CB FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2013 and 2012

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

CB FINANCIAL CORPORATION AND SUBSIDIARY

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DECEMBER 31, 2013 AND 2012

May 2014

Dear Shareholders,

For the first time in many years, we can read this report with a smile. For the first time in a long time the Bank reported pre-tax INCOME versus the pre-tax losses experienced in each of the last five years. For the year ended December 31, 2013 the Bank reported pre-tax earnings of $246,000, a $1.2 million improvement from the pre-tax loss of $944,000 experienced in 2012. This is a tremendous year over year improvement and clearly shows that our restructuring efforts are taking hold.

We have been saying for a while that progress was being made, that the corner had been turned and that most of our problems were behind us. Now, we have results to support those words. Since the second quarter of 2013 we have been profitable on a month to month basis, and that trend has not only continued, but the level of profitability through April of 2014 has increased substantially in comparison to the same period in 2013. We hope you'll take time to read those last few sentences again, and maybe even another time. Banking, the same as life, offers no guarantees about the future. But as a fellow shareholder, I am encouraged by this very positive trend.

How can we explain such a turnaround? Like much in today's banking world, the answers are complicated, but also simple. First, the majority of our underperforming assets (loans) which drained our profits and put significant pressure on our capital position have been resolved. At one point, about 30% of our loans were underperforming, meaning more than 90 days late in payment and in non-accrual status. Today, that percentage is about 2.3%. Past due loans over 30 days represent only 1.8% of total loans…and if one loan in that group were eliminated, our past dues would be at 0.67% — an almost unheard of number in any economic climate. Since we no longer have to set aside uncommonly large loan loss reserves, those dollars are now counted as profits. Additionally, most of our foreclosed real estate has been sold or is under contract, adding to profits and eliminating the costs of carrying such problems.

There's more to this turnaround. During the past year, we took difficult but necessary steps to "right-size" the Bank. We closed an office and restructured the staff and workloads. We changed our core processing which now provides a state of the art, fully integrated system to our customers along with significant long-term savings to the Bank. We reduced our operating expenses by 33%.

We have eliminated expenses that we could, while providing the same high level of service, and we never stopped our desire to support our community where and when we could. We never stopped making investments in our future — primarily in retaining good customers and adding new ones. Expenses are finite; investments are infinite. Our overall investment in Wilson is obvious. That includes payroll, jobs and taxes, but it also includes our staff's hours of volunteer service and participating in civic causes. We've tried to be a good corporate citizen, and our community has responded.

In the past two years, we have gone to our community in helping to raise the needed capital to remain a viable bank, and one that remains independent and under local management. Those supporters stepped up and provided what was needed at the time. Now, we can show that we are using those resources well. Your Bank is becoming stronger every day.

Those dark days of the past caused us to take a good look at ourselves and to measure our perceptions of this Bank from inside and outside. Staff members, Board members, as well as some investors, vendors, and customers were interviewed. We learned a lot. We heard some good things and some critical, and a few surprises. This valuable information is helping reshape the Bank as the NEW Cornerstone Bank.

Within that, we are working at extending our solid base of customers into every age segment. Our older market segment helped build this Bank, and our 2nd 50 Club is still strong and active. We value these customers. But, we are developing new products and services, and new ways of supporting those who will build our community and this Bank in the future. Every customer, young, old or in between will experience the genuine smiles and quality of service of our staff.

We will continue to work diligently through our remaining issues, and put your Bank in even better standing. Just realize that your Bank, with your help, survived the banking meltdown that started in 2008. Many banks did not, some of them big and some of them small. You can look around this community, or around the state, and see how many banks have disappeared or changed signs, or are under new management teams. Join us in celebrating our independence. Join us in our move from surviving to thriving! Come see what a community bank can mean for you, your families and our community.

Sincerely,

Norm Osborn	John Anthony
President and CEO	Chairman of the Board

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of CB Financial Corporation and Subsidiary (collectively, the "Company"), which comprise the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows for the year 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 the 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 audit. We conducted our audit 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 from 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, 2013, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, during 2013, two prior period errors were corrected relating to other than temporary impairment of investment securities and amortization of debt issuance costs that were not recorded in those periods. During 2013, the cumulative effect of these prior period errors as of December 31, 2012 was corrected by increasing the retained deficit and accumulated other comprehensive loss, by $150,000 and $33, 000, respectively and by decreasing assets by $117,000. Our opinion is not modified with respect to this matter.

Other Matter

The consolidated financial statements of the Company as of and for the year ended December 31, 2012, were audited by other auditors whose report dated May 20, 2013, expressed an unqualified opinion on those statements.

