Helping New Hampshire Prosper



SMALL BUSINESS

Experts











COMMUNITY BANK WITH A

Personal

APPROACH





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NEW HAMPSHIRE'S

Local

CHOICE







AMHERST ■ COLEBROOK ■ CONCORD ■ PORTSMOUTH

2015 ANNUAL REPORT

FIRST COLEBROOK BANCORP, INC.

1889 GraniteBank

To Our Shareholders:

Certainly the most significant event in 2015 was changing the name of our subsidiary bank from First Colebrook Bank to Granite Bank. This decision and implementation was more than a year in the making and was occasioned primarily by the fact that our bank has grown from a single bank founded in Colebrook to an institution that now has four offices including Concord, Amherst and Portsmouth. These markets and others have excellent potential for continued growth because they are major population centers and commercial markets in New Hampshire. The original decision to expand to Concord was made in 1997 by a forward-looking Board of Directors and management team. Since then that branch has been successful, and we have added two other branches which have also been very successful. As a result of the initial decision to expand, total assets of the bank have grown by more than $160 million from the time the Concord branch was opened. As a result of our successful expansion into other markets in New Hampshire, the Board of Directors approved the name change when the Granite name became available in order to better reflect our statewide presence.

2015 was another good year of financial performance. Loans increased by $8.3 million which was a significant improvement over growth in 2014. Total assets increased by almost $4 million, and noninterest bearing deposits showed good growth at more than $6.7 million. Net income of $1.12 million was down from 2014 primarily as a result of increased marketing and branch refitting expenses related to the name change and due to a reduction of the substantial gains on securities taken in 2014. Salaries and employee benefits expenses also increased last year due to the addition of new loan origination and processing employees in anticipation of accelerated plans for loan growth in 2016.

I am also pleased to report that we completed the acquisition and integration of a southern New Hampshire based payroll processing firm. This acquisition is a result of our strategic plan to increase noninterest income which should provide more predictable earnings and begin to reduce our reliance on net-interest income. We believe our payroll operation has the potential for significant growth through marketing to our existing business customers and firms that are not now customers. The entire banking industry has seen a significant erosion in its net margin due to the unprecedented low interest rate environment over the last several years. Community banks have traditionally relied heavily on the net margin for earnings but we are now operating in a more competitive market and it is important to diversify our revenues. In this regard, we also completed negotiations in 2015 to acquire a seacoast based residential mortgage lending company and initiated the regulatory approval process. We anticipate this acquisition will close in 2016. Our forecasts show that this line of business is likely to also provide increasing noninterest income in the years ahead.

While we agree that there are many headwinds facing our industry including overregulation, increasing compliance costs and non-bank competition, we do not share a pessimistic view of the future of community banks. Community banks in general and Granite Bank in particular have a very close and mutually beneficial relationship with our customers. We are confident that we can continue to attract those banking customers that want and need more from their bank than a mobile app and a distant phone number to call if they have problems, questions or need advice. We also believe that entire communities benefit when there is a local bank in their area that provides many types of support for businesses and civic organizations.

On behalf of the Board of Directors and all of the employees, we appreciate your ownership in our company, and our most important goal is to do everything possible to continue to enhance shareholder value. Please do not hesitate to contact me at any time if you would like further information. I can be reached at 603-672-4661 or ldollins@granitebank.com.



Loyd W. Dollins
President and Chief Executive Officer



An annual donation is made to support North Country ATV and Snowmobile Trails.



Granite Bank launches a new Commercial Lending Campaign.

Granite Bank hosts a boat ride event on the M/V Thomas Laighton.

GRANITE BANK 2015 HIGHLIGHTS

SMALL BUSINESS EXPERTS



Granite Bank hosts a silent auction to benefit Two Rivers Ride for Cancer in Colebrook, NH.

Picnic tables are donated to historic Strawbery Banke in Portsmouth, NH.



Granite Bank launches Mobile Banking.



Granite Bank pledges to The Renee & Dan Plummer Endowment Fund.



A donation is made to The Wounded Warriors #45 North.

Warriors @ 45 North
Where the WARRIOR Comes to Rest
Pittsburg, NH

INTRODUCING Payroll SERVICES

The Payroll Services division is opened.

1889

A donation is made to the Canaan-Pittsburg Booster Club.





Granite Bank employees participate in The Walk a Mile in Her Shoes event in Concord, NH.



Granite Bank participates in the annual “Giving Tree” to support the Upper Connecticut Valley Hospital.

Financial Highlights

For the year ending December 31, 2015 an increase was seen in total assets, net loans, and deposits. Net income available to common shareholders decreased resulting in a decrease in the earnings per share.

Total assets increased 1.5% to $262,714,216 from $258,766,102 at year-end 2014. The majority of the increase was in the loan portfolio. Net loans increased 4.4% to $197,962,652 from $189,597,872 at year-end 2014. The increase is seen mainly in the commercial loan balances. We believe this performance is due to the seasoned bankers on staff, the addition of well-known and experienced bankers, and to some extent the improving economic conditions in our principal markets. While deposits grew 1.6% to $223,441,715, the loan growth outpaced the deposit growth, resulting in a decrease within the investment portfolio. Investments decreased 4.6% from $40,003,324 at year-end 2014 to $38,145,458.

The increase in total deposits in 2015 was seen in noninterest-bearing deposits. Noninterest-bearing deposits grew $6,742,802, a 16.5% increase and represent 21.3% of total deposits. Interest-bearing deposits represent the remaining 78.7% of total deposits and are comprised of a mixture of transaction, savings, and certificate of deposit accounts.

Stockholders' equity increased in 2015 to $29,292,848 from $28,542,514 in 2014, a 2.6% increase. A small improvement in accumulated other comprehensive loss was seen, improving to ($94,500) from ($183,176) at year-end 2014. Offsetting a portion of the net income that was generated was the Company's payout of $374,621 in common dividends and $86,230 in preferred dividends in 2015.

Net income in 2015 was $1,122,509, a 29.0% decrease from net income of $1,581,910 reported in 2014, resulting in earnings per share of $1.38 in 2015 versus $2.00 in 2014. The decrease in net income was attributable to several factors including a significant rebranding expenditure as a result of the name change of our subsidiary bank and a substantial reduction in the amount of gains on the sale of securities from 2014. Net gains on sales and calls of available-for-sale securities decreased from $455,231 in 2014 to $11,696 in 2015.

In 2015, net interest and dividend income before a provision for loan losses was $8,404,226, up slightly from 2014's $8,317,869. Total interest and dividend income was $9,455,696 compared to $9,563,074 in 2014, a slight decrease of 1.1%. The decline in interest and dividend income was due to a lower earning asset yield of 3.75% versus 3.80% in 2014. Net interest margin showed a modest increase from 3.29% at year-end 2014 to 3.33% at year-end 2015. The margin improvement was due to lower interest cost and an increase in the level of noninterest-bearing deposits.

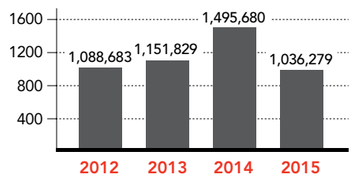
Noninterest income decreased by $382,356 or 25.9% in 2015 to $1,094,315 from $1,476,671. The primary reason was the significantly reduced net gains on sales and calls of available-for-sale securities of $443,535. Service fees were up slightly and other income was up 8.5% due primarily to the acquisition of the payroll company in early 2015.

Noninterest expense increased by $371,039 to $8,074,648 from $7,703,609 in 2014, a 4.8% increase. Expense increases in 2015 were related to the rebranding expense of the bank's name change and salaries and employee benefits.

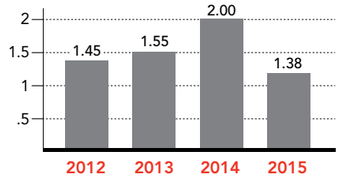
Asset quality in 2015 saw an increase in special mention loans to $10,729,825 from $6,012,103 in 2014. Substandard loans decreased to $5,252,812 in 2015 from $6,204,914 in 2014. Total past due loans increased from $1,442,424 at year-end 2014 to $2,358,451 at year-end 2015. Although an increase was seen in delinquency, nonaccrual loans remained nearly flat and charge-offs net of recoveries were $11,091 in 2015 compared to $281,030 in 2014, a 96.1% improvement. The Allowance for loan losses was $1,598,346 at year-end 2015 compared to $1,579,437 at year-end 2014.

Capital levels at December 31, 2015 on a consolidated basis declined with the exception of the Tier 1 Capital to average assets; however, they still remain well within regulatory guidelines of 5% to be considered "Well Capitalized." Tier 1 Capital to average assets was 11.0% at year-end 2015 compared to 10.6% at year-end 2014. Total capital to risk-weighted assets decreased from 15.2% at year-end 2014 to 14.3% at year-end 2015.

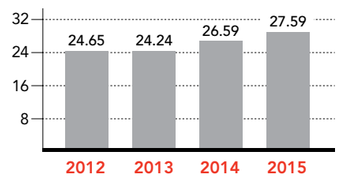
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS
(WHOLE DOLLARS)



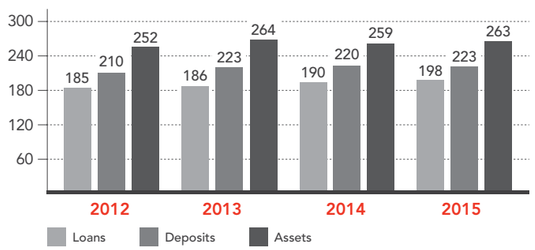
EARNINGS PER SHARE (COMMON)



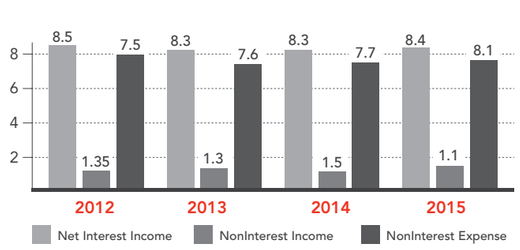
BOOK VALUE PER SHARE (COMMON)



TOTAL ASSETS, TOTAL DEPOSITS, NET LOANS
(DOLLARS IN MILLIONS)



NET INTEREST INCOME, NONINTEREST INCOME, NONINTEREST EXPENSE
(DOLLARS IN MILLIONS)



Independent Auditors' Report

The Board of Directors and Stockholders
First Colebrook Bancorp, Inc.
Colebrook, New Hampshire

We have audited the accompanying consolidated balance sheet of First Colebrook Bancorp, Inc. and Subsidiary as of December 31, 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 First Colebrook Bancorp, Inc. and Subsidiary as of December 31, 2015, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTER

The consolidated financial statements of First Colebrook Bancorp, Inc. and Subsidiary, as of and for the year ended December 31, 2014, were audited by other auditors whose report dated March 12, 2015 expressed an unmodified opinion on those statements.

