CB FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2014 and 2013

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

CB Financial Corporation

Cornerstone Bank

TO OUR SHAREHOLDERS, CUSTOMERS, AND FRIENDS:

On behalf of Cornerstone Bank's staff and the CB Financial Corporation Board of Directors, we are pleased to report solid results and, in many ways, a new beginning for CB Financial Corporation ("CB" or the "Company"), the holding company for Cornerstone Bank ("Cornerstone" or the "Bank").

For the year ended December 31, 2014, CB reported net income of $726,000 compared to a loss of ($494,000) for the year ended December 31, 2013. This was followed by $103,000 in net income (unaudited) for the first quarter of 2015, making it our sixth consecutive profitable quarter.

The Company's balance sheet is strengthening and the quality of our loan portfolio is improving. Non-accrual loans at December 31, 2014, stood at $659,000, or 1.0% of outstanding loans, compared to $1,936,000, or 2.8% of outstanding loans for the year ended December 31, 2013. Our allowance for loan losses was $1.6 million, or 2.4% of outstanding loans at December 31, 2014. The Company's capital ratios exceed the regulatory guidelines for a well-capitalized bank.

In addition to these good financial results, our new beginning includes the addition of two new members to our executive management team. Mark A. Holmes joined us in October 2014 as president and chief executive officer of both the Company and the Bank. Chris Robbins joined the Bank as executive vice president and chief credit officer in November 2014. Along with veteran management team members Executive Vice President and Chief Operations Officer Dora Kicklighter and Chief Financial Officer Al Nelson, we now have a team with combined 140 years of banking experience. This level of experience, along with strong support from the Company's Board of Directors and the daily diligence and hard work of Cornerstone's staff, is allowing us to follow our strategic plan and to expect continued improvement and solid results.

When Cornerstone opened in 2000, it was with the goal in mind of serving the community banking needs of the City of Wilson, Wilson County and the surrounding area. If you are currently banking with us, thank you for your support! If you are not, visit us soon at 3710 Nash Street North in Wilson and let us show you the Cornerstone community banking experience. You won't be disappointed.

Sincerely,

Mark A Holmes

Mark A. Holmes
President and CEO

John C. Anthony
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, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity (deficit), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of 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, 2014 and 2013, 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.

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.

Cherry Bekaert LLP

Raleigh, North Carolina
April 13, 2015

CB FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
Cash and due from banks	$ 1,042,844	$ 835,188
Interest-earning deposits in banks	8,342,644	5,598,339
Total cash and cash equivalents	9,385,488	6,433,527
Time deposits	490,000	490,000
Investment securities available-for-sale, at fair value	27,025,156	33,975,122
Loans	65,787,535	68,273,603
Allowance for loan losses	(1,569,678)	(2,495,747)
Net loans	64,217,857	65,777,856
Accrued interest receivable	333,343	378,986
Stock in Federal Home Loan Bank of Atlanta, at cost	511,600	544,400
Premises and equipment, net of depreciation	2,442,947	2,507,766
Bank-owned life insurance	3,891,835	3,772,523
Real estate owned	3,312,105	4,384,216
Other assets	672,633	547,409
Total Assets	$ 112,282,964	$ 118,811,805
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Deposits:		
Demand	$ 14,094,625	$ 11,580,034
Savings	3,058,498	2,893,770
Money market and NOW	35,283,180	36,395,263
Time	45,135,438	52,710,728
Total deposits	97,571,741	103,579,795
Borrowings	7,000,000	8,500,000
Subordinated debt	5,155,000	5,155,000
Mandatorily convertible debt	-	4,040,000
Accrued interest payable	582,046	525,281
Accrued expenses and other liabilities	297,077	601,266
Total Liabilities	110,605,864	122,401,342
Stockholders' Equity (Deficit):		
Preferred stock, no par value, authorized 20,000,000 shares;		
Series A, 191,310 issued and outstanding at December 31, 2014 and 2013	1,928,429	1,928,429
Series B, 52,992 issued and outstanding at December 31, 2014 and 2013	530,005	530,005
Series C, 1,616,000 issued and outstanding at December 31, 2014	4,040,000	-
Common stock, no par value, 80,000,000 shares authorized; 2,290,622 shares issued and outstanding at December 31, 2014 and 2013	-	-
Additional paid-in capital	8,914,870	8,909,037
Accumulated deficit	(13,723,828)	(14,450,280)
Accumulated other comprehensive loss	(12,376)	(506,728)
Total Stockholders' Equity (Deficit)	1,677,100	(3,589,537)
Total Liabilities and Stockholders' Equity (Deficit)	$ 112,282,964	$ 118,811,805

