CB FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2015 and 2014

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

CB FINANCIAL CORPORATION AND SUBSIDIARY

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TO OUR SHAREHOLDERS, CUSTOMERS, AND FRIENDS:

We are pleased to report that 2015 was a year of accomplishment for CB Financial Corporation ("CB" or the "Company"), the holding company for Cornerstone Bank ("Cornerstone" or the "Bank").

For the year ended December 31, 2015, CB reported net income of $601,000 compared to net income of $726,000 for the year ended December 31, 2014. For the fourth quarter of 2015, we reported net income of $199,000, making it our ninth consecutive profitable quarter.

The Company's balance sheet is strengthening, with a growing loan portfolio and improving credit quality. Non-accrual loans at December 31, 2015, stood at $352,000, or 0.5% of outstanding loans, and our allowance for loan losses was $1.1 million, or 1.6% of outstanding loans.

With the May 2015 shareholder-approved conversion of CB's A, B and C preferred shares into common shares and a successful private placement capital raise in June 2015, our capital ratios now exceed regulatory guidelines for well-capitalized banks. In November 2015, regulators terminated a Consent Order ("CO") that Cornerstone had operated under since February 2010. The lifting of the CO was due to our strong, growing loan portfolio; improved credit quality, and consistent profitable performance.

With these milestones behind us, along with the support of our Board and the daily diligence and hard work of Cornerstone's staff, we can more keenly focus on serving the community banking needs of individuals and businesses in the City of Wilson, Wilson County and the surrounding area. If you currently bank with us, thank you. If you do not bank with us yet, we hope you will give us the opportunity to meet your banking needs. Thank you for your consideration.

Our Annual Meeting of Shareholders will be held on Tuesday, May 17, 2016, at 3:00 p.m. at the Cornerstone Bank Operations Center, 3105 Nash Street N., Wilson, North Carolina. Please join us to hear more about our results to-date and our plans for 2016.

Sincerely,

Mark A. Holmes	John C. 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 and Subsidiary
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 sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Cherry Bekaert LLP

Raleigh, North Carolina
March 15, 2016

CB FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Cash and due from banks	$ 2,878,738	$ 1,042,844
Interest-earning deposits in banks	3,846,530	8,342,644
Total Cash and Cash Equivalents	6,725,268	9,385,488
Certificates of deposits	1,550,000	490,000
Investment securities available-for-sale, at fair value	20,837,610	27,025,156
Loans	68,715,983	65,787,535
Allowance for loan losses	(1,122,916)	(1,569,678)
Net Loans	67,593,067	64,217,857
Accrued interest receivable	326,624	333,343
Stock in Federal Home Loan Bank of Atlanta, at cost	398,300	511,600
Premises and equipment, net	2,323,738	2,442,947
Bank-owned life insurance	3,901,577	3,891,835
Real estate owned	1,746,243	3,312,105
Other assets	354,114	672,633
Total Assets	$ 105,756,541	$ 112,282,964
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand	$ 12,779,164	$ 14,094,625
Savings	3,490,920	3,058,498
Money market and NOW	35,954,683	35,283,180
Time	38,314,416	45,135,438
Total Deposits	90,539,183	97,571,741
Borrowings	5,000,000	7,000,000
Subordinated debt	5,155,000	5,155,000
Accrued interest payable	25,126	582,046
Accrued expenses and other liabilities	179,421	297,077
Total Liabilities	100,898,730	110,605,864
Stockholders' Equity:		
Preferred stock, no par value, authorized 0 and 20,000,000 shares at December 31, 2015 and 2014, respectively		
Series A, 0 and 191,310 issued and outstanding at December 31, 2015 and 2014, respectively	-	1,928,429
Series B, 0 and 52,992 issued and outstanding at December 31, 2015 and 2014, respectively	-	530,005
Series C, 0 and 1,616,000 issued and outstanding at December 31, 2015 and 2014, respectively	-	4,040,000
Common stock, no par value, 80,000,000 shares authorized; 47,544,924 and 2,290,622 shares issued and outstanding at December 31, 2015 and 2014, respectively	-	-
Additional paid-in capital	18,233,024	8,914,870
Accumulated deficit	(13,122,914)	(13,723,828)
Accumulated other comprehensive loss	(252,299)	(12,376)
Total Stockholders' Equity	4,857,811	1,677,100
Total Liabilities and Stockholders' Equity	$ 105,756,541	$ 112,282,964

