

CHICOPEE BANCORP, INC.  
Form 10-Q  
November 04, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended September 30, 2015

or  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-51996

CHICOPEE BANCORP, INC.  
(Exact name of registrant as specified in its charter)

Massachusetts 20-4840562  
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification No.)  
organization)

70 Center Street, Chicopee, Massachusetts 01013  
(Address of principal executive offices) (Zip Code)  
(413) 594-6692  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

As of November 2, 2015, there were 5,210,739 shares of the Registrant's Common Stock outstanding.

1

---

CHICOPEE BANCORP, INC.  
 FORM 10-Q  
 INDEX

	Page
PART I. FINANCIAL INFORMATION	
<u>Item 1.</u> <u>Financial Statements</u>	
Consolidated Statements of Financial Condition at September 30, 2015 and December 31, 2014	<u>1</u>
Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014	<u>2</u>
<u>Consolidated Statements of Comprehensive Income (Loss)</u> for the three and nine months ended September 30, 2015 and 2014	<u>3</u>
<u>Consolidated Statements of Changes in Stockholders' Equity</u> for the nine months ended September 30, 2015 and 2014	<u>4</u>
Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014	<u>5</u>
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>32</u>
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>47</u>
<u>Item 4.</u> <u>Controls and Procedures</u>	<u>49</u>
PART II. OTHER INFORMATION	
<u>Item 1.</u> <u>Legal Proceedings</u>	<u>49</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>49</u>
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>50</u>
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	<u>50</u>
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	<u>50</u>
<u>Item 5.</u> <u>Other Information</u>	<u>50</u>
<u>Item 6.</u> <u>Exhibits</u>	<u>51</u>
<u>SIGNATURES</u>	<u>52</u>

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## CHICOPEE BANCORP, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars In Thousands)

(Unaudited)

	September 30, 2015	December 31, 2014
<b>ASSETS</b>		
Cash and due from banks	\$17,145	\$8,794
Federal funds sold	4,352	2,915
Interest-bearing deposits with the Federal Reserve Bank of Boston	28,069	38,060
Total cash and cash equivalents	49,566	49,769
Securities available for sale, at fair value	405	414
Securities held to maturity, at cost (fair value of \$33,588 at September 30, 2015 and \$34,229 at December 31, 2014)	32,784	33,747
Federal Home Loan Bank stock, at cost	4,764	3,914
Loans, net of allowance for loan losses of \$5,511 at September 30, 2015 and \$4,927 at December 31, 2014	576,019	519,757
Loans held for sale	377	—
Other real estate owned	1,174	1,050
Mortgage servicing rights	206	269
Bank owned life insurance	14,794	14,531
Premises and equipment, net	8,655	8,855
Accrued interest and dividends receivable	1,765	1,591
Deferred income tax asset	3,686	3,683
Other assets	1,216	1,642
Total assets	\$695,411	\$639,222
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits		
Demand deposits	\$120,727	\$97,922
NOW accounts	43,143	42,177
Savings accounts	53,211	50,716
Money market deposit accounts	118,546	121,106
Certificates of deposit	182,140	171,637
Total deposits	517,767	483,558
Federal Home Loan Bank of Boston advances	88,433	67,039
Accrued expenses and other liabilities	713	491
Total liabilities	606,913	551,088
Stockholders' equity		
Common stock (no par value, 20,000,000 shares authorized, 7,439,368 shares issued; 5,210,739 and 5,270,670 shares outstanding at September 30, 2015 and December 31, 2014, respectively)	72,479	72,479
	(30,113	) (29,119
	)	)

Edgar Filing: CHICOPEE BANCORP, INC. - Form 10-Q

Treasury stock, at cost (2,228,629 and 2,168,698 shares at September 30, 2015 and December 31, 2014, respectively)

Additional paid-in-capital	3,819	3,595
Unearned compensation (restricted stock awards)	(3	) (7
Unearned compensation (Employee Stock Ownership Plan)	(3,050	) (3,273
Retained earnings	45,342	44,430
Accumulated other comprehensive income	24	29
Total stockholders' equity	88,498	88,134
Total liabilities and stockholders' equity	\$695,411	\$639,222

See accompanying notes to unaudited consolidated financial statements.

1

---

CHICOPEE BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except for Number of Shares and Per Share Amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest and dividend income:				
Loans, including fees	\$6,029	\$5,539	\$17,510	\$16,115
Interest and dividends on securities	394	390	1,147	1,204
Interest on other interest-earning assets	10	5	48	23
Total interest and dividend income	6,433	5,934	18,705	17,342
Interest expense:				
Deposits	679	670	2,094	2,089
Federal Home Loan Bank of Boston advances	347	243	927	672
Total interest expense	1,026	913	3,021	2,761
Net interest income	5,407	5,021	15,684	14,581
Provision for loan losses	137	227	743	5,202
Net interest income, after provision for loan losses	5,270	4,794	14,941	9,379
Non-interest income:				
Service charges, fees and commissions	727	744	1,826	1,806
Net loan sales and servicing	70	58	186	167
Net gain on sales of available-for-sale securities	—	—	—	34
Net gain (loss) on sale of other real estate owned	—	6	—	(3
Other real estate owned writedowns	(6	) —	(6	) (72
Increase in cash surrender value of bank owned life insurance	88	91	263	268
Total non-interest income	879	899	2,269	2,200
Non-interest expenses:				
Salaries and employee benefits	2,537	2,492	7,644	7,481
Occupancy expenses	357	371	1,201	1,181
Furniture and equipment	182	182	531	534
FDIC insurance and assessment	104	116	345	307
Data processing services	404	339	1,150	1,045
Professional fees	178	271	558	628
Advertising expense	140	140	429	473
Stationery, supplies and postage	71	65	203	193
Foreclosure expense	157	139	410	385
Other non-interest expense	670	622	1,973	1,823
Total non-interest expenses	4,800	4,737	14,444	14,050
Income (loss) before income taxes	1,349	956	2,766	(2,471
Income tax expense (benefit)	379	434	740	(1,595
Net income (loss)	\$970	\$522	\$2,026	\$(876

Edgar Filing: CHICOPEE BANCORP, INC. - Form 10-Q

Earnings (loss) per share:

Basic	\$0.20	\$0.10	\$0.41	\$(0.17)
Diluted	\$0.19	\$0.10	\$0.40	\$(0.17)

Adjusted weighted average shares outstanding:

Basic	4,911,822	5,002,195	4,932,469	5,050,019
Diluted	4,985,792	5,056,621	5,005,590	5,130,282

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(In Thousands)  
(Unaudited)

	Three Months Ended September 30,	
	2015	2014
Net income	\$970	\$522
Other comprehensive income (loss), net of tax		
Unrealized holding gains (losses) arising during period on investment securities available-for-sale	6	(23 )
Tax effect	(3 )	8
Total other comprehensive income (loss), net of tax	3	(15 )
Total comprehensive income	\$973	\$507
	Nine Months Ended September 30,	
	2015	2014
Net income (loss)	\$2,026	\$(876 )
Other comprehensive loss, net of tax		
Unrealized holding losses arising during period on available-for-sale securities	(8 )	(32 )
Reclassification adjustment for gains realized in net income (1)	—	(34 )
Tax effect	3	23
Total other comprehensive loss, net of tax	(5 )	(43 )
Total comprehensive income (loss)	\$2,021	\$(919 )

(1) Reclassified into the consolidated statements of operations in net gain on sales of available-for-sale securities.

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
Nine Months Ended September 30, 2015 and 2014  
(Dollars In Thousands)  
(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Unearned Compensation (restricted stock awards)	Unearned Compensation (Employee Stock Ownership Plan)	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2013	\$72,479	\$(26,435)	\$3,299	\$ (12 )	\$ (3,571 )	\$46,418	\$ 52	\$92,230
Comprehensive loss:								
Net loss	—	—	—	—	—	(876 )	—	(876 )
Change in net unrealized gain on available-for-sale securities (net of deferred income taxes of \$23)	—	—	—	—	—	—	(43 )	(43 )
Total comprehensive loss								(919 )
Treasury stock purchased (134,915 shares)	—	(2,210 )	—	—	—	—	—	(2,210 )
Stock options exercised (9,700 shares)	—	178	(37 )	—	—	—	—	141
Stock option expense	—	—	90	—	—	—	—	90
Change in unearned compensation:								
Restricted stock award expense	—	—	—	4	—	—	—	4
Common stock held by ESOP committed to be released	—	—	153	—	223	—	—	376
Cash dividends declared (\$0.21 per share)	—	—	—	—	—	(1,088 )	—	(1,088 )
Balance at September 30, 2014	\$72,479	\$(28,467)	\$3,505	\$ (8 )	\$ (3,348 )	\$44,454	\$ 9	\$88,624
Balance at December 31, 2014	\$72,479	\$(29,119)	\$3,595	\$ (7 )	\$ (3,273 )	\$44,430	\$ 29	\$88,134
Comprehensive income:								
Net income	—	—	—	—	—	2,026	—	2,026
	—	—	—	—	—	—	(5 )	(5 )

Change in net unrealized gain on available-for-sale securities (net of deferred income taxes of \$3)								
Total comprehensive income								2,021
Stock option expense	—	—	81	—	—	—	—	81
Treasury stock purchased	—	(1,007 )	—	—	—	—	—	(1,007 )
Stock options exercised (800 shares)	—	13	(2 )	—	—	—	—	11
Change in unearned compensation:								
Restricted stock award expense	—	—	—	4	—	—	—	4
Common stock held by ESOP committed to be released	—	—	145	—	223	—	—	368
Cash dividends declared (\$0.22 per share)	—	—	—	—	—	(1,114 )	—	(1,114 )
Balance at September 30, 2015	\$72,479	\$(30,113)	\$3,819	\$ (3 )	\$(3,050 )	\$45,342	\$ 24	\$88,498

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
	(In Thousands)	
Cash flows from operating activities:		
Net income (loss)	\$2,026	\$(876)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	534	525
Provision for loan losses	743	5,202
Increase in cash surrender value of bank owned life insurance	(263)	(268)
Net realized gain on sales of securities available for sale	—	(34)
Change in mortgage servicing rights	63	77
Net loss on other real estate owned	6	75
Loans originated for sale	(3,740)	(4,288)
Proceeds from loan sales	3,397	4,408
Realized gains on sales of mortgage loans	(34)	(50)
Decrease (increase) in other assets	426	(1,427)
(Increase) decrease in accrued interest and dividends receivable	(173)	5
Increase (decrease) in other liabilities	222	(205)
Change in unearned compensation	372	380
Stock option expense	81	90
Net cash provided by operating activities	3,660	3,614
Cash flows from investing activities:		
Purchase of premises and equipment	(333)	(295)
Loan originations, net of principal payments	(57,321)	(30,461)
Proceeds from sales of other real estate owned	185	376
Proceeds from sales of securities available-for-sale	—	187
Maturities of held-to-maturity securities	—	13,373
Proceeds from principal paydowns of held-to-maturity securities	962	934
Purchase of Federal Home Loan Bank stock	(850)	—
Net cash used by investing activities	(57,357)	(15,886)
Cash flows from financing activities:		
Net increase in deposits	34,210	20,882
Proceeds from long-term FHLB advances	38,100	29,500
Repayments of long-term FHLB advances	(16,706)	(8,485)
Treasury stock purchased	(1,007)	(2,210)
Cash dividends paid on common stock	(1,114)	(1,088)
Stock options exercised	11	141
Net cash provided by financing activities	53,494	38,740
Net (decrease) increase in cash and cash equivalents	(203)	26,468
Cash and cash equivalents at beginning of period	49,769	18,915
Cash and cash equivalents at end of period	\$49,566	\$45,383

Supplemental cash flow information:

Interest paid on deposits	\$2,094	\$2,089
Interest paid on borrowings	894	654
Income taxes paid	314	17
Transfers from loans to other real estate owned	316	1,166

See accompanying notes to unaudited consolidated financial statements.

5

---

CHICOPEE BANCORP, INC. AND SUBSIDIARIES  
Notes to Unaudited Consolidated Financial Statements  
September 30, 2015 and 2014

1. Basis of Presentation

Chicopee Bancorp, Inc. (the “Corporation”) has no significant assets other than all of the outstanding shares of its wholly-owned subsidiaries, Chicopee Savings Bank (the “Bank”) and Chicopee Funding Corporation (collectively, the “Company”). The Corporation was formed on March 14, 2006 and became the holding company for the Bank upon completion of the Bank’s conversion from a mutual savings bank to a stock savings bank. The conversion of the Bank was completed on July 19, 2006. The accounts of the Bank include its wholly-owned subsidiaries and a 99% owned subsidiary. The consolidated financial statements of the Company as of September 30, 2015 and for the periods ended September 30, 2015 and 2014 included herein are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of the financial condition, results of operations, changes in stockholders’ equity and cash flows, as of and for the periods covered herein, have been made. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2014 included in the Company’s Annual Report on Form 10-K.

