

Board of Governors of the Federal Reserve System



Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2016

Month / Day / Year

549300CEZEYSB80M4441

Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

I, Mark A. Holmes

Name of the Holding Company Director and Official

President & CFO

Title of the Holding Company Director and Official

I attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

CB Financial Corporation

Legal Title of Holding Company

3710 Nash St. N, PO Box 8189

(Mailing Address of the Holding Company) Street / P.O. Box

Wilson

NC

City

State

Zip Code

Physical Location (if different from mailing address)

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Person to whom questions about this report should be directed:

Michelle F. Joyner

Senior Vice President

Name

Title

252-243-5588

Area Code / Phone Number / Extension

252-991-4522

Area Code / FAX Number

mjoyner@thecornerstonebank.com

E-mail Address

Mark A. Holmes

Signature of Holding Company Director and Official

3/22/17

Date of Signature

www.thecornerstonebank.com

Address (URL) for the Holding Company's web page

For holding companies not registered with the SEC—Indicate status of Annual Report to Shareholders:

- Is included with the FR Y-6 report
- Will be sent under separate cover
- Is not prepared

For Federal Reserve Bank Use Only

RSSD ID _____

C.I. _____

Is confidential treatment requested for any portion of this report submission? No Yes

In accordance with the General Instructions for this report (check only one),

- 1. a letter justifying this request is being provided along with the report
- 2. a letter justifying this request has been provided separately

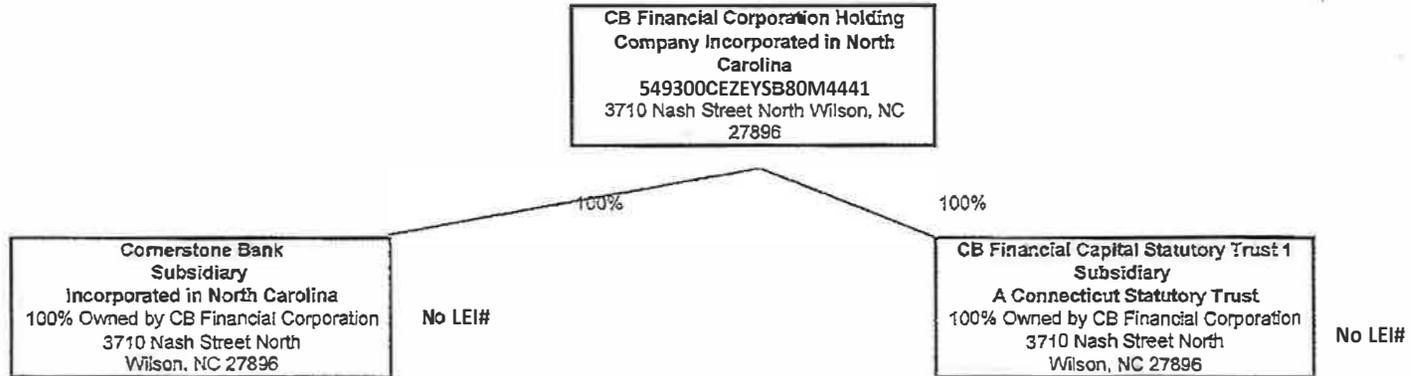
NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Item 2: Organization Chart and Domestic Branch Listing

Form FRY-6
CB Financial Corporation

Report Item 2

1 The bank holding company prepares an annual report for its shareholders.
2A Organizational Chart



2B Cornerstone Bank does not have any domestic branch besides the main office

Results: A list of branches for your depository institution: CORNERSTONE BANK (ID_RSSD: 2895835).
 This depository institution is held by CB FINANCIAL CORPORATION (3347564) of WILSON, NC.
 The data are as of 12/31/2016. Data reflects information that was received and processed through 01/10/2017.

Reconciliation and Verification Steps

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions

- OK:** If the branch information is correct, enter 'OK' in the **Data Action** column.
- Change:** If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
- Close:** If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
- Delete:** If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
- Add:** If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
 If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
 To satisfy the FR Y-10 reporting requirements, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
 The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - <https://y10online.federalreserve.gov>.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	2895835	CORNERSTONE BANK	3710 NASH STREET NORTH	WILSON	NC	27896	WILSON	UNITED STATES	77673	0	CORNERSTONE BANK	2895835	

Report Item 3: Shareholders

**Form FR Y-6
CB Financial Corporation
FYE December 31, 2016**

Current shareholders with ownership, control or holdings of 5% or more with power to vote FYE December 31, 2016				
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of each Class of Voting Securities		
Gregory A. Turnage (Wilson, NC, US)	US	5,497,116		11.56%
S. Christopher Williford (Wilson, NC, US)	US	3,949,303		8.31%
Mark A. Holmes (Wilson, NC, US)	US	4,700,000		9.89%
Howard T. Sanders (Elizabeth City, NC, US)	US	4,700,000		9.89%

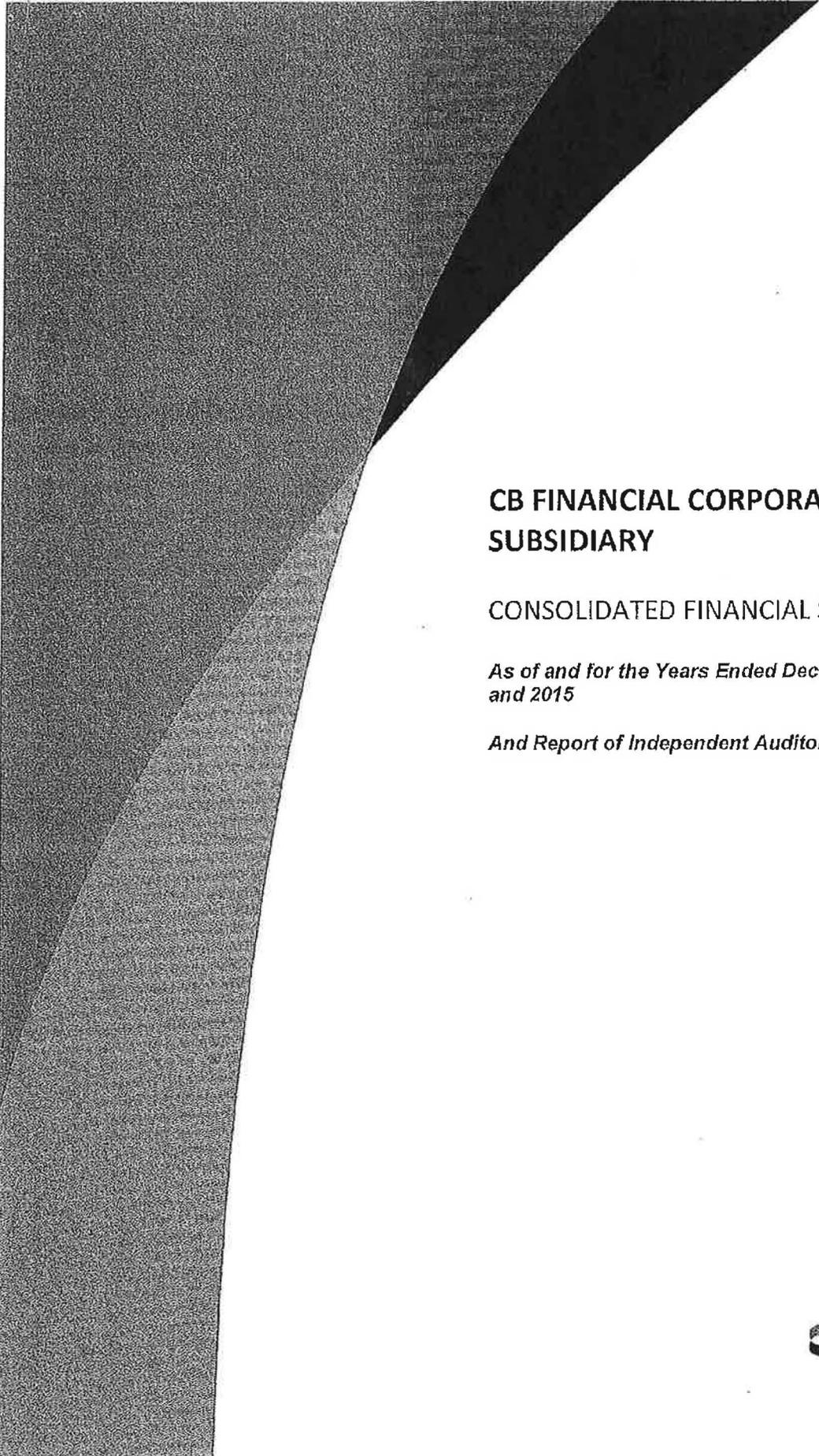
Report Item 3.2 List of individuals/companies that held 5% or more voting securities during the year but not at the end of the year