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CB FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Interest Income:		
Loans	$ 3,078,160	$ 3,516,374
Investment securities - taxable	507,324	603,467
Interest - earning deposits in banks	46,732	49,334
Other interest and dividends	67,171	32,069
Total Interest Income	3,699,387	4,201,244
Interest Expense:		
Money market, NOW, and savings deposits	39,944	59,852
Time deposits	323,942	444,275
Short-term borrowings	147,602	155,025
Long-term borrowings	132,527	178,037
Total Interest Expense	644,015	837,189
Net interest income	3,055,372	3,364,055
Recovery of loan losses	(275,000)	(430,000)
Net interest income after recovery of loan losses	3,330,372	3,794,055
Non-interest Income:		
Service charges on deposit accounts	161,800	143,983
Mortgage operations	48,372	80,741
Gain on sale of investment securities available-for-sale	37,729	164,241
Income from bank-owned life insurance	312,671	119,312
Other	141,566	191,285
Total Non-interest Income	702,138	699,562
Non-interest Expense:		
Salaries and employee benefits	1,705,303	1,691,354
Occupancy and equipment	241,978	256,145
Data processing expenses	393,513	367,116
Expense on real estate owned, net	239,183	249,284
Other	851,619	1,203,266
Total Non-interest Expense	3,431,596	3,767,165
Net income before income taxes	600,914	726,452
Income tax expense	-	-
Net income allocable to common stockholders	$ 600,914	$ 726,452
Net Income per Common Share:		
Basic	$ 0.02	$ 0.32
Diluted	0.02	0.04
Weighted Average Common Share Outstanding:		
Basic	26,452,048	2,290,622
Diluted	34,186,112	18,694,924

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CB FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Net income	$ 600,914	$ 726,452
Other Comprehensive (Loss) Income:		
Unrealized (losses) gains on investment securities:		
Unrealized (losses) gains during the year	(202,194)	658,593
Reclassification of realized gains during the year	(37,729)	(164,241)
Total Other Comprehensive (Loss) Income	(239,923)	494,352
Comprehensive income	$ 360,991	$ 1,220,804

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CB FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2015 AND 2014

	Common Stock	Preferred Stock A	Preferred Stock B	Preferred Stock C	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2013	$ -	$ 1,928,429	$ 530,005	$ -	$ 8,909,037	$ (14,450,280)	$ (506,728)	$ (3,589,537)
Net income	-	-	-	-	-	726,452	-	726,452
Other comprehensive income	-	-	-	-	-	-	494,352	494,352
Stock-based compensation	-	-	-	-	5,833	-	-	5,833
Issuance of common stock	-	-	-	4,040,000	-	-	-	4,040,000
Balance, December 31, 2014	-	1,928,429	530,005	4,040,000	8,914,870	(13,723,828)	(12,376)	1,677,100
Net income	-	-	-	-	-	600,914	-	600,914
Other comprehensive loss	-	-	-	-	-	-	(239,923)	(239,923)
Conversion of preferred to common	-	(1,928,429)	(530,005)	(4,040,000)	6,498,434	-	-	-
Forfeiture of restricted stock awards	-	-	-	-	(5,833)	-	-	(5,833)
Issuance of common stock, net	-	-	-	-	2,825,553	-	-	2,825,553
Balance, December 31, 2015	$ -	$ -	$ -	$ -	$ 18,233,024	$ (13,122,914)	$ (252,299)	$ 4,857,811

CB FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash flows from operating activities:		
Net income	$ 600,914	$ 726,452
Adjustments to reconcile net income to		
net cash provided by operating activities:		
Depreciation and amortization	130,699	118,729
Proceeds from disposal of bank premises and equipment	200	-
Amortization and accretion of investment		
securities available-for-sale, net	128,115	207,848
Stock based compensation	(5,833)	5,833
Realized gain on investment securities available-for-sale	(37,729)	(164,241)
Loss (gain) on sale of real estate owned	127,087	(9,163)
Write down of real estate owned	112,096	259,240
Recovery of loan losses	(275,000)	(430,000)
Earnings on bank-owned life insurance	(312,671)	(119,312)
Deferred loan income	(13,433)	(21,138)
Change in assets and liabilities:		
Accrued interest receivable	6,719	45,643
Other assets	318,519	(125,224)
Accrued interest payable	(556,920)	56,765
Accrued expenses and other liabilities	(117,656)	(304,189)
Net cash provided by operating activities	105,107	247,243
Cash flows from investing activities:		
Purchase of investment securities, available-for-sale	(20,513,976)	(1,601,665)
Sales of investment securities, available-for-sale	24,099,257	3,971,282
Proceeds from maturities and calls of investments securities available-for-sale	2,271,956	5,031,094
Purchases of certificates of deposits	(1,060,000)	-
Proceeds from bank-owned life insurance benefit	302,929	-
Proceeds from sale of real estate owned	1,326,679	1,488,550
Net (increase) decrease in loans	(3,086,777)	1,344,621
Proceeds from sales of Federal Home Loan Bank stock	113,300	32,800
Purchases of bank premises and equipment	(11,690)	(53,910)
Net cash provided by investing activities	3,441,678	10,212,772
Cash flows from financing activities:		
Net decrease in deposits	(7,032,558)	(6,008,054)
Proceeds from issuance of common stock, net of cost	2,825,553	-
Net payments on FHLB advances	(2,000,000)	(1,500,000)
Net cash used in financing activities	(6,207,005)	(7,508,054)
Net (decrease) increase in cash and cash equivalents	(2,660,220)	2,951,961
Cash and cash equivalents, beginning of year	9,385,488	6,433,527
Cash and cash equivalents, end of year	$ 6,725,268	$ 9,385,488
Supplemental disclosure of cash flow information:		
Interest paid	$ 1,200,935	$ 780,449
Supplemental disclosure of noncash transactions:		
Change in fair value of investment		
securities available-for-sale, net	$ (239,923)	$ 494,352
Conversion of mandatorily convertible debt to preferred stock, Series C	-	4,040,000
Transfer from loans to real estate owned	-	666,516

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.