The results for the nine months ended September 30, 2015 are not necessarily indicative of the operating results for a full year.

2. Earnings (Loss) Per Share

Basic earnings (loss) per share represents income available to common stockholders divided by the adjusted weighted-average number of common shares outstanding during the period. The adjusted outstanding common shares equals the gross number of common shares issued less average treasury shares, unallocated shares of the Chicopee Savings Bank Employee Stock Ownership Plan (“ESOP”), and average dilutive restricted stock awards under the 2007 Equity Incentive Plan. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options and certain stock awards and are determined using the treasury stock method.

Earnings (loss) per share have been computed based on the following:

(\$ in thousands, except share data )	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	\$970	\$522	\$2,026	\$(876 )
Average number of shares issued	7,439,368	7,439,368	7,439,368	7,439,368
Less: average number of treasury shares	(2,199,814 )	(2,079,284 )	(2,179,067 )	(2,031,360 )
Less: average number of unallocated ESOP shares	(327,332 )	(357,089 )	(327,332 )	(357,089 )
Less: average number of dilutive restricted stock awards	(400 )	(800 )	(500 )	(900 )
Adjusted weighted average number of common shares outstanding	4,911,822	5,002,195	4,932,469	5,050,019
Plus: dilutive outstanding restricted stock awards	206	247	220	292
Plus: dilutive outstanding stock options	73,764	54,179	72,901	79,971
Weighted average number of diluted shares outstanding	4,985,792	5,056,621	5,005,590	5,130,282

Net income (loss) per share:

Basic-common stock	\$0.20	\$0.10	\$0.41	\$(0.17 )
Basic-unvested share-based payment awards	\$0.20	\$0.10	\$0.41	\$(0.17 )
Diluted-common stock	\$0.19	\$0.10	\$0.40	\$(0.17 )
Diluted-unvested share-based payment awards	\$0.19	\$0.10	\$0.40	\$(0.17 )

There were 87,000 stock options that were not included in the calculation of diluted earnings per share for the three and nine months ended September 30, 2015 because the effect was anti-dilutive. There were 97,000 stock options that were not included

in the calculation of diluted earnings per share for the three months ended September 30, 2014 because the effect was anti-dilutive. Given the loss for the nine months ended September 30, 2014, diluted loss per share did not differ from basic loss per share as all potential shares were anti-dilutive.

### 3. Equity Incentive Plan

#### Stock Options

The Company's 2007 Equity Incentive Plan (the "Plan") was approved by the Company's stockholders at the annual meeting of the Company's stockholders on May 30, 2007. The Plan provides that the Company may grant options to directors, officers and employees for up to 743,936 shares of common stock. Both incentive stock options and non-qualified stock options may be granted under the Plan. The exercise price for each option is equal to the market price of the Company's stock on the date of grant and the maximum term of each option is ten years. The stock options vest over five years in five equal installments on each anniversary of the date of grant.

The Company recognizes compensation expense over the vesting period, based on the grant-date fair value of the options granted. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. There were no stock options granted during the nine month periods ended September 30, 2015 or 2014.

A summary of options under the Plan as of September 30, 2015, and changes during the nine months ended September 30, 2015, is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000's)
Outstanding at December 31, 2014	653,098	\$ 14.57	3.83	\$ 1,894
Exercised	(800 )	14.00	6.44	—
Forfeited or expired	(6,200 )	16.06	7.15	—
Outstanding at September 30, 2015	646,098	\$ 14.55	3.04	\$ 1,005
Exercisable at September 30, 2015	570,097	\$ 14.39	2.51	\$ 961
Exercisable at September 30, 2014	539,397	\$ 14.33	3.28	\$ 358

The weighted-average grant-date fair value of the options outstanding and exercisable at September 30, 2015 was \$3.81 and \$3.85, respectively. For the nine months ended September 30, 2015, share based compensation expense applicable to options granted under the Plan was \$81,000. For the nine months ended September 30, 2014, share based compensation expense applicable to options granted under the Plan was \$90,000. As of September 30, 2015, unrecognized stock-based compensation expense related to non-vested options amounted to \$188,000. This amount is expected to be recognized over a period of 1.94 years.

#### Stock Awards

The Plan provides that the Company may grant stock awards to its directors, officers and employees for up to 297,574 shares of common stock. The stock awards vest 20% per year beginning on the first anniversary of the date of grant. The fair market value of the stock awards, based on the market price at the date of grant, is recorded as unearned compensation. Unearned compensation is amortized over the applicable vesting period. The weighted-average

grant-date fair value of stock awards as of September 30, 2015 is \$14.08. The Company recorded compensation cost related to stock awards of approximately \$4,000 for each of the nine month periods ended September 30, 2015 and 2014. There were no stock awards granted prior to July 1, 2007. There were no stock awards granted by the Company during the nine months ended September 30, 2015 and 2014. The Company granted 2,000 stock awards during the year ended December 31, 2011 with a grant price of \$14.08. As of September 30, 2015, unrecognized stock-based compensation expense related to non-vested restricted stock awards amounted to \$3,000. This amount is expected to be recognized over a period of 0.44 years.

A summary of the status of the Company's stock awards as of September 30, 2015, and changes during the nine months ended September 30, 2015, is as follows:

Nonvested Shares	Number of Shares	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2014	800	\$ 14.08
Vested	400	14.08
Outstanding at September 30, 2015	400	\$ 14.08

#### 4. Long-term Incentive Plan

On March 13, 2012, the Company adopted the Chicopee Bancorp, Inc. 2012 Phantom Stock Unit Award and Long-Term Incentive Plan (the "Phantom Stock Plan"), effective January 1, 2012, to promote the long-term financial success of the Company and its subsidiaries by providing a means to attract, retain and reward individuals who contribute to such success and to further align their interest with those of the Company's stockholders.

A total of 150,000 phantom stock units are available for awards under the Phantom Stock Plan. The only awards that may be granted under the Phantom Stock Plan are Phantom Stock Units. A Phantom Stock Unit represents the right to receive a cash payment on the determination date equal to the book value of a share of the Company's stock on the determination date. The settlement of a Phantom Stock Unit on the determination date shall be in cash. Unless the Compensation Committee of the Board of Directors of the Company determines otherwise, the required period of service for full vesting will be three years. The Company's total expense under the Phantom Stock Plan for the nine months ended September 30, 2015 and 2014, was \$20,000 and \$14,000, respectively. There were no phantom stock units granted during the nine months ended September 30, 2015. There were 4,074 phantom stock units granted during the nine months ended September 30, 2014. As of September 30, 2015 and December 31, 2014, 7,016 phantom stock units were outstanding.

5. Recent Accounting Pronouncements (Applicable to the Company)

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments in this ASU clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor 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 amendments require 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. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Management has applied this ASU and it did not have a material effect on the Company's consolidated financial statements.

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU was issued to clarify the principles for recognizing revenue and to develop a common revenue standard. The effective date of this ASU was deferred to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the potential impact of the ASU on its consolidated financial statements.

In June 2014, FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The ASU was issued to respond to concerns about current accounting and disclosures for repurchase agreements and similar transactions. The concern was that under current accounting guidance there is an unnecessary distinction between the accounting for different types of repurchase agreements. Under current guidance, the repurchase-to-maturity transactions are accounted for as sales with forward agreements, whereas repurchase agreements that settle before the maturity of the transferred financial asset are accounted for as secured borrowings. The ASU amendments require new disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secure borrowings. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The ASU did not have a material effect on the Company's consolidated financial statements.

In June 2014, FASB issued ASU No. 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The ASU was issued because current U.S. generally accepted accounting principles ("GAAP") does not contain explicit guidance on how to account for share-based payments when a performance target could be achieved after the requisite service period. The ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The ASU will not have a material effect on the Company's consolidated financial statements.

## 6. Investment Securities

The following tables set forth, at the dates indicated, information regarding the amortized cost and fair value, with gross unrealized gains and losses, of the Company's investment securities:

	September 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities:				
Marketable equity securities	\$369	\$36	\$—	\$405
Total available-for-sale securities	\$369	\$36	\$—	\$405
Held-to-maturity securities:				
Corporate and industrial revenue bonds	\$32,537	\$797	\$—	\$33,334
Collateralized mortgage obligations	247	7	—	254
Total held-to-maturity securities	\$32,784	\$804	\$—	\$33,588
Non-marketable securities:				
Federal Home Loan Bank stock	\$4,764	\$—	\$—	\$4,764
Banker's Bank Northeast stock	183	—	—	183
Total non-marketable securities	\$4,947	\$—	\$—	\$4,947
	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities:				
Marketable equity securities	\$369	\$45	\$—	\$414
Total available-for-sale securities	\$369	\$45	\$—	\$414
Held-to-maturity securities:				
Corporate and industrial revenue bonds	\$33,344	\$467	\$—	\$33,811
Collateralized mortgage obligations	403	15	—	418
Total held-to-maturity securities	\$33,747	\$482	\$—	\$34,229
Non-marketable securities:				
Federal Home Loan Bank stock	\$3,914	\$—	\$—	\$3,914
Banker's Bank Northeast stock	183	—	—	183
Total non-marketable securities	\$4,097	\$—	\$—	\$4,097



The amortized cost and estimated fair value of debt securities by contractual maturity at September 30, 2015 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties. The collateralized mortgage obligations are allocated to maturity categories according to final maturity date.

	Held-to-maturity Amortized Cost (In Thousands)	Fair Value
Due in one year or less	\$—	\$—
Due after one year through five years	8,016	8,400
Due after five years through ten years	—	—
Due after ten years	24,768	25,188
Total	\$32,784	\$33,588

There were no sales of available-for-sale securities during the nine months ended September 30, 2015. During the nine months ended September 30, 2014, proceeds from sales of available-for-sale securities amounted to \$187,000 with gross realized gains of \$34,000. The tax provision applicable to the net realized gain for the nine months ended September 30, 2014 was \$8,000.

Management conducts, at least on a monthly basis, a review of its investment portfolio including available-for-sale and held-to-maturity securities to determine if the fair value of any security has declined below its cost or amortized cost and whether such security is other-than-temporarily impaired.

#### Unrealized Losses on Investment Securities

There were no continuous unrealized losses as of September 30, 2015 and December 31, 2014.

#### Non-Marketable Securities

The Company is a member of the Federal Home Loan Bank of Boston (“FHLB”). The FHLB is a cooperatively owned wholesale bank for housing and finance in the six New England States. Its mission is to support the residential mortgage and community development lending activities of its members, which include over 450 financial institutions across New England. As a requirement of membership in the FHLB, the Company must own a minimum required amount of FHLB stock, calculated periodically based primarily on the Company’s level of borrowings from the FHLB. The Company uses the FHLB for much of its wholesale funding needs. The Company’s investment in FHLB stock totaled \$4.8 million and \$3.9 million at September 30, 2015 and December 31, 2014, respectively.

FHLB stock is a non-marketable equity security and therefore is reported at cost, which equals par value. Shares held in excess of the minimum required amount are generally redeemable at par value. For the nine months ended September 30, 2015 and 2014, the Company received \$70,000 and \$44,000, respectively, in dividend income from its FHLB stock investment.

The Company periodically evaluates its investment in FHLB stock for impairment based on, among other factors, the capital adequacy of the FHLB and its overall financial condition. There have not been any impairment losses recorded through September 30, 2015 and the Company will continue to monitor its FHLB stock investment.

Banker’s Bank Northeast (BBN) stock is reported under other assets in the consolidated statement of financial condition and is carried at cost. The BBN stock investment is evaluated for impairment based on an estimate of the ultimate recovery to par value. As of September 30, 2015 and December 31, 2014, the Company’s investment in BBN totaled \$183,000. There have not been any impairment losses recorded through September 30, 2015 and the Company will continue to monitor its BBN stock investment.



## 7. Loans and Allowance for Loan Losses

The following table sets forth the composition of the Company's loan portfolio in dollar amounts and as a percentage of the total loan portfolio at the dates indicated.

