FIRST COLEBROOK BANCORP, INC.

2013 ANNUAL REPORT

New Hampshire's Independently
Owned Bank Since 1889

Our Mission: To be recognized as the best community bank by providing exceptional service to our customers and communities, by protecting and enhancing our shareholders' investments and by providing rewarding and challenging opportunities for our employees.

To Our Shareholders:

I am very pleased to report that your Company's financial performance in 2013 showed continued improvement in growth and earnings. Total Assets at December 31, 2013 were $264 million which is an increase of 4.5% over year-end 2012. Total Deposits in 2013 increased 6.2% to $223 million. Net profit available to common shareholders after preferred stock dividends was $1.151 million or $1.55 per share compared to $1.45 per share in 2012.

Despite the difficult economic environment and the adverse effects of substantially increased federal regulation over the last five years, we have continued to grow and improve earnings. As we have said before, we did not participate in any of the controversial activities that some say precipitated the financial crisis, but the harsh regulatory response has impacted us and all community banks. However, we are confident that we can continue to serve our customers and communities and still provide competitive investment returns for our shareholders and challenging career opportunities for our current and future employees. As an indication of our confidence, we recently completed an expansion of our Portsmouth branch to accommodate our growth in the Seacoast and surrounding markets.

2013 was the first full year after our stock split and listing on the stock exchange. We believe these changes have been successful in substantially improving liquidity for our shareholders at a market value. The changes also permitted the holding of shares in brokerage accounts and greatly facilitated holding them in tax deferred accounts such as IRAs. The trading activity has continued to increase, which should further enhance liquidity. This year we are introducing the ability for our shareholders to vote their shares electronically, which should make it more convenient to cast ballots. Complete instructions are included in the Annual Meeting Notice and accompanying materials.

In 2014 First Colebrook Bank will celebrate its 125th anniversary. We were chartered as Colebrook National Bank in Colebrook in May of 1889. We will be celebrating throughout the year with activities and promotions that tell the story of the rich history of our Bank.

I would also like to note that Marie Smith retired in 2013 from full time service. Marie has been an invaluable part of our Bank for almost thirty years. During that time she served in many capacities, including Executive Assistant to the last three presidents of First Colebrook Bank. Her last position was Assistant Vice President and Corporate Secretary. Marie is an example of a true community banker. She put the interests of the Bank, its customers and shareholders first and she was always willing at any time to help out wherever she was needed. Marie is an important part of the history of our Bank and she will be missed.

On behalf of the Board of Directors and all the officers and employees, I want to thank you for your ownership in our Company, and to invite you to contact me at any time if you would like further information. I can be reached at 603-237-7026 and at ldollins@firstcolebrookbank.com.

Sincerely,

Loyd W. Dollins
President and Chief Executive Officer

Financial Highlights

In the year ended December 31, 2013 the bank recorded modest growth in assets and deposits, significant improvement in loan portfolio quality, and continued pressure on interest margins. Resulting net income and earnings per share of common stock were up marginally over 2012.

Total assets grew 4.5% to $264,164,980 from $252,762,600 at year end 2012. Most of the growth was in the investment portfolio. Investments and interest bearing deposits with other banks grew to $57,205,268 from $46,424,391, a 23.2% increase. The loan portfolio was relatively unchanged at $185,691,217 despite strong loan originations during the year. As a result of the continuing sluggish economy, many borrowers chose to dispose of their real estate assets, refinance their debt or defer business growth decisions, resulting in the payoff of loans in an amount equal to the new loan originations generated during the year.

Deposits grew 6.2% in 2013 to $223,406,719 from $210,289,955. Deposit growth in 2013 was seen in both demand deposits and interest bearing deposits. Demand deposits grew 12.5% and now represent 17.3% of total deposits. Interest bearing deposits represent the remaining 82.7% of total deposits and are comprised of a mixture of transaction accounts, savings accounts and certificates of deposit. With the absence of loan portfolio growth, deposit growth in 2013 was temporarily deployed into the investment portfolio in high quality liquid assets.

Stockholders equity decreased in 2013 to $26,735,216 from $27,000,910 as a result of an increase in accumulated other comprehensive gain (loss) from an unrealized gain of $290,376 at December 31, 2012 to an unrealized loss of ($832,442) at December 31, 2013. In addition, the company paid out $328,022 in common dividends and $95,811 in preferred dividends in 2013. The net investment valuation reduction of $1,122,818 and the dividends paid to shareholders were greater than the additions to shareholder equity from operating earnings, thus resulting in the small decrease in total shareholder equity.

Net income in 2013 was $1,247,640 which was a slight increase over the $1,245,495 reported in 2012. This represents earnings per common share of $1.55 in 2013 versus $1.45 in 2012. The improvement in earnings per common share was a result of lower dividends payable in 2013 on the Small Business Loan Fund preferred shares issued to the US Treasury. Book value per common share decreased slightly in 2013 to $24.24 per share compared to $24.65 per share at year end 2012.

Net interest income decreased 3% to $8,314,429 from $8,575,461 in 2012. Net interest income declined due to a decline in the net interest margin to 3.36% from 3.63% in 2012. The prolonged low interest rate environment continued to erode yields on earning assets in 2013, while the cost of funds reached near bottom in 2012. Earning asset yields dropped 45 basis points to 3.94% from 4.39% in 2012, while the cost of funds decreased only 14 basis points to .61% from .75% in 2012.

Noninterest income also decreased modestly in 2013 to $1,324,290 from $1,349,691 in 2012. The primary cause for the decline was a decrease in gains on sales of available-for-sale securities to $118,023 from $446,660 the previous year. With interest rates rising in 2013, opportunities to take profits from the portfolio were diminished.

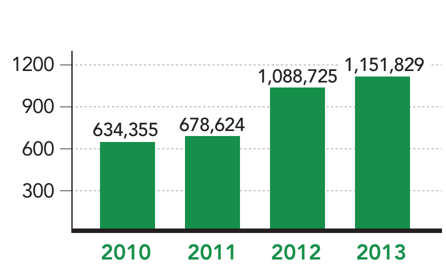
Noninterest expenses were up marginally in 2013 to $7,608,551 from $7,530,052 in 2012, a small 1% increase. Expense increases in 2013 were related to occupancy, advertising and data processing, while salaries and employee expense were reduced.

In 2013 we witnessed a significant improvement in our problem assets levels as measured through our internal loan risk rating system. The methodology used is an outcome of regulatory guidance and the results are reviewed by federal regulators and independent loan review consultants. The risk ratings of loans considered special mention or substandard declined to $14,940,462 from $18,119,308 at year end 2012, a 17.5% decrease. Net loan charge offs were significantly reduced in 2013 to $384,224 from $948,589 in 2012, a 59.5% reduction. This improvement in our loan risk ratings and reduction in loan charge offs justified a reduction in the 2013 contribution to the loan loss reserve from earnings. In 2013 the provision to the loan loss reserve was $288,990 compared to a provision of $706,705 in 2012. At December 31, 2013 the Loan Loss Reserve was $1,860,467 compared to a reserve of $1,955,691 at the prior year end.