Cherry Bekaert LLP

Raleigh, North Carolina
May 5, 2014

CB FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
Cash and due from banks	$ 835,188	$ 2,273,101
Interest-earning deposits in banks	5,598,339	17,097,409
Total cash and cash equivalents	6,433,527	19,370,510
Time deposits	490,000	490,000
Investment securities available-for-sale, at fair value	33,975,122	35,051,944
Loans	68,273,603	69,897,937
Allowance for loan losses	(2,495,747)	(2,867,620)
Net loans	65,777,856	67,030,317
Accrued interest receivable	378,986	365,631
Stock in Federal Home Loan Bank of Atlanta, at cost	544,400	673,600
Premises and equipment, net of depreciation	2,507,766	2,440,204
Bank-owned life insurance	3,772,523	3,650,717
Real estate owned	4,384,216	5,336,581
Other assets	547,409	1,291,793
Total Assets	$ 118,811,805	$ 135,701,297
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Deposits:		
Demand	11,580,034	$ 12,095,254
Savings	2,893,770	1,751,593
Money market and NOW	36,395,263	33,988,666
Time	52,710,728	70,091,420
Total deposits	103,579,795	117,926,933
Borrowings	8,500,000	10,000,000
Subordinated debt	5,155,000	5,155,000
Mandatorily convertible debt	4,040,000	4,040,000
Accrued interest payable	525,281	399,718
Accrued expenses and other liabilities	601,266	558,671
Total Liabilities	122,401,342	138,080,322
Commitments and contingencies (See Note 14)		
Stockholders' Equity:		
Preferred stock, no par value, authorized 20,000,000 shares;		
Series A, 191,310 issued and outstanding at December 31, 2013 and 2012	1,928,429	1,928,429
Series B, 52,992 issued and outstanding at December 31, 2013 and 2012	530,005	530,005
Common stock, no par value, 80,000,000 shares authorized; 2,290,622 shares issued and oustanding at December 31, 2013 and 843,715 shares issued and outstanding at December 31, 2012	8,909,037	8,556,168
Retained deficit	(14,450,280)	(13,806,091)
Accumulated other comprehensive income (loss)	(506,728)	412,464
Total Stockholders' Equity	(3,589,537)	(2,379,025)
Total Liabilities and Stockholders' Equity	$ 118,811,805	$ 135,701,297

The accompanying notes to the financial statements are an integral part of this statement.

CB FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Interest income		
Loans	$ 3,487,207	$ 3,881,245
Investment securities - taxable	743,387	876,165
Interest-earning deposits in banks	59,256	54,530
Other interest and dividends	34,685	39,901
Total interest income	4,324,535	4,851,841
Interest expense		
Money market, NOW and savings deposits	59,228	60,970
Time deposits	871,380	1,297,249
Short-term borrowings	233,234	386,720
Long-term borrowings	472,581	330,118
Total interest expense	1,636,423	2,075,057
Net interest income	2,688,112	2,776,784
Provision for loan losses	50,000	(57,139)
Net interest income after provision for loan losses	2,638,112	2,833,923
Non-interest income		
Service charges on deposit accounts	175,257	206,782
Mortgage operations	73,772	79,573
Gain on sale of investment securities	203,107	2,746
Income from bank-owned life insurance	121,806	128,292
Other	153,866	103,867
Total non-interest income	727,808	521,260
Non-interest expense		
Salaries and employee benefits	1,797,813	1,943,859
Occupancy and equipment	233,670	268,958
Data processing expenses	487,101	573,194
Expense on real estate owned, net	130,550	758,168
Other	952,345	1,091,227
Total non-interest expense	3,601,479	4,635,406
Loss before income taxes	(235,559)	(1,280,223)
Income tax expense (benefit)	258,787	(125,206)
Net loss allocable to common stockholders	$ (494,346)	$ (1,155,017)
Net loss per common share		
Basic	$ (0.22)	$ (1.37)
Diluted	$ (0.22)	$ (1.37)
WEIGHTED AVERAGE COMMON SHARE OUTSTANDING		
Basic	2,290,622	843,715
Diluted	2,290,622	843,715

The accompanying notes to the financial statements are an integral part of this statement.

CB FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Net loss	$ (494,346)	$ (1,155,017)
Other comprehensive income (loss):		
Unrealized gains on investment securities:		
Unrealized gain (loss) during the year	(1,086,197)	327,534
Tax effect	258,829	(126,263)
Reclassification of realized gain during the year	(203,107)	(2,746)
Tax effect	78,298	1,057
Total other comprehensive income (loss)	(952,177)	199,582
Comprehensive loss	$ (1,446,523)	$ (955,435)

The accompanying notes to the financial statements are an integral part of this statement.