NONE

Report Item 4: Insiders

Form FR Y-6
 CB Financial Corporation
 FYE December 31, 2016

1 Name & Address	2	(3)(a)	(3)(b)	(3)(c)	(4)(a)	(4)(b)	(4)(c)
(City, State, Country)	Principal Occupation if other than holding company	Title Position with holding company	Title Position with subsidiaries	Title Position with other businesses	% of voting shares with holding company	% of voting shares with subsidiaries	All Privately Held Companies
Gregory A. Turnage Wilson, NC	Highway Contractor	Director	N/A	President and owner, PLT Construction, Inc. (50%); PLT Concrete Services, Inc. (50%), and PLT Utilities, Inc. (33%); Owner, T. & H. Electric, Inc. (50%); Member, GRECO Development Co. (50%), LCC, Pinecrest Development Co. (33%), LLC, Pinecrest Holdings Co., LLC (30%), Partner TAG Development (50%); Partner, TBPCC, LLC (25%); Pinecrest Farm Holdings LLC (33%)	11.56%	0%	President and owner, PLT Construction, Inc. (50%), PLT Concrete Services, Inc. (50%) and GETSCO (25%); Owner, T. & H. Electric, Inc. (33%); Member, GRECO Development Co. (50%), LCC, Pinecrest Development Co. (33%), LLC, Pinecrest Holdings Co., LLC (30%), Partner TAG Development (50%); Partner, Pinecrest Farm Holdings LLC (33%)
Judy A. Muirhead Wilson, NC	Contractor & Rental Properties	Assistant Secretary	N/A	Owner/Manager, JAM Properties, JAM Rentals, and JAM Investments (100%)	0.59%	0%	Owner/Manager, JAM Properties, JAM Rentals, and JAM Investments (100%)
David W. Woodard Wilson, NC	Lawyer	Secretary	N/A	Law Partner, Connor, Bunn, Rogerson & Woodard, P.L.L.C. (33%)	0.10%	0%	Law Partner, Connor, Bunn, Rogerson & Woodard, P.L.L.C. (33%)
John Charles Anthony, Jr., Wilson NC	CPA	Treasurer	N/A	Partner, Anthony, Moore & Tabb, P.A. (CPAs) (33%)	0.08%	0%	Partner, Anthony, Moore & Tabb, P.A. (CPAs) (33%)
Robert E. Kirkland III, Wilson NC	Auto Parts	Director	N/A	Owner/Manager, Barnes Motor & Parts Co., Inc. (50%)	0.40%	0%	Owner/Manager, Barnes Motor & Parts Co., Inc. (50%)
W. Coelex Paxton III Wilson NC	Warehousing	Director	N/A	President, Paxton Mini Storages, Inc. (50%) and PBS Storage, Inc. (50%); Manager, Paxton Bonded Storages, Inc. (50%); Partner, GRECO Development Co., LLC (50%); Pinecrest Development Co., LLC (33%) and Pinecrest Holdings Co., LLC (30%); Partner, TBPCC, LLC (25%); Pinecrest Farm Holdings LLC (33%)	1.79%	0%	President, Paxton Mini Storages, Inc. (50%) and PBS Storage, Inc. (50%); Manager, Paxton Bonded Storages, Inc. (50%); Partner, GRECO Development Co., LLC (50%); Pinecrest Development Co., LLC (33%) and Pinecrest Holdings Co., LLC (30%); Partner, TBPCC, LLC (25%); Pinecrest Farm Holdings LLC (33%)
S. Christopher Willford, Wilson NC	Mechanical Contracting	Director	N/A	President, Southern Piping Company, Inc. (25%)	8.31%	0%	President, Southern Piping Company, Inc. (25%)
Mark A. Holmes, Wilson NC	President, CEO, and Director of Cornerstone Bank	President & CEO and Director	President & CEO and Director	N/A	9.89%	0%	N/A
Howard T. Sanders Elizabeth City, NC	Wholesale Industrial Equipment and Supplies	N/A	NA	President, CEO, and Owner of Sanders Company in Elizabeth City, NC. (100%)	9.89%	0%	President, CEO, and Owner of Sanders Company in Elizabeth City, NC. (100%)



**CB FINANCIAL CORPORATION AND
SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

*As of and for the Years Ended December 31, 2016
and 2015*

And Report of Independent Auditor

CB FINANCIAL CORPORATION AND SUBSIDIARY
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TO OUR SHAREHOLDERS, CUSTOMERS, AND FRIENDS:

We are pleased to report that 2016 was another year of growth and achievement for CB Financial Corporation ("CB" or the "Company"), the holding company for Cornerstone Bank ("Cornerstone" or the "Bank").

For the year ended December 31, 2016, CB reported net income of \$2.5 million compared to net income of \$601,000 for the year ended December 31, 2015. The 2016 result was positively impacted by the reversal of CB's deferred tax asset ("DTA") valuation allowance that provided a one-time tax benefit of approximately \$2.0 million. With these results, CB is reporting its third consecutive year of profitable operations.

As of December 31, 2016, CB reported total assets of \$109.9 million, total loans of \$72.0 million and total deposits of \$91.1 million. Assets, loans and deposits increased 5%, 4% and 2%, respectively, compared to totals reported at year-end December 31, 2015. The Company continues to see positive core earnings, improved asset quality and solid loan and deposit growth. This bodes well for the future as we focus on these critical measures of strong performance.

As a community bank headquartered in Wilson, it is our stated goal to serve the community banking needs of individuals and businesses in the City of Wilson, Wilson County and the surrounding area. It was with that in mind Cornerstone introduced two new relationship accounts, CashBack Checking and Interest Rewards Checking, last summer. These accounts have been well-received and we will build on their success in 2017.

Our Annual Meeting of Shareholders will be held on Tuesday, June 20, 2017, at 3:00 p.m. at the Cornerstone Bank Operations Center, 3105 Nash Street N., Wilson, North Carolina. Please join us to hear more about our results to-date and additional plans for 2017.

If you currently bank with us, thank you. If you do not bank with us yet, we hope you will give us the opportunity to meet your banking needs. Thank you for your consideration.

Sincerely,

A handwritten signature in cursive script that reads 'Mark A. Holmes'.

Mark A. Holmes
President and CEO

A handwritten signature in cursive script that reads 'John C. Anthony'.