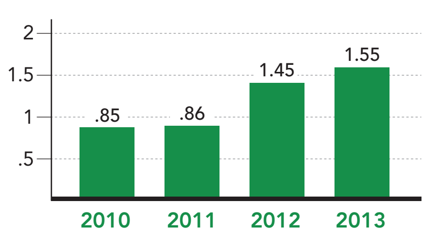
These positive trends in our loan portfolio are the result of hard work by our lending staff and an improving local business climate. With continued efforts and improvement in the business climate, and resulting stabilization of interest margins, we can anticipate further positive results ahead.

Capital levels at December 31, 2013 on a consolidated basis were very consistent with 2012 and well within regulatory guidelines to be considered "Well Capitalized". Tier 1 capital was 9.7% at year end 2013 compared to 10.4% at year end 2012. The minimum capital level required by regulatory authorities is 4%.

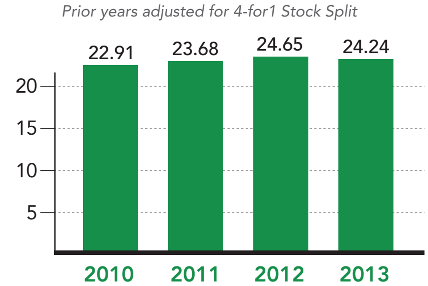
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS
(WHOLE DOLLARS)



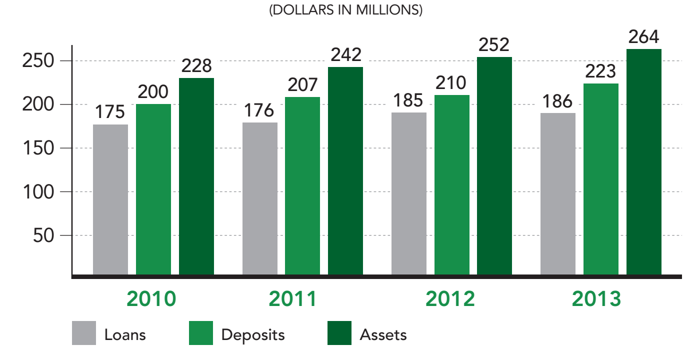
EARNINGS PER SHARE (COMMON)
Prior years adjusted for 4-for1 Stock Split



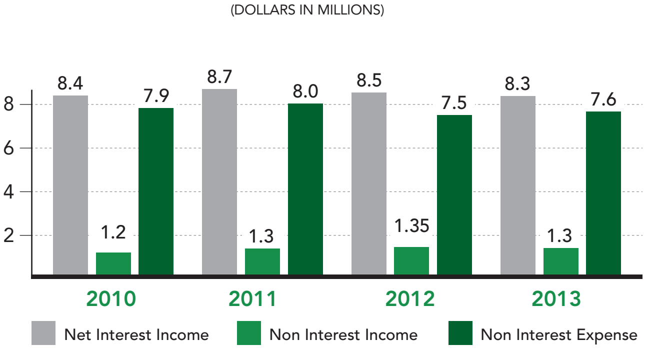
BOOK VALUE PER SHARE (COMMON)
Prior years adjusted for 4-for1 Stock Split



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



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



Independent Auditor's Report

Board of Directors
First Colebrook Bancorp, Inc.

We have audited the accompanying consolidated financial statements of First Colebrook Bancorp, Inc. and Subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of First Colebrook Bancorp, Inc. and Subsidiary as of December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
March 19, 2014

BerryDunn

Consolidated Balance Sheets
Years Ended December 31, 2013 and 2012

ASSETS	2013	2012
Cash and due from banks	$8,101,857	$7,487,632
Federal funds sold	59,426	40,449
TOTAL CASH AND CASH EQUIVALENTS	8,161,283	7,528,081
Interest-bearing deposits with other banks	11,380,000	6,476,000
Investments in available-for-sale securities, at fair value	45,825,268	39,948,391
Federal Home Loan Bank of Boston stock, at cost	712,900	652,400
Loans (net of allowance for loan losses of $1,860,467 and $1,955,691 as of December 31, 2013 and 2012, respectively)	185,691,217	185,142,005
Premises and equipment, net	4,412,198	4,631,005
Other real estate owned	771,680	882,779
Accrued interest receivable	680,693	720,590
Cash surrender value of life insurance	3,645,081	3,533,155
Other assets	2,884,660	3,248,194
TOTAL ASSETS	$264,164,980	$252,762,600

LIABILITIES AND STOCKHOLDERS' EQUITY	2013	2012
Deposits		
Noninterest bearing	$38,681,779	$34,407,690
Interest-bearing	184,724,940	175,882,265
TOTAL DEPOSITS	223,406,719	210,289,955
Securities sold under agreements to repurchase	1,344,539	1,235,795
Borrowings	11,000,000	12,426,000
Other liabilities	1,678,506	1,809,940
TOTAL LIABILITIES	237,429,764	225,761,690
Commitments and contingencies (Notes 4, 9, 10, 12, 15, and 17)		
Stockholders' equity		
Preferred stock, par value $0.01 per share; authorized 15,000 shares:		
Preferred stock, senior non-cumulative perpetual, Series C, par value $0.01 per share; 8,623 shares issued and outstanding at December 31, 2013 and 2012; and liquidation value $1,000 per share	86	86
Common stock, $1.50 par value, 2,000,000 shares authorized, 747,304 and 753,064 shares issued; and 747,304 and 745,504 shares outstanding as of December 31, 2013 and 2012, respectively	1,120,956	1,129,596
Paid-in capital	11,923,712	12,008,385
Retained earnings	14,522,904	13,751,507
Accumulated other comprehensive (loss) income	(832,442)	290,376
Less: Treasury stock, at cost, 7,560 shares at December 31, 2012	-	(179,040)
TOTAL STOCKHOLDERS' EQUITY	26,735,216	27,000,910
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$264,164,980	$252,762,600

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

Consolidated Statements of Income
Years Ended December 31, 2013 and 2012

	2013	2012
Interest and dividend income		
Interest and fees on loans	**$8,853,143**	$9,354,963
Interest on debt securities	**387,870**	350,100
Interest on municipal debt securities		
Taxable	**1,020**	2,957
Tax-exempt	**354,022**	374,263
Dividends on stocks and short-term investments	**126,355**	109,928
TOTAL INTEREST AND DIVIDEND INCOME	**9,722,410**	10,192,211
Interest expense		
Interest on deposits	**1,305,416**	1,507,675
Interest on Federal Home Loan Bank of Boston advances	**99,025**	103,108
Interest on capital lease	**2,433**	3,026
Interest on securities sold under agreements to repurchase	**1,107**	2,941
TOTAL INTEREST EXPENSE	**1,407,981**	1,616,750
NET INTEREST AND DIVIDEND INCOME	**8,314,429**	8,575,461
Provision for loan losses	**288,990**	706,705
NET INTEREST AND DIVIDEND INCOME AFTER PROVISION FOR LOAN LOSSES	**8,025,439**	7,868,756
Noninterest income		
Service fees	**540,546**	495,105
Gain on sales and calls of available-for-sale securities, net	**118,023**	468,763
Other-than-temporary impairment of investment securities	**-**	(22,103)
Net loss on sales of other real estate owned	**(990)**	(145,779)
Other income	**666,711**	553,705
TOTAL NONINTEREST INCOME	**1,324,290**	1,349,691
Noninterest expense		
Salaries and employee benefits	**3,878,362**	3,924,775
Occupancy expense	**770,017**	751,269
Equipment expense	**287,877**	312,391
FDIC assessment	**171,547**	182,129
Advertisement and promotion expense	**138,069**	105,410
Data processing expense	**680,326**	628,293
Other expense	**1,682,353**	1,625,785
TOTAL NONINTEREST EXPENSE	**7,608,551**	7,530,052
INCOME BEFORE INCOME TAXES	**1,741,178**	1,688,395
Income tax expense	**493,538**	442,900
NET INCOME	**$1,247,640**	$1,245,495
Net income available to common stockholders	**$1,151,829**	$1,088,725
Earnings per common share	**$1.55**	$1.45