CB FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2013 AND 2012

	Common Stock	Preferred Stock A	Preferred Stock B	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2011	$ 8,556,168	$ 1,928,429	$ 530,005	$ (12,651,074)	$ 212,882	$ (1,423,590)
Net loss	-	-	-	(1,155,017)	-	(1,155,017)
Other comprehensive loss	-	-	-	-	199,582	199,582
Balance, December 31, 2012	8,556,168	1,928,429	530,005	(13,806,091)	412,464	(2,379,025)
Correction of prior period error 1	-	-	-	(53,683)	32,985	(20,698)
Correction of prior period error 2	-	-	-	(96,160)	-	(96,160)
Net loss	-	-	-	(494,346)	-	(494,346)
Other comprehensive loss	-	-	-	-	(952,177)	(952,177)
Issuance of common stock	352,869	-	-	-	-	352,869
Balance, December 31, 2013	$ 8,909,037	$ 1,928,429	$ 530,005	$ (14,450,280)	$ (506,728)	$ (3,589,537)

		Shares Outstanding	
	Common Stock	Preferred Stock A	Preferred Stock B
Balance, December 31, 2011	843,715	191,310	52,992
No activity	-	-	-
Balance, December 31, 2012	843,715	191,310	52,992
Issued Shares	1,446,907	-	-
Balance, December 31, 2013	2,290,622	191,310	52,992

CB FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Cash flows from operating activities		
Net loss	$ (494,346)	$ (1,155,017)
Adjustments to reconcile net loss to		
net cash used in operating activities:		
Depreciation and amortization	223,308	99,781
Amortization and accretion of investment securities available-for-sale, net	295,058	320,212
Realized gain on investment securities available for sale	(203,107)	(2,746)
(Gain) loss on sale of real estate owned	(140,912)	34,485
Write down of real estate owned	94,673	553,148
Provision for loan losses	50,000	(57,139)
Earnings on bank-owned life insurance	(121,806)	(128,292)
Deferred loan income	(17,893)	(9,444)
Deferred income tax expense (benefit)	258,787	(125,206)
Change in assets and liabilities:		
Accrued interest receivable	(13,355)	100,919
Other assets	532,832	(40,535)
Accrued interest payable	125,563	182,968
Accrued expenses and other liabilities	43,260	(295,620)
Net cash provided by (used in) operating activities	632,062	(522,486)
Cash flows from investing activities		
Net decrease in time deposits with banks	-	741,098
Purchase of available-for -sale investments	(13,165,075)	(8,162,888)
Purchase of other investments	(321,703)	-
Sales of available-for-sale investments	6,926,135	1,678,152
Proceeds from maturities and calls of available-for-sale investments	6,313,187	7,143,972
Proceeds from sale of real estate owned	3,914,415	1,801,727
Net (increase) decrease in loans	(1,695,457)	7,733,825
Proceeds from sales of Federal Home Loan Bank stock	129,200	284,200
Purchases of bank premises and equipment	(175,478)	(3,859)
Net cash provided by investing activities	1,925,224	11,216,227
Cash flows from financing activities		
Net decrease in deposits	(14,347,138)	(12,473,666)
Issuance of subordinated debt	-	4,040,000
Issuance of common stock	352,869	-
Borrowings on FHLB advances	(1,500,000)	5,000,000
Payments on FHLB advances	-	(9,000,000)
Net cash used in financing activities	(15,494,269)	(12,433,666)
Net decrease in cash and cash equivalents	(12,936,983)	(1,739,925)
Cash and cash equivalents, beginning	19,370,510	21,110,435
Cash and cash equivalents, ending	$ 6,433,527	$ 19,370,510
Supplemental disclosure of cash flow information		
Interest paid	$ 1,395,468	$ 1,892,089
Supplemental disclosure of noncash transactions:		
Change in unrealized gain on investment securities available for sale, net	$ (952,177)	$ 199,582
Transfer from loans to real estate owned	2,915,811	3,879,084

The accompanying notes to the financial statements are an integral part of this statement.

Note 1—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.

Correction of prior period errors

Correction of prior period error 1 - In periods prior to 2013, it was determined that certain other equity securities held at the bank were other than temporarily impaired, however this impairment was not recorded. At December 31, 2012, the cumulative effect of this prior period error was an understatement of the retained deficit of $54,000, an understatement of accumulated other comprehensive income of 33,000, and an overstatement of investment securities of $21,000. During 2013, this error was corrected by increasing the retained deficit and accumulated other comprehensive income and decreasing investment securities by the aforementioned amounts

Correction of prior period error 2 - In periods prior to 2013, the amortization of debt issuance costs associated with the issuance of subordinated debt by the holding company was not recorded. At December 31, 2012, the cumulative effect of this prior period error was an understatement of retained deficit and an overstatement of other assets of approximately $96,000. During 2013, this error was corrected by increasing the retained deficit and reducing other assets by this amount.

Note 2—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 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, deferred tax assets, and the fair value of financial instruments.

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" with maturities fewer than 90 days. Net cash flows are reported for customer loan and deposit transactions and time deposits in other banks.

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 determined to be 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.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on a trade date basis and determined using the specific identification method.