John C. Anthony
Chairman of the Board



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, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CB Financial Corporation and Subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Cherry Bekaert LLP

Raleigh, North Carolina
March 21, 2017

CB FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Cash and due from banks	\$ 3,380,729	\$ 2,878,738
Interest-earning deposits in banks	4,275,232	3,846,530
Total cash and cash equivalents	<u>7,655,961</u>	<u>6,725,268</u>
Repurchase agreements	2,487,804	-
Certificates of deposits	1,060,000	1,550,000
Investment securities available-for-sale, at fair value	16,934,531	20,837,610
Loans	71,959,359	68,715,983
Allowance for loan losses	(975,873)	(1,122,916)
Net loans	<u>70,983,486</u>	<u>67,593,067</u>
Accrued interest receivable	380,546	326,624
Federal Home Loan Bank of Atlanta stock, at cost	307,400	398,300
Premises and equipment, net	2,229,671	2,323,738
Bank-owned life insurance	4,015,273	3,901,577
Real estate owned	1,396,572	1,746,243
Deferred tax assets, net	2,074,322	-
Other assets	355,495	354,114
Total Assets	<u>\$ 109,881,061</u>	<u>\$ 105,756,541</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand	\$ 17,213,413	\$ 12,779,164
Savings	3,464,495	3,490,920
Money market and NOW	37,982,612	35,954,683
Time	33,432,556	38,314,416
Total deposits	<u>92,093,076</u>	<u>90,539,183</u>
Borrowings	5,000,000	5,000,000
Subordinated debt	5,155,000	5,155,000
Accrued interest payable	21,501	25,126
Accrued expenses and other liabilities	110,979	179,421
Total Liabilities	<u>102,380,556</u>	<u>100,898,730</u>
Stockholders' Equity:		
Common stock, no par value, 80,000,000 shares authorized; 47,544,924 shares issued and outstanding at December 31, 2016 and 2015.	-	-
Additional paid-in capital	18,233,024	18,233,024
Accumulated deficit	(10,588,936)	(13,122,914)
Accumulated other comprehensive loss	(143,583)	(252,299)
Total Stockholders' Equity	<u>7,500,505</u>	<u>4,857,811</u>
Total Liabilities and Stockholders' Equity	<u>\$ 109,881,061</u>	<u>\$ 105,756,541</u>

CB FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Interest Income:		
Loans	\$ 3,239,043	\$ 3,078,160
Investment securities - taxable	333,314	507,324
Interest - earning deposits in banks	53,662	46,732
Other interest and dividends	76,819	67,171
Total Interest Income	<u>3,702,838</u>	<u>3,699,387</u>
Interest Expense:		
Money market, NOW, and savings deposits	41,147	39,944
Time deposits	291,636	323,942
Short-term borrowings	114,387	147,602
Long-term borrowings	133,326	132,527
Total Interest Expense	<u>580,496</u>	<u>644,015</u>
Net interest income	3,122,342	3,055,372
Recovery of loan losses	-	(275,000)
Net interest income after recovery of loan losses	<u>3,122,342</u>	<u>3,330,372</u>
Non-Interest Income:		
Service charges on deposit accounts	147,356	161,800
Mortgage operations	90,988	48,372
Gain on sale of investment securities available-for-sale	126,188	37,729
Income from bank-owned life insurance	113,696	312,671
Other	110,593	141,566
Total Non-interest Income	<u>588,821</u>	<u>702,138</u>
Non-interest Expense:		
Salaries and employee benefits	1,650,320	1,705,303
Occupancy and equipment	226,134	241,978
Data processing expenses	469,961	393,513
Loss on sale and write down of real estate owned	40,414	239,183
Other	768,880	851,619
Total Non-interest Expense	<u>3,155,709</u>	<u>3,431,596</u>
Income before income taxes	555,454	600,914
Income tax benefit	(1,978,524)	-
Net income allocable to common stockholders	<u>\$ 2,533,978</u>	<u>\$ 600,914</u>
Net income per common share:		
Basic	\$ 0.05	\$ 0.02
Diluted	0.05	0.02
Weighted average common share outstanding:		
Basic	47,544,924	26,452,048
Diluted	47,544,924	34,186,112

CB FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Net income	<u>\$ 2,533,978</u>	<u>\$ 600,914</u>
Other comprehensive income (loss):		
Changes in unrealized losses on securities available for sale, including income tax benefit of \$83,032 during 2016, and \$0 for 2015	234,904	(202,194)
Reclassification of realized gains during the year	<u>(126,188)</u>	<u>(37,729)</u>
Total other comprehensive income (loss)	<u>108,716</u>	<u>(239,923)</u>
Comprehensive income	<u>\$ 2,642,694</u>	<u>\$ 360,991</u>

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

YEARS ENDED DECEMBER 31, 2016 AND 2015

	Common Stock	Preferred Stock A	Preferred Stock B	Preferred Stock C	Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total
Balance, December 31, 2014	\$ -	\$ 1,928,429	\$ 530,005	\$ 4,040,000	\$ 8,914,870	\$ (13,723,628)	\$ (12,376)	\$ 1,677,100
Net Income	-	-	-	-	-	600,914	-	600,914
Other comprehensive loss	-	-	-	-	-	-	(239,923)	(239,923)
Conversion of preferred to common	-	(1,928,429)	(530,005)	(4,040,000)	6,498,434	-	-	-
Stock-based compensation	-	-	-	-	(5,833)	-	-	(5,833)
Issuance of common stock	-	-	-	-	2,825,553	-	-	2,825,553
Balance, December 31, 2015	-	-	-	-	18,233,024	(13,122,914)	(262,299)	4,867,811
Net Income	-	-	-	-	-	2,533,978	-	2,533,978
Other comprehensive income	-	-	-	-	-	-	108,716	108,716
Balance, December 31, 2016	\$ -	\$ -	\$ -	\$ -	\$ 18,233,024	\$ (10,588,936)	\$ (143,583)	\$ 7,500,505

CB FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Net income	\$ 2,533,978	\$ 600,914
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred tax benefit	(1,991,289)	-
Depreciation and amortization	123,043	130,699
Proceeds from disposal of bank premises and equipment	-	200
Amortization and accretion of Investment securities available-for-sale, net	43,735	128,115
Stock based compensation	-	(5,833)
Realized gain on investment securities available-for-sale	(126,188)	(37,729)
Loss on sale of real estate owned	40,414	127,087
Write down of real estate owned	-	112,096
Recovery of loan losses	-	(275,000)
Earnings on bank-owned life insurance	(113,696)	(312,671)
Deferred loan income	(21,617)	(13,433)
Change in assets and liabilities:		
Accrued interest receivable	(53,922)	6,719
Other assets	(1,381)	318,519
Accrued interest payable	(3,625)	(556,920)
Accrued expenses and other liabilities	(68,442)	(117,656)
Net cash provided by operating activities	<u>361,010</u>	<u>105,107</u>
Cash flows from investing activities:		
Purchase of investment securities, available-for-sale	(10,570,464)	(20,513,976)
Sales of investment securities, available-for-sale	14,120,935	24,099,257
Proceeds from maturities and calls of investments securities available-for-sale	460,744	2,271,956
Purchases of repurchase agreements	(2,487,804)	-
Proceeds from maturities of certificates of deposit	490,000	-
Purchases of certificates of deposit	-	(1,060,000)
Proceeds from bank-owned life insurance benefit	-	302,929
Proceeds from sale of real estate owned	309,257	1,326,679
Net increase in loans	(3,368,802)	(3,086,777)
Proceeds from sales of Federal Home Loan Bank stock	90,900	113,300
Purchases of bank premises and equipment	(28,976)	(11,690)
Net cash (provided by) used in investing activities	<u>(984,210)</u>	<u>3,441,678</u>
Cash flows from financing activities:		
Net increase (decrease) in deposits	1,553,893	(7,032,558)
Proceeds from issuance of common stock, net of cost	-	2,825,553
Net payments on FHLB advances	-	(2,000,000)
Net cash provided by (used in) financing activities	<u>1,553,893</u>	<u>(6,207,005)</u>
Net increase (decrease) in cash and cash equivalents	930,693	(2,660,220)
Cash and cash equivalents, beginning of year	6,725,268	9,385,488
Cash and cash equivalents, end of year	<u>\$ 7,655,961</u>	<u>\$ 6,725,268</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 584,121</u>	<u>\$ 1,200,935</u>
Supplemental disclosure of noncash transactions:		
Change in fair value of investment securities available-for-sale, net	<u>\$ 25,684</u>	<u>\$ (239,923)</u>

CB FINANCIAL CORPORATION AND SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 1—Organization and operations

Cornerstone Bank (the "Bank") was incorporated on March 14, 2000, and began banking operations on March 15, 2000. The Bank is engaged in general commercial and retail banking in eastern North Carolina, principally in Wilson County, and operates under the banking laws of North Carolina and the rules and regulations of the Federal Deposit Insurance Corporation and the North Carolina Commissioner of Banks. The Bank undergoes periodic examinations by those regulatory authorities.