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

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2013 and 2012

	2013	2012
Net income	**$1,247,640**	$1,245,495
Other comprehensive loss, net of tax		
Net unrealized holding (losses) gains on available-for-sale securities arising during the period	**(1,741,256)**	397,923
Tax effect	**689,711**	(157,615)
	(1,051,545)	240,308
Reclassification adjustment for net realized gains in net income (1)	**(118,023)**	(468,763)
Reclassification adjustment for impairment write-down in net income (1)	**-**	22,103
Tax effect (2)	**46,750**	176,920
	(71,273)	(269,740)
TOTAL OTHER COMPREHENSIVE LOSS	**(1,122,818)**	(29,432)
TOTAL COMPREHENSIVE INCOME	**$124,822**	$1,216,063

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

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2013 and 2012

	PREFERRED STOCK SERIES C	COMMON STOCK	TREASURY STOCK	PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
Balance, December 31, 2011	$86	$281,715	$ -	$ 11,979,100	$13,833,629	$319,808	$26,414,338
Net income	-	-	-	-	1,245,495	-	1,245,495
Other comprehensive loss	-	-	-	-	-	(29,432)	(29,432)
Common stock purchased by ESOP – 456 shares	-	684	-	29,285	-	-	29,969
Stock split (564,798 additional shares)	-	847,197	-	-	(847,197)	-	-
Treasury stock, at cost	-	-	(179,040)	-	-	-	(179,040)
Cash dividends paid on common stock ($0.43 per share)	-	-	-	-	(323,650)	-	(323,650)
Dividends on preferred stock	-	-	-	-	(156,770)	-	(156,770)
Balance, December 31, 2012	**86**	**1,129,596**	**(179,040)**	**12,008,385**	**13,751,507**	**290,376**	**27,000,910**
Net income	-	-	-	-	**1,247,640**	-	**1,247,640**
Other comprehensive loss	-	-	-	-	-	**(1,122,818)**	**(1,122,818)**
Common stock purchased by ESOP – 1,800 shares	-	**2,700**	-	**30,617**	-	-	**33,317**
Treasury stock, retired	-	**(11,340)**	**179,040**	**(115,290)**	**(52,410)**	-	-
Cash dividends paid on common stock ($0.44 per share)	-	-	-	-	**(328,022)**	-	**(328,022)**
Dividends on preferred stock	-	-	-	-	**(95,811)**	-	**(95,811)**
Balance, December 31, 2013	**$86**	**$1,120,956**	**$ -**	**$11,923,712**	**$14,522,904**	**$(832,442)**	**$26,735,216**

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

Consolidated Statements of Cashflows
Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Net income	$1,247,640	$1,245,495
Adjustments to reconcile net income to net cash provided by operating activities		
Gain on sales and calls of available-for-sale securities, net	(118,023)	(468,763)
Other-than-temporary impairment of investment securities	-	22,103
Net amortization of premiums and discounts on available-for-sale securities	438,434	883,162
Provision for loan losses	288,990	706,705
Increase in deferred origination costs, net	(16,530)	(57,277)
Depreciation and amortization	355,185	383,346
Net loss on sales and write-down of other real estate owned	990	145,779
Loss on sale of premises and equipment	-	433
Decrease (increase) in accrued interest receivable	39,897	(15,954)
Deferred income tax (benefit) expense	(167,252)	190,994
Increase in cash surrender value of life insurance	(111,926)	(115,739)
Decrease in other assets	1,346,615	297,451
(Increase) decrease in income taxes receivable	(79,368)	50,968
Decrease in other liabilities	(121,963)	(78,480)
Net cash provided by operating activities	3,102,689	3,190,223
Cash flows from investing activities		
Net (increase) decrease in interest-bearing deposits with other banks	(4,904,000)	475,000
Purchases of available-for-sale securities	(17,575,956)	(24,626,482)
Proceeds from sale, maturities and principal repayments of available-for-sale securities	9,519,389	18,576,277
(Purchase) redemption of Federal Home Loan Bank stock	(60,500)	125,900
Loan originations and principal collections, net	(951,680)	(8,936,704)
Recoveries of loans previously charged off	43,272	24,504
Proceeds from sales of other real estate owned	196,845	679,403
Proceeds from sale of premises and equipment	-	14,700
Capital expenditures	(136,378)	(82,062)
Net cash used in investing activities	(13,869,008)	(13,749,464)
Cash flows from financing activities		
Net increase in deposits	13,116,764	3,071,837
Proceeds from issuance of long-term debt	4,000,000	5,000,000
Net (decrease) increase in short-term debt	(2,426,000)	4,426,000
Repayment of long-term debt	(3,000,000)	(2,000,000)
Increase (decrease) in securities sold under agreements to repurchase	108,744	(594,435)
Payments on capital lease obligations	(9,471)	(8,895)
Cash dividends paid on preferred stock	(95,811)	(156,770)
Cash dividends paid on common stock	(328,022)	(323,650)
Common stock ESOP contribution	33,317	29,969
Purchase of treasury stock	-	(179,040)
Net cash provided by financing activities	11,399,521	9,265,016
Net increase (decrease) in cash and cash equivalents	633,202	(1,294,225)
Cash and cash equivalents at beginning of year	7,528,081	8,822,306
Cash and cash equivalents at end of year	$8,161,283	$7,528,081
Supplemental disclosures		
Interest paid	$1,406,014	$1,618,900
Income taxes paid	301,827	207,000
Noncash transactions		
Loans transferred to other real estate owned	86,736	356,000
Loans originated from sales of other real estate owned	-	364,000

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 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 PRESENTATIONS

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 other real estate owned. In connection with the determination of the allowance for loan losses and the carrying value of other real estate owned, management obtains independent appraisals for significant properties and 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.

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, 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, 2013, includes $1,396,000 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 is required to be maintained at Banker's Bank Northeast (BBNE).

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 $712,900 and $652,400 at December 31, 2013 and 2012, 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, 2013, management deems its investment in FHLB of Boston stock to be not other-than-temporarily impaired.

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 life 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/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/depth of lending management and staff; and national and local economic trends and conditions. There were no changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during 2013.

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. All loans in this segment are 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 is 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 and residential real estate loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring 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 troubled debt restructuring (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 asset.

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.

STOCK SPLIT

On September 10, 2012, stockholders of record as of the close of business, the record date, received an additional three shares of common stock for every one share held. The four-for-one split of its common stock was distributed on September 20, 2012, by means of a book entry deposit into the stockholder's account at the Registrar and Transfer Company. The Company transferred $847,197 from retained earnings to common stock, representing the par value of additional shares issued. All share and per share amounts for all periods presented have been retroactively adjusted to reflect the stock split.

