirement and stock compensation	181,015	230,072
Investment and OREO impairment	313,479	179,020
Operating loss carryforwards	4,098,494	3,730,831
Other	12,147	11,145
Total deferred tax assets	5,439,495	5,201,116
Valuation allowance	(5,077,472)	(4,958,012)
Total net deferred tax assets	362,023	243,104
Deferred tax liabilities relating to		
Premises and equipment differences	37,873	67,750
Prepaid expenses	41,230	25,318
Investment securities available for sale	258,784	133,578
Other	24,136	16,458
Total deferred tax liabilities	362,023	243,104
Net deferred tax asset	$ -	$ -

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, 2012 and 2011 will not be realized, and accordingly, has established a valuation allowance. Included in deferred tax assets are the tax benefits derived from federal net operating loss carryforwards of $9.8 million and state net operating loss carryforwards of $12.6 million which begin to expire in 2029 and 2027, respectively. The Company's tax filings for years ended 2009 through 2012 are currently open to audit under statutes of limitations for all major jurisdictions.

Note K. Other Non-Interest Expense

The major components of other non-interest expense for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Postage, printing and office supplies	$ 41,988	$ 44,153
Advertising and promotion	42,797	64,291
Professional services	338,857	390,264
FDIC insurance premiums	324,061	568,861
Other	343,524	289,147
Total	$ 1,091,227	$ 1,356,716

Note L. 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, 2012, the most recent notification from the FDIC categorized the Bank as adequately 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, 2012				
Tier 1 capital (to risk-weighted assets)	$ 5,890	7.21%	4.00%	8.00%
Total capital - (to risk-weighted assets)	6,927	8.48%	8.00%	12.00%
Leverage - Tier 1 capital (to average assets)	5,890	4.28%	4.00%	n/a
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

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.

Note L. Regulatory Matters, Continued

- 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.
- 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.

Note L. Regulatory Matters, Continued

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 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 M. Commitments and Contingencies

Litigation

In the normal course of business the Company is involved in various legal proceedings. After consultation with legal counsel, management believes that any liability resulting from such proceedings will not be material to the consolidated financial statements.

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 M. Commitments and Contingencies, Continued

A summary of the contract amount of the Company's exposure to off-balance sheet credit risk as of December 31, 2012 and 2011 is as follows:

	2012	2011
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 495,000	$ 685,000
Undisbursed lines of credit	11,813,859	14,442,303
Commercial and standby letters of credit	411,942	436,700

Note N. 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.

Note N. Disclosures about Fair Values of Financial Instruments, Continued

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.

Financial instruments with off-balance sheet risk:

With regard to financial instruments with off-balance sheet risk discussed in Note M, 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, 2012 and 2011:

	2012		2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial assets				
Cash and due from banks	$ 2,273	$ 2,273	$ 2,136	$ 2,136
Interest-earning deposits in banks	17,097	17,097	18,974	18,974
Time deposits	490	490	1,231	1,231
Investment securities available for sale	35,052	35,052	35,707	35,707
Accrued interest receivable	366	366	467	467
Federal Home Loan Bank stock	674	674	958	958
Investment in bank-owned life insurance	3,651	3,651	3,522	3,522
Loans, net	67,030	68,657	78,577	79,936
Financial liabilities				
Deposits	117,927	118,691	130,401	131,711
Borrowings	19,195	19,762	19,155	19,874
Accrued interest payable	400	400	217	217

Note N. Disclosures about Fair Values of Financial Instruments, Continued

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.

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:

<u>Securities:</u>

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.

<u>Impaired loans:</u>

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.

<u>Real estate owned:</u>

Foreclosed assets are adjusted to fair value upon transfer of the loans to 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.

Note N. Disclosures about Fair Values of Financial Instruments, Continued

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, 2012				
Investment securities available for sale:				
Municipal securities	$ 3,418	$ -	$ 3,418	$ -
Government sponsored enterprises	12,269	-	12,269	-
Other equity securities	4	-	4	-
Mortgage-backed securities	19,360	-	19,360	-
Total assets at fair value	$ 35,051	$ -	$ 35,051	$ -
Total liabilities valued at fair value	$ -	$ -	$ -	$ -
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	$ -	$ -	$ -	$ -

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, 2012	Total	Level 1	Level 2	Level 3
Impaired loans	$ 8,211	$	$	$ 8,211
Real estate owned	5,337			5,337
Total assets at fair value	$ 13,548	$	$	$ 13,548
Total liabilities valued at fair value	$ -	$ -	$ -	$ -

December 31, 2011	Total	Level 1	Level 2	Level 3
Impaired loans	$ 9,465	$ -	$ -	$ 9,465
Real estate owned	3,847	-	-	3,847
Total assets at fair value	$ 13,312	$ -	$ -	$ 13,312
Total liabilities valued at fair value	$ -	$ -	$ -	$ -

Note N. Disclosures about Fair Values of Financial Instruments, Continued

Level 3 Valuation Techniques

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2012, and December 31, 2011, the significant unobservable inputs used in the fair value measurements were as follows (dollars in thousands):

	Fair Value at December 31, 2012	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Inputs Value
Impaired Loans	$ 8,211	Appraised Value/ Comparable Sales	Appraisals	n/a
OREO	$ 5,337	Appraised Value/ Comparable Sales	Appraisals	n/a

	Fair Value at December 31, 2011	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Inputs Value
Impaired Loans	$ 9,465	Appraised Value/ Comparable Sales	Appraisals	n/a
OREO	$ 3,847	Appraised Value/ Comparable Sales	Appraisals	n/a

Note O. 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.