In May 2015, the stockholders approved various amendments to the Company's Articles of Incorporation, that resulted in all of the Company's issued and outstanding shares of preferred stock (Series A, B, and C) being converted and reclassified into common stock, effective May 29, 2015.

In June 2015, the Company began a Private Placement Common Stock Offering (the "Private Placement") with certain individual accredited investors. Under the terms of the Private Placement, the Company established a maximum offering of 35,000,000 shares of no par value common stock at a price of $0.10 per share. Upon completion, the Company placed 28,850,000 shares of common stock at the offering price of $0.10 per share as of June 29, 2015.

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.

Reclassifications – Certain amounts in the consolidated financial statements for the year ended December 31, 2015 have been reclassified to conform to current period financial statement presentation. These reclassifications have no effect on previously reported net income, net income available to common stockholders' or stockholders' equity.

Cash and Cash Equivalents – For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents are defined as those amounts included in the consolidated balance sheet captions "Cash and due from banks," and "Interest-earning deposits in banks" with maturities fewer than 90 days. Net cash flows are reported for customer loan and deposit transactions and time deposits in other banks.

Note 2—Summary of significant accounting policies

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 components 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.

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

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

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

Note 2—Summary of significant accounting policies (continued)

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

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

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

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

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

Premises and Equipment – 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, 2015 or 2014.

Note 2—Summary of significant accounting policies (continued)

Occasionally, 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 2015 and 2014 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, 2015 and 2014, 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, 2015 and 2014, the Company had no uncertain tax positions requiring disclosure or recognition.

Accumulated Other Comprehensive Income (Loss) – Other comprehensive income (loss) refers to all components (revenues, expenses, gains, and losses) of comprehensive income (loss) that are excluded from net income. The Company's only component of other comprehensive income is unrealized gains and losses on investment securities available-for-sale.

Advertising Costs – Advertising costs are expensed as incurred. Advertising expenses were $46,384 and $85,553 for the years ended December 31, 2015 and 2014, respectively.

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.

Per Share Results – As discussed in Note 1, all shares of Series A, B, and C Preferred Stock were reclassified and converted into shares of common stock during June 2015. Prior to the conversion, Series A and Series B Preferred Stockholders were 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, were entitled to a preference in the distribution of dividends so that the holders of Series A shall receive dividends prior to the holders of common stock and Series B Preferred Stock. Series C Preferred Stockholders had liquidation preference of $2.50 and a non-cumulative dividend of 5% per annum. No preferred dividends were declared in 2015 or 2014.

Note 2—Summary of significant accounting policies (continued)

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and Preferred Stock, and are determined using the treasury stock method. All potentially dilutive shares were converted to common shares as of December 31, 2015.

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

	2015	2014
Net income available to common shareholders	$ 600,914	$ 726,452
Weighted average number of common shares - basic	26,452,048	2,290,622
Effect of dilutive convertible preferred shares, Series A	90,196	191,310
Effect of dilutive convertible preferred shares, Series B	24,984	52,992
Effect of dilutive convertible preferred shares, Series C	7,618,884	16,160,000
Weighted average number of common shares - dilutive	34,186,112	18,694,924
Basic earnings per common share	$ 0.02	$ 0.32
Diluted earnings per common share	0.02	0.04

Note 3—Restrictions on cash

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2015 and 2014, these reserve balances amounted to $200,000 and $428,000, 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, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
Government sponsored enterprises	$ 8,799,690	$ 9,734	$ (92,153)	$ 8,717,271
Municipal securities	1,247,425	200	(26,745)	1,220,880
Mortgage-backed securities	11,042,794	14,993	(158,328)	10,899,459
	$ 21,089,909	$ 24,927	$ (277,226)	$ 20,837,610

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
Government sponsored enterprises	$ 12,650,271	$ 46,790	$ (200,761)	$ 12,496,300
Municipal securities	1,623,374	63,134	-	1,686,508
Mortgage-backed securities	12,763,887	107,638	(29,177)	12,842,348
	$ 27,037,532	$ 217,562	$ (229,938)	$ 27,025,156

Securities with a carrying value of $6.3 million and $12.8 million at December 31, 2015 and 2014, 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, 2015 and 2014.

	December 31, 2015					
	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	$ 6,468,359	$ 72,304	$ 728,363	$ 19,849	$ 7,196,722	$ 92,153
Municipal securities	1,160,680	26,745	-	-	1,160,680	26,745
Mortgage-backed securities	9,032,959	158,328	-	-	9,032,959	158,328
Total temporarily impaired available-for-sale securities	$ 16,661,998	$ 257,377	$ 728,363	$ 19,849	$ 17,390,361	$ 277,226

	December 31, 2014					
	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	$ -	$ -	$ 9,600,558	$ 200,761	$ 9,600,558	$ 200,761
Municipal securities	-	-	-	-	-	-
Mortgage-backed securities	3,614,585	13,569	1,270,101	15,608	4,884,686	29,177
Total temporarily impaired available-for-sale securities	$ 3,614,585	$ 13,569	$ 10,870,659	$ 216,369	$ 14,485,244	$ 229,938

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. The Company does not intend to sell, and it is not more likely than not that the Company will be required to sell, these investment securities before the anticipated recovery of the amortized cost basis. As a result, the Company did not consider those investments to be other-than-temporarily impaired at December 31, 2015 or 2014.