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, 2013.

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

	2013	2012
Net income as reported	**$1,247,640**	$1,245,495
Preferred stock dividends paid	**(95,811)**	(156,770)
Net income available to common stockholders	**$1,151,829**	$1,088,725
Average common shares outstanding	**745,509**	749,602
Earnings per common share	**$1.55**	$1.45

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The ASU was issued to clarify that an in substance repossession or foreclosure occurs, and a credit is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the credit obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the ASU amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014, and the ASU is to be adopted using either a modified retrospective transition method or a prospective transition method. The Company does not believe such ASU will have a material effect on the Company's consolidated financial statements, other than the additional disclosures required.

RECLASSIFICATIONS

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 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 19, 2014, 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.

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:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
December 31, 2013				
U.S. Government sponsored agencies and corporations	**$3,989,149**	**$1,391**	**$155,121**	**$3,835,419**
State and political subdivisions	**18,522,583**	**25,127**	**939,791**	**17,607,919**
Corporate debt securities	**3,840,816**	**47,571**	**1,641**	**3,886,746**
Mortgage-backed securities	**20,295,982**	**51,744**	**567,941**	**19,779,785**
Marketable equity securities	**555,182**	**202,109**	**41,892**	**715,399**
	$47,203,712	**$327,942**	**$1,706,386**	**$45,825,268**

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
December 31, 2012				
U.S. Government sponsored agencies and corporations	$2,007,398	$ -	$9,154	$1,998,244
State and political subdivisions	18,758,234	231,904	99,522	18,890,616
Corporate debt securities	2,592,919	88,324	-	2,681,243
Mortgage-backed securities	15,549,193	182,514	52,304	15,679,403
Marketable equity securities	559,813	141,149	2,077	698,885
	$39,467,557	$643,891	$163,057	$39,948,391

The scheduled maturities of debt securities were as follows as of December 31, 2013:

	FAIR VALUE
Due within one year	$1,734,314
Due after one year through five years	10,358,510
Due after five years through ten years	11,696,551
Due after ten years	1,540,709
Mortgage-backed securities	19,779,785
	$45,109,869

Gross realized gains from sales of available-for-sale securities were $118,023 and $468,763 with no gross realized losses for the years 2013 and 2012, respectively.

Securities with total carrying amounts of $20,699,528 and $19,069,622 as of December 31, 2013 and 2012, 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, 2013.

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	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
December 31, 2013						
U.S. Government sponsored agencies and corporations	**$1,922,197**	**$80,486**	**$925,365**	**$74,635**	**$2,847,562**	**$155,121**
State and political subdivisions	**10,316,376**	**564,373**	**3,536,036**	**375,418**	**13,852,412**	**939,791**
Corporate debt securities	**739,925**	**1,641**	**-**	**-**	**739,925**	**1,641**
Mortgage-backed securities	**11,527,536**	**364,782**	**4,831,744**	**203,159**	**16,359,280**	**567,941**
Marketable equity securities	**333,108**	**41,892**	**-**	**-**	**333,108**	**41,892**
Total temporarily impaired securities	**$24,839,142**	**$1,053,174**	**$9,293,145**	**$653,212**	**$34,132,287**	**$1,706,386**

	Less than 12 months		12 Months or Longer		Total	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
December 31, 2012						
U.S. Government sponsored agencies and corporations	$1,998,244	$9,154	$ -	$ -	$1,998,244	$9,154
State and political subdivisions	6,800,005	99,522	-	-	6,800,005	99,522
Mortgage-backed securities	7,837,029	47,913	415,380	4,391	8,252,409	52,304
Marketable equity securities	372,923	2,077	-	-	372,923	2,077
Total temporarily impaired securities	$17,008,201	$158,666	$415,380	$4,391	$17,423,581	$163,057

The investments in the Company's investment portfolio that are temporarily impaired as of December 31, 2013, consist of debt issued by states of the United States and political subdivisions of the states, U.S. corporations, U.S. government sponsored agencies and corporations, and marketable equity securities. The unrealized losses at December 31, 2013 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 securities until cost recovery occurs and considers these declines to be temporary. Company management considers the declines in fair value of marketable equity securities below amortized cost to be mostly due to recent uncertainties in the financial markets and monitors these securities on a monthly basis. Management does not intend to sell impaired securities in the near term and the Company has the ability to hold these securities until recovery to cost basis occurs.

For the years ended December 31, 2013 and 2012, securities with other-than-temporary impairment losses related to credit, that were recognized in earnings, consisted of a mortgage-backed security. The Company estimated the portion of loss attributable to credit using a discounted cash flow model based on key assumptions such as the default rate, loss severity, and prepayment rate. The present value of the expected cash flows was compared to the Company's holding to determine the credit-related impairment loss. Based upon the analysis of its investment, management recognized an other-than-temporary-impairment write-down of its mortgage-backed security of $22,103 as of December 31, 2012. No other-than-temporary-impairment write-down was recorded in 2013.

3. Loans

Loans consisted of the following as of December 31:

	2013	2012
Commercial, industrial and municipal	**$39,027,424**	$37,261,314
Real estate – construction	**4,635,685**	6,490,095
Real estate – residential	**37,182,197**	36,151,442
Real estate – commercial	**97,778,891**	97,138,971
Manufactured housing	**7,729,083**	8,457,253
Consumer	**1,198,404**	1,598,621
	187,551,684	187,097,696
Allowance for loan losses	**(1,860,467)**	(1,955,691)
Net loans	**$185,691,217**	$185,142,005

Certain directors and executive officers of the Company, and companies in which they have significant ownership interest, were customers of the Bank during 2013 and 2012. Total loans to such persons and their companies amounted to $1,225,800 and $1,302,875 as of December 31, 2013 and 2012, respectively. During the year ended December 31, 2013, $34,676 of principal advances were made and principal payments totaled $111,751. During the year ended December 31, 2012, $194,552 of principal advances were made and principal payments totaled $104,720.

An analysis of the allowance for loan losses follows for the years ended December 31, 2013 and 2012:

	Real Estate							
Year Ended December 31, 2013	RESIDENTIAL	CONSTRUCTION	COMMERCIAL	COMMERCIAL, INDUSTRIAL & MUNICIPAL	MANUFACTURED HOUSING	CONSUMER	UNALLOCATED	TOTAL
Beginning balance	**$277,390**	**$40,888**	**$1,033,120**	**$417,260**	**$165,047**	**$21,986**	**$ -**	**$1,955,691**
Charge-offs	**(124,685)**	**-**	**(134,802)**	**(22,960)**	**(131,837)**	**(13,202)**	**-**	**(427,496)**
Recoveries	**-**	**-**	**28,014**	**2,590**	**8,775**	**3,893**	**-**	**43,272**
Provision for (reduction in) loan losses	**114,826**	**(9,365)**	**92,405**	**(72,949)**	**55,416**	**(5,671)**	**114,328**	**288,990**
Ending balance	**$267,531**	**$31,523**	**$1,018,737**	**$323,941**	**$97,401**	**$7,006**	**$114,328**	**$1,860,467**