	September 30, 2015		December 31, 2014		
	Amount	Percent of Total	Amount	Percent of Total	
	(Dollars In Thousands)				
Real estate loans:					
Residential	\$126,989	21.9	% \$118,692	22.7	%
Home equity	37,565	6.5	% 34,508	6.6	%
Commercial	288,158	49.6	% 249,632	47.7	%
Total	452,712	78.0	% 402,832	77.0	%
Construction-residential	6,906	1.2	% 8,129	1.6	%
Construction-commercial	41,683	7.2	% 35,786	6.8	%
Total	48,589	8.4	% 43,915	8.4	%
Total real estate loans	501,301	86.4	% 446,747	85.4	%
Consumer loans	2,580	0.4	% 2,662	0.5	%
Commercial and industrial loans	76,763	13.2	% 74,331	14.1	%
Total loans	580,644	100.0	% 523,740	100.0	%
Deferred loan origination costs, net	886		944		
Allowance for loan losses	(5,511	)	(4,927	)	
Loans, net	\$576,019		\$519,757		

The Company has transferred a portion of its originated commercial real estate and commercial loans to participating lenders. The amounts transferred have been accounted for as sales and therefore not included in the Company's consolidated statements of financial condition. The Company and participating lenders share proportionally, based on participating agreements, any gains or losses that may result from the borrowers lack of compliance with the terms of the loan. The Company continues to service the loans on behalf of the participating lenders. At September 30, 2015 and December 31, 2014, the Company was servicing loans for participating lenders totaling \$24.1 million and \$18.0 million, respectively.

In accordance with the Company's asset/liability management strategy and in an effort to reduce interest rate risk, the Company continues to sell fixed rate, low coupon residential real estate loans to the secondary market. The Company sold \$3.4 million and \$4.4 million in residential real estate loans to the secondary market during the nine month periods ended September 30, 2015 and 2014, respectively. The unpaid principal balance of residential real estate loans serviced for others was \$82.1 million at September 30, 2015 and \$91.3 million at December 31, 2014. Management expects to continue to retain servicing rights on all loans written and sold in the secondary market.

## Credit Quality

To evaluate the risk in the loan portfolio, internal credit risk ratings are used for the following loan classes: commercial real estate, commercial construction and commercial and industrial. The risks evaluated in determining an

adequate credit risk rating include the financial strength of the borrower and the collateral securing the loan. Commercial loans, including commercial and industrial, commercial real estate and commercial construction loans, are rated from one through nine. Credit risk ratings one through five are considered pass ratings. Classified assets include credit risk ratings of special mention through loss. At least quarterly, classified loans are reviewed by management and by an independent third party. Credit risk ratings are updated as soon as information is obtained that indicates a change in the credit risk rating may be warranted.

Residential real estate and residential construction loans are categorized into performing and nonperforming risk ratings. They are considered nonperforming when they are 90 days past due or have not returned to accrual status. Nonperforming residential loans are individually evaluated for impairment.

Consumer loans are considered nonperforming when they are 90 days past due or have not returned to accrual status. Consumer loans are not individually evaluated for impairment.

Home equity loans are considered nonperforming when they are 90 days past due or have not returned to accrual status. Each nonperforming home equity loan is individually evaluated for impairment.

The following describes the credit risk ratings for classified assets:

**Special mention.** Assets that do not currently expose the Company to sufficient risk to warrant classification in one of the following categories but possess potential weaknesses.

**Substandard.** Assets that have one or more defined weaknesses and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Non-accruing loans are typically classified as substandard.

**Doubtful.** Assets that have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss.

**Loss.** Assets rated in this category are considered uncollectible and are charged off against the allowance for loan losses.

The following table presents an analysis of total loans segregated by risk rating and segment as of September 30, 2015:

	Commercial Credit Risk Exposure			
	Commercial and Industrial (In Thousands)	Commercial Construction	Commercial Real Estate	Total
Pass	\$69,368	\$35,772	\$276,435	\$381,575
Special mention	3,935	5,699	7,502	17,136
Substandard	3,460	212	4,221	7,893
Total commercial loans	\$76,763	\$41,683	\$288,158	\$406,604
	Residential Credit Risk Exposure			
	Residential Real Estate (In Thousands)	Residential Construction		Total
Performing	\$123,552	\$6,906		\$130,458
Nonperforming	3,437	—		3,437
Total residential loans (1)	\$126,989	\$6,906		\$133,895
	Consumer Credit Risk Exposure			
	Consumer	Home Equity		Total

	(In Thousands)		
Performing	\$2,549	\$37,268	\$39,817
Nonperforming	31	297	328
Total consumer loans	\$2,580	\$37,565	\$40,145

(1) At September 30, 2015, the Company had a total of \$285,000 in residential real estate loans in the process of foreclosure.

The following table presents an analysis of total loans segregated by risk rating and segment as of December 31, 2014:

	Commercial Credit Risk Exposure			
	Commercial and Industrial (In Thousands)	Commercial Construction	Commercial Real Estate	Total
Pass	\$66,442	\$27,547	\$234,866	\$328,855
Special mention	4,991	5,843	10,034	20,868
Substandard	2,898	2,396	4,732	10,026
Total commercial loans	\$74,331	\$35,786	\$249,632	\$359,749
	Residential Credit Risk Exposure			
	Residential Real Estate (In Thousands)	Residential Construction		Total
Performing	\$114,586	\$8,129		\$122,715
Nonperforming	4,106	—		4,106
Total residential loans	\$118,692	\$8,129		\$126,821
	Consumer Credit Risk Exposure			
	Consumer (In Thousands)	Home Equity		Total
Performing	\$2,630	\$34,159		\$36,789
Nonperforming	32	349		381
Total consumer loans	\$2,662	\$34,508		\$37,170

#### Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of general and allocated components, as further described below.

#### Loans charged off

Commercial and industrial loans. Loans past due more than 120 days are considered for one of three options: charge off the balance of the loan, charge off any excess balance over the fair value of the collateral securing the loan, or continue collection efforts subject to a monthly review until either the balance is collected or a charge-off recommendation can be reasonably made.

Commercial real estate loans. Commercial real estate loans that are delinquent 90 days or more or are on nonaccrual status are classified nonperforming. An updated appraisal may be obtained when the loan is 90 days or more delinquent. Any outstanding balance in excess of the fair value of the property, less cost to sell, may be charged-off against the allowance for loan losses.

Residential loans. In general, one-to-four family residential loans and home equity loans that are delinquent 90 days or more or are on nonaccrual status are classified nonperforming. An updated appraisal is obtained when the loan is 90 days or more delinquent. Any outstanding balance in excess of the fair value of the property, less cost to sell, is charged-off against the allowance for loan losses.

Consumer loans. Generally all loans are automatically considered for charge-off at 90 to 120 days from the contractual due date, unless there is liquid collateral in hand sufficient to repay principal and interest in full.

## 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 portfolio segments: residential real estate, residential construction, commercial real estate, commercial and industrial, commercial construction, consumer and home equity. Management uses an average of historical losses based on a time frame appropriate to capture relevant loss data for each portfolio segment. Management deems 48 months to be an appropriate time frame on which to base historical losses for each portfolio segment. This historical loss factor is adjusted for qualitative factors for each portfolio segment including, but not limited to: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and changes in lending policies, experience, ability, depth of lending management and staff; and national and local economic conditions. Management follows a similar process to estimate its liability for off-balance-sheet commitments to extend credit.

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

Residential real estate loans enable the borrower to purchase or refinance existing homes, most of which serve as the primary residence of the owner. Repayment is dependent on the credit quality of the borrower. Factors attributable to failure of repayment may include a weakened economy and/or unemployment, as well as possible personal considerations. While management anticipates adjustable-rate mortgages will better offset the potential adverse effects of an increase in interest rates as compared to fixed-rate mortgages, the increased mortgage payments required of adjustable-rate loan borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment.

Commercial real estate loans are secured by commercial real estate and residential investment real estate and generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Risks in commercial real estate and residential investment lending are borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy.

Commercial and residential construction loans are generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost (including interest) of construction.

Commercial and industrial loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself as well as national and local economic conditions. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

Consumer and home equity loans may entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections depend on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal

and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

The Company does not disaggregate its portfolio segments into loan classes.

#### Allocated Component

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan by loan basis for residential real estate, home equity loans, commercial real estate and commercial 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. The Company recognizes the change in present value attributable to the passage of time as provision for loan losses. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment, and the resulting allowance is reported as the general component, as described above.

Loans are 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.

The Company may periodically 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer loans for impairment evaluation, except for home equity loans.

During the nine months ended September 30, 2015, there were no changes in the Company's allowance methodology related to the qualitative or quantitative factors.

The following table presents the allowance for loan losses as of and for the three months ended September 30, 2015.

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial and Industrial	Consumer Loans	Home Equity	Total
Allowance for loan losses (In Thousands)								
Balance as of June 30, 2015	\$570	\$ 60	\$ 3,138	\$ 630	\$ 814	\$ 31	\$ 156	\$5,399
Provision for (reduction of) loan losses	145	12	(135 )	48	28	11	28	137
Recoveries	—	—	3	—	1	7	2	13
Loans charged off	(18 )	—	—	—	(2 )	(18 )	—	(38 )
Balance as of September 30, 2015	\$697	\$ 72	\$ 3,006	\$ 678	\$ 841	\$ 31	\$ 186	\$5,511

The following table presents the allowance for loan losses and select loan information as of and for the nine months ended September 30, 2015:

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial and Industrial	Consumer Loans	Home Equity	Total
Allowance for loan losses (In Thousands)								
Balance as of December 31, 2014	\$486	\$ 107	\$ 2,699	\$ 568	\$ 879	\$ 35	\$ 153	\$4,927
Provision for (reduction of) loan losses	315	(35 )	341	71	(12 )	18	45	743
Recoveries	—	—	3	39	7	21	4	74
Loans charged off	(104 )	—	(37 )	—	(33 )	(43 )	(16 )	(233 )
Balance as of September 30, 2015	\$697	\$ 72	\$ 3,006	\$ 678	\$ 841	\$ 31	\$ 186	\$5,511

Allowance for loan losses								
Collectively evaluated for impairment	\$541	\$ 72	\$ 2,981	\$ 678	\$ 811	\$ 31	\$168	\$5,282
Individually evaluated for impairment	156	—	25	—	30	—	18	229
Total ending balance	\$697	\$ 72	\$ 3,006	\$ 678	\$ 841	\$ 31	\$186	\$5,511
Total loans								
Collectively evaluated for impairment	\$123,552	\$ 6,906	\$ 286,008	\$ 41,470	\$ 74,766	\$ 2,580	\$37,268	\$572,550
Individually evaluated for impairment	3,437	—	2,150	213	1,997	—	297	8,094
Total ending balance	\$126,989	\$ 6,906	\$ 288,158	\$ 41,683	\$ 76,763	\$ 2,580	\$37,565	\$580,644

The following table presents the allowance for loan losses and select loan information as of and for the year ended December 31, 2014:

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial and Industrial	Consumer Loans	Home Equity	Total
Allowance for loan losses	(In Thousands)							
Balance as of December 31, 2013	\$650	\$ 94	\$ 2,121	\$ 435	\$ 1,110	\$ 35	\$ 151	\$4,596
Provision for loan losses	139	13	1,479	1,672	1,867	43	58	5,271
Recoveries	—	—	74	—	83	23	1	181
Loans charged off	(303 )	—	(975 )	(1,539 )	(2,181 )	(66 )	(57 )	(5,121 )
Balance as of December 31, 2014	\$486	\$ 107	\$ 2,699	\$ 568	\$ 879	\$ 35	\$ 153	\$4,927
Allowance for loan losses								
Collectively evaluated for impairment	\$481	\$ 107	\$ 2,634	\$ 568	\$ 879	\$ 35	\$ 150	\$4,854
Individually evaluated for impairment	5	—	65	—	—	—	3	73
Total ending balance	\$486	\$ 107	\$ 2,699	\$ 568	\$ 879	\$ 35	\$ 153	\$4,927
Total loans								
Collectively evaluated for impairment	\$114,586	\$ 8,129	\$ 246,123	\$ 33,391	\$ 73,286	\$ 2,662	\$ 34,160	\$512,337
Individually evaluated for impairment	4,106	—	3,509	2,395	1,045	—	348	11,403
Total ending balance	\$118,692	\$ 8,129	\$ 249,632	\$ 35,786	\$ 74,331	\$ 2,662	\$ 34,508	\$523,740

The following table presents the allowance for loan losses as of and for the three months ended September 30, 2014:

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial and Industrial	Consumer Loans	Home Equity	Total
Allowance for loan losses	(In Thousands)							
Balance as of June 30, 2014	\$508	\$ 81	\$ 2,337	\$ 494	\$ 1,080	\$ 31	\$ 160	\$4,691
Provision for (reduction of) loan losses	7	30	108	221	(154 )	12	3	227
Recoveries	—	—	—	—	22	5	—	27
Loans charged off	—	—	—	—	(9 )	(14 )	—	(23 )
Balance as of September 30, 2014	\$515	\$ 111	\$ 2,445	\$ 715	\$ 939	\$ 34	\$ 163	\$4,922



The following table presents the allowance for loan losses and select loan information as of and for the nine months ended September 30, 2014:

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial and Industrial	Consumer Loans	Home Equity	Total
Allowance for loan losses	(In Thousands)							
Balance as of December 31, 2013	\$ 650	\$ 94	\$ 2,121	\$ 435	\$ 1,110	\$ 35	\$ 151	\$ 4,596
Provision for loan losses	98	17	1,188	1,819	1,980	32	68	5,202
Recoveries	—	—	74	—	23	17	1	115
Loans charged off	(233 )	—	(938 )	(1,539 )	(2,174 )	(50 )	(57 )	(4,991 )
Balance as of September 30, 2014	\$ 515	\$ 111	\$ 2,445	\$ 715	\$ 939	\$ 34	\$ 163	\$ 4,922
Allowance for loan losses								
Collectively evaluated for impairment	\$ 467	\$ 111	\$ 2,421	\$ 715	\$ 939	\$ 34	\$ 143	\$ 4,830
Individually evaluated for impairment	48	—	24	—	—	—	20	92
Total ending balance	\$ 515	\$ 111	\$ 2,445	\$ 715	\$ 939	\$ 34	\$ 163	\$ 4,922
Total loans								
Collectively evaluated for impairment	\$ 111,518	\$ 8,406	\$ 226,220	\$ 42,033	\$ 78,234	\$ 2,641	\$ 32,553	\$ 501,605
Individually evaluated for impairment	4,241	—	3,305	3,130	1,057	—	369	12,102
Total ending balance	\$ 115,759	\$ 8,406	\$ 229,525	\$ 45,163	\$ 79,291	\$ 2,641	\$ 32,922	\$ 513,707



## Impairment

The following table presents a summary of information pertaining to impaired loans by segment as of and for the three months ended September 30, 2015:

	Recorded Investment	Unpaid Balance	Average Recorded Investment	Related Allowance	Interest Income Recognized
	(In Thousands)				
Impaired loans without a valuation allowance:					
Residential real estate	\$1,848	\$1,996	\$2,466	\$—	\$20
Residential construction	—	—	—	—	—
Commercial real estate	1,725	2,375	1,595	—	19
Commercial construction	213	213	1,038	—	3
Commercial and industrial	1,550	1,564	1,374	—	15
Consumer	—	—	—	—	—
Home equity	178	204	209	—	1
Total	\$5,514	\$6,352	\$6,682	\$—	\$58
Impaired loans with a valuation allowance:					
Residential real estate	\$1,589	\$1,589	\$1,102	\$156	\$17
Residential construction	—	—	—	—	—
Commercial real estate	425	425	468	25	3
Commercial construction	—	—	—	—	—
Commercial and industrial	447	447	439	30	10
Consumer	—	—	—	—	—
Home equity	119	119	66	18	1
Total	\$2,580	\$2,580	\$2,075	\$229	\$31
Total impaired loans:					
Residential real estate	\$3,437	\$3,585	\$3,568	\$156	\$37
Residential construction	—	—	—	—	—
Commercial real estate	2,150	2,800	2,063	25	22
Commercial construction	213	213	1,038	—	3
Commercial and industrial	1,997	2,011	1,813	30	25
Consumer	—	—	—	—	—
Home equity	297	323	275	18	2
Total	\$8,094	\$8,932	\$8,757	\$229	\$89

The \$8.1 million of impaired loans include \$6.3 million of non-accrual loans. The remaining impaired loans are TDRs or loans for which the Company believes, 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.



The following table presents a summary of information pertaining to impaired loans by segment as of and for the nine months ended September 30, 2015.

	Recorded Investment	Unpaid Balance	Average Recorded Investment	Related Allowance	Interest Income Recognized
	(In Thousands)				
Impaired loans without a valuation allowance:					
Residential real estate	\$1,848	\$1,996	\$2,723	\$—	\$81
Residential construction	—	—	—	—	—
Commercial real estate	1,725	2,375	1,871	—	74
Commercial construction	213	213	1,377	—	11
Commercial and industrial	1,550	1,564	1,292	—	45
Consumer	—	—	—	—	—
Home equity	178	204	232	—	2
Total	\$5,514	\$6,352	\$7,495	\$—	\$213
Impaired loans with a valuation allowance:					
Residential real estate	\$1,589	\$1,589	\$979	\$156	\$41
Residential construction	—	—	—	—	—
Commercial real estate	425	425	553	25	16
Commercial construction	—	—	—	—	—
Commercial and industrial	447	447	330	30	19
Consumer	—	—	—	—	—
Home equity	119	119	62	18	2
Total	\$2,580	\$2,580	\$1,924	\$229	\$78
Total impaired loans:					
Residential real estate	\$3,437	\$3,585	\$3,702	\$156	\$122
Residential construction	—	—	—	—	—
Commercial real estate	2,150	2,800	2,424	25	90
Commercial construction	213	213	1,377	—	11
Commercial and industrial	1,997	2,011	1,622	30	64
Consumer	—	—	—	—	—
Home equity	297	323	294	18	4
Total	\$8,094	\$8,932	\$9,419	\$229	\$291



The following table presents a summary of information pertaining to impaired loans by segment as of and for the year ended December 31, 2014:

	Recorded Investment	Unpaid Balance	Average Recorded Investment	Related Allowance	Interest Income Recognized
	(In Thousands)				
Impaired loans without a valuation allowance:					
Residential real estate	\$3,495	\$3,617	\$2,634	\$—	\$105
Residential construction	—	—	—	—	—
Commercial real estate	2,700	3,317	3,535	—	55
Commercial construction	2,395	3,934	3,270	—	111
Commercial and industrial	1,045	1,057	1,300	—	43
Consumer	—	—	—	—	—
Home equity	301	366	238	—	10
Total	\$9,936	\$12,291	\$10,977	\$—	\$324
Impaired loans with a valuation allowance:					
Residential real estate	\$611	\$611	\$859	\$5	\$32
Residential construction	—	—	—	—	—
Commercial real estate	809	809	694	65	23
Commercial construction	—	—	—	—	—
Commercial and industrial	—	—	47	—	1
Consumer	—	—	—	—	—
Home equity	47	47	65	3	1
Total	\$1,467	\$1,467	\$1,665	\$73	\$57
Total impaired loans:					
Residential real estate	\$4,106	\$4,228	\$3,493	\$5	\$137
Residential construction	—	—	—	—	—
Commercial real estate	3,509	4,126	4,229	65	78
Commercial construction	2,395	3,934	3,270	—	111
Commercial and industrial	1,045	1,057	1,347	—	44
Consumer	—	—	—	—	—
Home equity	348	413	303	3	11
Total	\$11,403	\$13,758	\$12,642	\$73	\$381

The \$11.4 million of impaired loans include \$11.2 million of non-accrual loans. The remaining impaired loans are TDRs or loans for which the Company believes, 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.



The following table presents a summary of information pertaining to impaired loans by segment as of and for the three months ended September 30, 2014:

	Recorded Investment	Unpaid Balance	Average Recorded Investment	Related Allowance	Interest Income Recognized
	(In Thousands)				
Impaired loans without a valuation allowance:					
Residential real estate	\$2,874	\$3,001	\$2,714	\$—	\$26
Residential construction	—	—	—	—	—
Commercial real estate	2,822	3,401	3,626	—	15
Commercial construction	3,130	4,668	3,355	—	13
Commercial and industrial	1,057	1,069	1,401	—	9
Consumer	—	—	—	—	—
Home equity	304	360	252	—	1
Total	\$10,187	\$12,499	\$11,348	\$—	\$64
Impaired loans with a valuation allowance:					
Residential real estate	\$1,367	\$1,367	\$853	\$48	\$9
Residential construction	—	—	—	—	—
Commercial real estate	483	483	804	24	5
Commercial construction	—	—	—	—	—
Commercial and industrial	—	—	38	—	—
Consumer	—	—	—	—	—
Home equity	65	65	38	20	1
Total	\$1,915	\$1,915	\$1,733	\$92	\$15
Total impaired loans:					
Residential real estate	\$4,241	\$4,368	\$3,567	\$48	\$35
Residential construction	—	—	—	—	—
Commercial real estate	3,305	3,884	4,430	24	20
Commercial construction	3,130	4,668	3,355	—	13
Commercial and industrial	1,057	1,069	1,439	—	9
Consumer	—	—	—	—	—
Home equity	369	425	290	20	2
Total	\$12,102	\$14,414	\$13,081	\$92	\$79

The \$12.1 million of impaired loans include \$11.6 million of non-accrual loans. The remaining impaired loans are TDRs or loans for which the Company believes, 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.



The following table presents a summary of information pertaining to impaired loans by segment as of and for the nine months ended September 30, 2014.

	Recorded Investment	Unpaid Balance	Average Recorded Investment	Related Allowance	Interest Income Recognized
	(In Thousands)				
Impaired loans without a valuation allowance:					
Residential real estate	\$2,874	\$3,001	\$2,419	\$—	\$83
Residential construction	—	—	—	—	—
Commercial real estate	2,822	3,401	3,744	—	33
Commercial construction	3,130	4,668	3,488	—	99
Commercial and industrial	1,057	1,069	1,364	—	26
Consumer	—	—	—	—	—
Home equity	304	360	222	—	8
Total	\$10,187	\$12,499	\$11,237	\$—	\$249
Impaired loans with a valuation allowance:					
Residential real estate	\$1,367	\$1,367	\$921	\$48	\$42
Residential construction	—	—	—	—	—
Commercial real estate	483	483	666	24	18
Commercial construction	—	—	—	—	—
Commercial and industrial	—	—	58	—	—
Consumer	—	—	—	—	—
Home equity	65	65	69	20	2
Total	\$1,915	\$1,915	\$1,714	\$92	\$62
Total impaired loans:					
Residential real estate	\$4,241	\$4,368	\$3,340	\$48	\$125
Residential construction	—	—	—	—	—
Commercial real estate	3,305	3,884	4,410	24	51
Commercial construction	3,130	4,668	3,488	—	99
Commercial and industrial	1,057	1,069	1,422	—	26
Consumer	—	—	—	—	—
Home equity	369	425	291	20	10
Total	\$12,102	\$14,414	\$12,951	\$92	\$311



## Delinquency and Nonaccrual

All loan segments greater than 30 days past due are considered delinquent. The Company calculates the number of days past due based on a 30 day month. Management continuously monitors delinquency and nonaccrual levels and trends. It is the Company's policy to discontinue the accrual of interest on all loan classes when principal or interest payments are delinquent 90 days or more. The accrual of interest is also discontinued for impaired loans that are delinquent 90 days or more or at management's discretion.

All interest accrued, but not collected, for all loan classes, including impaired loans that are placed on nonaccrual or charged off, is reversed against interest income. Interest recognized on these loans is limited to interest payments received until qualifying for return to accrual. All loan classes are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The following table presents an aging analysis of past due loans and non-accrual loans at September 30, 2015:

	31-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Loans on Nonaccrual
	(In Thousands)						
Residential real estate	\$1,343	\$560	\$505	\$2,408	\$124,581	\$126,989	\$3,306
Residential construction	—	—	—	—	6,906	6,906	—
Commercial real estate	1,585	392	503	2,480	285,678	288,158	1,081
Commercial construction	—	—	—	—	41,683	41,683	213
Commercial and industrial	37	155	470	662	76,101	76,763	1,467
Consumer	4	—	12	16	2,564	2,580	31
Home equity	76	58	170	304	37,261	37,565	228
Total	\$3,045	\$1,165	\$1,660	\$5,870	\$574,774	\$580,644	\$6,326

The following table presents an aging analysis of past due loans and non-accrual loans at December 31, 2014:

	31-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Loans on Nonaccrual
	(In Thousands)						
Residential real estate	\$3,396	\$542	\$1,212	\$5,150	\$113,542	\$118,692	\$4,308
Residential construction	—	—	—	—	8,129	8,129	—
Commercial real estate	913	—	2,385	3,298	246,334	249,632	3,000
Commercial construction	550	—	1,558	2,108	33,678	35,786	2,396
Commercial and industrial	218	434	513	1,165	73,166	74,331	1,196
Consumer	28	—	13	41	2,621	2,662	32
Home equity	77	30	263	370	34,138	34,508	261
Total	\$5,182	\$1,006	\$5,944	\$12,132	\$511,608	\$523,740	\$11,193

## Troubled Debt Restructuring (TDR)

TDR loans consist of loans where the Company, for economic or legal reasons related to the borrower's financial difficulties, granted a concession to the borrower that the Company would not otherwise consider. TDR loans can take the form of a reduction in the stated interest rate, receipts of assets from a debtor in partial or full satisfaction of a

loan, the extension of the maturity date, or the reduction of either the interest or principal. Once a loan has been identified as a TDR, it is classified as impaired and will continue to be reported as a TDR until the loan is paid in full.