Note 4—Investment securities (continued)

The amortized cost and fair value of the Company's investment securities available-for-sale at December 31, 2015, 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	$ 738,600	$ 729,928
Due in one to five years	2,629,185	2,599,425
Due in five to ten years	17,287,930	17,077,100
Due after ten years	434,194	431,157
Total	$ 21,089,909	$ 20,837,610

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. Proceeds from the sale of investment securities available-for-sale during 2015 and 2014 of $24,099,257 and $3,971,282, generated gross realized gains of $208,308 and $181,500, respectively, and gross realized losses for 2015 and 2014 of $170,579 and $17,259, respectively.

Note 5—Federal Home Loan Bank Atlanta Stock

As of December 31, 2015, the Bank had 3,983 shares of $100 par value capital stock totaling $398,300 in FHLB stock. The Bank had 5,116 shares of $100 par value capital stock totaling $511,600 in FHLB stock as of December 31, 2014. In order to borrow funds from the FHLB, the Bank must maintain an investment in FHLB's activity-based stock equal to $297,500 and $405,000, respectively, and an investment in FHLB's membership based stock equal to $100,800 and $106,600, respectively, for the years ended December 31, 2015 and 2014. 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, 2015 and 2014:

	2015	2014
	(Dollars in thousands)	
Commercial and agriculture	$ 31,780	$ 30,998
Construction and development	4,694	4,471
Farmland	1,764	225
1-4 residential mortgage	22,945	25,653
Multifamily	5,358	2,353
Consumer and other	2,175	2,088
Total loans	68,716	65,788
Less allowance for loan losses	(1,123)	(1,570)
Net loans	$ 67,593	$ 64,218

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

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):

	2015	2014
Balance at beginning of year	$ 2,511	$ 3,110
Borrowings	271	105
Repayments	(561)	(704)
Balance at end of year	$ 2,221	$ 2,511

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

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

Note 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, 2015 and 2014 (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, 2015							
Allowance for loan losses:							
Beginning Balance	$ 739	$ 106	$ 183	$ 426	$ 62	$ 54	$ 1,570
Charge-offs	(168)	(66)	(61)	-	(259)	(10)	(564)
Recoveries	254	16	61	-	57	4	392
Provision for (recovery of) loan losses	(292)	(2)	(100)	(424)	486	57	(275)
Ending Balance	$ 533	$ 54	$ 83	$ 2	$ 346	$ 105	$ 1,123
Ending Balance: individually evaluated for impairment	$ 81	$ -	$ 5	$ -	$ 4	$ -	$ 90
Ending Balance: collectively evaluated for impairment	$ 452	$ 54	$ 78	$ 2	$ 342	$ 105	$ 1,033
Loans outstanding:							
Ending Balance	$ 31,780	$ 5,358	$ 4,694	$ 1,764	$ 22,945	$ 2,175	$ 68,716
Ending Balance: individually evaluated for impairment	$ 2,343	$ -	$ 99	$ -	$ 1,009	$ 11	$ 3,462
Ending Balance: collectively evaluated for impairment	$ 29,437	$ 5,358	$ 4,595	$ 1,764	$ 21,936	$ 2,164	$ 65,254

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

	Allowance for Loan Losses and Recorded Investment in Loans						
	Commercial and Agricultural	Multifamily Residential	Construction and Development	Farmland	1-4 Residential Mortgage	Consumer and Other	Total
December 31, 2014							
Allowance for loan losses:							
Beginning Balance	$ 1,411	$ 218	$ 44	$ 2	$ 769	$ 52	$ 2,496
Charge-offs	(529)	(65)	-	-	(29)	(21)	(644)
Recoveries	76	-	-	-	68	4	148
(Recovery of) provision for loan losses	(219)	(47)	139	424	(746)	19	(430)
Ending Balance	$ 739	$ 106	$ 183	$ 426	$ 62	$ 54	$ 1,570
Ending Balance: individually evaluated for impairment	$ 94	$ -	$ 180	$ -	$ -	$ 16	$ 290
Ending Balance: collectively evaluated for impairment	$ 645	$ 106	$ 3	$ 426	$ 62	$ 38	$ 1,280
Loans outstanding:							
Ending Balance	$ 30,998	$ 2,343	$ 4,471	$ 225	$ 25,653	$ 2,088	$ 65,778
Ending Balance: individually evaluated for impairment	$ 4,664	$ 68	$ 107	$ -	$ 1,579	$ 18	$ 6,436
Ending Balance: collectively evaluated for impairment	$ 26,334	$ 2,275	$ 4,364	$ 225	$ 24,074	$ 2,070	$ 59,342

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, 2015 and 2014 (in thousands):