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, 2014 AND 2013

	2014	2013
Interest Income:		
Loans	$ 3,489,876	$ 3,487,207
Investment securities - taxable	627,247	743,387
Interest-earning deposits in banks	51,150	59,256
Other interest and dividends	32,069	34,685
Total interest income	4,200,342	4,324,535
Interest Expense:		
Money market, NOW and savings deposits	59,852	59,228
Time deposits	444,275	871,380
Short-term borrowings	147,264	233,234
Long-term borrowings	185,798	472,581
Total interest expense	837,189	1,636,423
Net interest income	3,363,153	2,688,112
(Recovery of) provision for loan losses	(430,000)	50,000
Net interest income after (recovery of) provision for loan losses	3,793,153	2,638,112
Non-Interest Income:		
Service charges on deposit accounts	101,777	175,257
Mortgage operations	80,741	73,772
Gain on sale of investment securities	164,241	203,107
Income from bank-owned life insurance	119,312	121,806
Other	230,226	153,866
Total non-interest income	696,297	727,808
Non-Interest Expense:		
Salaries and employee benefits	1,691,354	1,797,813
Occupancy and equipment	256,145	233,670
Data processing expenses	363,612	487,101
Expense on real estate owned, net	339,328	130,550
Other	1,112,559	952,345
Total non-interest expense	3,762,998	3,601,479
Net income (loss) before income taxes	726,452	(235,559)
Income tax expense	-	258,787
Net income (loss) available to common stockholders	$ 726,452	$ (494,346)
Net income (loss) per Common Share:		
Basic	$ 0.32	$ (0.22)
Diluted	$ 0.04	$ (0.22)
Weighted Average Common Share Outstanding:		
Basic	2,290,622	2,056,738
Diluted	18,694,924	2,056,738

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

CB FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Net income (loss)	$ 726,452	$ (494,346)
Other Comprehensive Income (Loss):		
Unrealized gains (losses) on investment securities available for sale:		
Unrealized gains (losses) during the year	658,593	(1,086,197)
Tax effect	-	258,829
Reclassification of realized gains during the year	(164,241)	(203,107)
Tax effect	-	78,298
Total other comprehensive income (loss)	494,352	(952,177)
Comprehensive income (loss)	$ 1,220,804	$ (1,446,523)

CB FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

YEARS ENDED DECEMBER 31, 2014 AND 2013

	Common Stock	Preferred Stock A	Preferred Stock B	Preferred Stock C	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2012	$ -	$ 1,928,429	$ 530,005	$ -	$ 8,556,168	$ (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	-	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 preferred stock, series C	-	-	-	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

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

CB FINANCIAL CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Net income (loss)	$ 726,452	$ (494,346)
Adjustments to reconcile net income (loss) to		
net cash provided by operating activities:		
Depreciation	118,729	107,916
Amortization of debt issuance costs	-	115,392
Amortization and accretion of investment		
securities available-for-sale, net	207,848	295,058
Stock based compensation	5,833	-
Realized gain on investment securities available-for-sale	(164,241)	(203,107)
Gain on sale of real estate owned	(9,163)	(140,912)
Write down of real estate owned	259,240	94,673
(Recovery of) Provision for loan losses	(430,000)	50,000
Earnings on bank-owned life insurance	(119,312)	(121,806)
Deferred loan income	(21,138)	(17,893)
Deferred income tax expense	-	258,787
Change in assets and liabilities:		
Accrued interest receivable	45,643	(13,355)
Other assets	(125,224)	532,832
Accrued interest payable	56,765	125,563
Accrued expenses and other liabilities	(304,189)	43,260
Net cash provided by operating activities	247,243	632,062
Cash flows from investing activities:		
Purchase of investment securities available-for-sale	(1,601,665)	(13,165,075)
Purchase of other investments	-	(321,703)
Sales of investment securities available-for-sale	3,971,282	6,926,135
Proceeds from maturities and calls of investment securities available-fo	5,031,094	6,313,187
Proceeds from sale of real estate owned	1,488,550	3,914,415
Net decrease (increase) in loans	1,344,621	(1,695,457)
Proceeds from sales of Federal Home Loan Bank stock	32,800	129,200
Purchases of bank premises and equipment	(53,910)	(175,478)
Net cash provided by investing activities	10,212,772	1,925,224
Cash flows from financing activities:		
Net decrease in deposits	(6,008,054)	(14,347,138)
Issuance of common stock	-	352,869
Net payments on FHLB advances	(1,500,000)	(1,500,000)
Net cash used in financing activities	(7,508,054)	(15,494,269)
Net increase (decrease) in cash and cash equivalents	2,951,961	(12,936,983)
Cash and cash equivalents, beginning	6,433,527	19,370,510
Cash and cash equivalents, ending	$ 9,385,488	$ 6,433,527
Supplemental disclosure of cash flow information:		
Interest paid	$ 780,449	$ 1,395,468
Supplemental disclosure of noncash transactions:		
Change in fair value of investment		
securities available-for-sale, net	$ 494,352	$ (952,177)
Conversion of mandatorily convertible debt to preferred stock, series C	4,040,000	-
Transfer from loans to real estate owned	666,516	2,915,811