In the normal course of business, the Company may modify a loan for a credit worthy borrower where the modified loan is not considered a TDR. In these cases, the modified terms are consistent with loan terms available to credit worthy borrowers and within normal loan pricing. The modifications to such loans are done according to existing underwriting standards which include review of historical financial statements, including current interim information if available, and an analysis of the borrower's performance and projections to assess repayment ability going forward.

During the nine months ended September 30, 2015 and 2014, the Company had no TDRs that had defaulted and had been modified within the previous twelve month periods. TDR loans are considered defaulted at 90 days past due.

The following tables provide new TDR activity by segment during the periods indicated:

For the Three and Nine Months Ended September 30, 2015	Number of Modifications (In Thousands)	Recorded Investment Pre-Modification	Recorded Investment Post-Modification
Residential real estate	—	\$—	\$—
Residential construction	—	—	—
Commercial real estate	—	—	—
Commercial construction	—	—	—
Commercial and industrial	—	—	—
Consumer	—	—	—
Home equity	1	—	38
Total	1	\$—	\$38

For the Three Months Ended September 30, 2014	Number of Modifications (In Thousands)	Recorded Investment Pre-Modification	Recorded Investment Post-Modification
Residential real estate	—	\$—	\$—
Residential construction	—	—	—
Commercial real estate	—	—	—
Commercial construction	2	2,511	3,193
Commercial and industrial	—	—	—
Consumer	—	—	—
Home equity	—	—	—
Total	2	\$2,511	\$3,193

For the Nine Months Ended September 30, 2014	Number of Modifications  (In Thousands)	Recorded Investment Pre-Modification	Recorded Investment Post-Modification
Residential real estate	1	\$252	\$252
Residential construction	—	—	—
Commercial real estate	—	—	—
Commercial construction	2	2,511	3,193
Commercial and industrial	—	—	—
Consumer	—	—	—
Home equity	—	—	—
Total	3	\$2,763	\$3,445

The following is a summary of TDR loans by segment as of the dates indicated:

	As of September 30, 2015		As of December 31, 2014	
	Number of Loans  (Dollars In Thousands)	Recorded Investment	Number of Loans	Recorded Investment
Residential real estate	4	\$853	4	\$865
Residential construction	—	—	—	—
Commercial real estate	3	446	4	575
Commercial construction	—	—	2	2,108
Commercial and industrial	3	414	4	141
Consumer	—	—	—	—
Home equity	2	69	1	33
Total	12	\$1,782	15	\$3,722

## 8. Fair Value Measurements and Disclosures

Accounting Standards Codification ("ASC") Topic 825, "Financial Instruments," requires disclosures of fair value information about financial instruments, whether or not recognized in the statement of financial condition, if the fair values can be reasonably determined.

Certain assets and liabilities are recorded at fair value to provide additional insight into the Company's quality of earnings. Some of these assets and liabilities are measured on a recurring basis while others are measured on a nonrecurring basis, with the determination based upon applicable existing accounting pronouncements. For example, available-for-sale securities are recorded at fair value on a recurring basis. Other assets, such as, mortgage servicing rights, loans held for sale, and impaired loans, are recorded at fair value on a nonrecurring basis using the lower of cost or market methodology to determine impairment of individual assets. The Company groups assets and liabilities which are recorded at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Levels within the fair value hierarchy are based on the lowest level of input that is significant to the fair value measurement (with Level 1 considered highest and Level 3 considered lowest). A brief description of each level follows.

Level 1 - Valuation is based upon quoted prices for identical instruments in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates that market participants would use in pricing the asset or liability. Valuation includes use of discounted cash flow models and similar techniques.

The fair value methods and assumptions are set forth below.

**Cash and cash equivalents.** The carrying amounts of cash equivalents, due from banks and federal funds sold approximate their relative fair values. As such, the Company classifies these financial instruments as Level 1.

**Held-to-maturity and non-marketable securities.** The fair values of held-to-maturity securities are estimated by independent providers using matrix pricing and quoted market prices for similar securities. In obtaining such valuation information from third parties, the Company has evaluated their valuation methodologies used to develop the fair values in order to determine whether the valuations are representative of an exit price in the Company's principal markets. The Company's principal markets for its securities portfolios are the secondary institutional markets, with an exit price that is predominately reflective of bid level pricing in those markets. Fair values are calculated based on the value of one unit without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications, or estimated transaction costs. If these considerations had been incorporated into the fair value estimates, the aggregate fair value could have been changed. The carrying values of non-marketable securities approximate fair values. As such, the Company classifies held-to-maturity and non-marketable securities as Level 2.

**Available-for-sale securities.** Fair value of securities are primarily measured using unadjusted information from an independent pricing service. The securities measured at fair value in Level 1 are based on quoted market prices in an active exchange market. These securities include marketable equity securities.

**Loans.** Fair values are estimated for portfolios of loans with similar financial characteristics. The fair values of performing loans are calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest risk inherent in the loan. The estimates of maturity are based on the Company's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of current economic and lending conditions, and the effects of estimated prepayments. Assumptions regarding risk, cash flows, and discount rates are judgmentally determined using available market information and specific borrower information. Management has made estimates of fair value presented below that would be indicative of the value negotiated in an actual sale. As such, the Company classifies loans as Level 3. Fair values of impaired loans are based on estimated cash flows and are discounted using a rate commensurate with the risk associated with the estimated cash flows, or if collateral dependent, discounted to the appraised value of the collateral, less costs to sell.

**Other real estate owned ("OREO").** Real estate acquired through foreclosure is recorded at fair value. The fair value of OREO is based on property appraisals and an analysis of similar properties currently available. As such, the Company records OREO as nonrecurring Level 2.

**Mortgage servicing rights.** Mortgage servicing rights represent the value associated with servicing residential mortgage loans. Servicing assets and servicing liabilities are reported using the amortization method and compared to fair value for impairment. In evaluating the fair values of the mortgage servicing rights, the Company obtains third party valuations based on loan level data including note rate, type and term of the underlying loans. As such, the Company classifies mortgage servicing rights as Level 2.

**Accrued interest and dividends receivable.** The fair value estimate of this financial instrument approximates the carrying value as this financial instrument has a short maturity. It is the Company's policy to stop accruing interest on loans for which it is probable that the interest is not collectable. Therefore, this financial instrument has been adjusted for estimated credit loss. As such, the Company classifies accrued interest and dividends receivable as Level 2.

Deposits. The fair value of deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposits compared to the cost of borrowing funds in the market. If that value were considered, the fair value of the Company's net assets could increase. As such, the Company classifies deposits as Level 2.

Borrowed funds. The fair value of borrowed funds is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently available for borrowings of similar remaining maturities. As such, the Company classifies borrowed funds as Level 2.

Accrued interest payable. The fair value estimate approximates the carrying amount as this financial instrument has a short maturity. As such, the Company classifies accrued interest payable as Level 2.

Off-balance-sheet instruments. Off-balance-sheet instruments include loan commitments. Fair values for loan commitments have not been presented as the future revenue derived from such financial instruments is not significant.

Limitations. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These values do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on Management's judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial instruments include the deferred tax asset, premises and equipment, and OREO. In addition, tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

Assets measured at fair value as of September 30, 2015 and December 31, 2014 on a recurring basis are summarized below:

	Fair Value Measurements Using			
		Readily Available Market Prices (Level 1)	Observable Market Data (Level 2)	Determined Fair Value (Level 3)
	September 30, 2015			
Assets (market approach)	(Dollars In Thousands)			
Available-for-sale securities:				
Equity securities by industry type:				
Financial	\$405	\$405	\$—	\$—
Total equity securities	\$405	\$405	\$—	\$—
	December 31, 2014			
Assets (market approach)	(Dollars In Thousands)			
Available-for-sale securities:				
Equity securities by industry type:				
Financial	\$414	\$414	\$—	\$—
Total equity securities	\$414	\$414	\$—	\$—



Assets measured at fair value on a nonrecurring basis as of September 30, 2015 and December 31, 2014 are summarized below:

	Fair Value Measurements Using		
	Readily Available Market Prices (Level 1)	Observable Market Data (Level 2)	Determined Fair Value (Level 3)
	September 30, 2015		
	(Dollars In Thousands)		
Assets			
Impaired loans	\$3,430	\$—	\$3,430
Other real estate owned	1,174	—	—
Loans held for sale	377	—	—

Impaired loans are presented net of their related specific reserves of \$229,000 and charge offs of \$838,000 as of September 30, 2015.

	Fair Value Measurements Using		
	Readily Available Market Prices (Level 1)	Observable Market Data (Level 2)	Determined Fair Value (Level 3)
	December 31, 2014		
	(Dollars In Thousands)		
Assets			
Impaired loans	\$5,184	\$—	\$5,184
Other real estate owned	1,050	—	—

Impaired loans are presented net of their related specific reserves of \$73,000 and charge offs of \$2.3 million as of December 31, 2014.

#### Fair Value of Financial Instruments

Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted prices are not available, fair values are based on estimates using present value or other valuation techniques using observable inputs when available. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. FASB ASC Topic 825 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.



The carrying amounts and estimated fair values for financial instruments as of September 30, 2015 and December 31, 2014 were as follows:

	Carrying Amount at September 30, 2015	Fair Value Using		
		Readily Available Market Prices (Level 1)	Observable Market Data (Level 2)	Determined Fair Value (Level 3)
(Dollars In Thousands)				
Financial assets:				
Cash and cash equivalents	\$49,566	\$49,566	\$—	\$—
Available-for-sale securities	405	405	—	—
Held-to-maturity securities	32,784	—	33,588	—
FHLB stock	4,764	—	4,764	—
Loans:				
Residential real estate	126,904	—	—	130,007
Residential construction	6,834	—	—	6,813
Commercial real estate	285,426	—	—	287,100
Commercial construction	41,005	—	—	41,328
Commercial and industrial	75,922	—	—	76,196
Consumer	2,549	—	—	2,746
Home equity	37,379	—	—	37,360
Net loans	576,019	—	—	581,550
Accrued interest and dividends receivable	1,765	—	1,765	—
Mortgage servicing rights	206	—	495	—
Financial liabilities:				
Deposits	\$517,767	\$—	\$518,846	\$—
FHLB advances	88,433	—	89,343	—
Accrued interest payable	114	—	114	—

	Carrying Amount at December 31, 2014	Fair Value Using Readily Available Market Prices (Level 1)	Observable Market Data (Level 2)	Determined Fair Value (Level 3)
(Dollars In Thousands)				
Financial assets:				
Cash and cash equivalents	\$49,769	\$49,769	\$—	\$—
Available-for-sale securities	414	414	—	—
Held-to-maturity securities	33,747	—	34,229	—
FHLB stock	3,914	—	3,914	—
Loans:				
Residential real estate	118,837	—	—	121,296
Residential construction	8,022	—	—	8,008
Commercial real estate	247,246	—	—	248,316
Commercial construction	35,218	—	—	35,463
Commercial and industrial	73,452	—	—	73,668
Consumer	2,627	—	—	2,804
Home equity	34,355	—	—	34,453
Net loans	519,757	—	—	524,008
Accrued interest and dividends receivable	1,591	—	1,591	—
Mortgage servicing rights	269	—	622	—
Financial liabilities:				
Deposits	\$483,558	\$—	\$484,423	\$—
FHLB advances	67,039	—	67,644	—
Accrued interest payable	82	—	82	—

## 9. Common Stock

On August 27, 2015, the Company announced that it had completed its Seventh Stock Repurchase Program for the repurchase of 272,000 shares, at an average price of \$16.30 per share. During the three months ended September 30, 2015, the Company repurchased 60,731 shares, at an average price per share of \$16.58. On September 16, 2015, the Company announced that the Board of Directors authorized an Eighth Stock Repurchase Program to purchase up to 260,000 shares, or approximately 5% of the Company's then outstanding stock. The Company intends to repurchase its shares from time to time at prevailing prices in the open market, in block transactions or in privately negotiated transactions. Repurchases will be made under Rule 10b-5(1) repurchase plans. The shares will be repurchased by the Company as treasury stock and will be available for general corporate purposes.