Note O. Employee and Director Benefit Plans, Continued

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. The Bank recognized no compensation expense for stock options for the years ended December 31, 2012 and 2011.

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 2012 or 2011.

A summary of the Company's option plans as of and for the years ended December 31, 2012 and 2011 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, 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	$ -
Options granted/vested	-	-	-	-	-	-	
Options exercised	-	-	-	-	-	-	
Options forfeited	-	-	-	-	-	-	
At December 31, 2012	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, 2012 is 0.67 years. The remaining contractual life of exercisable options is 0.67 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, 2012 and 2011.

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.

Note O. Employee and Director Benefit Plans, Continued

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, 2012, 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 2012 and 2011.

Note P. 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, 2012 and 2011, presented in thousands.

Condensed Balance Sheets
December 31, 2012 and 2011

	2012	2011
Assets		
Cash on deposit in subsidiary	$ 39	$ 1
Investment in subsidiary bank	6,335	3,895
Other assets	827	155
Total assets	$ 7,201	$ 4,051
Liabilities		
Junior subordinated debentures	$ 5,155	$ 5,155
Mandatorily convertible debt	4,040	-
Other liabilities	386	320
Total liabilities	9,581	5,475
Stockholders' equity		
Common stock	8,556	8,556
Preferred stock A & B	2,458	2,458
Retained deficit	(13,806)	(12,651)
Accumulated other comprehensive income	412	213
Total stockholders' equity	(2,380)	(1,424)
Total liabilities and stockholders' equity	$ 7,201	$ 4,051

Note P. Parent Company Financial Data, Continued

Condensed Statements of Operations
Years Ended December 31, 2012 and 2011

	2012	2011
Equity in undistributed net loss of bank subsidiary	$ (819)	$ (696)
Other income	7	3
Interest expense	(330)	(109)
Other expense	(13)	(75)
Net loss	$ (1,155)	$ (877)

Condensed Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Operating activities		
Net loss	$ (1,155)	$ (877)
Adjustments to reconcile net loss		
to net cash used in operating activities:		
Undistributed net loss of bank subsidiary	819	696
Increase in other assets	(672)	-
Increase in other liabilities	66	172
Net cash used in operating activities	(942)	(9)
Investing activities		
Investment in subsidiary	(3,060)	-
Net cash used in investing activities	(3,060)	-
Financing activities		
Issuance of subordinated debt	4,040	-
Net cash provided by financing activities	4,040	-
Net increase (decrease) in cash and cash equivalents	38	(9)
Cash and cash equivalents, beginning of period	1	10
Cash and cash equivalents, end of period	$ 39	$ 1

Note Q. Going Concern

The Company has taken measures to improve their capital position year over year, including raising $4.0 million in convertible debt that is regulatory capital during the first quarter of 2012 through a private placement offering. However, the Company has shown significant net losses for the years ended December 31, 2012 and 2011. Nonperforming asset balances remain high though they have improved when compared to December 31, 2011. These factors create 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 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 Consent Order and to undertake certain other actions as described in Note L.

Note Q. Going Concern, Continued

The Company's plan for achieving and maintaining the required capital levels in the Consent Order includes reducing the size of the balance sheet, cutting expenses and improving lending practices. The Company was able to raise sufficient capital through the private placement offering in order to meet the adequately capitalized regulatory definition. However, the Company had not met the minimum capital requirements of the Consent Order as of December 31, 2012.

The ability of the Company to continue as a going concern is dependent upon the success of the Company's management in their ability to design and implement measures to increase capital and profitability. While there can be no assurances that the Company will be successful in these efforts, Management believes the Company will continue as a going concern for at least a reasonable period of time, which is defined in accounting standards as one year from the date of the financial statements being issued . The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future, and does not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

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

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1435 Ward Boulevard
Wilson, NC 27893

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Humphrey & Leonard, L.L.P.
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Stock Transfer Agent

Issuer Direct Corporation
500 Perimeter Park Dr.
Suite D
Morrisville, NC 27560

Independent Auditors

Elliott Davis, PLLC
Certified Public Accountants
700 E. Morehead Street, Suite 400
Charlotte, NC 28202

Annual Stockholders' Meeting

The 2013 Annual Meeting of stockholders of CB Financial Corporation will be held at 10:00 a.m. on June 27, 2013 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.