	Credit Risk Profile by Internally Assigned Grades Loan Grades				
December 31, 2015	**Pass**	**Special Mention**	**Substandard**	**Doubtful and Loss**	**Total**
Commercial and agriculture	$ 26,248	$ 3,290	$ 2,242	$ -	$ 31,780
Construction and development	4,496	198	-	-	4,694
Farmland	1,764	-	-	-	1,764
1-4 residential mortgage	20,670	1,639	636	-	22,945
Multifamily	5,353	5	-	-	5,358
Consumer and other	2,161	14	-	-	2,175
Total	$ 60,692	$ 5,146	$ 2,878	$ -	$ 68,716

	Credit Risk Profile by Internally Assigned Grades Loan Grades				
December 31, 2014	**Pass**	**Special Mention**	**Substandard**	**Doubtful and Loss**	**Total**
Commercial and agriculture	$ 20,904	$ 8,034	$ 2,060	$ -	$ 30,998
Construction and development	3,906	402	163	-	4,471
Farmland	225	-	-	-	225
1-4 residential mortgage	19,810	2,956	2,887	-	25,653
Multifamily	2,126	136	91	-	2,353
Consumer and other	2,038	32	18	-	2,088
Total	$ 49,009	$ 11,560	$ 5,219	$ -	$ 65,788

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, 2015 and 2014 (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, 2015							
Commercial and agriculture	$ 237	$ 48	$ 285	$ 31,495	$ 31,780	$ -	$ 48
Construction and development	-	-	-	4,694	4,694	-	-
Farmland	-	-	-	1,764	1,764	-	-
1-4 Residential mortgage	74	304	378	22,567	22,945	-	304
Multifamily	-	-	-	5,358	5,358	-	-
Consumer and other	2	-	2	2,173	2,175	-	-
Total	$ 313	$ 352	$ 665	$ 68,051	$ 68,716	$ -	$ 352

	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, 2014							
Commercial and agriculture	$ 1,402	$ 185	$ 1,587	$ 29,411	$ 30,998	$ -	$ 240
Construction and development	-	-	-	4,471	4,471	-	4
Farmland	-	-	-	225	225	-	-
1-4 Residential mortgage	837	154	991	24,662	25,653	31	415
Multifamily	-	-	-	2,353	2,353	-	-
Consumer and other	103	-	103	1,985	2,088	-	-
Total	$ 2,342	$ 339	$ 2,681	$ 63,107	$ 65,788	$ 31	$ 659

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, 2015 (in thousands):

	Impaired Loans				
December 31, 2015	Recorded Investment[1]	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial and agriculture	$ 988	$ 1,009	$ -	$ 1,031	$ 61
Construction and development	-	-	-	-	-
Farmland	-	-	-	-	-
1-4 residential mortgage	700	758	-	751	32
Multifamily	-	-	-	-	-
Consumer and other	11	1	-	-	-
Subtotal	1,699	1,768	-	1,782	93
With an allowance recorded:					
Commercial and agriculture	1,355	1,352	81	1,384	39
Construction and development	99	99	5	102	6
Farmland	-	-	-	-	-
1-4 residential mortgage	309	309	4	106	7
Multifamily	-	-	-	-	-
Consumer and other	-	-	-	-	-
Subtotal	1,763	1,760	90	1,592	52
Totals:					
Commercial and agriculture	2,343	2,361	81	2,415	100
Construction and development	99	99	5	102	6
Farmland	-	-	-	-	-
1-4 residential mortgage	1,009	1,067	4	857	39
Multifamily	-	-	-	-	-
Consumer and other	11	1	-	-	-
Total	$ 3,462	$ 3,528	$ 90	$ 3,374	$ 145

[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, 2014 (in thousands):

	Impaired Loans				
	Recorded Investment[1]	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2014					
With no related allowance recorded:					
Commercial and agriculture	$ 3,815	$ 3,849	$ -	$ 3,915	$ 200
Construction and development	107	107	-	105	6
Farmland	-	-	-	-	-
1-4 residential mortgage	872	993	-	769	35
Multifamily	68	133	-	133	9
Consumer and other	-	-	-	-	-
Subtotal	4,862	5,082	-	4,922	250
With an allowance recorded:					
Commercial and agriculture	849	1,473	94	1,496	52
Construction and development	-	-	-	-	-
Farmland	-	-	-	-	-
1-4 residential mortgage	707	733	180	725	38
Multifamily	-	-	-	-	-
Consumer and other	18	18	16	22	2
Subtotal	1,574	2,224	290	2,243	92
Totals:					
Commercial and agriculture	4,664	5,322	94	5,411	252
Construction and development	107	107	-	105	6
Farmland	-	-	-	-	-
1-4 residential mortgage	1,579	1,726	180	1,494	73
Multifamily	68	133	-	133	9
Consumer and other	18	18	16	22	2
Total	$ 6,436	$ 7,306	$ 290	$ 7,165	$ 342

(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, 2015 (in thousands):

	2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial and agriculture	8	$ 2,268	$ 2,268
Construction and development	1	99	99
Farmland	-	-	-
1-4 residential mortgage	2	371	371
Multifamily	-	-	-
Consumer and other	1	11	11
Total	12	$ 2,749	$ 2,749

During 2015, the Bank modified one loan that was considered to be a TDR, the terms of which were modified. The Bank had no such TDR's modified during the year ended December 31, 2015 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)