	Real Estate							
Year Ended December 31, 2012	RESIDENTIAL	CONSTRUCTION	COMMERCIAL	COMMERCIAL, INDUSTRIAL & MUNICIPAL	MANUFACTURED HOUSING	CONSUMER	UNALLOCATED	TOTAL
Beginning balance	$478,535	$49,463	$1,135,115	$343,307	$171,496	$9,407	$10,252	$2,197,575
Charge-offs	(384,814)	-	(431,349)	(58,108)	(85,762)	(13,060)	-	(973,093)
Recoveries	15,519	-	20	-	8,415	550	-	24,504
Provision for (reduction in) loan losses	168,150	(8,575)	329,334	132,061	70,898	25,089	(10,252)	706,705
Ending balance	$277,390	$40,888	$1,033,120	$417,260	$165,047	$21,986	$ -	$1,955,691

The following table presents the allowance for loan losses and select loan information for the years ended December 31, 2013 and 2012:

2013	Real Estate: RESIDENTIAL	Real Estate: CONSTRUCTION	Real Estate: COMMERCIAL	COMMERCIAL, INDUSTRIAL & MUNICIPAL	MANUFACTURED HOUSING	CONSUMER	UNALLOCATED	TOTAL
Allowance for loan losses: Individually evaluated for impairment	**$1,010**	**$ -**	**$115,353**	**$85,491**	**$ -**	**$ -**	**$ -**	**$201,854**
Collectively evaluated for impairment	**266,521**	**31,523**	**903,384**	**238,450**	**97,401**	**7,006**	**114,328**	**1,658,613**
Ending balance	**$267,531**	**$31,523**	**$1,018,737**	**$323,941**	**$97,401**	**$7,006**	**$114,328**	**$1,860,467**
Loans: Individually evaluated for impairment	**$146,509**	**$ -**	**$2,806,038**	**$1,254,944**	**$ -**	**$ -**		**$4,207,491**
Collectively evaluated for impairment	**37,035,688**	**4,635,685**	**94,972,853**	**37,772,480**	**7,729,083**	**1,198,404**		**183,344,193**
Ending balance	**$37,182,197**	**$4,635,685**	**$97,778,891**	**$39,027,424**	**$7,729,083**	**$1,198,404**		**$187,551,684**

2012	Real Estate: RESIDENTIAL	Real Estate: CONSTRUCTION	Real Estate: COMMERCIAL	COMMERCIAL, INDUSTRIAL & MUNICIPAL	MANUFACTURED HOUSING	CONSUMER	UNALLOCATED	TOTAL
Allowance for loan losses: Individually evaluated for impairment	$29,049	$ -	$29,532	$84,986	$46,000	$8,734	$ -	$198,301
Collectively evaluated for impairment	248,341	40,888	1,003,588	332,274	119,047	13,252	-	1,757,390
Ending balance	$277,390	$40,888	$1,033,120	$417,260	$165,047	$21,986	-	$1,955,691
Loans: Individually evaluated for impairment	$29,049	$ -	$743,101	$214,617	$65,439	$8,734		$1,060,940
Collectively evaluated for impairment	36,122,393	6,490,095	96,395,870	37,046,697	8,391,814	1,589,887		$186,036,756
Ending balance	$36,151,442	$6,490,095	$97,138,971	$37,261,314	$8,457,253	$1,598,621		$187,097,696

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 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, 2013 and 2012:

	Real Estate						
2013	RESIDENTIAL	CONSTRUCTION	COMMERCIAL	COMMERCIAL, INDUSTRIAL & MUNICIPAL	MANUFACTURED HOUSING	CONSUMER	TOTAL
Pass	**$36,482,437**	**$4,635,685**	**$88,785,732**	**$33,816,838**	**$7,692,126**	**$1,198,404**	**$172,611,222**
Special mention	**205,026**	**-**	**4,867,196**	**2,264,882**	**-**	**-**	**7,337,104**
Substandard	**494,734**	**-**	**4,125,963**	**2,945,704**	**36,957**	**-**	**7,603,358**
Total	**$37,182,197**	**$4,635,685**	**$97,778,891**	**$39,027,424**	**$7,729,083**	**$1,198,404**	**$187,551,684**

	Real Estate						
2012	RESIDENTIAL	CONSTRUCTION	COMMERCIAL	COMMERCIAL, INDUSTRIAL & MUNICIPAL	MANUFACTURED HOUSING	CONSUMER	TOTAL
Pass	$35,458,285	$6,490,095	$84,043,166	$33,026,563	$8,370,811	$1,589,468	$168,978,388
Special mention	285,739	-	8,294,691	3,531,657	-	-	12,112,087
Substandard	407,418	-	4,801,114	703,094	86,442	9,153	6,007,221
Total	$36,151,442	$6,490,095	$97,138,971	$37,261,314	$8,457,253	$1,598,621	$187,097,696

The following table sets forth information regarding nonaccrual loans and past-due loans as of December 31, 2013 and 2012:

2013	30-59 DAYS PAST DUE	60-89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PAST DUE	CURRENT	TOTAL LOANS	90 DAYS AND ACCRUING	RECORDED INVESTMENT NONACCRUAL LOANS
Real estate:								
Residential	$142,621	$36,941	$85,045	$264,607	$36,917,590	$37,182,197	$ -	$470,093
Construction	-	-	-	-	4,635,685	4,635,685	-	-
Commercial	149,255	143,259	318,103	610,617	97,168,274	97,778,891	127,824	966,337
Commercial, industrial and municipal	356,776	-	145,636	502,412	38,525,012	39,027,424	-	1,017,888
Manufactured housing	-	-	-	-	7,729,083	7,729,083	-	-
Consumer	403	4,827	-	5,230	1,193,174	1,198,404	-	-
	$649,055	$185,027	$548,784	$1,382,866	$186,168,818	$187,551,684	$127,824	$2,454,318

2012	30-59 DAYS PAST DUE	60-89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PAST DUE	CURRENT	TOTAL LOANS	90 DAYS AND ACCRUING	RECORDED INVESTMENT NONACCRUAL LOANS
Real estate:								
Residential	$309,678	$74,585	$65,439	$449,702	$35,701,740	$36,151,442	$ -	$464,811
Construction	-	-	-	-	6,490,095	6,490,095	-	-
Commercial	360,442	349,981	148,905	859,328	96,279,643	97,138,971	-	573,361
Commercial, industrial and municipal	290,912	301,352	597,974	1,190,238	36,071,076	37,261,314	597,974	52,200
Manufactured housing	-	-	-	-	8,457,253	8,457,253	-	-
Consumer	16,082	8,734	-	24,816	1,573,805	1,598,621	-	418
	$977,114	$734,652	$812,318	$2,524,084	$184,573,612	$187,097,696	$597,974	$1,090,790

The following table presents a summary of information pertaining to impaired loans by loan segment as of and for the years ended December 31, 2013 and 2012.