Baker Newman & Noyes

Limited Liability Company
Peabody, Massachusetts
March 1, 2016

BAKER NEWMAN NOYES

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

Consolidated Balance Sheets

Years Ended December 31, 2015 and 2014

ASSETS	2015	2014
Cash and due from banks	**$1,558,368**	$1,579,365
Interest-bearing deposits with other banks	**4,493,984**	7,123,642
Federal funds sold	**402,140**	247,958
TOTAL CASH AND CASH EQUIVALENTS	**6,454,492**	8,950,965
Interest-bearing deposits with other banks	**7,219,000**	6,959,000
Investments in available-for-sale securities, at fair value	**38,145,458**	40,003,324
Federal Home Loan Bank stock, at cost	**624,000**	751,100
Loans, net	**197,962,652**	189,597,872
Premises and equipment, net	**4,817,688**	4,945,206
Other real estate owned	**732,288**	732,288
Accrued interest receivable	**702,341**	661,845
Goodwill	**175,000**	-
Cash surrender value of life insurance	**3,847,195**	3,754,587
Other assets	**2,034,102**	2,409,915
TOTAL ASSETS	**$262,714,216**	$258,766,102

LIABILITIES AND STOCKHOLDERS' EQUITY	2015	2014
Deposits		
Noninterest-bearing	**$47,650,018**	$40,907,216
Interest-bearing	**175,791,697**	179,036,037
TOTAL DEPOSITS	**223,441,715**	219,943,253
Securities sold under agreements to repurchase	**1,697,078**	1,539,547
Borrowings	**7,000,000**	7,000,000
Other liabilities	**1,282,575**	1,740,788
TOTAL LIABILITIES	**233,421,368**	230,223,588
Stockholders' equity		
Preferred stock, $0.01 par value; 15,000 shares authorized, senior non-cumulative perpetual, Series C, 8,623 shares issued and outstanding at December 31, 2015 and 2014; liquidation value $1,000 per share	**86**	86
Common stock, $1.50 par value, 2,000,000 shares authorized, 749,243 shares issued and outstanding as of December 31, 2015 and 2014	**1,123,864**	1,123,864
Paid-in capital	**11,957,296**	11,957,296
Retained earnings	**16,306,102**	15,644,444
Accumulated other comprehensive loss	**(94,500)**	(183,176)
TOTAL STOCKHOLDERS' EQUITY	**29,292,848**	28,542,514
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$262,714,216**	$258,766,102

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

Consolidated Statements of Income

Years Ended December 31, 2015 and 2014

	2015	2014
Interest and dividend income		
Interest and fees on loans	**$8,551,756**	$8,582,439
Interest on debt securities	**352,716**	463,853
Interest on municipal debt securities		
Taxable	**-**	598
Tax-exempt	**431,031**	407,057
Dividends on stocks and short-term investments	**120,193**	109,127
TOTAL INTEREST AND DIVIDEND INCOME	**9,455,696**	9,563,074
Interest expense		
Interest on deposits	**972,315**	1,152,628
Interest on Federal Home Loan Bank advances	**76,718**	89,530
Interest on capital lease	**1,127**	1,801
Interest on securities sold under agreements to repurchase	**1,310**	1,246
TOTAL INTEREST EXPENSE	**1,051,470**	1,245,205
NET INTEREST AND DIVIDEND INCOME	**8,404,226**	8,317,869
Provision for loan losses	**30,000**	-
NET INTEREST AND DIVIDEND INCOME AFTER PROVISION FOR LOAN LOSSES	**8,374,226**	8,317,869
Noninterest income		
Service fees	**525,085**	519,051
Net gain on sales and calls of available-for-sale securities	**11,696**	455,231
Net loss on sales of other real estate owned	**-**	(11,626)
Other income	**557,534**	514,015
TOTAL NONINTEREST INCOME	**1,094,315**	1,476,671
Noninterest expense		
Salaries and employee benefits	**4,042,859**	3,844,344
Occupancy expense	**839,760**	794,769
Equipment expense	**354,118**	308,487
Professional Fees	**360,793**	382,034
FDIC assessment	**164,000**	172,823
Advertisement and promotion expense	**255,800**	98,497
Data processing expense	**753,993**	730,986
Other expense	**1,303,325**	1,371,669
TOTAL NONINTEREST EXPENSE	**8,074,648**	7,703,609
INCOME BEFORE INCOME TAXES	**1,393,893**	2,090,931
Income tax expense	**271,384**	509,021
NET INCOME	**$1,122,509**	$1,581,910
Net income available to common stockholders	**$1,036,279**	$1,495,680
Earnings per common share	**$1.38**	$2.00

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

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2015 and 2014

	2015	2014
Net income	**$1,122,509**	$1,581,910
Other comprehensive income, net of tax		
Net unrealized holding gains on available-for-sale securities	**158,535**	1,530,352
Tax effect	**(62,796)**	(606,172)
	95,739	924,180
Reclassification adjustment for net realized gains in net income (1)	**(11,696)**	(455,231)
Tax effect (2)	**4,633**	180,317
	(7,063)	(274,914)
TOTAL OTHER COMPREHENSIVE INCOME	**88,676**	649,266
COMPREHENSIVE INCOME	**$1,211,185**	$2,231,176

(1) Reclassified into the consolidated statements of income in net gain on sales and calls of available-for-sale securities.
(2) Reclassified into the consolidated statements of income in income tax expense.

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2015 and 2014

	PREFERRED STOCK SERIES C	COMMON STOCK	PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL
Balance, December 31, 2013	$86	$1,120,956	$ 11,923,712	$14,522,904	$(832,442)	$26,735,216
Net income	-	-	-	1,581,910	-	1,581,910
Other comprehensive income, net of tax effect	-	-	-	-	649,266	649,266
Common stock purchased by ESOP – 2,000 shares	-	3,000	34,640	-	-	37,640
Common stock repurchased	-	(92)	(1,056)	-	-	(1,148)
Cash dividends paid on common stock ($0.50 per share)	-	-	-	(374,140)	-	(374,140)
Dividends on preferred stock	-	-	-	(86,230)	-	(86,230)
Balance, December 31, 2014	**86**	**1,123,864**	**11,957,296**	**15,644,444**	**(183,176)**	**28,542,514**
Net income	-	-	-	**1,122,509**	-	**1,122,509**
Other comprehensive income, net of tax effect	-	-	-	-	**88,676**	**88,676**
Cash dividends paid on common stock ($0.50 per share)	-	-	-	**(374,621)**	-	**(374,621)**
Dividends on preferred stock	-	-	-	**(86,230)**	-	**(86,230)**
Balance, December 31, 2015	**$86**	**$1,123,864**	**$11,957,296**	**$16,306,102**	**$(94,500)**	**$29,292,848**

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

Consolidated Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Net income	**$1,122,509**	$1,581,910
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of securities, net	**464,543**	438,460
Gain on sales and calls of available-for-sale securities, net	**(11,696)**	(455,231)
Provision for loan losses	**30,000**	-
Change in net deferred loan origination costs, net	**(68,901)**	(55,935)
Depreciation and amortization	**416,928**	368,591
Net loss on sales of other real estate owned	**-**	11,626
Gain on sale of premises and equipment	**-**	(439)
(Increase) decrease in accrued interest receivable	**(40,496)**	18,848
Income from bank-owned life insurance	**(92,608)**	(109,506)
Deferred tax expense	**80,066**	354,302
Decrease (increase) in other assets	**391,240**	(78,599)
Amortization of convenant not to compete	**10,417**	-
Increase in income taxes receivable	**(164,073)**	(226,814)
(Decrease) increase in other liabilities	**(547,436)**	72,385
Net cash provided by operating activities	**1,590,493**	1,919,598
Cash flows from investing activities		
Purchases of interest-bearing time deposits with other banks	**(6,975,000)**	(3,745,000)
Proceeds from maturities of interest-bearing time deposits with other banks	**6,715,000**	8,166,000
Purchases of available-for-sale securities	**(4,860,287)**	(19,708,814)
Proceeds from sale, maturities and principal repayments of available-for-sale securities	**6,412,145**	26,622,651
Purchase of Federal Home Loan Bank stock	**(20,100)**	(38,200)
Proceeds from redemption of Federal Home Loan Bank stock	**147,200**	-
Loan originations and principal collections, net	**(8,370,969)**	(3,859,393)
Recoveries of loans previously charged off	**45,090**	8,673
Proceeds from sales of other real estate owned	**-**	27,766
Proceeds from sale of premises and equipment	**-**	500
Capital expenditures	**(289,410)**	(901,660)
Cash paid to acquire Abikay Business Solutions, LLC	**(75,000)**	-
Net cash (used in) provided by investing activities	**(7,271,331)**	6,572,523
Cash flows from financing activities		
Net increase (decrease) in deposits	**3,498,462**	(3,463,466)
Proceeds from long-term debt advances	**4,000,000**	-
Repayment of long-term debt	**(4,000,000)**	(2,000,000)
Net decrease in short-term debt	**-**	(2,000,000)
Net increase in securities sold under agreements to repurchase	**157,531**	195,008
Payments on capital lease obligation	**(10,777)**	(10,103)
Cash dividends paid on preferred stock	**(86,230)**	(86,230)
Cash dividends paid on common stock	**(374,621)**	(374,140)
Common stock ESOP contribution	**-**	37,640
Common stock repurchase	**-**	(1,148)
Net cash provided by (used in) financing activities	**3,184,365**	(7,702,439)
Net (decrease) increase in cash and cash equivalents	**(2,496,473)**	789,682
Cash and cash equivalents at beginning of year	**8,950,965**	8,161,283
Cash and cash equivalents at end of year	**$6,454,492**	$8,950,965
Supplemental disclosures		
Interest paid	**$1,057,640**	$1,245,869
Income taxes paid	**355,391**	299,742
The following is a summary of the acquisition of Abikay Business Solutions, LLC during 2015:		
Acquisition cost	**$175,000**	
Goodwill	**$175,000**	

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

Nature of Business

First Colebrook Bancorp, Inc. (the Company) is a Delaware corporation that was incorporated in 1984 to become the holding company of Granite Bank (formerly The First Colebrook Bank) (the Bank). The Company's primary activity is to act as the holding company for the Bank. The Bank is a state chartered bank which was incorporated in 1889. The Bank conducts its operations in the state of New Hampshire, with headquarters in Colebrook, and branch offices in Concord, Amherst, and Portsmouth. The Bank is engaged principally in the business of attracting deposits from the general public and investing those deposits in residential and commercial real estate loans, and in consumer and small business loans.

1. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The accounting and reporting policies of the Company and its subsidiary conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and predominant practices within the banking industry. The consolidated financial statements were prepared using the accrual basis of accounting. The significant accounting policies are summarized below to assist the reader in better understanding the consolidated financial statements and other data contained herein.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and 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 in the near term relate to the determination of the allowance for loan losses and the valuation of investments. In connection with the determination of the allowance for loan losses and the carrying value of investments, management obtains independent valuations for investments and independent appraisals for collateral securing significant loans. Accordingly, the ultimate collectability of a substantial portion of the Company's loan portfolio is susceptible to changes in local market conditions.

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's loan portfolio. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. about information available to them at the time of their examination.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. All significant intercompany accounts and transactions have been eliminated in the consolidation.

CASH AND CASH EQUIVALENTS AND INTEREST-BEARING DEPOSITS

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items, due from banks, interest-bearing deposits with other banks and federal funds sold.

The Company's due from bank accounts and interest-bearing deposits, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risk on cash and cash equivalents.

Cash and due from banks as of December 31, 2015 and 2014, includes $1,021,000 and $782,000, respectively, which is subject to withdrawals and usage restrictions to satisfy the reserve requirements of the Federal Reserve Bank (FRB). In addition, a total of $80,000 was required to be maintained at Banker's Bank Northeast (BBNE) at December 31, 2015 and 2014.

SECURITIES

Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for amortization of premiums and accretion of discounts over the period to call or maturity using methods approximating the interest method. Securities not classified as held-to-maturity, including equity securities with readily determinable fair values, are classified as available-for-sale and are carried at fair value. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Unrealized gains and losses on securities available-for-sale are reported as a net amount in other comprehensive income or loss, net of tax.

For declines in the fair value of individual debt securities available-for-sale below their cost that are deemed to be other-than-temporary, where the Company does not intend to sell the security and it is more-likely-than-not that the Company will not be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in the fair value of the debt security related to 1) credit loss is recognized in earnings, and 2) other factors is recognized in other comprehensive income or loss. Credit loss is deemed to exist if the present value of expected future cash flows using the effective rate at acquisition is less than the amortized cost basis of the debt security. For individual debt securities where the Company intends to sell the security or more-likely-than-not will be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the security's cost basis and its fair value at the balance sheet date.

Declines in marketable equity securities below their cost that are deemed other-than-temporary are recognized in earnings as realized losses.

In estimating other-than-temporary impairment losses, management considers 1) the length of time and the extent to which the fair value has been less than cost, 2) the financial condition and near-term prospects of the issuer, and 3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

As a member of the Federal Home Loan Bank (FHLB) of Boston, the Company is required to invest in $100 par value stock of FHLB of Boston. The carrying amount of the investment (at cost) was $624,000 and $751,100 at December 31, 2015 and 2014, respectively. Management evaluates the Company's investment in FHLB of Boston stock for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market conditions warrant such evaluation. Based on its most recent analysis of the FHLB of Boston as of December 31, 2015, management deems its investment in FHLB of Boston stock to be not other-than-temporarily impaired.

FIRST COLEBROOK BANCORP, INC.

Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

LOANS

Loans receivable that management has the intent and ability to hold until maturity or payoff are reported at their outstanding principal balances adjusted for amounts due to borrowers on unadvanced loans, any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

Interest on loans is recognized on a simple interest basis.

Loan origination and commitment fees and certain direct origination costs are deferred, and the net amount amortized as an adjustment of the related loan's yield. The Company is amortizing these amounts over the contractual lives of the related loans.

Residential real estate loans are generally placed on nonaccrual when reaching 90 days past due or in process of foreclosure. All closed-end consumer loans 90 days or more past due and any equity lines in the process of foreclosure are placed on nonaccrual status. Secured consumer loans are written down to realizable value and unsecured consumer loans are charged-off upon reaching 120 or 180 days past due depending on the type of loan. Commercial real estate loans and commercial business loans and leases which are 90 days or more past due are generally placed on nonaccrual status, unless secured by sufficient cash or other assets immediately convertible to cash. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. A loan can be returned to accrual status when all the principal and interest amounts contractually due are brought current, collectibility of principal is reasonably assured and the loan has performed for a period of time, generally six months.

Cash receipts of interest income on impaired loans are credited to principal to the extent necessary to eliminate doubt as to the collectibility of the net carrying amount of the loan. Some or all of the cash receipts of interest income on impaired loans are recognized as interest income if the remaining net carrying amount of the loan is deemed to be fully collectible. When recognition of interest income on an impaired loan on a cash basis is appropriate, the amount of income that is recognized is limited to that which would have been accrued on the net carrying amount of the loan at the contractual interest rate. Any cash interest payments received in excess of the limit and not applied to reduce the net carrying amount of the loan are recorded as recoveries of charge-offs until the charge-offs are fully recovered.

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 for loan losses when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for loan losses.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility 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. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses consists of general, allocated and unallocated components, as further described below.

General Component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: residential real estate, commercial real estate, construction, commercial, manufactured housing and consumer. Management uses a rolling average of historical losses based on three years to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels and trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience, ability and depth of lending management and staff; and national and local economic trends and conditions. Management follows a similar process to estimate its liability for off-balance sheet commitments to extend credit. There were no changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during 2015.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each loan segment are as follows:

Residential real estate: The Company generally does not originate loans with a loan-to-value ratio greater than 80% and generally does not grant subprime loans. Loans with loan-to-value ratios greater than 80% require the purchase of private mortgage insurance. Loans in this segment are primarily collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial real estate: Loans in this segment are primarily income-producing properties throughout New Hampshire. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Management periodically obtains rent rolls and continually monitors the cash flows of these loans.

Construction loans: The loans in this segment are generally construction-to-permanent loans collateralized by commercial and residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial loans: Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Manufactured housing: Loans in this segment are primarily collateralized by mobile homes located on leased or rented land and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and manufactured housing prices, will have an effect on the credit quality in this segment.

Consumer loans: Loans in this segment are generally secured and repayment is dependent on the credit quality of the individual borrower.

Allocated Component
The allocated component relates to loans that are classified as impaired. A loan is considered impaired when, based on current information and events, it is probable that the Company 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, collateral value, and 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, commercial real estate and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan are lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer, manufactured housing and residential real estate loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring (TDR) agreement.

The Company periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a TDR. All TDRs are classified as impaired loans.

Unallocated Component
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 allocated and general reserves in the portfolio.

CREDIT RELATED FINANCIAL INSTRUMENTS
In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under commercial and standby letters of credit. Such financial instruments are recorded when they are funded.

PREMISES AND EQUIPMENT
Land is stated at cost. Premises and equipment are stated at cost, less accumulated depreciation and amortization. Cost and related allowances for depreciation and amortization of premises and equipment retired or otherwise disposed of are removed from the respective accounts with any gain or loss included in income or expense. Depreciation and amortization are calculated principally on the straight-line method over the estimated useful lives of the assets.

OTHER REAL ESTATE OWNED
Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses.

After foreclosure, these assets are carried at the lower of their new cost basis or fair value less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

ADVERTISING
The Company directly expenses costs associated with advertising as they are incurred.

INCOME TAXES
The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. Interest and penalties, if any, are included in income tax expense.

EARNINGS PER COMMON SHARE
Earnings per common share excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share, if any, reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. There were no dilutive securities or other contracts during the two-year period ended December 31, 2015.

Reconciliation of the numerator and the denominator of the earnings per share computation is as follows for the years ended December 31:

	2015	2014
Net income as reported	**$1,122,509**	$1,581,910
Preferred stock dividends paid	**(86,230)**	(86,230)
Net income available to common stockholders	**$1,036,279**	$1,495,680
Weighted average common shares outstanding	**749,243**	748,216
Earnings per common share	**$1.38**	$2.00

RECENT ACCOUNTING PRONOUNCEMENTS
In May 2014 and August 2015, respectively, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 and 2015-14, "Revenue from Contracts with Customers (Topic 606)." The objective of ASU 2014-09 is to clarify principles for recognizing revenue and to develop a common revenue standard for GAAP and International Financial Reporting Standards. The guidance in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, and interim periods within that period. Earlier application is permitted only as of an annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently reviewing ASUs 2014-09 and 2015-14 to determine if they will have an impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments in this ASU address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments and makes targeted improvements to GAAP as follows:

1. Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

2. Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value.

3. Eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet.

4. Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.

5. Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

6. Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements.

7. Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.

The amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption of item 5 above is permitted as of the fiscal years or interim periods for which financial statements have not yet been issued. Early adoption of all other amendments in this ASU is not permitted. The Company does not anticipate that the adoption of this ASU will have a significant impact on its consolidated financial statements.