In June 2005, the stockholders of the Bank approved an Agreement and Plan of Reorganization pursuant to which the Bank became a wholly-owned banking subsidiary of CB Financial Corporation (the "Company"), a North Carolina corporation formed as a holding company for the Bank. At the closing of the holding company reorganization (the "Reorganization"), one share of the Company's no par value common stock was exchanged for each of the outstanding shares of the Bank's \$5.00 par value common stock. The Company currently has no operations and conducts no business on its own other than its ownership of the Bank and the common shares of CB Financial Capital Trust I, a Connecticut statutory trust to facilitate the issuance of \$5 million of trust preferred securities.

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

In June 2015, the Company began a Private Placement Common Stock Offering (the "Private Placement") with certain individual accredited investors. Under the terms of the Private Placement, the Company established a maximum offering of 35,000,000 shares of no par value common stock at a price of \$0.10 per share. Upon completion, the Company placed 28,850,000 shares of common stock at the offering price of \$0.10 per share as of June 29, 2015. There were no such transactions for the year ended December 31, 2016.

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, realization of net deferred tax assets, and the fair value of financial instruments.

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

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 2—Summary of significant accounting policies (continued)

Investment Securities Available-for-Sale – Investment securities available-for-sale are reported at fair value and consist of debt instruments that are not classified as either trading securities or as held-to-maturity securities. Unrealized holding gains and losses, net of deferred income tax, on available-for-sale securities are reported as a net amount in accumulated other comprehensive income. Gains and losses on the sale of investment securities available-for-sale are determined using the specific-identification method. Declines in the fair value of individual investment securities available-for-sale below their cost that are determined to be other than temporary would result in write-downs of the individual securities to their fair value. Such write-downs would be included in earnings as realized losses. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

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

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

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

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

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

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 2—Summary of significant accounting policies (continued)

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

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

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

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

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

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

Federal Home Loan Bank of Atlanta Stock 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, 2016 or 2015.

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 2—Summary of significant accounting policies (continued)

Occasionally, the Company invests in nonmarketable equity securities which are accounted for under the cost method. These investments are carried at cost unless a determination has been made that they are impaired. During 2016 and 2015, no write downs were necessary. These investments are included in other assets in the accompanying consolidated balance sheets.

Real Estate Owned – Real estate acquired through, or in lieu of, loan foreclosure is initially recorded at fair value less estimated costs to sell at the date of foreclosure establishing a new cost basis. Principal and interest losses existing at the time of acquisition of such assets are charged against the allowance for loan losses and interest income, respectively. Subsequent to foreclosure, valuations of the property are periodically performed by management and the real estate is carried at the lower of cost or fair value minus estimated cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in expenses on real estate owned.

Income Taxes – Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are also recognized for operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized. As of December 31, 2015, the Bank had recorded valuation allowances against all of its net deferred tax assets. Management has determined that it is more likely than not that deferred tax assets will be realizable up to the recorded value. As a result, management has reduced its valuation allowance from December 31, 2015 of \$5,223,662 down to \$96,425, for the year ended December 31, 2016.

It is the Bank's policy to evaluate uncertain tax positions. As of December 31, 2016 and 2015, the Company had no uncertain tax positions requiring disclosure or recognition.

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

Advertising Costs – Advertising costs are expensed as incurred. Advertising expenses were \$53,218 and \$46,384 for the years ended December 31, 2016 and 2015, respectively.

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

Per Share Results – As discussed in Note 1, all shares of Series A, B, and C Preferred Stock were reclassified and converted into shares of common stock during June 2015. Prior to the conversion, Series A and Series B Preferred Stockholders were entitled to vote only as required by law, or upon any merger or acquisition of all or substantially all of the capital stock or assets of the Company. Series A Preferred Stockholders, except with respect to the Series B Preferred Dividend, were entitled to a preference in the distribution of dividends so that the holders of Series A shall receive dividends prior to the holders of common stock and Series B Preferred Stock. Series C Preferred Stockholders had liquidation preference of \$2.50 and a non-cumulative dividend of 5% per annum. No preferred dividends were declared in 2016 or 2015.

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 2—Summary of significant accounting policies (continued)

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and Preferred Stock, and are determined using the treasury stock method. All potentially dilutive shares were converted to common shares as of December 31, 2015. No additional dilutive shares were issued during the year ended December 31, 2016.

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

	<u>2016</u>	<u>2015</u>
Net income available to common shareholders	\$ 2,533,978	\$ 600,914
Weighted average number of common shares - basic	47,544,924	26,452,048
Effect of dilutive convertible preferred shares, Series A	-	90,196
Effect of dilutive convertible preferred shares, Series B	-	24,984
Effect of dilutive convertible preferred shares, Series C	-	7,618,884
Weighted average number of common shares - dilutive	47,544,924	34,186,112
Basic earnings per common share	\$ 0.05	\$ 0.02
Diluted earnings per common share	0.05	0.02

Note 3—Restrictions on cash

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2016 and 2015, those reserve balances amounted to \$225,000 and \$200,000, respectively.

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 4—Investment securities available-for-sale

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

	December 31, 2016			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Investment securities available-for-sale:				
Government sponsored enterprises	\$ 8,642,206	\$ 16,158	\$ (97,076)	\$ 8,561,288
Municipal securities	3,138,352	2,343	(7,809)	3,132,886
Mortgage-backed securities	5,380,588	-	(140,231)	5,240,357
	<u>\$ 17,161,146</u>	<u>\$ 18,501</u>	<u>\$ (245,116)</u>	<u>\$ 16,934,531</u>
	December 31, 2015			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Investment securities available-for-sale:				
Government sponsored enterprises	\$ 8,799,690	\$ 9,734	\$ (92,153)	\$ 8,717,271
Municipal securities	1,247,425	200	(26,745)	1,220,880
Mortgage-backed securities	11,042,794	14,993	(158,328)	10,899,459
	<u>\$ 21,089,909</u>	<u>\$ 24,927</u>	<u>\$ (277,226)</u>	<u>\$ 20,837,610</u>

Securities with a carrying value of \$3.9 million and \$6.3 million at December 31, 2016 and 2015, respectively, were pledged to secure borrowings.

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 4—Investment securities available-for-sale (continued)

The following table shows the gross unrealized losses and fair value of the Company's investment securities with unrealized losses that are deemed to be temporarily impaired aggregated by investment category and length of time that individual securities have been in a continuous, unrealized loss position at December 31, 2016 and 2015.

	December 31, 2016					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment securities available-for-sale:						
Government sponsored enterprises	\$ 5,932,139	\$ 87,651	\$ 1,143,270	\$ 9,425	\$ 7,075,409	\$ 97,076
Municipal securities	2,654,897	7,809	-	-	2,654,897	7,809
Mortgage-backed securities	2,373,514	82,823	2,866,044	57,408	5,240,358	140,231
Total temporarily impaired available-for-sale securities	<u>\$ 10,960,550</u>	<u>\$ 178,283</u>	<u>\$ 4,010,114</u>	<u>\$ 66,833</u>	<u>\$ 14,970,664</u>	<u>\$ 245,116</u>

	December 31, 2015					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment securities available-for-sale:						
Government sponsored enterprises	\$ 6,468,359	\$ 72,304	\$ 728,363	\$ 19,849	\$ 7,196,722	\$ 92,153
Municipal securities	1,160,680	26,745	-	-	1,160,680	26,745
Mortgage-backed securities	9,032,959	158,328	-	-	9,032,959	158,328
Total temporarily impaired available-for-sale securities	<u>\$ 16,661,998</u>	<u>\$ 257,377</u>	<u>\$ 728,363</u>	<u>\$ 19,849</u>	<u>\$ 17,390,361</u>	<u>\$ 277,226</u>

As of December 31, 2016 there was one taxable municipal security and two mortgage-backed securities that have been in a continuous, unrealized loss position for more than twelve months. The unrealized losses on the Company's investment securities were caused by various reasons, but the Company feels that no material impairment of value is due to deteriorating financial condition of the issuers. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. The Company does not intend to sell, and it is not more likely than not that the Company will be required to sell, these investment securities before the anticipated recovery of the amortized cost basis. As a result, the Company did not consider those investments to be other-than-temporarily impaired at December 31, 2016 and 2015.