## 10. Subsequent Events

Subsequent events represent events or transactions occurring after the statements of financial condition date but before the financial statements are issued or are available to be issued. Financial statements are considered "issued" when they are widely distributed to shareholders and others for general use and reliance in a form and format that complies with GAAP. Financial statements are considered "available to be issued" when they are complete in form and format that complies with GAAP and all approvals necessary for their issuance have been obtained.

The Company is a Securities and Exchange Commission filer and management has evaluated subsequent events through the date that the financial statements were issued. On October 22, 2015, the Company announced that its Board of Directors declared a quarterly cash dividend of \$0.08 per share of its common stock to stockholders of record as of the close of business on November 4, 2015, payable on or about November 19, 2015.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following analysis discusses changes in the financial condition and results of operations of Chicopee Bancorp Inc. ("the Company") at September 30, 2015 and December 31, 2014 and for the three and nine months ended September 30, 2015 and 2014, and should be read in conjunction with the Company's Unaudited Consolidated Financial Statements and the notes thereto, appearing in Part I, Item 1 of this document.

Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company include, but are not limited to: changes in interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area and accounting principles and guidelines. Additional factors are discussed in the Company's 2014 Annual Report on Form 10-K under "Item 1A-Risk Factors" and in "Part II. Item 1A. Risk Factors" of this 10-Q. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Except as required by law, the Company does not undertake – and specifically disclaims any obligation – to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

General

Chicopee Savings Bank ("the Bank"), a subsidiary of the Company, is a community-oriented financial institution dedicated to serving the financial services needs of consumers and businesses within its market area. We attract deposits from the general public and use such funds to originate primarily one- to four-family residential real estate loans, commercial real estate loans, commercial loans, multi-family loans, construction loans and consumer loans. At September 30, 2015, we operated out of our main office, lending and operations center, and eight branch offices located in Chicopee, Ludlow, South Hadley, Ware, and West Springfield. All of our offices are located in Western Massachusetts.

CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of the Company's financial condition is based on the consolidated financial statements which are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of such financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, Management evaluates its estimates, including those related to the allowance for loan losses, other-than-temporary impairment of securities, the valuation of mortgage servicing rights, and the valuation of other real estate owned. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis in making judgments about the carrying values of assets that are not readily apparent from other sources. Actual results could differ from the amount derived from management's estimates and assumptions under different

assumptions or conditions. Our accounting policies are more fully described in Note 1 in the "Notes to Consolidated Financial Statements" presented in our 2014 Annual Report on Form 10-K. A brief description of our current accounting policies involving significant management judgment are discussed in the Company's 2014 Annual Report on Form 10-K under "Critical Accounting Policies."

## Comparison of Financial Condition at September 30, 2015 and December 31, 2014

Total assets increased \$56.2 million, or 8.8%, from \$639.2 million at December 31, 2014 to \$695.4 million at September 30, 2015. The increase in total assets was primarily due to the increase in net loans of \$56.3 million, or 10.8%, from \$519.8 million, or 81.3% of total assets at December 31, 2014, to \$576.0 million, or 82.8% of total assets at September 30, 2015.

The significant components of the \$56.3 million, or 10.8%, increase in net loans were an increase of \$38.5 million, or 15.4%, in commercial real estate loans, an increase of \$8.3 million, or 7.0%, in one-to-four-family residential real estate loans, an increase of \$4.7 million, or 10.6% in construction loans, an increase of \$3.1 million, or 8.9% in home equity loans and an increase in commercial and industrial loans of \$2.4 million, or 3.3%. These increases were partially offset by a decrease in consumer loans of \$82,000, or 3.1%. The increase in commercial real estate loans was due to the funding of outstanding loan commitments. In accordance with the Company's asset/liability management strategy and in an effort to reduce interest rate risk, the Company continues to sell fixed rate, low coupon residential real estate loans to the secondary market. The Company currently services \$82.1 million in loans sold to the secondary market. In order to service our customers management intends to continue to retain the servicing rights on all loans written and sold in the secondary market.

The held-to-maturity investment portfolio decreased \$963,000, or 2.9%, from \$33.7 million at December 31, 2014 to \$32.8 million at September 30, 2015. The fair value of available-for-sale securities decreased \$9,000, or 2.2%, from \$414,000, at December 31, 2014 to \$405,000, at September 30, 2015.

Total deposits increased \$34.2 million, or 7.1%, from \$483.6 million at December 31, 2014 to \$517.8 million at September 30, 2015. Core deposits, which we consider to include all deposits except for certificates of deposit, increased \$23.7 million, or 7.6%, from \$311.9 million at December 31, 2014 to \$335.6 million at September 30, 2015. Demand deposits increased \$22.8 million, or 23.3%, to \$120.7 million, NOW accounts increased \$1.0 million, or 2.3%, to \$43.1 million, savings accounts increased \$2.5 million, or 4.9%, to \$53.2 million and money market accounts decreased \$2.6 million, or 2.1%, to \$118.5 million. Certificates of deposit increased \$10.5 million, or 6.1%, from \$171.6 million at December 31, 2014 to \$182.1 million at September 30, 2015. The increase of 7.6% in core deposits was mostly due to seasonal fluctuations in commercial demand accounts. The increase in certificates of deposit was due to promotional interest rates.

The Company utilizes borrowings from a variety of sources to supplement its supply of funds for loans and investments. FHLB advances increased \$21.4 million, or 31.9%, from \$67.0 million at December 31, 2014 to \$88.4 million at September 30, 2015. The increase in FHLB advances was due to the \$38.1 million increase in long-term advances to fund loan growth, partially offset by paydowns on long-term advances of \$16.7 million.

Stockholders' equity was \$88.5 million, or 12.7% of total assets, at September 30, 2015, compared to \$88.1 million, or 13.8% of total assets, at December 31, 2014. The Company's stockholders' equity increased due to net income of \$2.0 million for the nine months ended September 30, 2015, and an increase of \$451,000 in additional paid-in capital and earned compensation related to stock-based compensation, partially offset by the \$1.1 million cash dividend paid during the nine months ended September 30, 2015. The Company's book value per share increased \$0.26, or 1.6%, from \$16.72 at December 31, 2014 to \$16.98 at September 30, 2015. In addition, during the nine months ended September 30, 2015, the Company repurchased 60,731 shares of the Company stock at a cost of \$1.0 million, or \$16.58 average price per share.



## Allowance for Loan Losses

Following is the activity in the allowance for loan losses and related ratios as of and for the periods indicated:

	At or for the Nine Months Ended September 30,		
	2015	2014	
	(Dollars In Thousands)		
Allowance for loan losses, beginning of period:	\$4,927	\$4,596	
Charged off loans:			
Residential real estate	(104	) (233	)
Construction	—	(1,539	)
Commercial real estate	(37	) (938	)
Commercial	(33	) (2,174	)
Home equity	(16	) (57	)
Consumer	(43	) (50	)
Total charged off loans	(233	) (4,991	)
Recoveries on loans previously charged off:			
Residential real estate	—	—	
Construction	39	—	
Commercial real estate	3	74	
Commercial	7	23	
Home equity	4	1	
Consumer	21	17	
Total recoveries	74	115	
Net loan charge offs	(159	) (4,876	)
Provision for loan losses	743	5,202	
Allowance for loan losses, end of period	\$5,511	\$4,922	
Ratios:			
Net loan charge offs to total average loans	0.03	% 0.97	%
Allowance for loan losses to total loans (1)	0.95	% 0.96	%
Allowance for loan losses to nonperforming loans (2)	87.12	% 41.37	%
Recoveries to charge offs	31.76	% 2.30	%
Net loans charged off to allowance for loan losses	2.89	% 99.07	%

(1) Total loans includes net loans plus the allowance for loan losses, excludes deferred loan origination costs.

Nonperforming loans consist of all loans 90 days or more past due and other loans which have been identified by the Company as presenting uncertainty with respect to the collectability of interest or principal. At September 30, 2015, the Company had twelve troubled debt restructured loans totaling \$1.8 million, of which six totaling \$1.1

(2) million were included in nonperforming loans. Six of the twelve restructured loans totaling \$719,000 were performing as modified and on accrual status. At September 30, 2014, the Company had fourteen troubled debt restructured loans totaling \$4.3 million, of which nine totaling \$3.7 million were included in nonperforming loans. Five of the fourteen restructured loans totaling \$509,000 were performing as modified and on accrual status.

Analysis and determination of the allowance for loan losses. The allowance for loan losses is a valuation allowance for probable and estimable credit losses inherent in the loan portfolio. Management evaluates the need to establish allowances against losses on loans on a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings. The allowance

34

---

for loan losses is maintained at an amount that management considers appropriate to cover inherent, probable and estimable losses in the loan portfolio.

Our methodology for assessing the appropriateness of the allowance for loan losses consists of: (1) a specific allowance on identified problem loans; and (2) a general valuation allowance on the remainder of the loan portfolio. Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available for the entire portfolio. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

**Specific allowance required for identified problem loans.** The allocated component of the allowance for loan losses relates to loans that are classified as impaired. Impairment is measured on a loan by loan basis for residential real estate, home equity loans, commercial real estate and commercial 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. The Company recognizes the change in present value attributable to the passage of time as provision for loan losses. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment, and the resulting allowance is reported as the general component, as described above.

**General valuation allowance on the remainder of the loan portfolio.** The Company establishes a general allowance for loans that are not delinquent. If not all delinquent loans are impaired, then some delinquent loans are in the general pool. This general valuation allowance is determined by segregating the loans by loan segment and assigning percentages to each segment. The percentages are adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. These significant factors include: levels and historical trends in delinquencies, impaired loans, nonaccrual loans, charge-offs, recoveries, and classified assets; trends in the volume and terms of loans; effects of any change in underwriting, policies, procedures, and practices; experience, ability, and depth of management and staff; national and local economic trends and conditions; trends and conditions in the industries in which borrowers operate; and effects of changes in credit concentrations. The applied loss factors are reevaluated quarterly to ensure their relevance in the current economic environment.

The Company identifies loans that may need to be charged off as a loss by reviewing all delinquent loans, classified loans and other loans for which management may have concerns about collectability. For individually reviewed loans, the borrower's inability to make payments under the terms of the loan or a shortfall in the fair value of the collateral if the loan is collateral dependent would result in our allocating a portion of the allowance to the loan that was impaired.

The allowance for loan losses is based on management's estimate of the amount required to reflect the potential inherent losses in the loan portfolio, based on circumstances and conditions known or anticipated at each reporting date. There are inherent uncertainties with respect to the collectability of the Company's loans and it is reasonably possible that actual loss experience in the near term may differ from the amounts reflected in this report.

At September 30, 2015, the allowance for loan losses represented 0.95% of total loans and 87.1% of nonperforming loans. The allowance for loan losses increased \$584,000, or 11.9%, from \$4.9 million at December 31, 2014 to \$5.5 million at September 30, 2015. The increase of \$584,000 was due to the \$743,000 provision for loan losses, offset by net charge-offs of \$159,000.

For the nine months ended September 30, 2015, the provision for loan losses decreased \$4.5 million from \$5.2 million, for the nine months ended September 30, 2014 to \$743,000. The provision for loan losses of \$5.2 million for the nine months ended September 30, 2014 was due to net charge-offs of \$4.9 million. Of the \$743,000 provision for loan losses for the nine months ended September 30, 2015, \$428,000, or 57.6%, was due to the \$56.9 million, or 10.9%, increase in total loans from \$523.7 million at December 31, 2014 to \$580.6 million at September 30, 2015,

\$156,000 was due to the increase in specific reserves and \$159,000 was due to net charge-offs.

## Nonperforming Assets

The following table sets forth information regarding nonaccrual loans and other real estate owned at the dates indicated:

	September 30, 2015		December 31, 2014	
	(Dollars In Thousands)			
Nonaccrual loans (3):				
Residential real estate	\$3,306		\$4,308	
Commercial real estate	1,081		3,000	
Commercial construction	213		2,396	
Commercial and industrial	1,467		1,196	
Home equity	228		261	
Consumer	31		32	
Total nonaccrual loans	6,326		11,193	
Other real estate owned	1,174		1,050	
Total nonperforming assets	\$7,500		\$12,243	
Ratios:				
Total nonperforming loans as a percentage of total loans (1)	1.09	%	2.14	%
Total nonperforming assets as a percentage of total assets (2)	1.08	%	1.92	%

(1) Total loans equals net loans plus the allowance for loan losses, excludes deferred loan origination costs.