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, a North Carolina corporation formed as a holding company of the Bank (collectively herein referred to as the "Company"). 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, organized 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 original maturities of 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 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.

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.

Note 2—Summary of significant accounting policies (continued)

Qualitative and environmental factors include external risk factors that management believes affect the overall lending environment of the Company. Environmental factors that management of the Company routinely analyze include levels and trends in delinquencies and impaired loans, levels and trends in charge-offs and recoveries, trends in volume and terms of loans, effects of changes in risk 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, 2014.

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 2014 and 2013 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, 2014 and 2013, 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, 2014 and 2013, the Company had no uncertain tax positions requiring disclosure or recognition.

Note 2—Summary of significant accounting policies (continued)

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

Accumulated other comprehensive loss consists of the following:

Balance at January 1, 2013	$	412,464
Other comprehensive loss before reclassification		(716,085)
Gain realized		(203,107)
Net change in accumulated other comprehensive loss		(919,192)
Balance at December 31, 2013	$	(506,728)
Other comprehensive income before reclassification		658,593
Gain realized		(164,241)
Net change in accumulated other comprehensive loss		494,352
Balance at December 31, 2014	$	(12,376)

Advertising Costs – Advertising costs are expensed as incurred. Advertising expenses were $85,553 and $55,643 for the years ended December 31, 2014 and 2013, 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, 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 2014 or 2013.

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

Note 2—Summary of significant accounting policies (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 Bank. The Notes bear an interest rate of 6% per annum, with interest payments due quarterly. At December 31, 2014 and 2013, the balance of the notes was $0 and $4,040,000, respectively. On February 28 2014, the second anniversary of the date of issuance of the Notes, each Note was converted to Series C Preferred Shares, at the rate of one Series C Preferred Share for $2.50 each, or part thereof, of principal then outstanding on the Note. Each Series C Preferred Share has a liquidation preference of $2.50, a non-cumulative dividend of 5% per annum, and shall automatically convert into 10 shares of the Company's common stock, no par value on the earlier of (i) February 28, 2015, and (ii) the occurrence of a change in control. Interest expense related to the Notes for the year ended December 31, 2014 and 2013, was $39,183 and $242,400, respectively.

Basic earnings per share represent 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.

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

	2014	2013
Net income (loss) available to common shareholders	$ 726,452	$ (494,346)
Weighted average number of common shares - basic	2,290,622	2,056,738
Effect of dilutive convertible preferred shares, Series A	191,310	-
Effect of dilutive convertible preferred shares, Series B	52,992	-
Effect of dilutive convertible preferred shares, Series C	16,160,000	-
Weighted average number of common shares - dilutive	18,694,924	2,056,738
Basic earnings per common share	$ 0.32	$ (0.24)
Diluted earnings per common share	$ 0.04	$ (0.24)
Anti-dilutive convertible preferred shares, Series A & B	-	244,302
Anti-dilutive mandatorily convertible debt	-	16,160,000

On March 15, 2013, the Company issued 1,446,907 shares of common stock, no par value. On March 1, 2014, the mandatorily convertible debt was converted to preferred shares, Series C.

Note 3—Restrictions on Cash

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2014 and 2013, these reserve balances amounted to $428,000 and $352,000, 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, 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

	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

Securities with a carrying value of $12.8 million and $25.3 million at December 31, 2014 and 2013, respectively, were pledged to secure borrowings.