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 4—Investment securities available-for-sale (continued)

The amortized cost and fair value of the Company's investment securities available-for-sale at December 31, 2016, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Securities available-for-sale:		
Due in less than one year	\$ 109,889	\$ 107,108
Due in one to five years	2,161,381	2,135,628
Due in five to ten years	14,414,230	14,213,806
Due after ten years	475,646	477,989
Total	<u>\$ 17,161,146</u>	<u>\$ 16,934,531</u>

For purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of underlying collateral. The mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal prepayments. Proceeds from the sale of investment securities available-for-sale during 2016 and 2015 of \$14,120,935 and \$24,099,257, generated gross realized gains of \$145,849 and \$208,308, respectively, and gross realized losses for 2016 and 2015 of \$19,661 and \$170,579, respectively.

Note 5—Federal Home Loan Bank Atlanta Stock

As of December 31, 2016, the Bank had 3,074 shares of \$100 par value capital stock totaling \$307,400 in FHLB stock. The Bank had 3,983 shares of \$100 par value capital stock totaling \$398,300 in FHLB stock as of December 31, 2015. In order to borrow funds from the FHLB, the Bank must maintain an investment in FHLB's activity-based stock equal to \$212,500 and \$297,500 respectively, and an investment in FHLB's membership based stock equal to \$94,900 and \$100,800, respectively, for the years ended December 31, 2016 and 2015. 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:

	2016	2015
	(Dollars in thousands)	
Commercial and agriculture	\$ 28,468	\$ 31,780
Construction and development	5,520	4,694
Farmland	6,303	1,764
1-4 residential mortgage	21,024	22,945
Multifamily	9,250	5,358
Consumer and other	1,394	2,175
Total loans	<u>71,959</u>	<u>68,716</u>
Less allowance for loan losses	(976)	(1,123)
Net loans	<u>\$ 70,983</u>	<u>\$ 67,593</u>

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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

Loans are primarily made in Wilson County, North Carolina. Real estate loans can be affected by the condition of the local real estate market. Commercial and installment loans can be affected by local economic conditions.

The Company has had loan transactions with its directors and executive officers. Such loans were made in the ordinary course of business and on substantially the same terms and collateral as those for comparable transactions prevailing at the time. Such loans did not involve more than the normal risk of collectability or present other unfavorable features. A summary of related-party loan transactions is as follows (in thousands):

	2016	2015
Balance, beginning of year	\$ 2,221	\$ 2,511
Borrowings	136	271
Repayments	(1,702)	(561)
Balance, end of year	<u>\$ 655</u>	<u>\$ 2,221</u>

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.

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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 (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, 2016							
Allowance for loan losses:							
Beginning Balance	\$ 533	\$ 54	\$ 83	\$ 2	\$ 346	\$ 105	\$ 1,123
Charge-offs	(232)	-	-	-	(23)	(9)	(264)
Recoveries	81	10	-	-	19	7	117
Ending Balance	<u>\$ 382</u>	<u>\$ 64</u>	<u>\$ 83</u>	<u>\$ 2</u>	<u>\$ 342</u>	<u>\$ 103</u>	<u>\$ 976</u>
Ending Balance: individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ 6	\$ -	\$ 6
Ending Balance: collectively evaluated for impairment	<u>\$ 382</u>	<u>\$ 64</u>	<u>\$ 83</u>	<u>\$ 2</u>	<u>\$ 336</u>	<u>\$ 103</u>	<u>\$ 970</u>
Loans outstanding:							
Ending Balance	<u>\$ 28,468</u>	<u>\$ 9,250</u>	<u>\$ 5,520</u>	<u>\$ 6,303</u>	<u>\$ 21,024</u>	<u>\$ 1,394</u>	<u>\$ 71,959</u>
Ending Balance: Individually evaluated for impairment	<u>\$ 1,758</u>	<u>\$ -</u>	<u>\$ 94</u>	<u>\$ -</u>	<u>\$ 786</u>	<u>\$ 4</u>	<u>\$ 2,642</u>
Ending Balance: collectively evaluated for impairment	<u>\$ 26,710</u>	<u>\$ 9,250</u>	<u>\$ 5,426</u>	<u>\$ 6,303</u>	<u>\$ 20,238</u>	<u>\$ 1,390</u>	<u>\$ 69,317</u>
	Allowance for Loan Losses and Recorded Investment in Loans						
	Commercial and Agricultural	Multifamily Residential	Construction and Development	Farmland	1-4 Residential Mortgage	Consumer and Other	Total
December 31, 2015							
Allowance for loan losses:							
Beginning Balance	\$ 739	\$ 106	\$ 183	\$ 426	\$ 62	\$ 54	\$ 1,570
Charge-offs	(168)	(66)	(61)	-	(259)	(10)	(564)
Recoveries	254	16	61	-	57	4	392
(Recovery of) provision for loan losses	(292)	(2)	(100)	(424)	486	57	(275)
Ending Balance	<u>\$ 533</u>	<u>\$ 54</u>	<u>\$ 83</u>	<u>\$ 2</u>	<u>\$ 346</u>	<u>\$ 105</u>	<u>\$ 1,123</u>
Ending Balance: Individually evaluated for impairment	<u>\$ 81</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ 90</u>
Ending Balance: collectively evaluated for impairment	<u>\$ 452</u>	<u>\$ 54</u>	<u>\$ 78</u>	<u>\$ 2</u>	<u>\$ 342</u>	<u>\$ 105</u>	<u>\$ 1,033</u>
Loans outstanding:							
Ending Balance	<u>\$ 31,780</u>	<u>\$ 5,358</u>	<u>\$ 4,894</u>	<u>\$ 1,764</u>	<u>\$ 22,945</u>	<u>\$ 2,175</u>	<u>\$ 68,716</u>
Ending Balance: Individually evaluated for impairment	<u>\$ 2,343</u>	<u>\$ -</u>	<u>\$ 99</u>	<u>\$ -</u>	<u>\$ 1,009</u>	<u>\$ 11</u>	<u>\$ 3,462</u>
Ending Balance: collectively evaluated for impairment	<u>\$ 29,437</u>	<u>\$ 5,358</u>	<u>\$ 4,595</u>	<u>\$ 1,764</u>	<u>\$ 21,936</u>	<u>\$ 2,164</u>	<u>\$ 65,254</u>

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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

Management closely monitors the quality of the loan portfolio and has established a loan review process designed to help grade the quality of the Bank's loan portfolio. The Bank's loan ratings coincide with the "Substandard," "Doubtful," and "Loss" classifications used by federal regulators in their examination of financial institutions. Generally, an asset is considered Substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. Substandard assets include those characterized by the distinct possibility that the insured financial institution will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all the weaknesses inherent in assets classified Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, highly questionable, and improbable. Assets classified as Loss are those considered uncollectible, and of such little value that its continuance on the books is not warranted. Assets that do not currently expose the insured financial institutions to sufficient risk to warrant classification in one of the aforementioned categories but otherwise possess weaknesses are designated "Special Mention." These loans represent borrowers with declining earnings, strained cash flow, increasing leverage, and/or weakening market fundamentals that indicate above average risk.

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

Credit Risk Profile by Internally Assigned Grades
Loan Grades

December 31, 2016	Loan Grades				Total
	Pass	Special Mention	Substandard	Doubtful and Loss	
Commercial and agriculture	\$ 24,333	\$ 2,986	\$ 1,149	\$ -	\$ 28,468
Construction and development	5,426	94	-	-	5,520
Farmland	6,171	132	-	-	6,303
1-4 residential mortgage	20,424	600	-	-	21,024
Multifamily residential	9,250	-	-	-	9,250
Consumer and other	1,368	26	-	-	1,394
Total	\$ 66,972	\$ 3,838	\$ 1,149	\$ -	\$ 71,959

Credit Risk Profile by Internally Assigned Grades
Loan Grades

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

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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

Loans may be placed in nonaccrual status when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received. Payments received are first applied to principal, and any remaining funds are then applied to interest. Loans are removed from nonaccrual status when they are deemed a loss and charged to the allowance, transferred to foreclosed assets, or returned to accrual status based upon performance consistent with the original terms of the loan or a subsequent restructuring thereof.