RECLASSIFICATIONS
Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 presentation.

SUBSEQUENT EVENTS
For the purposes of the presentation of these financial statements in conformity with U.S. GAAP, management has considered transactions or events occurring through March 1, 2016 which is the date that the consolidated financial statements are available to be issued. Management has not evaluated subsequent events after that date for inclusion in the consolidated financial statements.

On February 29, 2016, the Company declared a quarterly dividend of $0.125 per common share. The dividend is payable March 31, 2016 to shareholders of record on March 15, 2016.

2. Investments in Available-for-Sale Securities

Investments in available-for-sale securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost of securities and their approximate fair values are as follows:

DECEMBER 31, 2015	AMORTIZED COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
U.S. Government sponsored agencies and corporations	**$1,000,000**	**$ -**	**$13,410**	**$986,590**
State and political subdivisions	**21,821,210**	**137,764**	**158,138**	**21,800,836**
Corporate debt securities	**2,184,824**	**1,439**	**72,277**	**2,113,986**
Mortgage-backed securities	**13,115,726**	**1,071**	**191,699**	**12,925,098**
Marketable equity securities	**180,182**	**138,766**	**-**	**318,948**
	$38,301,942	**$279,040**	**$435,524**	**$38,145,458**

DECEMBER 31, 2014	AMORTIZED COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
U.S. Government sponsored agencies and corporations	$3,000,000	$2,942	$47,885	$2,955,057
State and political subdivisions	19,143,279	47,808	230,475	18,960,612
Corporate debt securities	2,012,125	-	16,295	1,995,830
Mortgage-backed securities	15,621,061	13,129	171,766	15,462,424
Marketable equity securities	530,182	99,219	-	629,401
	$40,306,647	$163,098	$466,421	$40,003,324

The scheduled maturities of debt securities were as follows as of December 31, 2015:

2015	FAIR VALUE
Due within one year	$390,948
Due after one year through five years	6,140,628
Due after five years through ten years	6,100,860
Due after ten years	12,268,976
Mortgage-backed securities	12,925,098
	$37,826,510

Proceeds from sales of available-for-sale securities were $1,483,034 and $22,232,685 for the years ended December 31, 2015 and 2014, respectively. Gross realized gains from sales of available-for-sale securities were $11,696 and $455,231 with no gross realized losses for the years ended December 31, 2015 and 2014, respectively.

Securities with total carrying amounts of $17,716,914 and $19,456,347 as of December 31, 2015 and 2014, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

There were no securities of issuers whose aggregate carrying amount exceeded 10% of stockholders' equity as of December 31, 2015.

The aggregate fair value and unrealized losses of securities that have been in a continuous unrealized-loss position for less than 12 months and for 12 months or more, and are considered temporarily impaired, are as follows:

	Less than 12 Months		12 Months or Longer		Total	
DECEMBER 31, 2015	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
U.S. Government sponsored agencies and corporations	**$ -**	**$ -**	**$986,590**	**$13,410**	**$986,590**	**$13,410**
State and political subdivisions	**3,335,673**	**35,332**	**4,410,022**	**122,806**	**7,745,695**	**158,138**
Corporate debt securities	**1,608,557**	**72,277**	**-**	**-**	**1,608,557**	**72,277**
Mortgage-backed securities	**6,743,032**	**67,854**	**5,374,509**	**123,845**	**12,117,541**	**191,699**
TOTAL TEMPORARILY IMPAIRED SECURITIES	**$11,687,262**	**$175,463**	**$10,771,121**	**$260,061**	**$22,458,383**	**$435,524**

	Less than 12 Months		12 Months or Longer		Total	
DECEMBER 31, 2014	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
U.S. Government sponsored agencies and corporations	$ -	$ -	$1,952,115	$47,885	$1,952,115	$47,885
State and political subdivisions	4,999,663	33,854	6,977,047	196,621	11,976,710	230,475
Corporate debt securities	1,995,830	16,295	-	-	1,995,830	16,295
Mortgage-backed securities	4,420,888	23,534	9,193,274	148,232	13,614,162	171,766
TOTAL TEMPORARILY IMPAIRED SECURITIES	$11,416,381	$73,683	$18,122,436	$392,738	$29,538,817	$466,421

The investments in the Company's investment portfolio that are temporarily impaired as of December 31, 2015, consist of debt issued by states of the United States and political subdivisions of the states, U.S. corporations, and U.S. government sponsored agencies and corporations. The unrealized losses at December 31, 2015, related to debt securities, are attributable primarily to changes in market interest rates and current market inefficiencies in the pricing of these types of securities. Company management has the ability to hold these 46 securities until cost recovery occurs and considers these declines to be temporary. Management does not intend to sell impaired securities that were previously written down in the near term and the Company has the ability to hold these securities until recovery to cost basis occurs. No other-than-temporary-impairment write-downs were recorded in 2015 or 2014.

3. Loans

Loans consisted of the following as of December 31:

	2015	2014
Real estate:		
Residential	**$28,250,297**	$29,160,924
Construction	**5,465,563**	3,719,424
Commercial	**114,433,330**	107,817,077
TOTAL MORTGAGE LOANS	**148,149,190**	140,697,425
Other loans:		
Commercial, industrial and municipal	**44,089,723**	42,416,624
Manufactured housing	**5,713,340**	6,451,061
Consumer	**1,087,602**	1,159,957
TOTAL OTHER LOANS	**50,890,665**	50,027,642
TOTAL LOANS	**199,039,855**	190,725,067
Allowance for loan losses	**(1,598,346)**	(1,579,437)
Net deferred loan costs	**521,143**	452,242
Net loans	**$197,962,652**	$189,597,872

Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

Certain directors and executive officers of the Company, and companies in which they have significant ownership interest, were customers of the Bank during 2015 and 2014. Total loans to such persons and their companies amounted to $1,048,849 and $1,070,140 as of December 31, 2015 and 2014, respectively. During the year ended December 31, 2015, $88,000 of principal advances were made and principal payments totaled $109,291. During the year ended December 31, 2014, $80,580 of principal advances were made and principal payments totaled $236,240.

The following tables present an analysis of the allowance for loan losses for the years ended December 31, 2015 and 2014:

2015	Real Estate							
	RESIDENTIAL	CONSTRUCTION	COMMERCIAL	COMMERCIAL, INDUSTRIAL & MUNICIPAL	MANUFACTURED HOUSING	CONSUMER	UNALLOCATED	TOTAL
Allowance for loan losses:								
Beginning balance	$134,186	$32,731	$1,026,419	$259,067	$31,976	$2,950	$92,108	$1,579,437
Charge-offs	(17,032)	-	(2,494)	(82)	(34,874)	(1,699)	-	(56,181)
Recoveries	44,170	-	-	-	-	920	-	45,090
Provision (benefit)	7,206	10,994	43,641	31,666	28,392	209	(92,108)	30,000
Ending balance	168,530	43,725	1,067,566	290,651	25,494	2,380	-	1,598,346
Ending balance:								
Individually evaluated for impairment	725	-	18,474	14,035	-	-	-	33,234
Ending balance:								
Collectively evaluated for impairment	167,805	43,725	1,049,092	276,616	25,494	2,380	-	1,565,112
Total allowance for loan losses ending balance	168,530	43,725	1,067,566	290,651	25,494	2,380	-	1,598,346
Loans:								
Ending balance:								
Individually evaluated for impairment	56,314	-	856,860	287,849	12,256	-	-	1,213,279
Ending balance:								
Collectively evaluated for impairment	28,193,983	5,465,563	113,576,470	43,801,874	5,701,084	1,087,602	-	197,826,576
TOTAL LOANS ENDING BALANCE	$28,250,297	$5,465,563	$114,433,330	$44,089,723	$5,713,340	$1,087,602	$ -	$199,039,855

Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

2014	Real Estate							
	RESIDENTIAL	CONSTRUCTION	COMMERCIAL	COMMERCIAL, INDUSTRIAL & MUNICIPAL	MANUFACTURED HOUSING	CONSUMER	UNALLOCATED	TOTAL
Allowance for loan losses:								
Beginning balance	$267,531	$31,523	$1,018,737	$323,941	$97,401	$7,006	$114,328	$1,860,467
Charge-offs	(135,071)	-	(33,744)	-	(118,222)	(2,666)	-	(289,703)
Recoveries	-	-	-	7,305	-	1,368	-	8,673
Provision (benefit)	1,726	1,208	41,426	(72,179)	52,797	(2,758)	(22,220)	-
Ending balance	134,186	32,731	1,026,419	259,067	31,976	2,950	92,108	1,579,437
Ending balance:								
Individually evaluated for impairment	666	-	5,177	14,522	-	-	-	20,365
Ending balance:								
Collectively evaluated for impairment	133,520	32,731	1,021,242	244,545	31,976	2,950	92,108	1,559,072
Total allowance for loan losses ending balance	134,186	32,731	1,026,419	259,067	31,976	2,950	92,108	1,579,437
Loans:								
Ending balance:								
Individually evaluated for impairment	186,807	-	735,759	473,644	30,023	-	-	1,426,233
Ending balance:								
Collectively evaluated for impairment	28,974,117	3,719,424	107,081,318	41,942,980	6,421,038	1,159,957	-	189,298,834
TOTAL LOANS ENDING BALANCE	$29,160,924	$3,719,424	$107,817,077	$42,416,624	$6,451,061	$1,159,957	$ -	$190,725,067

CREDIT QUALITY INFORMATION

The Company utilizes a seven grade internal loan rating system for commercial real estate, construction and commercial loans as follows:

Loans rated 1 - 3: Loans in these categories are considered "pass" rated loans with low to average risk.

Loans rated 4: Loans in this category are considered "special mention." These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 5: Loans in this category are considered "substandard." Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Company will sustain some loss if the weakness is not corrected.

Loans rated 6: Loans in this category are considered "doubtful." Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 7: Loans in this category are considered uncollectible ("loss") and of such little value that their continuance as loans is not warranted.