2013	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
With no related allowance recorded					
Real estate - residential	$ 84,911	$166,042	$ -	$146,199	$6,542
Real estate - commercial	2,099,037	2,148,021	-	2,199,632	90,213
Real estate - construction	-	-	-	-	-
Commercial, industrial and municipal	729,290	733,719	-	933,025	50,460
Manufactured housing	-	-	-	-	-
Consumer	-	-	-	-	-
	$2,913,238	$3,047,782	$ -	$3,278,856	$147,215
With an allowance recorded					
Real estate - residential	$61,598	$61,598	$1,010	$61,256	$4,826
Real estate - commercial	707,001	711,951	115,353	712,514	32,157
Real estate - construction	-	-	-	-	-
Commercial, industrial and municipal	525,654	528,795	85,491	548,914	39,049
Manufactured housing	-	-	-	-	-
Consumer	-	-	-	-	-
	$1,294,253	$1,302,344	$201,854	$1,322,684	$76,032
Total					
Real estate - residential	$146,509	$227,640	$1,010	$207,455	$11,368
Real estate - commercial	2,806,038	2,859,972	115,353	2,912,146	122,370
Real estate - construction	-	-	-	-	-
Commercial, industrial and municipal	1,254,944	1,262,514	85,491	1,481,939	89,509
Manufactured housing	-	-	-	-	-
Consumer	-	-	-	-	-
TOTAL IMPAIRED LOANS	$4,207,491	$4,350,126	$201,854	$4,601,540	$223,247

2012	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
With no related allowance recorded					
Real estate - residential	$ -	$ -	$-	$ -	$ -
Real estate - commercial	418,890	450,279	-	432,465	4,939
Commercial, industrial and municipal	52,200	57,736	-	56,253	356
Manufactured housing	-	-	-	-	-
Consumer	-	-	-	-	-
	$471,090	$508,015	$-	$488,718	$5,295
With an allowance recorded					
Real estate - residential	$29,049	$29,049	$29,049	$29,049	$ -
Real estate - commercial	324,211	325,761	29,532	352,258	764
Commercial, industrial and municipal	162,417	162,417	84,986	162,593	5,408
Manufactured housing	65,439	65,439	46,000	65,439	-
Consumer	8,734	8,734	8,734	8,734	-
	$589,850	$591,400	$198,301	$618,073	$6,172
Total					
Real estate - residential	$29,049	$29,049	$29,049	$29,049	$ -
Real estate - commercial	743,101	776,040	29,532	784,723	5,703
Commercial, industrial and municipal	214,617	220,153	84,986	218,846	5,764
Manufactured housing	65,439	65,439	46,000	65,439	-
Consumer	8,734	8,734	8,734	8,734	-
TOTAL IMPAIRED LOANS	$1,060,940	$1,099,415	$198,301	$1,106,791	$11,467

TROUBLED DEBT RESTRUCTURINGS

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.
- 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.

The following table presents the recorded investment in TDRs as of December 31, 2013 and 2012, based on payment performance status:

2013	COMMERCIAL AND INDUSTRIAL	COMMERCIAL REAL ESTATE	RESIDENTIAL REAL ESTATE	TOTAL
Performing	**$86,020**	**$266,908**	**$61,598**	**$414,526**
Non-performing	-	-	-	-
TOTAL	**$86,020**	**$266,908**	**$61,598**	**$414,526**

2012	COMMERCIAL AND INDUSTRIAL	COMMERCIAL REAL ESTATE	RESIDENTIAL REAL ESTATE	TOTAL
Performing	$135,364	$249,828	-	$385,192
Non-performing	-	-	-	-
TOTAL	$135,364	$249,828	-	$385,192

Troubled debt restructured loans are considered impaired. As of December 31, 2013 and 2012, there were no commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ended December 31, 2013 and 2012, certain loan modifications were executed which constituted troubled debt restructurings. 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 troubled debt restructurings. Any reserve required is recorded through the provision for loan losses.

The following table summarizes troubled debt restructurings that occurred during the years ended December 31, 2013 and 2012:

2013	NUMBER OF LOANS	PRE-MODIFICATION OUTSTANDING RECORDED INVESTMENT	POST-MODIFICATION OUTSTANDING RECORDED INVESTMENT
Residential real estate	**1**	**$60,818**	**$62,002**
Commercial real estate	**2**	**105,430**	**105,430**
TOTAL	**3**	**$166,248**	**$167,432**

2012	NUMBER OF LOANS	PRE-MODIFICATION OUTSTANDING RECORDED INVESTMENT	POST-MODIFICATION OUTSTANDING RECORDED INVESTMENT
Commercial and industrial	2	$139,373	$139,373
Commercial real estate	3	323,561	259,154
TOTAL	5	$462,934	$398,527

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 troubled debt restructurings modified within the previous 12 months that have defaulted during the year ended December 31, 2013.

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 $10,404,694 and $5,944,872 at December 31, 2013 and 2012, 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:

	2013	2012
Land	**$812,036**	$812,036
Building and improvements	**4,829,817**	4,797,625
Leasehold improvements	**717,140**	708,284
Capital lease – building	**115,000**	115,000
Furniture and equipment	**3,195,936**	3,100,606
	9,669,929	9,533,551
Accumulated depreciation	**(5,257,731)**	(4,902,546)
	$4,412,198	$4,631,005

As of December 31, 2013, the Bank was obligated under a non-cancelable operating lease for bank premises expiring in December 2016. The total minimum rental due in future periods under the existing agreement is as follows as of December 31, 2013:

2014	$66,998
2015	66,998
2016	66,998
	$200,994

The lease contains provisions for escalation of minimum lease payments contingent upon percentage increases in the consumer price index. Total rental expense amounted to $61,284 and $61,918 for the years ended December 31, 2013 and 2012, respectively.

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, 2013:

2014	$11,904
2015	11,904
2016	11,904
	35,712
Less amount representing interest	3,335
Present value of net minimum lease payments, included in other liabilities	$32,377

5. Deposits

The aggregate amount of time deposit accounts in denominations of $100,000 or more, as of December 31, 2013 and 2012, was $37,288,942 and $34,591,566, respectively.

At December 31, 2013, the scheduled maturities of time deposits are as follows:

2014	$35,185,875
2015	19,632,167
2016	13,939,544
2017	4,030,553
2018	2,429,962
	$75,218,101

Deposits from related parties held by the Company as of December 31, 2013 and 2012 amounted to $6,064,823 and $7,291,852, respectively.

6. Securities Sold Under Agreements to Repurchase

The securities sold under agreements to repurchase as of December 31, 2013 and 2012, 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.

7. Borrowings

Advances consist of funds borrowed from the FHLB of Boston, FRB, and BBNE. Amounts owed to each creditor as of December 31, are as follows:

	2013	2012
FHLB of Boston	**$11,000,000**	$8,426,000
FRB	**-**	2,000,000
BBNE	**-**	2,000,000
	$11,000,000	$12,426,000

Maturities of advances for the years ending after December 31, 2013 are summarized as follows:

2014	$4,000,000
2015	4,000,000
2016	1,000,000
2017	-
2018	2,000,000
	$11,000,000

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.

Borrowings from the FRB are secured by qualified commercial loans and bank-held securities and the borrowings from BBNE are unsecured.

At December 31, 2013, the interest rates on FHLB of Boston advances ranged from 0.18% to 1.59%, with a weighted average interest rate of 0.91% at December 31, 2013.