Management evaluates securities other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell or it is more likely than not that it will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two component as follows: 1) OTTI related to credit loss, which must be recognized in the income statement, and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Note 2—Summary of significant accounting policies (continued)

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

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

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

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

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

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

Note 2—Summary of significant accounting policies (continued)

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

Stock in Federal Home Loan Bank of Atlanta and Investments Accounted for Under the Cost Method - As a requirement for membership, the Company invests in stock of the Federal Home Loan Bank of Atlanta ("FHLB"), which is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income. 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, 2013.

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 2013 and 2012 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 less estimated costs to sell at the date of foreclosure establishing a new cost basis. Principal and interest losses existing at the time of acquisition of such assets are charged against the allowance for loan losses and interest income, respectively. Subsequent to 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, 2013 and 2012, 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, 2013 and 2012, the Company had no uncertain tax positions requiring disclosure or recognition.

Note 2—Summary of significant accounting policies (continued)

Accumulated Other 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.

Accumulated other comprehensive income consists of the following:

	2013	2012
Unrealized holding gains (losses) on securities available-for-sale	$ (506,728)	$ 412,464
Total accumulated other comprehensive income	$ (506,728)	$ 412,464

Advertising Costs - Advertising costs are expensed as incurred.

Bank Owned Life Insurance ("BOLI") - The Bank has invested in cash value life insurance policies to fund a portion of the deferred compensation plan. The investment in the life insurance contracts is reported as an asset at the amount that could be realized under the insurance contracts at the balance sheet date.

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

Per Share Results - As discussed in Note 1, shares of Series A and B Preferred Stock were issued in 2008 in accordance with amendments to the Article 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 2013 or 2012.

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

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

Note 2—Summary of significant accounting policies (continued)

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

	2013	2012
Weighted average outstanding shares used for basic EPS	2,290,622	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	2,290,622	843,715

For the years ended December 31, 2013 and December 31, 2012, 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.

New Accounting Pronouncements - In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-04, Receivables (Topic 310): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure to clarify that an in substance repossession or foreclosure occurs upon either the creditor obtaining legal title to the residential real estate property or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendments are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. The amendments may be adopted using either a modified retrospective transition method or a prospective transition method and early adoption is permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists to provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists thereby reducing diversity in practice. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments are to be applied prospectively to all unrecognized tax benefits that exist at the effective date with retrospective application permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In February 2013, the FASB issued an update to the accounting standards for Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments in this Update requires that companies present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source (e.g., the release due to cash flow hedges from interest rate contracts) and the income statement line items affected by the reclassification (e.g., interest income or interest expense). If a component is not required to be reclassified to net income in its entirety, companies would instead cross reference to the related footnote for additional information. For nonpublic entities, the amendments are effective for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Company does not expect the adoption of this accounting standards update to have a material impact on the consolidated financial statements.

Note 3—Restrictions on Cash

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2013 and 2012, these reserve balances amounted to $352,000 and $762,000, respectively.

Note 4—Investment Securities

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

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
Government sponsored enterprises	$ 15,632,590	$ 20,427	$ (686,217)	14,966,800
Municipal securities	2,618,619	24,432	(178)	2,642,873
Mortgage-backed securities	15,905,500	44,807	(111,372)	15,838,935
Other equity securities	325,141	201,373	-	526,514
	$ 34,481,850	$ 291,039	$ (797,767)	$ 33,975,122

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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

Securities with a carrying value of $25.3 million and $14.3 million at December 31, 2013 and 2012, respectively, were pledged to secure borrowings.

Note 4—Investment Securities (continued)

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, 2013 and 2012. 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, 2013 or 2012, respectively.

	December 31, 2013					
	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	$ 4,016,998	$ 176,733	$ 860,558	$ 43,816	$ 4,877,556	220,549
Municipal securities	8,316,511	465,845	-	-	8,316,511	465,845
Mortgage-backed securities	9,029,886	111,373	-	-	9,029,886	111,373
Other equity securities	-	-	-	-	-	-
Total temporarily impaired available-for-sale securities	$ 21,363,395	$ 753,951	$ 860,558	$ 43,816	$ 22,223,953	$ 797,767

	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

Note 4—Investment Securities (continued)

The amortized cost and fair value, of the Company's investment securities available for sale at December 31, 2013, 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	$ 5,184,418	$ 5,157,598
Due in one to five years	11,994,085	11,905,118
Due in five to ten years	14,384,932	13,831,058
Due after ten years	2,593,274	2,554,834
Securities with no stated maturity	325,141	526,514
Total	$ 34,481,850	$ 33,975,122

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 5—Federal Home Loan Bank Atlanta Stock

As of December 31, 2013, the Bank had 5,440 shares of $100 par value capital stock totaling $544,400 in FHLB. The Bank had 6,730 shares of $100 par value capital stock totaling $673,600 in FHLB as of December 31, 2012. In order to borrow funds from the FHLB, the Bank must maintain an investment in FHLB's activity-based stock equal to $382,500 and $450,000, respectively, and an investment in FHLB's membership based stock equal to $161,500 and $223,600, respectively, for the years ended December 31, 2013 and 2012. Based on redemption provisions of FHLB, the stock has no quoted market value and is carried at cost.