On an annual basis, or more often if needed, the Company formally reviews the ratings on all commercial real estate, construction and commercial loans. For residential real estate, manufactured housing and consumer loans, the Company initially assesses credit quality based upon the borrower's ability to pay and subsequently monitors these loans based on the borrower's payment activity.

The following table presents the Company's loans by risk rating as of December 31, 2015 and 2014:

2015	Real Estate			COMMERCIAL, INDUSTRIAL & MUNICIPAL	MANUFACTURED HOUSING	CONSUMER	TOTAL
	RESIDENTIAL	CONSTRUCTION	COMMERCIAL				
Grade:							
Pass	$ -	$3,115,373	$105,938,444	$40,279,359	$ -	$ -	$149,333,176
Special mention	373,586	2,010,099	6,380,131	1,864,285	101,724	-	10,729,825
Substandard	819,078	340,091	2,114,755	1,946,079	32,809	-	5,252,812
Not formally rated	27,057,633	-	-	-	5,578,807	1,087,602	33,724,042
TOTAL	$28,250,297	$5,465,563	$114,433,330	$44,089,723	$5,713,340	$1,087,602	$199,039,855

2014	Real Estate			COMMERCIAL, INDUSTRIAL & MUNICIPAL	MANUFACTURED HOUSING	CONSUMER	TOTAL
	RESIDENTIAL	CONSTRUCTION	COMMERCIAL				
Grade:							
Pass	$ -	$3,719,424	$100,361,832	$38,847,411	$ -	$ -	$142,928,667
Special mention	594,115	-	3,480,260	1,937,728	-	-	6,012,103
Substandard	552,274	-	3,974,985	1,631,485	46,170	-	6,204,914
Not formally rated	28,014,535	-	-	-	6,404,891	1,159,957	35,579,383
TOTAL	$29,160,924	$3,719,424	$107,817,077	$42,416,624	$6,451,061	$1,159,957	$190,725,067

The following tables set forth information regarding nonaccrual loans and past-due loans as of December 31, 2015 and 2014:

2015	30-59 DAYS PAST DUE	60-89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PAST DUE	TOTAL CURRENT	TOTAL LOANS	90 DAYS OR MORE PAST DUE & ACCRUING	NONACCRUAL LOANS
Real estate:								
Residential	$131,195	$159,957	$ -	$291,152	$27,959,145	$28,250,297	$ -	$387,420
Construction	-	-	-	-	5,465,563	5,465,563	-	-
Commercial	1,078,440	141,001	221,535	1,440,976	112,992,354	114,433,330	-	682,886
Commercial, industrial and municipal	129,259	173,129	193,953	496,341	43,593,382	44,089,723	38,883	268,478
Manufactured housing	59,018	70,378	-	129,396	5,583,944	5,713,340	-	15,960
Consumer	-	-	586	586	1,087,016	1,087,602	586	-
TOTAL	$1,397,912	$544,465	$416,074	$2,358,451	$196,681,404	$199,039,855	$39,469	$1,354,744

2014	30-59 DAYS PAST DUE	60-89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PAST DUE	TOTAL CURRENT	TOTAL LOANS	90 DAYS OR MORE PAST DUE & ACCRUING	NONACCRUAL LOANS
Real estate:								
Residential	$279,127	$48,969	$ -	$328,096	$28,832,828	$29,160,924	$ -	$448,979
Construction	-	-	-	-	3,719,424	3,719,424	-	-
Commercial	-	40,711	245,574	286,285	107,530,792	107,817,077	-	542,560
Commercial, industrial and municipal	537,082	169,774	116,127	822,983	41,593,641	42,416,624	-	291,652
Manufactured housing	-	-	-	-	6,451,061	6,451,061	-	32,814
Consumer	3,503	1,557	-	5,060	1,154,897	1,159,957	-	-
TOTAL	$819,712	$261,011	$361,701	$1,442,424	$189,282,643	$190,725,067	$ -	1,316,005

Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

The following tables present a summary of information pertaining to impaired loans by loan segment as of and for the years ended December 31:

2015	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
With no related allowance recorded					
Real estate:					
Residential	$ -	$ -	$ -	$ -	$ -
Construction	-	-	-	-	-
Commercial	733,363	836,942	-	717,254	15,178
Commercial, industrial and municipal	127,442	153,576	-	191,763	660
Manufactured housing	12,256	12,256	-	12,763	967
TOTAL IMPAIRED WITH NO RELATED ALLOWANCE	$873,061	$1,002,774	$ -	$921,780	$16,805
With an allowance recorded					
Real estate:					
Residential	$56,314	$56,314	$725	$57,700	$4,553
Construction	-	-	-	-	-
Commercial	123,497	130,890	18,474	132,978	1,861
Commercial, industrial and municipal	160,407	170,249	14,035	169,321	1,643
Manufactured housing	-	-	-	-	-
TOTAL IMPAIRED WITH AN ALLOWANCE RECORDED	$340,218	$357,453	$33,234	$359,999	$8,057
Total					
Real estate:					
Residential	$56,314	$56,314	$725	$57,700	$4,553
Construction	-	-	-	-	-
Commercial	856,860	967,832	18,474	850,232	17,039
Commercial, industrial and municipal	287,849	323,825	14,035	361,084	2,303
Manufactured housing	12,256	12,256	-	12,763	967
TOTAL IMPAIRED LOANS	$1,213,279	$1,360,227	$33,234	$1,281,779	$24,862

Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

2014	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
With no related allowance recorded					
Real estate:					
Residential	$127,747	$256,686	$ -	$97,861	$3,981
Construction	-	-	-	-	-
Commercial	635,651	705,879	-	684,755	16,168
Commercial, industrial and municipal	330,026	348,823	-	338,596	5,183
Manufactured housing	30,023	30,440	-	7,506	2,346
TOTAL IMPAIRED WITH NO RELATED ALLOWANCE	$1,123,447	$1,341,828	$ -	$1,128,718	$27,678
With an allowance recorded					
Real estate:					
Residential	$59,060	$59,060	$666	$60,027	$4,761
Construction	-	-	-	-	-
Commercial	100,108	100,108	5,177	55,024	5,257
Commercial, industrial and municipal	143,618	153,423	14,522	147,119	3,500
Manufactured housing	-	-	-	-	-
TOTAL IMPAIRED WITH AN ALLOWANCE RECORDED	$302,786	$312,591	$20,365	$262,170	$13,518
Total					
Real estate:					
Residential	$186,807	$315,746	$666	$157,888	$8,742
Construction	-	-	-	-	-
Commercial	735,759	805,987	5,177	739,779	21,425
Commercial, industrial and municipal	473,644	502,246	14,522	485,715	8,683
Manufactured housing	30,023	30,440	-	7,506	2,346
TOTAL IMPAIRED LOANS	$1,426,233	$1,654,419	$20,365	$1,390,888	$41,196

Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

TDRS
A loan modification constitutes a TDR if the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. To determine whether or not a loan should be classified as a TDR, management evaluates a loan based upon the following criteria:

• The borrower demonstrates financial difficulty; common indicators include past due status with bank obligations, substandard credit bureau reports, or an inability to refinance with another lender, and

• The Company has granted a concession; common concessions include maturity date extension, interest rate adjustments to below market pricing, reduction of principal and deferment of payments.

During the years ended December 31, 2015 and 2014, certain loan modifications were executed which constituted TDRs. Substantially all of these modifications included one or a combination of the following: (1) an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk, (2) temporary change in the scheduled payment amount, (3) reduction in principal and accrued interest, or (4) the extension of the maturity date. Management performs a discounted cash flow calculation or an evaluation of the fair value of the collateral if a loan is collateral dependent to determine the amount of impairment reserve (if any) required on each of the TDRs. Any reserve required is recorded through the provision for loan losses.

The following table summarizes TDRs that occurred during the years ended December 31:

2015	NUMBER OF CONTRACTS	PRE-MODIFICATION OUTSTANDING RECORDED INVESTMENT	POST-MODIFICATION OUTSTANDING RECORDED INVESTMENT
Troubled Debt Restructurings			
Real Estate, Commercial	**2**	**$100,359**	**$100,359**
Commercial, industrial and municipal	**2**	**95,908**	**95,908**
	4	**$196,267**	**$196,267**

2014	NUMBER OF CONTRACTS	PRE-MODIFICATION OUTSTANDING RECORDED INVESTMENT	POST-MODIFICATION OUTSTANDING RECORDED INVESTMENT
Troubled Debt Restructurings			
Manufactured housing	1	$13,356	$13,356
	1	$13,356	$13,356

There were four loans that were modified as troubled debt restructurings during the year ended December 31, 2015. One commercial and industrial loan was modified to provide a six-month deferment of principal and interest payments, extension of the maturity date and re-amortization of the loan payments. The remaining modifications, one commercial and industrial loan and two owner-occupied commercial real estate loans, are to related entities. All loans were restructured to include extended terms/maturity dates, re-amortization of the debt obligations, and the waiver of past due principal payments. The loans were individually evaluated for impairment and it was determined that a specific allocation totaling $25,479 was required. All loans were reported as impaired and three loans, with a total recorded investment of $140,322, were on non-accrual status as of December 31, 2015.

As of December 31, 2015, there were no commitments to lend additional funds to borrowers whose loans were modified in troubled debt restructurings.

A loan is considered to be in payment default once it is greater than 30 days contractually past due under the modified terms. There were no TDRs modified within the previous 12 months that have defaulted during the year ended December 31, 2015.

The recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure was $16,849 at December 31, 2015. The other real estate owned balance at December 31, 2015 did not include any residential real estate properties.

Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

LOAN SERVICING RIGHTS
Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others were $8,179,102 and $11,318,174 at December 31, 2015 and 2014, respectively.

The Company has not recorded a mortgage servicing asset because the amount is not material to the consolidated financial statements.