The following table sets forth information with respect to the Bank's troubled debt restructurings as of December 31, 2014 (in thousands):

	2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial and agriculture	12	$ 3,379	$ 3,379
Construction and development	1	103	103
Farmland	-	-	-
1-4 residential mortgage	2	793	793
Multifamily	-	-	-
Consumer and other	1	18	18
	16	$ 4,293	$ 4,293

During 2014, the Bank modified one loan that was considered to be a TDR, the terms of which were modified. The Bank had no such TDR's modified during the year ended December 31, 2014 that subsequently defaulted. 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, 2015 and 2014:

	2015	2014
Land	$ 848,037	$ 848,037
Buildings	1,918,771	1,910,316
Leasehold improvements	15,140	71,072
Furniture and equipment	756,374	1,184,416
	3,538,322	4,013,841
Less accumulated depreciation	(1,214,584)	(1,570,894)
Total	$ 2,323,738	$ 2,442,947

Depreciation and amortization amounting to $130,699 and $118,729 for the years ended December 31, 2015 and 2014, respectively, is included in occupancy and equipment expense and data processing expense.

Note 8—Real estate owned

The following summarizes the activity in real estate owned:

	2015	2014
Balance, beginning of year	$ 3,312,105	$ 4,384,216
Transfer from loans to real estate owned	-	666,516
Proceeds from sales	(1,326,679)	(1,488,550)
(Loss) gain on sales	(127,087)	9,163
Writedowns	(112,096)	(259,240)
Balance, end of year	$ 1,746,243	$ 3,312,105

Note 9—Deposits

Deposit account balances at December 31, 2015 and 2014 are summarized as follows:

	2015	2014
	(Dollars in thousands)	
Demand	$ 12,779	$ 14,095
Money market accounts	3,491	3,059
Savings	35,955	35,283
Time Deposits	38,314	45,135
	$ 90,539	$ 97,572

At December 31, 2015, the scheduled maturities of time deposits (dollars in thousands) are as follows:

Years Ending December 31,	
2016	$ 16,770
2017	2,738
2018	10,487
2019	6,635
2020	1,684
Total	$ 38,314

The above table includes time deposits of $100,000 and over, which at December 31, 2015 and 2014, totaled $20.4 million and $25.1 million, respectively.

Deposits from directors, executive officers, and their affiliates at December 31, 2015 and 2014, amounted to approximately $3.7 million and $1.7 million, respectively.

Note 10—Operating leases

The Company leases certain assets under long-term leases. The majority of the Company's leases are operating leases for a period of three to five years with renewal options.

Rental expense amounting to $28,999 and $30,542 during the years ended December 31, 2015 and 2014, respectively, is included in occupancy and equipment expense on the accompanying consolidated statements of operations. Future minimum lease payments are as follows:

Years Ending December 31,		
2016	$	20,712
2017		12,595
2018		948
2019		158
Total	$	34,413

Note 11—Borrowings

In 2015 and 2014, 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 $6.0 million as of December 31, 2015 and 2014, respectively, which is secured by substantially all of the Company's mortgage-backed securities. The Company did not use the line of credit in 2015 or 2014.

The Company has borrowings from the FHLB. Advances from the FHLB are secured by eligible securities and are listed below. The FHLB has placed a $21,424,600 cap on the amount the Company can borrow.

Advances from the FHLB of Atlanta consisted of the following at December 31, 2015 and 2014:

Maturity	Interest Rate	2015	2014
June 29, 2015	0.26%	$ -	$ 2,000,000
December 13, 2017	2.85%	5,000,000	5,000,000
		$ 5,000,000	$ 7,000,000

Note 11—Borrowings (continued)

On July 8, 2005, the Company formed CB Financial Capital Trust I, a Connecticut statutory trust (the "Trust"). On July 12, 2005, the Trust issued and sold $5,000,000 of the Trust's Floating rate preferred securities (the "Trust Preferred Securities") to an institutional investor in a private placement and issued $155,000 in common securities (the "Common Securities") to the Company. The Trust Preferred Securities are fully and unconditionally guaranteed on a subordinated basis by the Company with respect to distributions and amounts payable upon liquidation, redemption, or repayment. The proceeds from the Trust's sale of the Trust Preferred Securities and its sale of the Common Securities were used by the Trust to purchase $5,155,000 of the Company's Floating junior subordinated notes (the "Notes"). The net proceeds to the Company from its sale of the Notes to the Trust were invested in the Bank as additional capital to support growth and for other general corporate purposes. The Notes and the Trust Preferred Securities bear an interest rate of 185 basis points over the three-month LIBOR (London Inter-Bank Offered Rate). The Trust Preferred Securities generally rank equal to the Common Securities in priority of payment, but will rank prior to Common Securities if, and so long as, the Company fails to make principal or interest payment on the Notes. The Notes and Trust Preferred Securities each have 30-year lives and are callable by the Company or the Trust, at their option. 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 sheets. In addition, the related interest expense continues to be included on the consolidated income statements. The Company elected to defer interest payments on the Notes starting on March 15, 2010 until June 15, 2015. Interest expense on the notes was $132,527 and $119,623 for the years ended December 31, 2015 and 2014, respectively. Interest payments made on the notes totaled $686,927 and $0 for years ended December 31, 2015 and 2014, respectively. Interest payable on the Notes amounted to approximately $5,000 and $560,000 at December 31, 2015 and 2014, respectively.