Note 6—Loans and the allowance for loan losses

Following is a summary of loans at December 31, 2013 and 2012:

	2013	2012
	(Dollars in thousands)	
Commercial and agriculture	$ 31,092	$ 30,570
Construction and development	7,488	8,961
Farmland	176	445
1-4 residential mortgage	24,538	24,993
Multifamily	2,287	2,568
Consumer and other	2,693	2,361
Total loans	68,274	69,898
Less:		
Allowance for loan losses	(2,496)	(2,868)
Net loans	$ 65,778	$ 67,030

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.

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):

	2013	2012
Balance at beginning of year	$ 3,188	$ 3,647
Borrowings	259	238
Repayments	(337)	(697)
Balance at end of year	$ 3,110	$ 3,188

Note 6—Loans and the allowance for loan losses (continued)

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, 2013 (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, 2013							
Allowance for loan losses:							
Beginning Balance	$ 1,565	$ 218	$ 64	$ 2	$ 981	$ 38	$ 2,868
Charge-offs	(291)	-	(23)	-	(282)	(20)	(616)
Recoveries	116	-	-	-	42	36	194
Provision	21	-	3	-	28	(2)	50
Ending Balance	$ 1,411	$ 218	$ 44	$ 2	$ 769	$ 52	$ 2,496
Ending Balance: individually evaluated for impairment	$ 1,048	$ 50	$ 64	$ -	$ 541	$ 41	$ 1,744
Ending Balance: collectively evaluated for impairment	$ 360	$ 14	$ 53	$ 1	$ 307	$ 17	$ 752
Loans outstanding:							
Ending Balance	$ 31,092	$ 2,287	$ 7,488	$ 176	$ 24,538	$ 2,693	$ 68,274
Ending Balance: individually evaluated for impairment	$ 6,369	$ 135	$ 195	$ -	$ 2,083	$ 41	$ 8,823
Ending Balance: collectively evaluated for impairment	$ 24,723	$ 2,152	$ 7,293	$ 176	$ 22,455	$ 2,652	$ 59,451

Note 6—Loans and the allowance for loan losses (continued)

The following table presents activity in the allowance by loan category and information on the loans evaluated individually for impairment and collectively evaluated for impairment as of December 31, 2012 (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, 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

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." These loans represent borrowers with declining earnings, strained cash flow, increasing leverage and/or weakening market fundamentals that indicate above average risk.

Note 6—Loans and the allowance for loan losses (continued)

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, 2013					
Commercial and agriculture	$ 18,419	$ 6,935	$ 5,738	$ -	$ 31,092
Construction and development	6,847	292	349	-	7,488
Farmland	126	50	-	-	176
1-4 residential mortgage	18,454	1,774	4,310	-	24,538
Multifamily	1,723	406	158	-	2,287
Consumer and other	2,625	33	35	-	2,693
Total	$ 48,194	$ 9,490	$ 10,590	$ -	$ 68,274

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	5,072	-	5,517
1-4 residential mortgage	17,684	2,237	190	-	20,111
Multifamily	1,803	574	87	-	2,464
Consumer and other	2,244	32	-	-	2,276
Total	$ 44,867	$ 9,960	$ 15,071	$ -	$ 69,898

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.

Note 6—Loans and the allowance for loan losses (continued)

The following table presents an age analysis of nonaccrual and past due loans by category as of December 31, 2013 (in thousands):

Analysis of Past Due and Nonaccrual Loans

	30-89 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, 2013							
Commercial and agriculture	$ 1,291	$ 460	$ 1,751	$ 29,341	$ 31,092	$ 122	$ 839
Construction and development	157		157	7,331	7,488	-	21
Farmland	-	-	-	176	176	-	-
1-4 Residential mortgage	682	214	896	23,642	24,538	55	1,076
Multifamily	-	-	-	2,287	2,287	-	-
Consumer and other	149		149	2,544	2,693	-	-
Total	$ 2,279	$ 674	$ 2,953	$ 65,321	$ 68,274	$ 177	$ 1,936

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

	30-89 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	$ 24	$ 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	1,381	544	1,925	23,068	24,993	-	1,364
Multifamily	-	-	-	2,568	2,568	-	-
Consumer and other	84	-	84	2,277	2,361	-	32
Total	$ 1,489	$ 2,768	$ 4,257	$ 65,641	$ 69,898	$ -	$ 6,315

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 when 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.