Nonperforming assets consist of nonperforming loans including nonperforming TDRs and OREO. Nonperforming (2) loans consist of all loans 90 days or more past due and other loans which have been identified by the Company as presenting uncertainty with respect to the collectability of interest or principal.

(3) Loans are placed on nonaccrual status either when reasonable doubt exists as to the timely collection of principal and interest or when a loan becomes 90 days past due unless an evaluation clearly indicates that the loan is well-secured and in the process of collection. At September 30, 2015, there were no loans that were over 90 days delinquent and still accruing interest.

At September 30, 2015, nonperforming loans decreased \$4.9 million, or 43.5%, to \$6.3 million compared to \$11.2 million at December 31, 2014. The decrease in nonperforming loans is primarily due to the decrease of \$1.9 million, or 64.0% in commercial real estate loans, a decrease of \$2.2 million, or 91.1%, in commercial construction loans, a decrease of \$1.0 million, or 23.3%, in residential real estate loans, and a decrease of \$33,000, or 12.6%, in home equity loans. The decrease in nonperforming commercial real estate loans was due to the sale of the underlying collateral on two separate nonperforming commercial loan relationships previously disclosed. The collateral for both relationships, including real estate, were sold without any additional write-downs. Loans that are less than 90 days past due and were previously on nonaccrual continue to be on nonaccrual status until all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. At September 30, 2015, other real estate owned increased \$124,000, or 11.8%, to \$1.2 million.

Asset quality continues to be the top focus for management and we continue to proactively work to resolve problem loans as they arise. Management continues to monitor the loan portfolio to minimize any further deterioration in the collateral that could result in future losses.



## Deposits

The following table sets forth the Company's deposit accounts at the dates indicated:

Deposit Type:	September 30, 2015		December 31, 2014		
	Balance	Percent of Total Deposits	Balance	Percent of Total Deposits	
	(Dollars In Thousands)				
Demand deposits	\$ 120,727	23.3	% \$ 97,922	20.3	%
NOW accounts	43,143	8.3	% 42,177	8.7	%
Savings accounts	53,211	10.3	% 50,716	10.5	%
Money market deposit accounts	118,546	22.9	% 121,106	25.0	%
Total core deposits	335,627	64.8	% 311,921	64.5	%
Certificates of deposit	182,140	35.2	% 171,637	35.5	%
Total deposits	\$ 517,767	100.0	% \$ 483,558	100.0	%

Total deposits increased \$34.2 million, or 7.1%, from \$483.6 million at December 31, 2014 to \$517.8 million at September 30, 2015. Core deposits, which we consider to include all deposits except for certificates of deposit, increased \$23.7 million, or 7.6%, from \$311.9 million at December 31, 2014 to \$335.6 million at September 30, 2015. Demand deposits increased \$22.8 million, or 23.3%, to \$120.7 million, NOW accounts increased \$1.0 million, or 2.3%, to \$43.1 million, savings accounts increased \$2.5 million, or 4.9%, to \$53.2 million and money market accounts decreased \$2.6 million, or 2.1%, to \$118.5 million. Certificates of deposit increased \$10.5 million, or 6.1%, from \$171.6 million at December 31, 2014 to \$182.1 million at September 30, 2015. The increase of 7.6% in core deposits was mostly due to seasonal fluctuations in commercial demand accounts. The increase in certificates of deposit was due to promotional interest rates.

## Comparison of Operating Results for the Three Months Ended September 30, 2015 and 2014

## General

The Company reported net income of \$970,000, or \$0.20 basic earnings per share, for the three months ended September 30, 2015, compared to \$522,000, or \$0.10 basic earnings per share, for the same period in 2014. The increase in net income for the three months ended September 30, 2015 compared to the three months ended September 30, 2014, was primarily due to the \$386,000, or 7.7%, increase in net interest income, a decrease of \$90,000, or 39.6%, in the provision for loan losses, and a decrease in income tax expense of \$55,000, or 12.7%. These improvements were partially offset by an increase of \$63,000, or 1.3%, in non-interest expense and a decrease of \$20,000, or 2.2%, in non-interest income.

## Analysis of Net Interest Income

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends on the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them.

The following table sets forth average balances, interest income and expense and yields earned or rates paid on the major categories of assets and liabilities for the periods indicated. The average yields and costs are derived by dividing interest income or expense by the average balance of interest-earning assets or interest-bearing liabilities,

respectively. The yields and costs are annualized. Average balances are derived from average daily balances. The yields and costs include fees which are considered adjustments to yields. Loan interest and yield data does not include any accrued interest from non-accruing loans.

Edgar Filing: CHICOPEE BANCORP, INC. - Form 10-Q

	For the Three Months Ended September 30, 2015				2014			
	Average Balance	Interest	Average Yield/ Rate		Average Balance	Interest	Average Yield/ Rate	
	(Dollars in Thousands)							
Interest-earning assets:								
Investments (1)	\$37,987	\$637	6.65	%	\$39,239	\$643	6.50	%
Loans:								
Residential real estate loans	127,964	1,208	3.75	%	116,206	1,126	3.84	%
Home equity	36,171	270	2.96	%	32,339	281	3.45	%
Commercial real estate loans	290,305	3,270	4.47	%	228,383	2,702	4.69	%
Residential construction	5,743	58	4.01	%	7,789	77	3.92	%
Commercial construction	38,557	416	4.28	%	44,012	452	4.07	%
Consumer loans	2,609	43	6.54	%	2,561	41	6.35	%
Commercial and industrial loans	76,435	764	3.97	%	83,333	860	4.09	%
Total loans (2)	577,784	6,029	4.14	%	514,623	5,539	4.27	%
Other interest-earning assets	16,956	10	0.23	%	9,970	5	0.20	%
Total interest-earning assets	632,727	6,676	4.19	%	563,832	6,187	4.35	%
Non-interest earning assets	43,414				44,372			
Less: Allowance for loan losses	(5,391 )				(4,787 )			
Total assets	\$670,750				\$603,417			
Interest-bearing liabilities:								
Deposits:								
Money market accounts	\$118,957	\$66	0.22	%	\$110,555	\$80	0.29	%
Savings accounts (3)	52,428	14	0.10	%	50,431	13	0.10	%
NOW accounts	42,983	71	0.66	%	41,810	72	0.68	%
Certificates of deposit	179,723	528	1.17	%	155,875	505	1.29	%
Total interest-bearing deposits	394,091	679	0.68	%	358,671	670	0.74	%
Federal Home Loan Bank advances	89,777	347	1.53	%	63,526	243	1.52	%
Total interest-bearing borrowings	89,777	347	1.53	%	63,526	243	1.52	%
Total interest-bearing liabilities	483,868	1,026	0.84	%	422,197	913	0.86	%
Demand deposits	96,982				90,862			
Other non-interest bearing liabilities	772				577			
Total liabilities	581,622				513,636			
Total stockholders' equity	89,128				89,781			
Total liabilities and stockholders' equity	\$670,750				\$603,417			
Net interest-earning assets	\$148,859				\$141,635			
Net interest income (fully-taxable equivalent)		5,650				5,274		
Less: tax equivalent adjustment (1)		(243 )				(253 )		
Net interest income		\$5,407				\$5,021		
Net interest rate spread (fully-taxable equivalent) (4)			3.35	%			3.49	%
Net interest margin (fully-taxable equivalent) (5)			3.54	%			3.71	%
			130.76	%			133.55	%

Ratio of interest earning assets to  
interest-bearing liabilities

Municipal securities income and net interest income are presented on a tax equivalent basis using a tax rate of 41%.

(1) The tax equivalent adjustment is deducted from the tax equivalent net interest income to agree to the amount reported on the statement of operations. See 'Explanation of Use of Non-GAAP Financial Measurements'.

(2) Total loans excludes loans held for sale and includes nonperforming loans.

(3) Savings accounts include mortgagors' escrow deposits.

Tax equivalent interest rate spread represents the difference between the weighted average yield on interest-earning

(4) assets and the weighted average cost of interest-bearing liabilities. See 'Explanation of Use of Non-GAAP Financial Measurements'.

(5) Tax equivalent net interest margin represents tax equivalent net interest income divided by total average interest-earning assets.

Net interest income, on a tax equivalent basis, increased \$376,000, or 7.1%, to \$5.7 million for the three months ended September 30, 2015, compared to the three months ended September 30, 2014. Net interest margin, on a tax equivalent basis, decreased 17 basis points from 3.71% for the three months ended September 30, 2014 to 3.54% for the three months ended September 30, 2015.

Interest and dividend income, on a tax equivalent basis, increased \$489,000, or 7.9%, from \$6.2 million for the three months ended September 30, 2014 to \$6.7 million for the three months ended September 30, 2015. Average interest-earning assets increased \$68.9 million, or 12.2%, from \$563.8 million at September 30, 2014 to \$632.7 million at September 30, 2015. Average loans increased \$63.2 million, or 12.3%, primarily due to the increase in average commercial real estate loans of \$61.9 million, or 27.1%. Average investment securities decreased \$1.3 million, or 3.2%. Other interest earning assets, consisting of overnight fed funds, increased \$7.0 million, or 70.1%. The tax equivalent yield on average interest-earning assets decreased 16 basis points to 4.19% for the three months ended September 30, 2015, primarily as a result of lower market rates of interest.

Total interest expense increased \$113,000, or 12.4%, to \$1.0 million for the three months ended September 30, 2015 from \$913,000 for the three months ended September 30, 2014, primarily due to the \$26.3 million, or 41.3%, increase in FHLB advances. Average interest-bearing liabilities increased \$61.7 million, or 14.6%, to \$483.9 million for the three months ended September 30, 2015 from \$422.2 million for the three months ended September 30, 2014. Rates paid on average interest-bearing liabilities declined two basis points from 0.86% for the three months ended September 30, 2014 to 0.84% for the three months ended September 30, 2015. The continued low interest rate environment led to a decrease in rates paid for certificates of deposit of 12 basis points from 1.29% at September 30, 2014 to 1.17% for the three months ended September 30, 2015. The cost of FHLB advances increased one basis point from 1.52% for the three months ended September 30, 2014 to 1.53% for the three months ended September 30, 2015.

#### Provision for Loan Losses

The provision for loan losses decreased \$90,000, or 39.6% to \$137,000, for the three months ended September 30, 2015, compared to \$227,000 for the three months ended September 30, 2014. Nonperforming loans decreased \$5.6 million, or 46.8%, from \$11.9 million, or 2.32% of total loans, at September 30, 2014, to \$6.3 million, or 1.09% of total loans, at September 30, 2015. Total nonperforming assets decreased \$5.5 million, or 42.4%, from \$13.0 million, or 2.08% of total assets, at September 30, 2014, to \$7.5 million, or 1.08% of total assets, at September 30, 2015. The allowance for loan losses as a percentage of total loans decreased from 0.96% at September 30, 2014 to 0.95% at September 30, 2015. The allowance for loan losses as a percentage of non-performing loans increased from 41.4% at September 30, 2014 to 87.1% at September 30, 2015.

#### Non-Interest Income

For the three months ended September 30, 2015, non-interest income decreased \$20,000, or 2.2%, from \$899,000 for the three months ended September 30, 2014 to \$879,000. The decrease in non-interest income was due to the \$17,000, or 2.3%, decrease in income from service charges, fees and commissions, and a decrease in income from bank owned life insurance of \$3,000, or 3.3%, partially offset by an increase of \$12,000, or 20.7%, in income from loan sales and servicing, net.

#### Non-Interest Expenses

For the three months ended September 30, 2015, non-interest expense of \$4.8 million, or 2.84% of average assets, increased \$63,000, or 1.3%, compared to the three months ended September 30, 2014. The increase was primarily due to the \$45,000, or 1.8%, increase in salaries and benefits, an increase of \$65,000, or 19.2%, in data processing, an

increase in other non-interest expense of \$48,000, or 7.7%, an increase in foreclosure fees of \$18,000, or 12.9%, and an increase of \$6,000, or 9.2%, in stationery, supplies and postage. These increases were partially offset by a decrease in professional fees of \$93,000, or 34.3%, a decrease of \$14,000, or 3.8%, in occupancy expense and a decrease in FDIC insurance expense of \$12,000, or 10.3%.