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

December 31, 2016	Analysis of Past Due and Nonaccrual Loans						
	90 Days or More		Total Past Due	Current	Total Loans	90+ Days	
	30-89 Days Past Due	Past Due				Past Due and Still Accruing	Nonaccrual Loans
Commercial and agriculture	\$ 42	\$ 39	\$ 81	\$ 28,387	\$ 28,468	\$ -	\$ 39
Construction and development	-	-	-	5,520	5,520	-	-
Farmland	-	-	-	6,303	6,303	-	-
1-4 Residential mortgage	1,051	365	1,416	19,608	21,024	-	365
Multifamily	-	-	-	9,250	9,250	-	-
Consumer and other	16	-	16	1,378	1,394	-	-
Total	\$ 1,109	\$ 404	\$ 1,513	\$ 70,446	\$ 71,959	\$ -	\$ 404

December 31, 2015	Analysis of Past Due and Nonaccrual Loans						
	90 Days or More		Total Past Due	Current	Total Loans	90+ Days	
	30-89 Days Past Due	Past Due				Past Due and Still Accruing	Nonaccrual Loans
Commercial and agriculture	\$ 237	\$ 48	\$ 285	\$ 31,495	\$ 31,780	\$ -	\$ 48
Construction and development	-	-	-	4,694	4,694	-	-
Farmland	-	-	-	1,764	1,764	-	-
1-4 Residential mortgage	74	304	378	22,567	22,945	-	304
Multifamily	-	-	-	5,358	5,358	-	-
Consumer and other	2	-	2	2,173	2,175	-	-
Total	\$ 313	\$ 352	\$ 665	\$ 68,051	\$ 68,716	\$ -	\$ 352

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

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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, 2016 (in thousands):

December 31, 2016	Impaired Loans				
	Recorded Investment ⁽¹⁾	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial and agriculture	\$ 1,758	\$ 1,754	\$ -	\$ 1,843	\$ 78
Construction and development	94	94	-	97	5
Farmland	-	-	-	-	-
1-4 residential mortgage	565	584	-	582	7
Multifamily	-	-	-	-	-
Consumer and other	4	3	-	7	-
Subtotal	<u>2,421</u>	<u>2,435</u>	<u>-</u>	<u>2,529</u>	<u>90</u>
With an allowance recorded:					
Commercial and agriculture	-	-	-	-	-
Construction and development	-	-	-	-	-
Farmland	-	-	-	-	-
1-4 residential mortgage	221	219	6	225	15
Multifamily	-	-	-	-	-
Consumer and other	-	-	-	-	-
Subtotal	<u>221</u>	<u>219</u>	<u>6</u>	<u>225</u>	<u>15</u>
Totals:					
Commercial and agriculture	1,758	1,754	-	1,843	78
Construction and development	94	94	-	97	5
Farmland	-	-	-	-	-
1-4 residential mortgage	786	803	6	807	22
Multifamily	-	-	-	-	-
Consumer and other	4	3	-	7	-
Total	<u>\$ 2,642</u>	<u>\$ 2,654</u>	<u>\$ 6</u>	<u>\$ 2,754</u>	<u>\$ 105</u>

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

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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

The following table is a summary of information related to impaired loans as of December 31, 2015 (in thousands):

December 31, 2015	Impaired Loans				
	Recorded Investment ⁽¹⁾	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial and agriculture	\$ 988	\$ 1,009	\$ -	\$ 1,031	\$ 61
Construction and development	-	-	-	-	-
Farmland	-	-	-	-	-
1-4 residential mortgage	700	758	-	751	32
Multifamily	-	-	-	-	-
Consumer and other	11	1	-	11	-
Subtotal	<u>1,699</u>	<u>1,768</u>	<u>-</u>	<u>1,793</u>	<u>93</u>
With an allowance recorded:					
Commercial and agriculture	1,355	1,352	81	1,384	39
Construction and development	99	99	5	102	6
Farmland	-	-	-	-	-
1-4 residential mortgage	309	309	4	106	7
Multifamily	-	-	-	-	-
Consumer and other	-	-	-	-	-
Subtotal	<u>1,763</u>	<u>1,760</u>	<u>90</u>	<u>1,592</u>	<u>52</u>
Totals:					
Commercial and agriculture	2,343	2,361	81	2,415	100
Construction and development	99	99	5	102	6
Farmland	-	-	-	-	-
1-4 residential mortgage	1,009	1,067	4	857	39
Multifamily	-	-	-	-	-
Consumer and other	11	1	-	11	-
Total	<u>\$ 3,462</u>	<u>\$ 3,528</u>	<u>\$ 90</u>	<u>\$ 3,385</u>	<u>\$ 145</u>

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

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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

Troubled Debt Restructuring -- A troubled debt restructured loan ("TDR") 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, 2016 (in thousands):

	2016	
	Pre-Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
	Number of Contracts	
Troubled Debt Restructurings:		
Commercial and agriculture	5	\$ 1,519
Construction and development	1	94
Farmland	-	-
1-4 residential mortgage	1	199
Multifamily	-	-
Consumer and other	1	3
Total	8	\$ 1,815

During 2016, the Bank did not have any modified loans that were considered to be a TDR. Restructured loans are deemed to be in default if they become past due by 30 days or more.

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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, 2015 (in thousands):

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

During 2015, the Bank modified one loan that was considered to be a TDR, the terms of which were modified. The Bank had no such TDR's modified during the year ended December 31, 2015, that subsequently defaulted. Restructured loans are deemed to be in default if they become past due by 30 days or more.

Note 7—Premises and equipment

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

	2016	2015
Land	\$ 848,037	\$ 848,037
Buildings	1,934,071	1,918,771
Leasehold improvements	15,140	15,140
Furniture and equipment	770,050	756,374
	<u>3,567,298</u>	<u>3,538,322</u>
Less accumulated depreciation	<u>(1,337,627)</u>	<u>(1,214,584)</u>
Total	<u>\$ 2,229,671</u>	<u>\$ 2,323,738</u>

Depreciation and amortization amounting to \$123,043 and \$130,699 for the years ended December 31, 2016 and 2015, respectively, is included in occupancy and equipment expense and data processing expense.

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 8—Real estate owned

The following summarizes the activity in real estate owned:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 1,746,243	\$ 3,312,105
Proceeds from sales	(309,257)	(1,326,679)
Loss on sales	(40,414)	(127,087)
Writedowns	-	(112,096)
Balance, end of year	<u>\$ 1,396,572</u>	<u>\$ 1,746,243</u>

Note 9—Deposits

Deposit account balances at December 31 are summarized as follows:

	<u>2016</u>	<u>2015</u>
	(Dollars in thousands)	
Demand	\$ 17,213	\$ 12,779
Savings	3,464	3,491
Money market accounts	37,983	35,955
Time Deposits	33,433	38,314
	<u>\$ 92,093</u>	<u>\$ 90,539</u>

At December 31, 2016, the scheduled maturities of time deposits (dollars in thousands) are as follows:

<u>Years Ending December 31,</u>	
2017	\$ 10,545
2018	10,558
2019	8,602
2020	1,773
2021	1,955
Total	<u>\$ 33,433</u>

The above table includes time deposits of \$250,000 and over, which at December 31, 2016 and 2015, totaled \$6.4 million and \$7.1 million, respectively.

Deposits from directors, executive officers, and their affiliates at December 31, 2016 and 2015, amounted to approximately \$6.2 million and \$3.7 million, respectively.