Note 6—Loans and the allowance for loan losses (continued)

The following table is a summary of information related to impaired loans as of December 31, 2013 (in thousands):

	Impaired Loans				
December 31, 2013	**Recorded Investment[(1)]**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interst Income Recognized**
With no related allowance recorded:					
Commercial and agriculture	$ 2,836	$ 2,902	$ -	$ 2,913	$ 121
Construction and development	1	6	-	7	-
Farmland	-	-	-	-	-
1-4 residential mortgage	259	372	-	291	5
Multifamily	-	-	-	-	-
Consumer and other	-	-	-	-	-
Subtotal	3,096	3,280	-	3,211	126
With an allowance recorded:					
Commercial and agriculture	3,533	3,692	1,048	3,575	150
Construction and development	194	194	64	197	10
Farmland	-	-	-	-	-
1-4 residential mortgage	1,824	1,861	541	1,874	96
Multifamily	135	135	50	129	9
Consumer and other	41	28	41	29	2
Subtotal	5,727	5,910	1,744	5,804	267
Totals:					
Commercial and agriculture	6,369	6,594	1,048	6,488	271
Construction and development	195	200	64	204	10
Farmland	-	-	-	-	-
1-4 residential mortgage	2,083	2,233	541	2,165	101
Multifamily	135	135	50	129	9
Consumer and other	41	28	41	29	2
Total	$ 8,823	$ 9,190	$ 1,744	$ 9,015	$ 393

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

Note 6—Loans and the allowance for loan losses (continued)

The following table is a summary of information related to impaired loans as of December 31, 2012 (in thousands):

	Impaired Loans				
December 31, 2012	**Recorded Investment[1]**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interst Income Recognized**
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 6—Loans and the allowance for loan losses (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, 2013 (in thousands):

	2013		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial and agriculture	14	$ 3,171	$ 3,171
Construction and development	-	-	-
Farmland	-	-	-
1-4 residential mortgage	4	1,076	1,076
Multifamily	-		-
Consumer and other	2	131	131

During 2013, the Bank modified 2 loans that were considered to be TDRs. The terms were modified on both of these loans. The Bank had no such TDR's modified during the year ended 12/31/13 that subsequently defaulted. Restructured loans are deemed to be in default if they become past due by 30 days or more.

Note 6—Loans and the allowance for loan losses (continued)

As of December 31, 2013, the Bank had 5 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.

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 agriculture	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 ended December 31, 2012, 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 7—Premises and equipment

Following is a summary of the Company's premises and equipment at December 31, 2013 and 2012:

	2013	2012
Land	$ 848,037	$ 848,037
Buildings	1,906,933	1,906,933
Leasehold improvements	55,932	55,932
Furniture and equipment	1,149,029	973,551
	3,959,931	3,784,453
Less accumulated amortization	(1,452,165)	(1,344,249)
Total	$ 2,507,766	$ 2,440,204

Depreciation and amortization amounting to $107,916 and $99,781 for the years ended December 31, 2013 and 2012, respectively, is included in occupancy and equipment expense and data processing expense.

Rental expense amounting to $30,560 and $43,380 during the years ended December 31, 2013 and 2012, respectively, is included in occupancy and equipment expense on the accompanying consolidated statements of operations. As of December 31, 2013, 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 8—Real estate owned

The following summarizes the activity in real estate owned:

	2013	2012
Balance, beginning of year	$ 5,336,581	$ 3,846,857
Additions	2,915,811	3,879,084
Sales	(3,773,503)	(1,836,212)
Writedowns	(94,673)	(553,148)
Balance, end of year	$ 4,384,216	$ 5,336,581

Note 9—Deposits

Deposit account balances at December 31, 2013 and 2012, are summarized as follows:

	2013	2012
	(Dollars in thousands)	
Demand	11,580	12,095
Money market accounts	36,395	33,989
Savings	2,894	1,752
Time Deposits	52,711	70,091
	103,580	117,927

At December 31, 2013, the scheduled maturities of time deposits (dollars in thousands) are as follows:

2014	$ 31,117
2015	4,187
2016	6,801
2017	216
2018	10,390
Total	$ 52,711

The above table includes time deposits of $100,000 and over, which at December 31, 2013, totaled $29.1 million.

Deposits from directors, executive officers, and their affiliates at December 31, 2013 amounted to approximately $2.4 million.

Note 10—Borrowings

In 2013 and 2012 the Company did not have an unsecured federal funds line. The Company has a line of credit with the Federal Reserve Bank in the total available amounts of $10.7 million and $12.9 million as of December 31, 2013 and 2012, respectively, which is secured by substantially all of the Company's mortgage backed securities. The Company did not use the line of credit in 2013 or 2012.

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

Advances from the FHLB of Atlanta consisted of the following at December 31, 2013 and 2012:

Maturity	Interest Rate	2013	2012
June 12, 2013	2.02%	$ -	$ 1,250,000
November 12, 2013	2.26%	-	2,500,000
March 7, 2012	3.24%	-	1,250,000
September 10, 2014	0.36%	3,500,000	-
December 13, 2017	2.85%	5,000,000	5,000,000
		$ 8,500,000	$ 10,000,000

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 approximately $440,000 and $325,000 at December 31, 2013 and 2012, respectively.