4. Premises and Equipment
The following is a summary of premises and equipment as of December 31:

	2015	2014
Land	**$812,036**	$812,036
Building and improvements	**5,406,901**	5,323,635
Leasehold improvements	**717,140**	717,140
Capital lease – building	**115,000**	115,000
Furniture and equipment	**3,352,063**	3,541,590
	10,403,140	10,509,401
Accumulated depreciation	**(5,585,452)**	(5,564,195)
	$4,817,688	$4,945,206

As of December 31, 2015, the Company was obligated under a non-cancelable operating lease for bank premises expiring in January 2017. The total minimum rental due in future periods under the existing agreement is as follows as of December 31, 2015:

2016	$63,296
TOTAL	$63,296

The lease contains provisions for escalation of minimum lease payments contingent upon percentage increases in the consumer price index. Total rental expense amounted to $63,296 for the years ended December 31, 2015 and 2014.

CAPITAL LEASE OBLIGATION
The following is a schedule by years of future minimum lease payments under a capital lease together with the present value of the net minimum lease payments as of December 31, 2015:

2016	$11,904
	11,904
Less amount representing interest	407
Present value of net minimum lease payments, included in other liabilities	$11,497

5. Goodwill and Intangible Assets
On February 3, 2015, the Bank acquired all of the assets of Abikay Business Solutions LLC (the LLC), a payroll solutions company. The Bank acquired the LLC in order to establish a payroll processing division, offering these services to customers. Total consideration amounted to $175,000, $75,000 of which was paid at the time of closing. The balance of the consideration, in the amount of $100,000, is subject to an earn-out provision over three years and was recorded as a liability. Company management considers the terms of the earn-out provision to be achievable and has recorded the full amount of the contingent consideration. Upon the closing of the acquisition, the Bank recorded $175,000 of goodwill, which was deductible for tax purposes. In addition, the Bank entered into a two-year noncompete agreement with the owner of the LLC.

As of December 31, 2015, the Company's assets related to the acquisition included goodwill of $175,000 and a covenant not to compete. The disclosures required by ASC 805-10-50-2, Business Combinations Occurring During a Current Reporting Period or After the Reporting Date but Before the Financial Statements Are Issued, have not been presented since the acquisition was not considered material to the consolidated financial statements.

A summary of the acquired amortizable covenant not to compete is as follows:

DECEMBER 31, 2015	CARRYING AMOUNT	NET ACCUMULATED AMORTIZATION	CARRYING AMOUNT
Covenant not to compete	**$25,000**	**$10,417**	**$14,583**

Amortization expense was $10,417 in 2015. Amortization is being calculated on a straight-line basis.

Amortization expense for the years subsequent to 2015 is as follows:

2016	$12,504
2017	2,079
TOTAL	$14,583

The Company evaluated its goodwill and intangible assets as of December 31, 2015, and found no impairment.

6. Deposits

The aggregate amount of time deposit accounts in denominations of $250,000 or more, as of December 31, 2015 and 2014, was $9,750,181 and $13,149,511, respectively.

At December 31, 2015, the scheduled maturities of time deposits are as follows:

2016	$32,367,524
2017	16,019,336
2018	8,324,320
2019	2,637,737
2020	2,420,406
TOTAL	$ 61,769,323

Deposits from related parties held by the Company as of December 31, 2015 and 2014 amounted to $2,326,145 and $1,793,945, respectively.

7. Securities Sold Under Agreements to Repurchase

The securities sold under agreements to repurchase as of December 31, 2015 and 2014, are securities sold on a short-term basis by the Bank that have been accounted for not as sales but as borrowings. The securities consisted of obligations issued by U.S. Government sponsored agencies and corporations and state and political subdivisions. The securities were held in the Bank's safekeeping account at Wells Fargo under the control of the Bank and pledged to the purchasers of the securities. The purchasers have agreed to sell to the Bank substantially identical securities at the maturity of the agreements.

8. Borrowings

Advances consist of funds borrowed from the FHLB of Boston. Amounts owed as of December 31, 2015 and 2014 are $7,000,000 and $7,000,000, respectively.

Maturities of advances for the years ending after December 31, 2015 are summarized as follows:

2016	$1,000,000
2017	2,000,000
2018	4,000,000
TOTAL	$7,000,000

Borrowings from the FHLB of Boston are secured by a blanket lien on qualified collateral, consisting primarily of loans with first mortgages secured by one- to four-family properties and bank-held securities.

At December 31, 2015, the interest rates on FHLB of Boston advances ranged from 1.02% to 1.66%, with a weighted average interest rate of 1.37% at December 31, 2015. At December 31, 2014, the interest rates on FHLB of Boston advances ranged from 0.65% to 1.40%, with a weighted average interest rate of 0.92% at December 31, 2014.

9. Income Taxes

The components of income tax expense are as follows for the years ended December 31:

	2015	2014
Current:		
Federal	**$274,197**	$233,313
State	**(82,879)**	(78,594)
	191,318	154,719
Deferred:		
Federal	**(31,726)**	322,405
State	**111,792**	31,897
	80,066	354,302
TOTAL INCOME TAX EXPENSE	**$271,384**	$509,021

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows for the years ended December 31:

	% of Income	
	2015	2014
Statutory tax rate	**34.0%**	34.0%
Increase (decrease) in tax resulting from:		
State taxes, net of federal tax	**1.4**	(1.4)
Tax-exempt interest	**(11.6)**	(7.2)
Dividend exclusion	**(0.3)**	(0.4)
Disallowed interest expense	**0.5**	0.3
Nondeductible expenses	**0.2**	0.2
Increase in cash surrender value of life insurance policies	**(2.3)**	(1.7)
Other	**(2.4)**	0.1
EFFECTIVE TAX RATES	**19.5%**	23.9%

The Company had gross deferred tax assets and gross deferred tax liabilities as follows as of December 31:

	2015	2014
Deferred tax assets		
Bad debts	**$304,432**	$298,811
Deferred compensation	**234,296**	287,273
Interest on nonperforming loans	**111,245**	77,143
Tax credits	**538,518**	529,640
Write-down of OREO	**68,805**	68,805
Federal alternative minimum tax credit carryforward	**77,789**	77,789
Unrealized holding loss on available-for-sale securities	**61,984**	120,147
Other, net	**38,441**	131,040
	1,435,510	1,590,648
Deferred tax liabilities		
Depreciation	**(152,952)**	(169,041)
Other	**(2,371)**	(3,191)
Gross deferred tax liabilities	**(155,323)**	(172,232)
Net deferred tax asset	**$1,280,187**	$1,418,416

In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the reversal of deferred tax liabilities and generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon such information, management believes it is more likely than not the Company will realize the benefits of the deferred tax assets as of December 31, 2015.

It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more-likely-than-not to be sustained upon examination by tax authorities. As of December 31, 2015 and 2014, there were no material uncertain tax positions related to federal and state income tax matters.

10. Commitments and Contingent Liabilities

DATA PROCESSING SERVICES

The Company entered into an agreement with a third party in which the third party is to provide the Company with data processing and other miscellaneous services. The Company may cancel the agreement at any time, provided the Company pays an early termination fee as defined in the agreement.

LEGAL CONTINGENCIES

Various legal claims arise from time-to-time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

11. Financial Instruments with Off-Balance Sheet Risk

The Company is 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 originate loans, commercial and standby letters of credit and unadvanced funds on loans. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and letters of credit is represented by the contractual amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to originate loans are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many 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 Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include secured interests in mortgages, accounts receivable, inventory, property, plant and equipment and income-producing properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2015 and 2014, the maximum potential amount of the Company's obligation was $1,247,106 and $910,080, respectively, for commercial and standby letters of credit. The Company's outstanding letters of credit generally have a term of less than one year. If a letter of credit is drawn upon, the Company may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Company may take possession of the collateral, if any, securing the line of credit.

The notional amounts of financial instrument liabilities with off-balance sheet credit risk are as follows as of December 31:

	2015	2014
Commitments to originate loans	**$4,435,454**	$7,685,125
Commercial and standby letters of credit	**1,247,106**	910,080
Overdraft protection	**2,801,551**	2,857,687
Unadvanced portion of loans	**22,667,535**	24,649,400
	$31,151,646	$36,102,292

12. Significant Group Concentration of Credit Risk

The Company's operations are affected by various risk factors, including interest rate risk, credit risk, and risk from geographic concentration of lending activities. Management attempts to manage interest rate risk through various asset/liability management techniques designed to match maturities of assets and liabilities. Loan policies and administration are designed to provide assurance that loans will only be granted to creditworthy borrowers, although credit losses are expected to occur because of subjective factors beyond the control of the Company. Although the Company has a diversified loan portfolio and economic conditions are stable, most of its lending activities are conducted within the state of New Hampshire. As a result, the Company and its borrowers may be especially vulnerable to the consequences of changes in the local economy. In addition, a substantial portion of the Company's loans are secured by real estate located in the state of New Hampshire.

13. Employee Benefits

DEFERRED COMPENSATION PLANS

The Company has deferred compensation plans for some key employees providing for the payment of benefits upon retirement or death. Under the plans, these employees are entitled to receive specific retirement payments for a term of five years or until death with payments made to either the employee or to the employee's beneficiary as specified in the plans. The plans also provide for reduced benefits upon early retirement or termination of employment. The Company has purchased whole life insurance policies on each of the participant's lives to assist in the administration of the plans. The participants and their beneficiaries have no ownership interest in such policies and have no greater interest in the benefits under the plans other than that of an unsecured creditor of the Company.

The Company has Director Fee Continuation Agreements with some of its directors which are unfunded arrangements maintained to provide supplemental retirement benefits for directors. Under the agreements, directors shall be 100% vested in their benefits after having served five years on the Company's Board starting with date of first service.

The total liability for the deferred compensation plans amounted to $591,505 and $725,253 at December 31, 2015 and 2014, respectively. Deferred compensation expense charged to operations for the plans during the years ended December 31, 2015 and 2014 was $28,261 and $39,528, respectively.

The Company recognizes a liability for the Company's future postretirement benefit obligations under the endorsement split-dollar life insurance arrangements related to the above deferred compensation plans. The total liability for the arrangements included in other liabilities was $276,809 and $273,747 at December 31, 2015 and 2014, respectively.