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, 2014 and 2013.

Note 4—Investment Securities (continued)

	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

	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
Total temporarily impaired available-for-sale securities	$ 21,363,395	$ 753,951	$ 860,558	$ 43,816	$ 22,223,953	$ 797,767

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. Eleven mortgage-backed securities and eleven government sponsored enterprise securities contained net unrealized losses at December 31, 2014. Thirteen mortgage-backed securities, six government sponsored enterprise securities, and ten municipal securities contained net unrealized losses at December 31, 2013. 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. The unrealized losses for the debt securities are caused by changes in the market interest rates and not credit concerns related to the respective issuers. The Company did not consider those investments to be other-than-temporarily impaired at December 31, 2014 or 2013, respectively.

The amortized cost and fair value of the Company's investment securities available for sale at December 31, 2014 by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Note 4—Investment Securities (continued)

	Amortized Cost	Fair Value
Securities available-for-sale:		
Due in less than one year	$ 3,623,640	$ 3,639,534
Due in one to five years	9,133,374	9,186,082
Due in five to ten years	12,539,007	12,452,867
Due after ten years	1,741,511	1,746,673
Total	$ 27,037,532	$ 27,025,156

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.

Sales of investment securities available-for-sale during 2014 and 2013 of $3,971,282 and $6,926,134 generated gross realized gains of $181,500 and $221,701, respectively, and gross realized losses for 2014 and 2013 of $17,259 and $18,594, respectively.

Note 5—Federal Home Loan Bank Atlanta Stock

As of December 31, 2014 the Bank had 5,116 shares of $100 par value capital stock totaling $511,600 in FHLB stock. The Bank had 5,440 shares of $100 par value capital stock totaling $544,400 in FHLB as of December 31, 2013. In order to borrow funds from the FHLB, the Bank must maintain an investment in FHLB's activity-based stock equal to $405,000 and $382,500, respectively, and an investment in FHLB's membership based stock equal to $106,600 and $161,900, respectively, for the years ended December 31, 2014 and 2013. 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, 2014 and 2013:

	2014	2013
	(Dollars in thousands)	
Commercial and agriculture	$ 30,998	$ 31,092
Construction and development	4,471	7,488
Farmland	225	176
1-4 residential mortgage	25,653	24,538
Multifamily	2,353	2,287
Consumer and other	2,088	2,693
Total loans	65,788	68,274
Less allowance for loan losses	(1,570)	(2,496)
Net loans	$ 64,218	$ 65,778

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:

	2014	2013
	(Dollars in thousands)	
Balance at beginning of year	$ 3,110	$ 3,188
Borrowings	105	259
Repayments	(704)	(337)
Balance at end of year	$ 2,511	$ 3,110

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, 2014 (in thousands):

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	(185)	(15)	(29)	(1)	(168)	(32)	(430)
Ending Balance	$ 773	$ 138	$ 15	$ 1	$ 640	$ 3	$ 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	$ 2,353	$ 4,471	$ 225	$ 25,653	$ 2,088	$ 65,788
Ending Balance: individually evaluated for impairment	$ 4,664	$ 68	$ 107	$ -	$ 1,579	$ 18	$ 6,436
Ending Balance: collectively evaluated for impairment	$ 26,334	$ 2,285	$ 4,364	$ 225	$ 24,074	$ 2,070	$ 59,352

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, 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
(Recovery of) Provision for loan losses	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

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, 2014 (in thousands):

	Credit Risk Profile by Internally Assigned Grades Loan Grades				
	Pass	Special Mention	Substandard	Doubtful & Loss	Total
December 31, 2014					
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

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, 2013 (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

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, 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, 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

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

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 Bank arrives at an estimated present value of such impaired loans by discounting future payments by the contractual interest rate and maturity. 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

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

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 the ultimate collection of principal is in doubt; all cash receipts on impaired loans are applied to reduce the principal balance.

The following table is a summary of information related to impaired loans as of December 31, 2014 (in thousands):

	Impaired Loans				
December 31, 2014	Recorded Investment[1]	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
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)

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

	Impaired Loans				
	Recorded Investment[1]	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2013					
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)

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, 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
Total	16	$ 4,293	$ 4,293

During 2014, the Bank modified 1 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 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, 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
Total	20	$ 4,378	$ 4,378

During 2013, the Bank modified 2 loans that were considered to be TDRs. The terms were modified on both of these loans. Restructured loans are deemed to be in default if they become past due by 30 days or more. As of December 31, 2013, the Bank had 1 commercial and agriculture loan in the amount of $234 that had previously been restructured that was in default.