Note 10—Borrowings (continued)

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, 2013 was $242,000.

Note 11—Income taxes

The significant components of the provision for income taxes for 2013 and 2012 are as follows:

	2013	2012
Current tax provision		
Federal	$ -	$ -
State	-	-
Total current taxes	-	-
Deferred tax provision		
Federal	(296,157)	(243,409)
State	(2,991)	(1,257)
Total deferred taxes	(299,148)	(244,666)
Increase in valuation allowance	557,935	119,460
Provision for income taxes	$ 258,787	$ (125,206)

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:

	2013	2012
Tax expense computed at the statutory federal rate	$ (80,090)	$ (435,276)
Increase (decrease) resulting from		
State income taxes, net of federal effect	-	(830)
Nontaxable income	(81,082)	(914)
Other, net	(137,976)	192,354
Valuation allowance	557,935	119,460
Provision for income taxes	$ 258,787	$ (125,206)

Note 11—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, 2013 and 2012 are as follows:

	2013	2012
Deferred tax assets relating to		
Allowance for loan losses	$ 418,137	$ 458,890
Pre-opening costs and expenses	837	998
Interest income on non-accrual loans	133,300	374,472
Retirement and stock compensation	119,795	181,015
Investment and real estate owned impairment	191,305	313,479
Operating loss carryforwards	4,779,438	4,098,494
Investment securities available for sale	189,009	-
Other	74,901	12,147
Total deferred tax assets	5,906,722	5,439,495
Valuation allowance	(5,826,712)	(5,077,472)
Total net deferred tax assets	80,010	362,023
Deferred tax liabilities relating to		
Premises and equipment differences	45,018	37,873
Prepaid expenses	26,436	41,230
Investment securities available for sale	-	258,784
Other	8,556	24,136
Total deferred tax liabilities	80,010	362,023
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, 2013 and 2012 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 carry forwards of $12.3 million and state net operating loss carry forwards of $18.3 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 12—Other non-interest expense

The major components of other non-interest expense for the years ended December 31, 2013 and 2012 are as follows:

		2013		2012
Postage, printing and office supplies		68,180	$	41,988
Advertising and promotion		55,066		42,797
Professional services		227,958		338,857
FDIC insurance premiums		279,350		324,061
Other		321,791		343,524
Total	$	952,345	$	1,091,227

Note 13—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.

Note 13—Regulatory matters (continued)

As of December 31, 2013, 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, 2013				
Tier 1 capital (to risk-weighted assets)	$ 6,060	5.03%	4.00%	8.0%
Total capital - (to risk-weighted assets)	7,015	9.38%	8.00%	12.0%
Leverage - Tier 1 capital (to average assets)	6,060	8.10%	4.00%	n/a
As of December 31, 2012				
Tier 1 capital (to risk-weighted assets)	$ 5,890	7.21%	4.00%	8.0%
Total capital - (to risk-weighted assets)	6,927	8.48%	8.00%	12.0%
Leverage - Tier 1 capital (to average assets)	5,890	4.28%	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.
- 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.

Note 13––Regulatory matters (continued)

- 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.

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.

Note 13—Regulatory matters (continued)

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 14—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.

A summary of the contract amount of the Company’s exposure to off-balance sheet credit risk as of December 31, 2013 and 2012 is as follows:

	2013	2012
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 3,105	$ 495
Undisbursed lines of credit	5,663	11,814
Commercial and standby letters of credit	3,259	412

Note 15—Disclosures about fair values of financial instruments

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

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

Cash and due from banks, interest-earning deposits in banks and federal funds sold:

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

Time deposits:

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

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

Loans:

For certain homogenous categories of loans, such as residential mortgages, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. No estimation has been included for credit quality.

Accrued interest:

The carrying amounts of accrued interest approximate fair value.

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.

Note 15—Disclosures about fair values of financial instruments (continued)

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 14, 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, 2013 and 2012:

	2013		2012	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial assets				
Cash and due from banks	$ 835	$ 835	$ 2,273	$ 2,273
Interest-earning deposite in banks	5,598	5,598	17,097	17,097
Time deposits	490	490	490	490
Investment securities available-for-sale	33,975	33,975	35,052	35,052
Accrued interest receivable	379	379	366	366
Federal Home Loan Bank stock	544	544	674	674
Investment in bank-owned life insurance	3,773	3,773	3,651	3,651
Loans, net	65,778	66,945	67,030	68,657
Financial liabilities				
Deposits	103,580	100,060	117,927	118,691
Borrowings	17,695	18,019	19,195	19,762
Accrued interest payable	525	525	400	400

Note 15—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:

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

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

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

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

Securities:

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

Impaired loans:

Impairment of a loan is based on a loan’s observable market price or the fair value of the collateral of a collateral dependent loan. Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Real estate owned:

Foreclosed assets are adjusted to fair value upon transfer of the loans to 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 15—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, 2013				
Investment securities available for sale:				
Municipal securities	$ 2,643	$ -	$ 2,643	$ -
Government sponsored enterprises	14,967	-	14,967	-
Other equity securities	526	526	-	-
Mortgage-backed securities	15,839	-	15,839	-
Total assets at fair value	$ 33,975	$ 526	$ 33,449	$ -
Total liabilities valued at fair value	$ -	$ -	$ -	$ -
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	$ -	$ -	$ -	$ -

Note 15—Disclosures about fair values of financial instruments (continued)

Nonrecurring fair value:

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

December 31, 2013	Total	Level 1	Level 2	Level 3
Impaired loans	$ 7,079	$ -	$ -	$ 7,079
Real estate owned	4,384	-	-	4,384
Total assets at fair value	$ 11,463	$ -	$ -	$ 11,463
Total liabilities valued at fair value	$ -	$ -	$ -	$ -

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	$ -	$ -	$ -	$ -

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, 2013, and December 31, 2012, the significant unobservable inputs used in the fair value measurements were as follows (dollars in thousands):

	Fair Value at December 31, 2013	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Inputs Value
Impaired Loans	$ 7,079	Appraised Value/ Comparable Sales	Appraisals	n/a
OREO	$ 4,384	Appraised Value/ Comparable Sales	Appraisals	n/a

Note 15—Disclosures about fair values of financial instruments (continued)

	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

Note 16—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.

Supplemental Executive Retirement Plan ("SERP"):

The Company has a Supplemental Executive Retirement Plan ("SERP") for the benefit of certain key officers and directors. The SERP provides selected employees and directors who satisfy eligibility requirements with supplemental benefits upon retirement, death, or disability in certain prescribed circumstances. The Company has not contributed to the SERP since 2009, thus there was no recorded expense for the years ended December 31, 2013 and 2012. The accrued liability related to the SERP was $321,166 and $390,408 as of December 31, 2013 and 2012, respectively.

Stock option plans:

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

Compensation cost relating to share-based payment transactions are recognized in the financial statements with measurement based upon the fair value of the equity or liability instruments issued. The Bank recognized no compensation expense for stock options for the years ended December 31, 2013 and 2012.

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 2013 or 2012.

Note 16—Employee and director benefit plans (continued)

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, 2013 and 2012.

Employment agreements:

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

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

Employee stock purchase plan:

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

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

As of December 31, 2013, 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 2013 and 2012.

Note 17—–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, 2013 and 2012, presented in thousands.

Condensed Balance Sheets
December 31, 2013 and 2012

	2013	2012
Assets		
Cash on deposit in subsidiary	$ 33	$ 39
Investment in subsidiary bank	5,649	6,336
Other assets	425	827
Total Assets	$ 6,107	$ 7,202
Liabilities		
Junior subordinated debentures	$ 5,155	$ 5,155
Mandatorily convertible debt	4,040	4,040
Other liabilities	501	386
Total Liabilities	9,696	9,581
Stockholders' Equity		
Common stock	8,909	8,556
Preferred stock A & B	2,459	2,459
Retained deficit	(14,450)	(13,806)
Accumulated other comprehensive income (loss)	(507)	412
Total stockholders' equity	(3,589)	(2,379)
Total liabilities and stockholders' equity	$ 6,107	$ 7,202

Note 17—–Parent company financial data (continued)

Condensed Statements of Operations
Years Ended December 31, 2013 and 2012

	2013	2012
Equity in earnings of bank subsidiary	$ (13)	$ (819)
Other income	4	7
Interest expense	(472)	(330)
Other expense	(13)	(13)
Net loss	$ (494)	$ (1,155)

Condensed Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Operating activities		
Net loss	$ (494)	$ (1,155)
Adjustments to reconcile net loss		
to net cash used in operating activities:		
Equity in earnings of bank subsidiary	13	819
Amortization of debt issuance costs	115	-
Decrease (Increase) in other assets	192	(672)
Increase in other liabilities	115	66
Net cash used in operating activities	(59)	(942)
Investing activities		
Investment in subsidiary	(300)	(3,060)
Net cash used in investing activities	(300)	(3,060)
Financing activities		
Issuance of subordinated debt	-	4,040
Issuance of common stock	353	-
Net cash provided by financing activities	353	4,040
Net increase (decrease) in cash and cash equivalents	(6)	38
Cash and cash equivalents, beginning of period	39	1
Cash and cash equivalents, end of period	$ 33	$ 39

Note 18—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 13.

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, 2013.

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.

Note 19—Subsequent Events

The Company has evaluated subsequent evens through May 5, 2014, in connection with the preparation of these consolidated financial statements, which is the date the consolidated financial statements were available to be issued.