401(K) PLAN

The Company maintains a contributory 401(k) pension plan covering all employees who meet certain age and service requirements. Contributions to the plan are voluntary by the eligible participants up to certain limits. Employee contributions are matched up to 5% of the participant's salary. Contribution expense recognized by the Company for the years ended December 31, 2015 and 2014 amounted to $147,147 and $137,453, respectively.

STOCK INCENTIVE PLAN

Effective April 8, 2015, the Company adopted The First Colebrook Bancorp, Inc. 2015 Stock Incentive Plan (the Plan). The Plan provides for the granting of options to purchase shares of common stock or the granting of shares of restricted stock up to an aggregate amount of 70,000 shares of common stock of the Company. Options granted under the Plan may be either Incentive Stock Options (ISOs) within the meaning of section 422 of the Internal Revenue Code or non-qualified options (NQOs) which do not qualify as ISOs.

The exercise price for shares covered by an ISO may not be less than 100% of the fair market value of common stock on the date of grant. All options must expire no later than ten years from the date of grant.

No awards have yet been issued under the Plan.

CHANGE IN CONTROL AGREEMENTS

Four officers of the Bank have entered into change in control agreements with the Bank. These agreements provide that if a "change in control" has occurred, the Bank and/or its successor shall pay the officer a lump-sum payment equal to between one and three times the officer's base salary or final compensation, as defined in the agreements.

14. Employee Stock Ownership Plan

Effective January 1, 2011, the Company adopted The First Colebrook Bank Employee Stock Ownership Plan (ESOP). An acquisition loan may be used by the ESOP to finance the purchase of Company common stock. Company contributions for any plan year shall be paid in an amount determined by the Board of Directors in its sole discretion. The Company made a 2014 plan year contribution to the ESOP in the amount of $50,000 in 2015 and a 2013 plan year contribution to the ESOP of $45,000 in 2014.

Any shares of the Company's common stock purchased by the ESOP are subject to the accounting specified by Accounting Standards Codification (ASC) 718-40. Under the standard, as any shares purchased from borrowed funds are released from collateral, the Company reports compensation expense equal to the current market price of the shares and the shares are outstanding for earnings-per-share computations. Also, as the shares are released, any related dividends will be recorded as a reduction of retained earnings, and dividends on the unallocated shares will be recorded as a reduction of any debt and accrued interest. The ESOP purchased 1,200 and 2,000 shares of common stock of the Company during 2015 and 2014, respectively. As of December 31, 2015 and 2014, the ESOP had no debt.

To participate in the plan an employee must (a) be employed on the last day of the plan year unless the employee has died, retires at normal retirement age or becomes disabled during the plan year, and (b) have at least 1,000 hours of service during the plan year.

Eighty percent (80%) of Company contributions and forfeitures shall be allocated in the ratio that the compensation of each eligible participant bears to the total compensation of all eligible participants. Twenty percent (20%) of Company contributions and forfeitures shall be allocated in the ratio that the number of full years of employment of each eligible participant bears to the total number of full years of employment of all eligible participants.

Any cash dividends paid on shares of Company common stock allocated to participants' Company stock accounts and remitted to the ESOP trust fund will, at the discretion of the plan administrator and prior to the close of the plan year in which paid, be either (1) applied to repayment of an outstanding acquisition loan relating to the Company common stock upon which the dividend is received, (2) distributed to participants in cash, or (3) allocated to each participant's Company contribution account.

15. Other Noninterest Income and Expenses

The components of other noninterest income and expenses which are in excess of 1% of total revenues (total interest and dividend income and noninterest income) and not shown separately in the statements of income are as follows for the years ended December 31:

	2015	2014
Other noninterest income		
Master money income	**$192,532**	$241,409
Cash surrender value of life insurance income	**92,608**	109,506
Other noninterest expenses		
Directors' fees	**$235,611**	$238,894
Printing, postage, stationery and supplies	**180,867**	147,308
Service fees and expenses	**399,283**	421,676

16. Regulatory Matters

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

Effective January 1, 2015 (with a phase-in period of two to four years for certain components), the Bank became subject to new capital regulations adopted by the Board of Governors of the Federal Reserve System ("FRB") and the FDIC, which implement the Basel III regulatory capital reforms and the changes required by the Dodd-Frank Act. The new regulations require a new common equity Tier 1 ("CET1") capital ratio of 4.5%, increase the minimum Tier 1 capital to risk-weighted assets ratio to 6.0% from 4.0%, require a minimum total capital to risk-weighted assets ratio of 8.0% and require a minimum Tier 1 leverage ratio of 4.0%. CET1 generally consists of common stock and retained earnings, subject to applicable adjustments and deductions. Under new prompt corrective action regulations, in order to be considered "well capitalized," the Bank must maintain a CET1 capital ratio of 6.5% (new) and a Tier 1 ratio of 8.0% (increased from 6.0%), a total risk based capital ratio of 10.0% (unchanged) and a Tier 1 leverage ratio of 5.0% (unchanged). In addition, the regulations establish a capital conservation buffer above the required capital ratios that phases in beginning January 1, 2016 at 0.625% of risk-weighted assets and increases each year by 0.625% until it is fully phased in at 2.5% effective January 1, 2019. Beginning January 1, 2016, failure to maintain the capital conservation buffer will limit the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses.

The new regulations implemented changes to what constitutes regulatory capital. Certain instruments will no longer constitute qualifying capital, subject to phase-out periods. In addition, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of CET1 will be deducted from capital. The Bank has elected to permanently opt-out of the inclusion of accumulated other comprehensive income (loss) in capital calculations, as permitted by the regulations. This opt-out will reduce the impact of market volatility on the Bank's regulatory capital ratios.

The new regulations also changed the risk weights of certain assets, including an increase in the risk weight of certain high volatility commercial real estate acquisition, development and construction loans and non-residential mortgage loans that are 90 days past due or on non-accrual status to 150% from 100%, a credit conversion factor for the unused portion of commitments with maturities of less than one year that are not cancellable to 20% from 0%, an increase in the risk weight for mortgage servicing rights and deferred tax assets that are not deducted from capital to 250% from 100%, and an increase in the risk weight for equity exposures to 600% from 0%.

Management believes, as of December 31, 2015, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2015, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, Common Equity Tier 1 capital and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

FIRST COLEBROOK BANCORP, INC.

Notes to Consolidated Financial Statements
Years Ended December 31, 2015 and 2014

The Company's and the Bank's actual capital amounts and ratios are also presented in the table. The Company is subject to similar minimum capital requirements, except bank holding companies are not subject to prompt corrective action provisions.

DECEMBER 31, 2015	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
	(Dollars in thousands)					
Total capital to risk-weighted assets:						
Company	**$30,286**	**14.3%**	**$17,004**	**8.0%**	**N/A**	**N/A**
Bank	**27,135**	**12.8**	**16,920**	**8.0**	**$21,150**	**10.0%**
Tier 1 Capital to risk-weighted assets:						
Company	**28,770**	**13.5**	**12,753**	**6.0**	**N/A**	**N/A**
Bank	**25,533**	**12.1**	**12,690**	**6.0**	**16,920**	**8.0**
Common Equity Tier 1 Capital to risk-weighted assets:						
Company	**20,147**	**9.5**	**9,565**	**4.5**	**N/A**	**N/A**
Bank	**25,533**	**12.1**	**9,518**	**4.5**	**13,748**	**6.5**
Tier 1 Capital to average assets:						
Company	**28,770**	**11.0**	**10,491**	**4.0**	**N/A**	**N/A**
Bank	**25,533**	**9.8**	**10,448**	**4.0**	**13,060**	**5.0**

DECEMBER 31, 2014	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
	(Dollars in thousands)					
Total capital to risk-weighted assets:						
Company	$29,122	15.2%	$15,322	8.0%	N/A	N/A
Bank	26,006	13.6	15,243	8.0	$19,053	10.0 %
Tier 1 Capital to risk-weighted assets:						
Company	27,539	14.4	7,661	4.0	N/A	N/A
Bank	24,423	12.8	7,621	4.0	11,432	6.0
Tier 1 Capital to average assets:						
Company	27,539	10.6	10,399	4.0	N/A	N/A
Bank	24,423	9.4	10,347	4.0	12,934	5.0

17. Fair Value Measurements and Disclosures

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's assets and liabilities carried at fair value at December 31, 2015 and 2014.

The Company did not have any significant transfers of assets between Level 1 and Level 2 of the fair value hierarchy during the years ended December 31, 2015 and 2014.

The Company's marketable equity securities are generally classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

The Company's investment in mortgage-backed securities and other debt securities available-for-sale is generally classified within Level 2 of the fair value hierarchy. For these securities, management obtains fair value measurements from independent pricing services. The fair value measurements consider observable market data that may include dealer quotes, market spreads, cash flows, the U.S. treasury yield curve, trading levels, market consensus prepayment speeds, credit information and the instrument's terms and conditions.

Level 3 of the fair value hierarchy is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Subsequent to inception, management only changes Level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalization and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows.

The fair values of the Company's impaired loans are estimated based on the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based upon appraisals of similar properties obtained from a third party using market information. For Level 3 inputs, fair value is based upon management estimates of the value of the underlying collateral.

Other real estate owned values are estimated using Level 2 inputs based upon appraisals of similar properties obtained from a third party using market information. For Level 3 inputs, fair values are based on management estimates.

The following summarizes assets measured at fair value as of December 31, 2015 and 2014.