Note 7—Premises and equipment

Following is a summary of the Company's premises and equipment at December 31, 2014 and 2013:

	2014	2013
Land	$ 848,037	$ 848,037
Buildings	1,910,316	1,906,933
Leasehold improvements	71,072	55,932
Furniture and equipment	1,184,416	1,149,029
	4,013,841	3,959,931
Less accumulated depreciation and amortization	(1,570,894)	(1,452,165)
Total	$ 2,442,947	$ 2,507,766

Depreciation and amortization amounting to $118,729 and $107,916 for the years ended December 31, 2014 and 2013, 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:

	2014	2013
Balance, beginning of year	$ 4,384,216	$ 5,336,581
Transfer from loans to real estate owned	666,516	2,915,811
Proceeds from sales	(1,488,550)	(3,914,415)
Gain on sales	9,163	140,912
Writedowns	(259,240)	(94,673)
Balance, end of year	$ 3,312,105	$ 4,384,216

Note 9—Deposits

Deposit account balances at December 31, 2014 and 2013, are summarized as follows:

	2014	2013
	(Dollars in thousands)	
Demand	$ 14,095	$ 11,580
Savings	3,058	2,894
Money market and NOW	35,283	36,395
Time	45,135	52,711
	$ 97,571	$ 103,580

At December 31, 2014, the scheduled maturities of time deposits (dollars in thousands) are as follows:

2015	$ 18,173
2016	7,661
2017	2,538
2018	9,701
2019	7,062
Total	$ 45,135

The aggregate amount of time deposits in denominations of $100,000 or more as of December 31, 2014 and 2013 was approximately $25.1 million and $29.1 million, respectively.

Deposits from directors, executive officers, and their affiliates at December 31, 2014 and 2013, amounted to approximately $1.7 million and $2.4 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 $12,840 and $30,560 during the years ended December 31, 2014 and 2013, respectively, is included in occupancy and equipment expense on the accompanying consolidated statements of operations. Future minimum lease payments are as follows:

Year Ending December 31,	
2015	$ 20,712
2016	20,712
2017	12,595
2018	948
2019	158
Total	$ 55,125

Note 11—Borrowings

In 2014 and 2013, 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 and $10.7 million as of December 31, 2014 and 2013, respectively, which is secured by substantially all of the Company's mortgage backed securities. The Company did not use the line of credit in 2014 or 2013.

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, 2014 and 2013:

Maturity	Interest Rate	2014	2013
September 10, 2014	0.36%	$ -	$ 3,500,000
June 29, 2015	0.26%	2,000,000	-
December 13, 2017	2.85%	5,000,000	5,000,000
		$ 7,000,000	$ 8,500,000

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 stock 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). At December 31, 2014 and 2013, the interest rates on the Notes and Trust Preferred Securities were 2.09% and 2.08%, respectively. 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 $560,000 and $440,000 at December 31, 2014 and 2013, respectively.

Note 12—Income taxes

The significant components of the provision for income taxes for 2014 and 2013 are as follows:

	2014	2013
Current Tax Provision:		
Federal	$ -	$ -
State	-	-
Total current taxes	-	-
Deferred Tax Provision:		
Federal	-	235,892
State	-	22,895
Total deferred taxes	$ -	$ 258,787

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:

	2014	2013
Tax expense computed at the statutory federal rate	$ 254,057	$ (80,090)
Increase (Decrease) Resulting From:		
State income taxes, net of federal effect	(3,852)	-
Nontaxable income	(69,493)	(81,082)
Other, net	(38,646)	(137,976)
Valuation allowance	(142,066)	557,935
Provision for income taxes	$ -	$ 258,787

Note 12—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, 2014 and 2013, are as follows:

	2014	2013
Deferred Tax Assets Relating to:		
Allowance for loan losses	$ 73,738	$ 418,137
Pre-opening costs and expenses	708	837
Interest income on non-accrual loans	49,090	133,300
Retirement and stock compensation	11,870	119,795
Investment and real estate owned impairment	291,943	191,305
Operating loss carryforwards	5,077,680	4,779,438
Investment securities available for sale	4,616	189,009
Other	68,956	74,901
Total deferred tax assets	5,578,601	5,906,722
Valuation allowance	(5,504,104)	(5,826,712)
Total net deferred tax assets	74,497	80,010
Deferred Tax Liabilities Relating to:		
Premises and equipment differences	47,929	45,018
Prepaid expenses	19,966	26,436
Other	6,602	8,556
Total deferred tax liabilities	74,497	80,010
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, 2014 and 2013, 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 million and state net operating loss carry forwards of $17.9 million which begin to expire in 2029 and 2021, respectively. The Company’s tax filings for years ended 2009 forward are currently open to audit under statutes of limitations for all major jurisdictions.

Note 13—Other non-interest expense

The major components of other non-interest expense for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Postage, printing and office supplies	$ 72,215	$ 68,180
Advertising and promotion	85,553	55,066
Professional services	418,751	227,958
FDIC insurance premiums	264,415	279,350
Other	271,625	321,791
Total	$ 1,112,559	$ 952,345

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. Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios, as set forth in the table below.

As of December 31, 2014 the most recent notification from the FDIC categorized the Bank as adequately capitalized under the regulatory framework for prompt corrective action. The Bank however does not meet the minimum total capital ratio as defined under the consent order. 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, 2014				
Tier 1 capital (to risk-weighted assets)	$ 7,076	10.04%	4.00%	n/a
Total capital - (to risk-weighted assets)	7,966	11.31%	8.00%	12.0%
Leverage - Tier 1 capital (to average assets)	7,076	6.18%	4.00%	8.0%
As of December 31, 2013				
Tier 1 capital (to risk-weighted assets)	$ 6,060	5.03%	4.00%	n/a
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%	8.0%

Note 14—Regulatory matters (continued)

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

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

Note 14—Regulatory matters (continued)

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

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

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

The Bank may not declare or pay a cash dividend, or repurchase any of its capital stock, if the effect would cause the regulatory net worth of the Bank to fall to an amount which is less than the minimum required by the FDIC and the North Carolina Office of the Commissioner of Banks. The terms of the Consent Order also provide that the Bank will not pay dividends or make other forms of payment reducing capital to CB Financial Corporation without the prior approval of the Supervisory authorities while the Consent Order is in effect. The Bank is also required to maintain Tier 1 Capital of at least 8% to total assets and a Total Risk Based Capital ratio of at least 12% during the effectiveness of the consent order.

Note 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.

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, 2014 and 2013, is as follows:

	2014	2013
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 2,781	$ 3,105
Undisbursed lines of credit	6,070	5,663
Commercial and standby letters of credit	2,461	3,259
Total	$ 11,312	$ 12,027

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.

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

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.

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, 2014 and 2013:

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

	2014		2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial Assets:				
Cash and due from banks	$ 1,043	$ 1,043	$ 835	$ 835
Interest-earning deposits in banks	8,343	8,343	5,598	5,598
Time deposits	490	490	490	490
Investment securities available-for-sale	27,025	27,025	33,975	33,975
Accrued interest receivable	333	333	379	379
Federal Home Loan Bank stock	512	512	544	544
Investment in bank-owned life insurance	3,892	3,892	3,773	3,773
Loans, net	64,218	65,652	65,778	66,945
Financial Liabilities:				
Deposits	97,572	95,669	103,580	100,060
Borrowings	12,155	12,400	17,695	18,019
Accrued interest payable	582	582	525	525

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.

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

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 – Real estate owned is 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.

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, 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	$ -
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	$ -

Note 16—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, 2014	**Total**	**Level 1**	**Level 2**	**Level 3**
Impaired loans	$ 6,436	$ -	$ -	$ 6,436
Real estate owned	3,312	-	-	3,312
Total assets at fair value	$ 9,748	$ -	$ -	$ 9,748

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

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, 2014 and 2013, the significant unobservable inputs used in the fair value measurements were as follows (dollars in thousands):

	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%
Real estate owned	$ 3,312	Appraised Value/ Comparable Sales	Discount to reflect current market conditions	0% - 10%

	Fair Value at December 31, 2013	**Valuation Technique**	**Significant Unobservable Inputs**	**Significant Unobservable Inputs Value**
Impaired loans	$ 7,079	Appraised Value/Comparable Sales Present Value of Future Cash Flows	Discount to reflect current market conditions and ultimate collectability	0% - 10%
Real estate owned	$ 4,384	Appraised Value/ Comparable Sales	Discount to reflect current market conditions	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. Matching contributions vest to the employee equally over a four-year period. In 2014, the Company reinstituted a 25% match of the first 6%.