8. Income Taxes

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

	2013	2012
Current tax expense		
Federal	**$548,346**	$206,849
State	**112,444**	45,057
Total current income tax expense	**660,790**	251,906
Deferred tax expense (benefit)		
Federal	**(70,782)**	174,568
State	**(19,340)**	16,426
Change in valuation allowance	**(77,130)**	-
Total deferred income tax expense (benefit)	**(167,252)**	190,994
TOTAL INCOME TAX EXPENSE	**$493,538**	$442,900

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	
	2013	2012
Tax at statutory rate	**34.0**	34.0
State income tax expense, net of federal expense	**3.4**	2.4
Tax-exempt interest	**(7.6)**	(8.6)
Dividend exclusion	**(0.4)**	(0.4)
Disallowed interest expense	**0.4**	0.5
Nondeductible expenses	**0.2**	0.2
Increase in cash surrender value of life insurance policies	**(2.1)**	(2.3)
Other	**4.1**	0.4
Change in valuation allowance	**(4.3)**	-
EFFECTIVE TAX RATE	**27.7%**	26.2%

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

	2013	2012
Deferred tax assets		
Bad debts	**$408,709**	$467,749
Deferred compensation	**335,172**	384,223
Interest on nonperforming loans	**53,876**	36,869
Tax credits	**566,558**	671,255
Write-down of securities	**119,934**	123,757
Write-down of OREO	**68,805**	109,130
Capital loss carryforward	**-**	128,160
Federal alternative minimum tax credit carryforward	**77,789**	92,145
Depreciation	**279,850**	-
Unrealized holding loss on available-for-sale securities	**546,002**	-
Other, net	**112,715**	181,793
Gross deferred tax assets	**2,569,410**	2,195,081
Valuation allowance	**-**	(77,130)
	2,569,410	2,117,951
Deferred tax liabilities		
Depreciation	**-**	(176,300)
Net unrealized holding gain on available-for-sale securities	**-**	(190,459)
Other	**(3,191)**	(88,686)
Gross deferred tax liabilities	**(3,191)**	(455,445)
Net deferred tax asset	**$2,566,219**	$1,662,506

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, net of the valuation allowance provided, as of December 31, 2013.

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, 2013 and 2012, there were no material uncertain tax positions related to federal and state income tax matters. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and state taxing authorities for the years ended December 31, 2010 through December 31, 2012.

9. 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.

10. 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, 2013 and 2012, the maximum potential amount of the Company's obligation was $606,877 and $739,377, 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:

	2013	2012
Commitments to originate loans	**$8,451,664**	$9,259,500
Commercial and standby letters of credit	**606,877**	739,377
Overdraft protection	**2,875,193**	2,791,124
Unadvanced portion of loans:		
Home equity loans	**3,379,302**	3,873,079
Commercial loans	**19,270,446**	16,290,668
Municipal loans	**1,755,000**	1,425,000
Residential construction	**1,815,500**	632,337
	$38,153,982	$35,011,085

11. 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.

12. Employee Benefits

The Company has deferred compensation plans for key employees providing for the payment of benefits upon retirement or death. Under the plans, these employees may elect to receive specific retirement payments for a term of five or ten years with payments made to either the employee or their beneficiaries. 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 plan. The participants and their beneficiaries have no ownership interest in such policies and have no greater interest in the benefits under the plan than that of an unsecured creditor of the Company. The Company also had a deferred compensation index plan which was terminated effective December 31, 2008. Each participant of the index plan has agreed to receive their accrued benefit, which amounted to $749,798, in either a lump sum payment or over a period of five years, beginning January 1, 2009 if retired, or at retirement date.

The Company has Director Fee Continuation Agreements with 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 $846,180 and $970,016 at December 31, 2013 and 2012, respectively. Deferred compensation expense charged to operations for the plans during the years ended December 31, 2013 and 2012 was $80,112 and $79,752, 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 $274,947 and $284,219 at December 31, 2013 and 2012, respectively.

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. Contributions to the plan by the Company for the years ended December 31, 2013 and 2012 amounted to $136,115 and $144,565, respectively.

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.

13. 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 2012 plan year contribution to the ESOP in the amount of $40,000 in 2013 and a 2011 plan year contribution to the ESOP of $30,000 in 2012.

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 1,800 and 1,824 shares (adjusted for the 2012 stock split) of common stock of the Company during 2013 and 2012, respectively. As of December 31, 2013 and 2012, the ESOP had no debt.

To participate in the plan an employee (a) must 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 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 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.

14. 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:

	2013	2012
Noninterest income		
Master money income	**$249,195**	$235,011
Cash surrender value of life insurance income	**111,926**	115,739
Noninterest expenses		
Other real estate owned expense	**$106,349**	$162,237
Directors' fees	**194,800**	150,300
Examination and audit expense	**177,000**	144,000
Debit card expense	**120,466**	120,789

15. 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 its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2013 and 2012, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2013, the most recent notification from the Federal Deposit Insurance Corporation 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 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 Bank's category. The Bank's and the Company'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.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
			(Dollars in thousands)			
December 31, 2013						
Total capital to risk weighted assets:						
Company	**$27,635**	**14.7%**	**$15,038**	**8%**	**N/A**	**N/A**
Bank	**$24,036**	**12.8%**	**$15,029**	**8%**	**$18,786**	**10%**
Tier 1 capital to risk weighted assets:						
Company	**$25,770**	**13.7%**	**$7,519**	**4%**	**N/A**	**N/A**
Bank	**$22,171**	**11.8%**	**$7,514**	**4%**	**$11,271**	**6%**
Tier 1 capital to average assets:						
Company	**$25,770**	**9.7%**	**$10,612**	**4%**	**N/A**	**N/A**
Bank	**$22,171**	**8.5%**	**$10,495**	**4%**	**$13,119**	**5%**

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
			(Dollars in thousands)			
December 31, 2013						
Total capital to risk weighted assets:						
Company	$27,458	14.9%	$14,750	8%	N/A	N/A
Bank	$23,633	12.8%	$14,804	8%	$18,506	10%
Tier 1 capital to risk weighted assets:						
Company	$25,498	13.8%	$7,375	4%	N/A	N/A
Bank	$21,673	11.7%	$7,402	4%	$11,103	6%
Tier 1 capital to average assets:						
Company	$25,498	10.4%	$9,849	4%	N/A	N/A
Bank	$21,673	8.9%	$9,784	4%	$12,230	5%

16. 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) or 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 for December 31, 2013 and 2012. 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, 2013 and 2012.

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 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. 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. For Level 3 inputs, fair values are based on management estimates.

The following summarizes assets measured at fair value as of December 31, 2013 and 2012.

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

		Fair Value Measurement Using		
	TOTAL	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
December 31, 2013				
U.S. Government sponsored agencies and corporations	**$3,835,419**	**$ -**	**$3,835,419**	**$ -**
State and political subdivisions	**17,607,919**	**-**	**17,607,919**	**-**
Corporate debt securities	**3,886,746**	**-**	**3,886,746**	**-**
Mortgage-backed securities	**19,779,785**	**-**	**19,779,785**	**-**
Marketable equity securities	**715,399**	**715,399**	**-**	**-**
TOTALS	**$45,825,268**	**$715,399**	**$45,109,869**	**$ -**

		Fair Value Measurement Using		
	TOTAL	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
December 31, 2012				
U.S. Government sponsored agencies and corporations	$1,998,244	$ -	$1,998,244	$ -
State and political subdivisions	18,890,616	-	18,890,616	-
Corporate debt securities	2,681,243	-	2,681,243	-
Mortgage-backed securities	15,679,403	-	15,679,403	-
Marketable equity securities	698,885	698,885	-	-
TOTALS	$39,948,391	$698,885	$39,249,506	$ -

Assets measured at fair value on a nonrecurring basis:

Under certain circumstances the Bank 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, 2013 and 2012, for which a nonrecurring change in fair value has been recorded:

		Fair Value Measurements Using		
	TOTAL	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
December 31, 2013				
Other real estate owned	**$771,680**	**$ -**	**$ -**	**$771,680**
Impaired loans	**331,775**	**-**	**331,775**	**-**
December 31, 2012				
Other real estate owned	$882,779	$ -	$ -	$882,779
Impaired loans	391,549	-	391,549	-

The following table reconciles activity for the years ended December 31, 2013 and 2012 of other real estate owned measured at fair value on a nonrecurring basis using significant unobservable Level 3 inputs:

	2013	2012
Beginning balance	**$882,779**	$1,715,961
Additions	**86,736**	356,000
Write-downs	**-**	(102,872)
Disposals	**(197,835)**	(1,086,310)
Ending balance	**$771,680**	$882,779

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 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.