Note 12—Income taxes

The significant components of the provision for income taxes for 2015 and 2014 are as follows:

	2015	2014
Current Tax Provision:		
Federal	$ -	$ -
State	-	-
Total current taxes	-	-
Deferred Tax Provision:		
Federal	-	-
State	-	-
Total deferred taxes	-	-
Decrease in valuation allowance	-	-
Provision for income taxes	$ -	$ -

Note 12—Income taxes (continued)

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:

	2015	2014
Tax expense computed at the statutory federal rate	$ 204,311	$ 254,057
Decrease Resulting From:		
State income taxes, net of federal effect	-	(3,852)
Nontaxable income	(116,598)	(69,493)
Other, net	(915)	(38,646)
Valuation allowance	(86,798)	(142,066)
Provision for income taxes	$ -	$ -

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, 2015 and 2014 are as follows:

	2015	2014
Deferred Tax Assets Relating to:		
Allowance for loan losses	$ -	$ 73,738
Pre-opening costs and expenses	569	708
Interest income on non-accrual loans	34,343	49,090
Retirement and stock compensation	-	11,870
Investment and real estate owned impairment	175,921	291,943
Operating loss carryforwards	5,032,402	5,077,680
Investment securities available-for-sale	4,616	4,616
Other	68,842	68,956
Total deferred tax assets	5,316,693	5,578,601
Valuation allowance	(5,223,622)	(5,504,104)
Total net deferred tax assets	93,071	74,497
Deferred Tax Liabilities Relating to:		
Allowance for loan losses	28,327	-
Premises and equipment differences	43,644	47,929
Prepaid expenses	21,100	19,966
Other	-	6,602
Total deferred tax liabilities	93,071	74,497
Net deferred tax asset	$ -	$ -

Note 12—Income taxes (continued)

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. Management has determined that it is more likely than not that the deferred tax asset at December 31, 2015 and 2014 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 $13.4 million and state net operating loss carry forwards of $18 million which begin to expire in 2029 and 2027, respectively. The statute of limitations for all major jurisdictions has expired for the Company's tax filings for years prior to 2012.

Note 13—Other non-interest expense

The major components of other non-interest expense for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Postage, printing, and office supplies	$ 56,638	$ 72,215
Advertising and promotion	46,384	85,553
Professional services	222,777	418,751
FDIC insurance premiums	211,637	264,415
Other	314,183	362,332
Total	$ 851,619	$ 1,203,266

Note 14—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. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

In July 2013, the Federal Reserve Board approved and published the final Basel III Capital Rules establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel III Committee's December 2010 framework ("Basel III") for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions from and adjustments to capital as compared to existing regulations. The Basel III Capital Rules were effective for the Bank on January 1, 2015 (subject to a phase-in period for certain components). CET1 capital for the Bank consists of common stock, related paid-in capital, and retained earnings. In connection with the adoption of the Basel III Capital Rules, we elected to opt-out of the requirement to include accumulated other comprehensive income in CET1.

Note 14—Regulatory matters (continued)

The Bank's actual capital amounts (in thousands) and ratios are presented in the table below:

	For the Bank		Minimum Requirements	
	Capital Amount	Capital Ratio	For Capital Adequacy	Under Consent Order
As of December 31, 2015				
Tier 1 capital (to risk-weighted assets)	$ 9,850	14.08%	4.00%	n/a
CET1 risk based capital (to risk-weighted assets)	9,850	14.08%	4.50%	n/a
Total capital - (to risk-weighted assets)	10,728	15.34%	11.00%	n/a
Leverage - Tier 1 capital (to average assets)	9,850	9.12%	7.00%	n/a
As of December 31, 2014				
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

The Company and the North Carolina Commissioner of Banks and the Federal Deposit Insurance Corporation (hereafter referred to as the "Supervisory Authorities") entered into a Consent Order effective February 11, 2010. Pursuant to the Private Placement, which occurred in June 2015, as discussed in Note 2, the Company used a portion of the proceeds to reduce deferred interest on its subordinated debt. Additionally, the Company has focused on improving net income by reducing operating expenses, as well as improving their capital ratios. Based on the improvements of the Company's financial position, and the requirements of the Consent Order being met, the Consent Order was terminated by the FDIC on November 4, 2015. The Company continues to comply with further conditions agreed upon by the Company's Board of Directors and the Supervisory Authorities.

Note 15—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.

Note 15—Commitments and contingencies (continued)

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, 2015 and 2014 is as follows:

	2015	2014
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 1,982	$ 2,781
Undisbursed lines of credit	5,657	6,070
Commercial and standby letters of credit	4,369	2,461
Total	$ 12,008	$ 11,312

Note 16—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.

Note 16—Disclosures about fair values of financial instruments (continued)

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.