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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 \$30,726 and \$28,999 during the years ended December 31, 2016 and 2015, respectively, is included in occupancy and equipment expense on the accompanying consolidated statements of operations. Future minimum lease payments are as follows:

<u>Years Ending December 31,</u>	
2017	\$ 24,068
2018	9,028
2019	158
Total	<u>\$ 33,254</u>

Note 11—Borrowings and FHLB Advances

In 2016 and 2015, the Company did not have an unsecured federal funds line. The Company has a line of credit with the Federal Reserve Bank in the total available amounts of \$6.0 million as of December 31, 2016 and 2015, respectively, which is secured by substantially all of the Company's mortgage-backed securities. The Company did not use the line of credit in 2016 or 2015.

The Company has borrowings from the FHLB. Advances from the FHLB are secured by eligible securities and are listed below. The FHLB has placed a \$27,269,250 cap on the amount the Company can borrow.

Advances from the FHLB of Atlanta consisted of the following at December 31:

<u>Maturity</u>	<u>Interest Rate</u>	<u>2016</u>	<u>2015</u>
January 20, 2017	0.61%	\$ 5,000,000	\$ -
December 13, 2017	2.85%	-	5,000,000
		<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>

The Company prepaid the outstanding advance due on December 13, 2017 during October 2016. The prepayment resulted in a penalty of \$110,860, which is included in other non-interest expenses on the consolidated statement of operations.

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 11—Borrowings and FHLB Advances (continued)

On July 8, 2005, the Company formed CB Financial Capital Trust I, a Connecticut statutory trust (the "Trust"). On July 12, 2005, the Trust issued and sold \$5,000,000 of the Trust's Floating rate preferred securities (the "Trust Preferred Securities") to an institutional investor in a private placement and issued \$155,000 in common securities (the "Common Securities") to the Company. The Trust Preferred Securities are fully and unconditionally guaranteed on a subordinated basis by the Company with respect to distributions and amounts payable upon liquidation, redemption, or repayment. The proceeds from the Trust's sale of the Trust Preferred Securities and its sale of the Common Securities were used by the Trust to purchase \$5,155,000 of the Company's Floating junior subordinated notes (the "Notes"). The net proceeds to the Company from its sale of the Notes to the Trust were invested in the Bank as additional capital to support growth and for other general corporate purposes. The Notes and the Trust Preferred Securities bear an interest rate of 185 basis points over the three-month LIBOR (London Inter-Bank Offered Rate). The Trust Preferred Securities generally rank equal to the Common Securities in priority of payment, but will rank prior to Common Securities if, and so long as, the Company fails to make principal or interest payment on the Notes. The Notes and Trust Preferred Securities each have 30-year lives and are callable by the Company or the Trust, at their option. The Notes qualify as Tier I capital under Federal Reserve Board guidelines. The Company has not included the Trust in the consolidated entity. However, the Notes issued by the Company and purchased by the Trust are included on the consolidated balance sheets. In addition, the related interest expense continues to be included on the consolidated income statements. The Company elected to defer interest payments on the Notes starting on March 15, 2010 until June 15, 2015. Interest expense on the notes was \$133,326 and \$132,527 for the years ended December 31, 2016 and 2015, respectively. Interest payments made on the Notes totaled \$584,121 and \$686,927 for years ended December 31, 2016 and 2015, respectively. Interest payable on the Notes amounted to approximately \$6,849 and \$5,177 at December 31, 2016 and 2015, respectively.

Note 12—Income taxes

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

	2016	2015
Current tax provision:		
Federal	\$ 12,765	\$ -
Total current taxes	<u>12,765</u>	<u>-</u>
Deferred tax provision:		
Federal	(1,905,979)	-
State	(85,310)	-
Total deferred taxes	<u>(1,991,289)</u>	<u>-</u>
Provision for income taxes	<u>\$ (1,978,524)</u>	<u>\$ -</u>

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 12—Income taxes (continued)

The difference between the provision for income taxes and the amounts computed by applying the statutory federal income tax rate of 34% to income before income taxes is summarized below:

	<u>2016</u>	<u>2015</u>
Tax expense computed at the statutory federal rate	\$ 187,716	\$ 204,311
(Decrease) increase resulting from:		
State income taxes, net of federal effect	(85,310)	-
Nontaxable income	(38,825)	(116,598)
Reduction in NOL DTA due to IRC 382 limits	3,085,441	-
Other, net	(349)	(915)
Valuation allowance	<u>(5,127,197)</u>	<u>(86,798)</u>
Income taxes benefit	<u>\$ (1,978,524)</u>	<u>\$ -</u>

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 are as follows:

	<u>2016</u>	<u>2015</u>
Deferred tax assets relating to:		
Allowance for loan losses	\$ 172,801	\$ -
Pre-opening costs and expenses	435	569
Interest income on non-accrual loans	20,470	34,343
Investment and real estate owned impairment	149,352	175,921
Operating loss carryforwards	1,717,860	5,032,402
Investment securities available-for-sale	83,032	4,616
ATM Credit	11,934	-
Other	<u>72,740</u>	<u>68,842</u>
Total deferred tax assets	2,228,624	5,316,693
Valuation allowance	<u>(96,425)</u>	<u>(5,223,622)</u>
Total net deferred tax assets	<u>2,132,199</u>	<u>93,071</u>
Deferred tax liabilities relating to:		
Allowance for loan losses	-	28,327
Premises and equipment differences	29,341	43,644
Prepaid expenses	26,376	21,100
Other	<u>2,160</u>	<u>-</u>
Total deferred tax liabilities	<u>57,877</u>	<u>93,071</u>
Net deferred tax asset	<u>\$ 2,074,322</u>	<u>\$ -</u>

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 12—Income taxes (continued)

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. Management has determined that it is more likely than not that deferred tax assets will be realizable up to the recorded value. As a result management has reduced its valuation allowance from December 31, 2015, of \$5,223,622 down to \$96,425 as of December 31, 2016. Included in deferred tax assets are the tax benefits derived from federal net operating loss carry forwards of \$13.4 million and state net operating loss carry forwards of \$18 million which begin to expire in 2030 and 2028, respectively.

Note 13—Other non-interest expense

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

	<u>2016</u>	<u>2015</u>
Postage, printing, and office supplies	\$ 50,845	\$ 56,638
Advertising and promotion	53,218	46,384
Professional services	178,077	222,777
FDIC insurance premiums	102,559	211,637
Other	384,181	314,183
Total	<u>\$ 768,880</u>	<u>\$ 851,619</u>

Note 14—Regulatory matters

The Company is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 14—Regulatory matters (continued)

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

	For the Bank		Minimum Requirements
	Capital Amount	Capital Ratio	For Capital Adequacy
As of December 31, 2016			
Total capital - (to risk-weighted assets)	\$ 11,815	17.05%	8.00%
Tier 1 capital (to risk-weighted assets)	10,940	15.79%	6.00%
CET1 risk based capital (to risk-weighted assets)	10,940	15.79%	4.50%
Leverage - Tier 1 capital (to average assets)	10,940	10.19%	4.00%
As of December 31, 2015			
Total capital - (to risk-weighted assets)	\$ 10,728	15.34%	8.00%
Tier 1 capital (to risk-weighted assets)	9,850	14.08%	6.00%
CET1 risk based capital (to risk-weighted assets)	9,850	14.08%	4.50%
Leverage - Tier 1 capital (to average assets)	9,850	9.12%	4.00%

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

Note 15—Commitments and contingencies

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

Off-Balance Sheet Risk – The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, undisbursed lines of credit, and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 15—Commitments and contingencies (continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, upon extension of credit is based on management's credit evaluation of the borrower. Collateral obtained varies but may include real estate, stocks, bonds, and certificates of deposit.

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

	2016	2015
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 2,527	\$ 1,982
Undisbursed lines of credit	5,883	6,657
Commercial and standby letters of credit	5,591	4,369
Total	<u>\$ 14,001</u>	<u>\$ 12,008</u>

Note 16—Disclosures about fair values of financial instruments

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

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

Cash and Due from Banks, Interest-Earning Deposits in Banks, and Repurchase Agreements – 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.

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

Investment Securities Available-for-Sale – 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.