Assets measured at fair value on a recurring basis using a market approach:

2015		Fair Value Measurements at Reporting Date Using:		
	TOTAL	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
U.S. Government sponsored agencies and corporations	$986,590	$ -	$986,590	$ -
State and political subdivisions	21,800,836	-	21,800,836	-
Corporate debt securities	2,113,986	-	2,113,986	-
Mortgage-backed securities	12,925,098	-	12,925,098	-
Marketable equity securities	318,948	318,948	-	-
TOTALS	$38,145,458	$318,948	$37,826,510	$ -

2014		Fair Value Measurements at Reporting Date Using:		
	TOTAL	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
U.S. Government sponsored agencies and corporations	$2,955,057	$ -	$2,955,057	$ -
State and political subdivisions	18,960,612	-	18,960,612	-
Corporate debt securities	1,995,830	-	1,995,830	-
Mortgage-backed securities	15,462,424	-	15,462,424	-
Marketable equity securities	629,401	629,401	-	-
TOTALS	$40,003,324	$629,401	$39,373,923	$ -

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Assets measured at fair value on a nonrecurring basis:

Under certain circumstances the Company makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the assets carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at December 31, 2015 and 2014, for which a nonrecurring change in fair value has been recorded:

2015	TOTAL	Fair Value Measurements at Reporting Date Using: QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Other real estate owned	$732,288	$ -	$ -	$732,288
Impaired loans	306,984	-	-	306,984
TOTAL	$1,039,272	$ -	$ -	$1,039,272

2014	TOTAL	Fair Value Measurements at Reporting Date Using: QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Other real estate owned	$732,288	$ -	$ -	$732,288
Impaired loans	99,338	-	99,338	-
TOTAL	$831,626	$ -	$99,338	$732,288

Notes to Consolidated Financial Statements
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The following table reconciles activity for the years ended December 31, 2015 and 2014 of other real estate owned and impaired loans measured at fair value on a nonrecurring basis using significant unobservable Level 3 inputs:

	2015	2014
Beginning balance	$732,288	$771,680
Additions	306,984	-
Disposals	-	(39,392)
Ending balance	$1,039,272	$732,288

ASC 825, *Financial Instruments*, requires that the Company disclose estimated fair value for its financial instruments. Fair value methods and assumptions used by the Company in estimating its fair value disclosures for financial instruments not discussed above are as follows:

Cash and cash equivalents: The carrying amounts reported in the balance sheets for cash and cash equivalents approximate those assets' fair values.

Interest-bearing deposits with banks: The fair values of interest-bearing deposits with banks are estimated using discounted cash flow analyses using interest rates currently being offered for deposits with similar terms to investors.

FHLB of Boston stock: The carrying value of FHLB of Boston stock approximates fair value based on the redemption provisions of the FHLB of Boston.

Loans receivable: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values of fixed rate loans, and those variable rate loans that do not reprice frequently, are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Accrued interest receivable: The carrying amount of accrued interest receivable approximates its fair value.

Deposits: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificate accounts are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on certificate accounts.

Borrowings: Fair values for borrowings are estimated using a discounted cash flow technique that applies interest rates currently being offered on advances to a schedule of aggregated expected monthly maturities.

Securities sold under agreements to repurchase: The carrying amounts reported on the consolidated balance sheets for securities sold under agreements to repurchase approximate their fair values.

Off-balance sheet instruments: The fair value of commitments to originate loans is estimated using the fees currently charged to enter similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments and the unadvanced portion of loans, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligation with the counterparties at the reporting date.

The estimated fair values of the Company's financial instruments, all of which are held or issued for purposes other than trading, are as follows as of December 31:

2015	CARRYING AMOUNT	Fair Value LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets					
Cash and cash equivalents	**$6,454,492**	**$6,454,492**	**$ -**	**$ -**	**$6,454,492**
Interest-bearing time deposits with other banks	**7,219,000**	**-**	**7,232,222**	**-**	**7,232,222**
Available-for-sale securities	**38,145,458**	**318,948**	**37,826,510**	**-**	**38,145,458**
Federal Home Loan Bank stock	**624,000**	**624,000**	**-**	**-**	**624,000**
Loans, net	**197,962,652**	**-**	**-**	**198,659,911**	**198,659,911**
Accrued interest receivable	**702,341**	**702,341**	**-**	**-**	**702,341**
Financial liabilities					
Deposits	**223,441,715**	**-**	**224,001,936**	**-**	**224,001,936**
Securities sold under repurchase agreements	**1,697,078**	**1,697,078**	**-**	**-**	**1,697,078**
Borrowings	**7,000,000**	**-**	**6,990,388**	**-**	**6,990,388**

2014	CARRYING AMOUNT	Fair Value LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets					
Cash and cash equivalents	$8,950,965	$8,950,965	$ -	$ -	$8,950,965
Interest-bearing time deposits with other banks	6,959,000	7,027,402	-	-	7,027,402
Available-for-sale securities	40,003,324	629,401	39,373,923	-	40,003,324
Federal Home Loan Bank stock	751,100	-	751,100	-	751,100
Loans, net:					
Commercial, industrial, and municipal	41,170,992	-	39,419	40,928,916	40,968,335
Real Estate- construction	3,684,901	-	-	3,666,763	3,666,763
Real Estate- residential	36,297,431	-	-	36,118,764	36,118,764
Real Estate- commericial	100,927,525	-	59,919	100,370,809	100,430,728
Manufactured housing	6,360,468	-	-	6,329,161	6,329,161
Consumer	1,156,555	-	-	1,150,862	1,150,862
Accrued interest receivable	661,845	-	661,845	-	661,845
Financial liabilities					
Deposits	219,943,553	-	217,609,669	-	217,609,669
Securities sold under repurchase agreements	1,539,547	-	1,539,547	-	1,539,547
Borrowings	7,000,000	-	6,974,936	-	6,974,936

The carrying amounts of financial instruments shown in the above table are included in the consolidated balance sheets under the indicated captions.

18. Preferred Stock

On September 22, 2011, as part of the U.S. Treasury Department (Treasury) Small Business Lending Fund (SBLF) program, the Company entered into a Securities Purchase Agreement with the Treasury pursuant to which the Company issued and sold to the Treasury 8,623 shares of the Company's non-cumulative perpetual preferred stock, Series C, par value $0.01 per preferred share, having a liquidation preference of $1,000 per preferred share for a total purchase price of $8,623,000 (the Series C Preferred Stock). The SBLF was the Treasury's effort to bring Main Street banks and small businesses together to help create jobs and promote economic growth in local communities. The Company used $4,725,000 of the proceeds to redeem the Series A and B Preferred Stock previously issued to the Treasury.

Under the SBLF program, the initial dividend rate payable on SBLF capital is, at most, 5%, and the dividend rate falls to 1% after two years if a participating bank's level of Qualified Small Business Lending (QSBL) increases by 10% or more over the two-year period. Banks that increase their lending by less than 10%, but more than 2.5%, pay dividend rates between 2% and 4%. If a bank's lending does not increase in the first two years, however, the dividend rate increases to 7%. After two years, the dividend rate in effect is fixed for the next 2.5 years.

The Company has increased its QSBL by more than 10% to qualify for a 1% dividend rate for the 2.5-year period from September 30, 2013 to March 22, 2016. After 4.5 years, the total dividend rate increases to 9% regardless of the amount of small business lending activities. The dividend will be paid only when declared by the Company's Board of Directors. The Series C Preferred Stock has no maturity date, is non-voting, except in limited circumstances, and ranks senior to Common Stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of the Company.

The SBLF Preferred Stock may be redeemed at any time by the Company, subject to the approval of its federal banking regulator. The redemption price is the aggregate liquidation preference of the SBLF Preferred Stock plus accrued but unpaid dividends and pro rata portion of any lending incentive fee. All redemptions must be in an amount at least equal to 25% of the number of originally issued shares of SBLF Preferred Stock, or 100% of the then-outstanding shares if less than 25% of the number of shares originally issued.

First Colebrook Bancorp, Inc.

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David M. Atkinson *Vice Chairman*
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Warren E. Chase
Brendon I. Cote
Judith E. Dalton
Loyd W. Dollins
Jonathan S. Frizzell
Sharon B. Lane
Jon R. Lang
John E. Lyons, Jr.
James E. Tibbetts

Granite Bank

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SENIOR MANAGEMENT

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Avis E. Brosseau *Senior Vice President Finance/Corporate Secretary*
Robert A. Davis *Senior Vice President/Senior Loan Officer*
Susan K. Robidas *Senior Vice President/Operations/Security & Safety*

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Chris Rogers
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Jodi Naughton
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Jack Blalock
Paul Careno
Ernest Carrier
Shelley Cross
Daryl Kent
Michelle Kurtz
Alec McEachern
Timothy Phoenix
William Powers
Jonathan Springer
Eric Weinreib
Peter Weeks

OFFICERS

Colebrook
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Pamela Bunnell *Vice President/Residential & Consumer Loan Officer*
Pierrette Champagne *Vice President/Compliance Officer/BSA/CRA*
Bridget Freudenberger *Vice President/Commercial Loan Officer*
Lisa Whitaker *Vice President/Human Resources Director*
Wayne Frizzell *Assistant Vice President/Branch Manager*
Beth Goudreau *Assistant Vice President/Administration*
Leroy J. Tolley *Assistant Vice President/Operations Officer*
Linda Yorke *Assistant Vice President/Processing & Collections Officer*
Bronson Frizzell *Portfolio Assistant*

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Cathy Leftin *Assistant Vice President/Sr. Portfolio Analyst/Credit Officer*
Suellen Croteau *Portfolio Assistant*
Karen Schunemann *Branch Manager*

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Michael Gonzales *Vice President/Credit Administration Manager*
Heather Leach *Vice President/Commercial Loan Officer*
Carmen Mangiafico *Vice President/Payroll Services Division*
Michael Rasmussen *Vice President/Commercial Loan Officer*
Karen Keating *Assistant Vice President/Branch Manager/Small Business Lender*

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Carol Estes *Vice President/Commercial Loan Officer*
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Benjamin Wheeler *Vice President/Commercial Loan Officer/Environmental Awareness Officer*
Angela Ferris *Assistant Vice President/Portfolio Manager*
Shelley-Ann Cullen *Portfolio Assistant*
Carol McGinty *Branch Manager*

Visit www.granitebank.com for branch locations, hours of operations, product descriptions, current corporate news and shareholder information.
Registrar and Transfer Agent: ComputerShare, www.computershare.com
Ticker Symbol: FCNH Market: OTCQX
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