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 15, 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, 2015 and 2014:

	2015		2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial Assets:				
Cash and due from banks	$ 2,879	$ 2,879	$ 1,043	$ 1,043
Interest-earning deposits in banks	3,847	3,847	8,343	8,343
Time deposits	1,550	1,550	490	490
Investment securities available-for-sale	20,838	20,838	27,025	27,025
Accrued interest receivable	327	327	333	333
Federal Home Loan Bank stock	398	398	512	512
Investment in bank-owned life insurance	3,902	3,902	3,982	3,982
Loans, net	67,593	68,466	64,218	65,652
Financial Liabilities:				
Deposits	90,539	83,714	97,572	95,669
Borrowings	10,155	10,816	12,155	12,400
Accrued interest payable	25	25	582	582

Note 16—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.

Investment Securities, Available-For-Sale – 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 16—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, 2015				
Investment securities available-for-sale:				
Municipal securities	$ 1,221	$ -	$ 1,221	$ -
Government sponsored enterprises	8,717	-	8,717	-
Mortgage-backed securities	10,900	-	10,900	-
Total assets at fair value	$ 20,838	$ -	$ 20,838	$ -
December 31, 2014				
Investment securities available-for-sale:				
Municipal securities	$ 1,687	$ -	$ 1,687	$ -
Government sponsored enterprises	12,496	-	12,496	-
Mortgage-backed securities	12,842	-	12,842	-
Total assets at fair value	$ 27,025	$ -	$ 27,025	$ -

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

	Total	Level 1	Level 2	Level 3
December 31, 2015				
Impaired loans	$ 3,462	$ -	$ -	$ 3,462
Real estate owned	1,746	-	-	1,746
Total assets at fair value	$ 5,208	$ -	$ -	$ 5,208

	Total	Level 1	Level 2	Level 3
December 31, 2014				
Impaired loans	$ 6,436	$ -	$ -	$ 6,436
Real estate owned	3,312	-	-	3,312
Total assets at fair value	$ 9,748	$ -	$ -	$ 9,748

Note 16—Disclosures about fair values of financial instruments (continued)

Level 3 Valuation Techniques – For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2015 and 2014, the significant unobservable inputs used in the fair value measurements were as follows (dollars in thousands):

	Fair Value at December 31, 2015		Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Inputs Value
Impaired Loans	$	3,462	Appraised Value/Comparable Sales Present Value of Future Cash Flows	Discount to reflect current market conditions and ultimate collectability	0% - 10%
OREO	$	1,746	Appraised Value/ Comparable Sales	Discount to reflect current market conditions and ultimate	0% - 10%

	Fair Value at December 31, 2014		Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Inputs Value
Impaired Loans	$	6,436	Appraised Value/Comparable Sales Present Value of Future Cash Flows	Discount to reflect current market conditions and ultimate collectability	0% - 10%
OREO	$	3,312	Appraised Value/ Comparable Sales	Discount to reflect current market conditions and ultimate	0% - 10%

Note 17—Employee and director benefit plans

401(k) Plan – The Company has a 401(k) Plan (the "Plan") in which substantially all employees participate. Match contributions vest to the employee equally over a four-year period. In 2014, the Company reinstituted a 25% match of the first 6%. The 401(k) employer match was $16,598 and $14,443 as of December 31, 2015 and 2014, respectively.

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.

Note 18—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, 2015 and 2014 (presented in thousands):

Condensed Balance Sheets
December 31, 2015 and 2014

	2015	2014
ASSETS		
Cash on deposit in subsidiary	$ 63	$ 5
Investment in subsidiary bank	9,623	7,064
Other assets	357	317
Total Assets	$ 10,043	$ 7,386
LIABILITIES		
Junior subordinated debentures	$ 5,155	$ 5,155
Other liabilities	5	554
Total Liabilities	5,160	5,709
Stockholders' Equity:		
Preferred stock - series A, B, and C	-	6,498
Additional paid-in capital	18,233	8,915
Accumulated deficit	(13,098)	(13,724)
Accumulated other comprehensive loss	(252)	(12)
Total Stockholders' Equity	4,883	1,677
Total Liabilities and Stockholders' Equity	$ 10,043	$ 7,386

Condensed Statements of Operations
Years Ended December 31, 2015 and 2014

	2015	2014
Equity in earnings of bank subsidiary	$ 799	$ 920
Other income	22	2
Interest expense	(133)	(159)
Other expense	(62)	(37)
Net income	$ 626	$ 726

Note 18—Parent company financial data (continued)

Condensed Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Net income	$ 626	$ 726
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in earnings of bank subsidiary	(799)	(920)
Amortization of debt issuance costs	-	5
(Decrease) increase in other assets	(40)	108
(Decrease) increase in other liabilities	(549)	53
Net cash used in operating activities	(762)	(28)
Cash flow from investing activities:		
Investment in subsidiary	(2,006)	-
Net cash used in investing activities	(2,006)	-
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of cost	2,826	-
Net cash provided by financing activities	2,826	-
Net increase (decrease) in cash and cash equivalents	58	(28)
Cash and cash equivalents, beginning of year	5	33
Cash and cash equivalents, end of year	$ 63	$ 5

Note 19—Subsequent events

The Company has evaluated subsequent events through March 15 2016, in connection with the preparation of these consolidated financial statements, which is the date the consolidated financial statements were available to be issued.