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 terminated the SERP in 2013, thus there was no recorded expense for the years ended December 31, 2014 and 2013. The accrued liability related to the SERP was $31,822 and $321,166 as of December 31, 2014 and 2013, respectively. During 2013, the Plan was terminated by the board of directors and all liabilities have been paid out as of January 31, 2015.

Employment Benefits – During 2014, the Company issued to the chief executive officer and chief credit officer restrictive stock grants of 250,000 and 100,000 shares, respectively, of the Company's common stock. All stock options have a one year vesting period. Expense recognized in relation to stock grants was $5,833 for the year ended December 31, 2014.

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, 2014, 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 2014 and 2013.

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, 2014 and 2013, presented in thousands.

Condensed Balance Sheets
December 31, 2014 and 2013

	2014	2013
Assets		
Cash on deposit in subsidiary	$ 5	$ 33
Investment in subsidiary bank	7,064	5,649
Other assets	317	425
Total Assets	$ 7,386	$ 6,107
Liabilities		
Junior subordinated debentures	$ 5,155	$ 5,155
Mandatorily convertible debt	-	4,040
Other liabilities	554	501
Total Liabilities	5,709	9,696
Stockholders' Equity:		
Preferred stock - series A, B, and C	6,498	2,459
Common stock, no par value	-	-
Additional paid in capital	8,915	8,909
Accumulated deficit	(13,724)	(14,450)
Accumulated other comprehensive loss	(12)	(507)
Total Stockholders' Equity	1,677	(3,589)
Total Liabilities and Stockholders' Equity	$ 7,386	$ 6,107

Note 18—Parent company financial data (continued)

Condensed Statements of Operations
Years Ended December 31, 2014 and 2013

	2014	2013
Equity in earnings of bank subsidiary	$ 920	$ (13)
Other income	2	4
Interest expense	(159)	(472)
Amortization of debt issuance costs		
Other expense	(37)	(13)
Net income (loss)	$ 726	$ (494)

Condensed Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Operating activities:		
Net income (loss)	$ 726	$ (494)
Adjustments to reconcile net loss		
to net cash used in operating activities:		
Equity in earnings of bank subsidiary	(920)	13
Amortization of debt issuance costs	5	115
Decrease in other assets	108	192
Increase in other liabilities	53	115
Net cash used in operating activities	(28)	(59)
Investing activities:		
Investment in subsidiary	-	(300)
Net cash used in investing activities	-	(300)
Financing activities:		
Issuance of common stock	-	353
Net cash provided by financing activities	-	353
Net decrease in cash and cash equivalents	(28)	(6)
Cash and cash equivalents, beginning of year	33	39
Cash and cash equivalents, end of year	$ 5	$ 33
Supplemental disclosure of noncash transactions:		
Conversion of mandatorily convertible debt to preferred stock, series C	$ 4,040,000	$ -

Note 19—Operations and liquidity

The Company has an accumulated deficit of $13.7 million and $14.5 million at December 31, 2014 and 2013, respectively. 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. In 2013, the Company was able to raise sufficient capital through the private placement offering in order to meet the adequately capitalized regulatory definition. In 2014, the Company continued to build capital levels through decreases in accumulated deficit and now meets the regulatory definition of a well-capitalized bank if not for the consent order requiring a higher capital requirement. Company management continues to execute initiatives that will strengthen the Company's capital position and overall profitability. During 2014, the Company has hired a new chief executive officer and chief credit officer to the Company's management team which will be instrumental in implementing a long-term viable strategic plan that includes improving credit quality of the overall loan portfolio. The Company has already reduced the size of the balance sheet as of December 31, 2014 as compared to December 31, 2013. In addition, the Company has a planned strategy to raise new capital during 2015 that would improve its overall regulatory capital position. Company management is also currently reviewing internal policies and procedures to identify areas whereby efficiencies can be achieved to reduce operating expenses.

The success of the Company is dependent upon management and 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, Company management believes the Company will continue for at least a reasonable period of time.

Note 20—Subsequent events

The Company has evaluated subsequent events through April 13, 2015, in connection with the preparation of these consolidated financial statements, which is the date the consolidated financial statements were available to be issued.