Investments in available-for-sale securities: Fair values for securities, excluding FHLB of Boston stock, are determined by obtaining quoted market prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities. 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. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

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, 2013:

			Fair Value Measurements Using		
	CARRYING AMOUNT	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Financial assets					
Cash and cash equivalents	$8,161,283	$8,161,283	$8,161,283	$ -	$ -
Interest-bearing deposits with other banks	11,380,000	11,465,951	11,465,951	-	-
Investments in available-for-sale securities	45,825,268	45,825,268	715,399	45,109,869	-
Federal Home Loan Bank of Boston stock	712,900	712,900	-	712,900	-
Loans receivable, net:					
Commercial, industrial and municipal	38,679,693	38,419,607	-	156,496	38,263,111
Real estate - construction	4,601,336	4,570,396	-	-	4,570,396
Real estate - residential	36,892,000	36,643,935	-	-	36,643,935
Real estate - commercial	96,700,550	96,050,326	-	175,279	95,875,047
Manufactured housing	7,626,971	7,575,686	-	-	7,575,686
Consumer	1,190,667	1,182,661	-	-	1,182,661
Accrued interest receivable	680,693	680,693	-	680,693	-
Financial liabilities					
Deposits	223,406,719	210,225,320	-	210,225,320	-
Borrowings	11,000,000	11,003,193	-	11,003,193	-
Securities sold under agreements to repurchase	1,344,539	1,344,539	-	1,344,539	-

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, 2012:

			Fair Value Measurements Using		
	CARRYING AMOUNT	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Financial assets					
Cash and cash equivalents	$7,528,081	$7,528,081	$7,528,081	$ -	$ -
Interest-bearing deposits with other banks	6,476,000	6,535,194	6,535,194	-	-
Investments in available-for-sale securities	39,948,391	39,948,391	698,885	39,249,506	-
Federal Home Loan Bank of Boston stock	652,400	652,400	-	652,400	-
Loans receivable, net:					
Commercial, industrial and municipal	36,844,054	37,225,312	-	77,431	37,147,881
Real estate - construction	6,449,207	6,515,943	-	-	6,515,943
Real estate - residential	35,874,052	36,245,273	-	-	36,245,273
Real estate - commercial	96,105,851	97,100,344	-	294,679	96,805,665
Manufactured housing	8,292,206	8,378,013	-	19,439	8,358,574
Consumer	1,576,635	1,592,950	-	-	1,592,950
Accrued interest receivable	720,590	720,590	-	720,590	-
Financial liabilities					
Deposits	210,289,955	210,769,597	-	210,769,597	-
Borrowings	12,426,000	12,462,552	-	12,462,552	-
Securities sold under agreements to repurchase	1,235,795	1,235,795	-	1,235,795	-

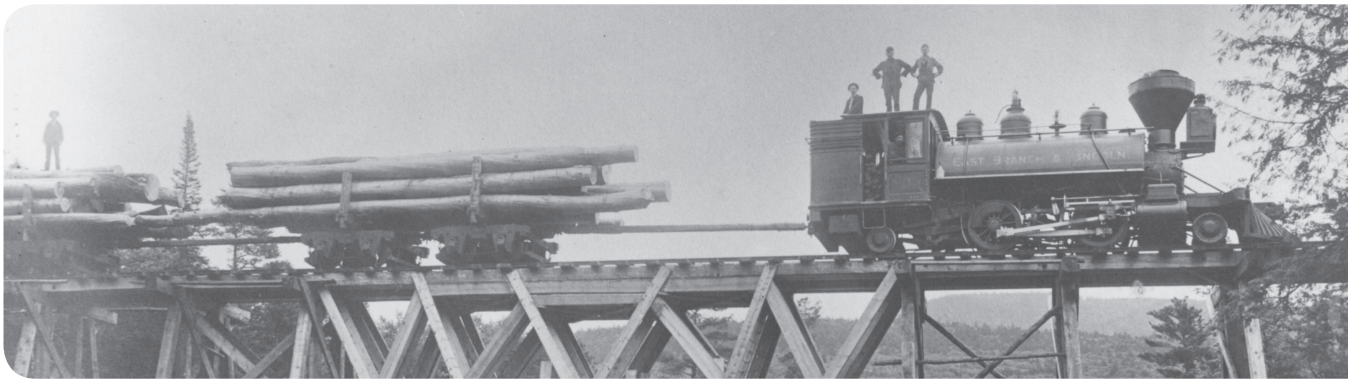
The carrying amounts of financial instruments shown in the above table are included in the consolidated balance sheets under the indicated captions.

17. 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 is 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.

The Company's initial dividend rate payable on SBLF capital is, at most 5%, and the dividend rate falls to 1% after two years if the 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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Judith E. Dalton
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First Colebrook Bank

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John J. Pratt, Jr. *Executive Vice President*
Peter H. Winship *Chief Financial Officer/Treasurer*
Avis E. Brosseau *SVP/Chief Credit Administration Officer*
Susan K. Robidas *SVP/Operations/Security/Safety Officer*

OFFICERS

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Pierrette Champagne *VP/Compliance Officer/BSA/CRA*
Bridget Freudenberger *VP/Commercial Loans/SBA Loan Manager*
Wayne Frizzell *AVP/Branch Manager/Business Development Officer*
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Marie Smith *AVP/Administration/Executive and Corporate Secretary*
Anne Sullivan *AVP/Residential/Consumer Loan Officer*
Lisa Whitaker *AVP/Human Resources Director*
Linda Yorke *AVP/Processing and Collections Officer*
Linda Clogston *Assistant Compliance Officer*
Rosemary Mulliken *Operations Officer/Assistant Corporate Secretary*

Amherst
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Amy Wheeler Teas *VP/Commercial Loan Officer and Marketing Coordinator*
Karen Keating *AVP/Business Development Officer*

Concord
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Joanne Connelly *VP/Commercial Loan Officer*
Raymond Miner *VP/Branch Operations Administrator*
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Portsmouth
Bob Davis *SVP/Commercial Loans*
Ben Wheeler *VP/Commercial Loan Officer*
Angela Ferris *Portfolio Assistant*
Nancy Sarni *Branch Operations Manager*

Visit www.firstcolebrookbank.com for branch locations, hours of operations, product descriptions, current corporate news and shareholder information.

Registrar and Transfer Agent: Registrar and Transfer Company, www.rtco.com

Ticker Symbol: FCNH
Market: OTCBB

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