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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

Loans – For certain homogenous categories of loans, such as residential mortgages, fair value is estimated using the quoted market prices for securitites 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:

	2016		2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial Assets:				
Cash and due from banks	\$ 3,381	\$ 3,381	\$ 2,879	\$ 2,879
Interest-earning deposits in banks	4,275	4,275	3,847	3,847
Repurchase Agreements	2,488	2,488	-	-
Certificates of deposit	1,060	1,060	1,550	1,550
Investment securities available-for-sale	16,935	16,935	20,838	20,838
Accrued interest receivable	381	381	327	327
Federal Home Loan Bank stock	307	307	398	398
Investment in bank-owned life insurance	4,015	4,015	3,902	3,902
Loans, net	70,983	71,431	67,593	68,466
Financial Liabilities:				
Deposits	92,093	83,882	90,539	83,714
Borrowings	10,155	11,116	10,155	10,816
Accrued interest payable	22	22	25	25

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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

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

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

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

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

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

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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

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

December 31, 2016	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale:				
Municipal securities	\$ 3,133	\$ -	\$ 3,133	\$ -
Government sponsored enterprises	8,561	-	8,561	-
Mortgage-backed securities	5,241	-	5,241	-
Total assets at fair value	\$ 16,935	\$ -	\$ 16,935	\$ -
December 31, 2015	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale:				
Municipal securities	\$ 1,221	\$ -	\$ 1,221	\$ -
Government sponsored enterprises	8,717	-	8,717	-
Mortgage-backed securities	10,900	-	10,900	-
Total assets at fair value	\$ 20,838	\$ -	\$ 20,838	\$ -

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

December 31, 2016	Total	Level 1	Level 2	Level 3
Impaired loans	\$ 2,642	\$ -	\$ -	\$ 2,642
Real estate owned	1,397	-	-	1,397
Total assets at fair value	\$ 4,039	\$ -	\$ -	\$ 4,039
December 31, 2015	Total	Level 1	Level 2	Level 3
Impaired loans	\$ 3,462	\$ -	\$ -	\$ 3,462
Real estate owned	1,746	-	-	1,746
Total assets at fair value	\$ 5,208	\$ -	\$ -	\$ 5,208

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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

Level 3 Valuation Techniques – For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2016 and 2015, the significant unobservable inputs used in the fair value measurements were as follows (dollars in thousands):

	Fair Value at December 31, 2016	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Inputs Value
Impaired Loans	\$ 2,642	Appraised Value/Comparable Sales Present Value of Future Cash Flows	Discount to reflect current market conditions and ultimate collectability	0% - 10%
Other Real Estate Owned	\$ 1,397	Appraised Value/ Comparable Sales	Discount to reflect current market conditions and ultimate	0% - 10%
	Fair Value at December 31, 2015	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Inputs Value
Impaired Loans	\$ 3,462	Appraised Value/Comparable Sales Present Value of Future Cash Flows	Discount to reflect current market conditions and ultimate collectability	0% - 10%
Other Real Estate Owned	\$ 1,746	Appraised Value/ Comparable Sales	Discount to reflect current market conditions and ultimate	0% - 10%

Note 17—Employee and director benefit plans

401(k) Plan – The Company has a 401(k) Plan (the "Plan") in which substantially all employees participate. Match contributions vest to the employee equally over a four-year period. In 2015, the Company instituted a policy to match 100% of employee contributions up to 6%. The 401(k) employer match was \$49,748 and \$16,598 for the years ended December 31, 2016 and 2015, respectively.

CB FINANCIAL CORPORATION AND SUBSIDIARY
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DECEMBER 31, 2016 AND 2015

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, 2016 and 2015 (presented in thousands):

Condensed Balance Sheets
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash on deposit in subsidiary	\$ -	\$ 63
Investment in subsidiary bank	12,388	9,598
Other assets	274	357
Total Assets	<u>\$ 12,662</u>	<u>\$ 10,018</u>
LIABILITIES		
Junior subordinated debentures	\$ 5,155	\$ 5,155
Other liabilities	7	5
Total Liabilities	<u>5,162</u>	<u>5,160</u>
Stockholders' Equity:		
Additional paid-in capital	18,233	18,233
Accumulated deficit	(10,589)	(13,123)
Accumulated other comprehensive loss	(144)	(252)
Total Stockholders' Equity	<u>7,500</u>	<u>4,858</u>
Total Liabilities and Stockholders' Equity	<u>\$ 12,662</u>	<u>\$ 10,018</u>

Condensed Statements of Operations
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Equity in earnings of bank subsidiary	\$ 2,682	\$ 774
Other income	6	22
Interest expense	(133)	(133)
Other expense	(21)	(62)
Net Income	<u>\$ 2,534</u>	<u>\$ 601</u>

CB FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 18—Parent company financial data (continued)

Condensed Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Net income	\$ 2,534	\$ (60)
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in earnings of bank subsidiary	(2,682)	(774)
Increase (decrease) in other assets	83	(40)
Increase (decrease) in other liabilities	2	(549)
Net cash used in operating activities	<u>(63)</u>	<u>(1,423)</u>
Cash flow from investing activities:		
Investment in subsidiary	-	(2,006)
Net cash used in investing activities	<u>-</u>	<u>(2,006)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of cost	-	2,826
Net cash provided by financing activities	<u>-</u>	<u>2,826</u>
Net (decrease) increase in cash and cash equivalents	(63)	58
Cash and cash equivalents, beginning of year	63	5
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 63</u>

Note 19—Subsequent events

The Company has evaluated subsequent events through March 21, 2017, in connection with the preparation of these consolidated financial statements, which is the date the consolidated financial statements were available to be issued.



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

We have audited the consolidated financial statements of CB Financial Corporation and Subsidiary (the "Company") for the years ended December 31, 2016 and 2015, and have issued our report thereon dated March 21, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 28, 2016. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Company are described in Note 2 to the consolidated financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016 or 2015. We noted no transactions entered into by the Company during the years for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the consolidated financial statements in the proper period.

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the consolidated financial statements were:

Management's estimate of the allowance for loan losses is based on an analysis of historical collection trends, current borrower relationships, lending levels, industry factors, and current and anticipated economic conditions. We evaluated the key factors and assumptions used to develop the allowance for loan losses in order for us to determine whether the allowance for loan losses is reasonable in relation to the consolidated financial statements of the Company for the years ended December 31, 2016 and 2015, taken as a whole. While the procedures used by management and the amount of the allowance seem reasonable at this time, differences between the allowance for loan losses and actual results may be material.

Management's estimate of the valuation of other real estate owned is based on appraisals provided by outside appraisers approved by the Company's Board of Directors. We evaluated the key factors and assumptions used in the valuation to determine that they seem reasonable in relation to the consolidated financial statements of the Company for the years ended December 31, 2016 and 2015, taken as a whole. While the procedures used by management and the amount recorded for other real estate owned seem reasonable at this time, there will usually be differences between actual functional use and the estimates used and these differences may be material.

Management's estimate of the fair value of investments classified as available-for-sale securities are based on certain assumptions, discount rates, and estimated future cash flows. We evaluated the key factors and assumptions used to develop these estimates to determine that they seem reasonable in relation to the consolidated financial statements of the Company for the years ended December 31, 2016 and 2015, taken as a whole. While the procedures used by management and these estimates seem reasonable at this time, differences between these estimates and actual results may be material.

To the Audit Committee of the Board of Directors
CB Financial Corporation and Subsidiary
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Management's estimate of the valuation allowance for net deferred tax assets, which is required if it is more likely than not that the tax benefits will not be fully realized, is based upon management's judgment of various future events and uncertainties, including the timing and amount of future income and the implementation of various tax plans to maximize realization of the deferred tax asset.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The consolidated financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No such misstatements were noted.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the consolidated financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 21, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Company's consolidated financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Audit Committee of the Board of Directors and management of CB Financial Corporation and Subsidiary and is not intended to be, and should not be, used by anyone other than these specified parties.

Cherry Behaert LLP

Raleigh, North Carolina
March 21, 2017