#### Income Taxes

For the three months ended September 30, 2015, we recorded a provision for income taxes of \$379,000, reflecting an effective tax rate of 28.1%, compared to a provision for income taxes of \$434,000, reflecting an effective tax rate of 45.4%, for the three months ended September 30, 2014. The effective tax rate includes the impact of the utilization of tax-exempt investments and non-taxable income related to bank-owned life insurance.

Comparison of Operating Results for the Nine Months Ended September 30, 2015 and 2014

General

The Company reported net income of \$2.0 million, or \$0.41 basic earnings per share, for the nine months ended September 30, 2015, compared to a net loss of \$876,000, or \$0.17 basic loss per share, for the same period in 2014. The increase in net income for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, was primarily due to the \$4.5 million, or 85.7%, decrease in the provision for loan losses, an increase in net interest income of \$1.1 million, or 7.6%, an increase in non-interest income of \$69,000, or 3.1%, partially offset by an increase of \$394,000 or 2.8%, in non-interest expense and an increase of \$2.3 million, or 146.4%, in income tax expense due to the higher level of income during the nine months ended September 30, 2015.

Analysis of Net Interest Income

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends on the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them.

The following table sets forth average balances, interest income and expense and yields earned or rates paid on the major categories of assets and liabilities for the periods indicated. The average yields and costs are derived by dividing interest income or expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively. The yields and costs are annualized. Average balances are derived from average daily balances. The yields and costs include fees which are considered adjustments to yields. Loan interest and yield data does not include any accrued interest from non-accruing loans.

	For the Nine Months Ended September 30, 2015				2014			
	Average Balance	Interest	Average Yield/ Rate		Average Balance	Interest	Average Yield/ Rate	
	(Dollars in Thousands)							
Interest-earning assets:								
Investments (1)	\$37,962	\$1,877	6.61	%	\$43,247	\$1,972	6.10	%
Loans:								
Residential real estate loans	124,426	3,548	3.81	%	114,669	3,358	3.92	%
Home equity	35,154	813	3.09	%	32,081	841	3.50	%
Commercial real estate loans	277,724	9,442	4.55	%	220,199	7,828	4.75	%
Residential construction	6,504	191	3.93	%	7,254	219	4.04	%
Commercial construction	37,135	1,166	4.20	%	42,298	1,310	4.14	%
Consumer loans	2,601	127	6.53	%	2,412	117	6.49	%
Commercial and industrial loans	74,124	2,223	4.01	%	83,073	2,442	3.93	%
Total loans (2)	557,668	17,510	4.20	%	501,986	16,115	4.29	%
Other interest-earning assets	26,377	48	0.24	%	13,655	23	0.23	%
Total interest-earning assets	622,007	19,435	4.18	%	558,888	18,110	4.33	%
Non-interest earning assets	42,601				41,799			
Less: Allowance for loan losses	(5,212 )				(4,594 )			
Total assets	\$659,396				\$596,093			
Interest-bearing liabilities:								
Deposits:								
Money market accounts	\$119,234	\$219	0.25	%	\$112,242	\$258	0.31	%
Savings accounts (3)	52,054	40	0.10	%	50,269	39	0.10	%
NOW accounts	42,686	214	0.67	%	41,667	253	0.81	%
Certificates of deposit	178,999	1,621	1.21	%	155,530	1,539	1.32	%
Total interest-bearing deposits	392,973	2,094	0.71	%	359,708	2,089	0.78	%
Federal Home Loan Bank advances	81,012	927	1.53	%	54,515	672	1.65	%
Total interest-bearing liabilities	473,985	3,021	0.85	%	414,223	2,761	0.89	%
Demand deposits	95,885				90,178			
Other non-interest bearing liabilities	599				511			
Total liabilities	570,469				504,912			
Total stockholders' equity	88,927				91,181			
Total liabilities and stockholders' equity	\$659,396				\$596,093			
Net interest-earning assets	\$148,022				\$144,665			
Net interest income (fully-taxable equivalent)		16,414				15,349		
Less: tax equivalent adjustment (1)		(730 )				(768 )		
Net interest income		\$15,684				\$14,581		
Net interest rate spread (fully-taxable equivalent) (4)			3.33	%			3.44	%
Net interest margin (fully-taxable equivalent) (5)			3.53	%			3.67	%
Ratio of interest earning assets to interest-bearing liabilities			131.23	%			134.92	%

Municipal securities income and net interest income are presented on a tax equivalent basis using a tax rate of 41%.

- (1) The tax equivalent adjustment is deducted from the tax equivalent net interest income to agree to the amount reported on the statement of operations. See 'Explanation of Use of Non-GAAP Financial Measurements'.
- (2) Total loans excludes loans held for sale and includes nonperforming loans.
- (3) Savings accounts include mortgagors' escrow deposits.

Tax equivalent interest rate spread represents the difference between the weighted average yield on interest-earning

- (4) assets and the weighted average cost of interest-bearing liabilities. See 'Explanation of Use of Non-GAAP Financial Measurements'.

- (5) Tax equivalent net interest margin represents tax equivalent net interest income divided by total average interest-earning assets.

Net interest income, on a tax equivalent basis, increased \$1.1 million, or 6.9%, to \$16.4 million for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. Net interest margin, on a tax equivalent basis, decreased 14 basis points from 3.67% for the nine months ended September 30, 2014 to 3.53% for the nine months ended September 30, 2015.

Interest and dividend income, on a tax equivalent basis, increased \$1.3 million, or 7.3%, from \$18.1 million for the nine months ended September 30, 2014 to \$19.4 million for the nine months ended September 30, 2015. Average interest-earning assets increased \$63.1 million, or 11.3%, from \$558.9 million at September 30, 2014 to \$622.0 million at September 30, 2015. Average loans increased \$55.7 million, or 11.1%, primarily due to the increase in average commercial real estate loans of \$57.5 million, or 26.1%, while the average yield on loans decreased 9 basis points. Average investment securities decreased \$5.3 million, or 12.2%. Other interest earning assets, consisting of overnight fed funds, increased \$12.7 million, or 93.2%. The tax equivalent yield on average interest-earning assets decreased 15 basis points to 4.18% for the nine months ended September 30, 2015, primarily as a result of lower market rates of interest.

Total interest expense increased \$260,000, or 9.4%, to \$3.0 million for the nine months ended September 30, 2015 from \$2.8 million for the nine months ended September 30, 2014, primarily due to the increase in interest expense of \$255,000, or 37.9%, on FHLB advances. Average interest-bearing liabilities increased \$59.8 million, or 14.4%, to \$474.0 million for the nine months ended September 30, 2015 from \$414.2 million for the nine months ended September 30, 2014. Rates paid on average interest-bearing liabilities declined four basis points from 0.89% for the nine months ended September 30, 2014 to 0.85% for the nine months ended September 30, 2015. The low interest rate environment led to a decrease in rates paid for certificates of deposit of 11 basis points from 1.32% at September 30, 2014 to 1.21% for the nine months ended September 30, 2015. The cost of FHLB advances decreased 12 basis points from 1.65% for the nine months ended September 30, 2014 to 1.53% for the nine months ended September 30, 2015.

#### Provision for Loan Losses

The provision for loan losses decreased \$4.5 million, or 85.7%, from \$5.2 million for the nine months ended September 30, 2014 to \$743,000 for the nine months ended September 30, 2015. For the nine months ended September 30, 2015, net charge-offs decreased \$4.7 million, or 96.7%, to \$159,000, or 0.03% of total average loans, from \$4.9 million, or 0.97% of total average loans, for the nine months ended September 30, 2014. Nonperforming loans decreased \$5.6 million, or 88.1%, from \$11.9 million, or 2.32% of total loans, at September 30, 2014, to \$6.3 million, or 1.09% of total loans, at September 30, 2015. The allowance for loan losses as a percentage of total loans decreased from 0.96% at September 30, 2014 to 0.95% at September 30, 2015. The allowance for loan losses as a percentage of nonperforming loans increased from 41.4% at September 30, 2014 to 87.1% at September 30, 2015.

#### Non-Interest Income

Non-interest income increased \$69,000, or 3.1%, from \$2.2 million for the nine months ended September 30, 2014 to \$2.3 million for the nine months ended September 30, 2015. Income from service charges, fees and commissions increased \$20,000, or 1.1%, income from loan sales and servicing, net, increased \$19,000, or 11.4%, and write-downs on other real estate owned (OREO) decreased \$66,000, or 91.7%. These improvements were partially offset by the decrease of \$34,000, or 100.0%, in net gains on the sale of securities available for sale, and a decrease of \$5,000, or 1.9%, in income from BOLI.

#### Non-Interest Expenses

For the nine months ended September 30, 2015, non-interest expense of \$14.4 million, or 2.93% of average assets, increased \$394,000, or 2.8%, from \$14.1 million, or 3.15% of average assets, for the nine months ended September

30, 2014. The increase in non-interest expense was primarily due to the increase in salaries and benefits of \$163,000, or 2.2%, an increase in data processing of \$105,000, or 10.0%, an increase of \$150,000, or 8.2%, in other non-interest expense, an increase of \$38,000, or 12.4%, in FDIC insurance expense, an increase of \$20,000, or 1.7%, in occupancy expense, an increase of \$10,000, or 5.2%, in stationery, supplies and postage and an increase in foreclosure and loan collection related expenses of \$25,000, or 6.5%. These increases were partially offset by a decrease in advertising expense of \$44,000, or 9.3%, a decrease of \$70,000, or 11.1%, in professional fees, and a decrease in furniture and fixtures of \$3,000, or 0.6%.

#### Income Taxes

Income tax expense increased from a tax benefit of \$1.6 million for the nine months ended September 30, 2014 to a tax expense of \$740,000 for the nine months ended September 30, 2015. The tax expense was the result of a higher level of income during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014.

## Reconciliation and Explanation of Use of Non-GAAP Financial Measurements

We believe that it is common practice in the banking industry to present interest income and related yield information on tax exempt securities on a tax-equivalent basis and that such information is useful to investors because it facilitates comparisons among financial institutions. However, the adjustment of interest income and yields on tax exempt securities to a tax equivalent amount may be considered to include financial information that is not in compliance with GAAP. A reconciliation from GAAP to non-GAAP is provided below.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015		2014		2015		2014	
	(Dollars in Thousands)				(Dollars in Thousands)			
	Interest	Average Yield	Interest	Average Yield	Interest	Average Yield	Interest	Average Yield
Investment securities (no tax adjustment)	\$394	4.11 %	\$390	3.94 %	\$1,147	4.04 %	\$1,204	3.72 %
Tax equivalent adjustment (1)	243		253		730		768	
Investment securities (tax equivalent basis)	\$637	6.65 %	\$643	6.50 %	\$1,877	6.61 %	\$1,972	6.10 %
Net interest income (no tax adjustment)	\$5,407		\$5,021		\$15,684		\$14,581	
Tax equivalent adjustment (1)	243		253		730		768	
Net interest income (tax equivalent basis)	\$5,650		\$5,274		\$16,414		\$15,349	
Interest rate spread (no tax adjustment)		3.19 %		3.49 %		3.17 %		3.26 %
Net interest margin (no tax adjustment)		3.39 %		3.53 %		3.37 %		3.49 %

(1) The tax equivalent adjustment is based on a combined federal and state tax rate of 41% for all periods presented.

## Liquidity Management

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities, borrowings from the FHLB and securities sold under agreements to repurchase. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. Prepayment rates can have a significant impact on interest income. Because of the large percentage of loans we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that, in turn, affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe these assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual loan repayment activity. Our short-term securities primarily consist of U.S. Treasury and government agencies, which we use primarily for collateral purposes for sweep accounts maintained by commercial customers. The balances of these securities fluctuate as the aggregate balance of our sweep accounts fluctuate.

We regularly adjust our investments in liquid assets based upon our assessment of: (1) expected loan demands; (2) expected deposit flows; (3) yields available on interest-earning deposits and securities; and (4) the objectives of our

asset/liability management policy.

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. At September 30, 2015, total cash and cash equivalents totaled \$49.6 million, net of reserve requirements.

In addition, at September 30, 2015, the Company had the ability to borrow a total of approximately \$156.9 million from the FHLB. On September 30, 2015, we had \$88.4 million of such borrowings outstanding. The Company's unused borrowing capacity with the Federal Reserve Bank of Boston was approximately \$68.4 million at September 30, 2015. In addition, we had the following available lines of credit to use as contingency funding sources: \$4.0 million with Banker's Bank Northeast and available Fed Funds to purchase of \$3.0 million.

Certificates of deposit due within one year of September 30, 2015 totaled \$114.0 million, or 62.64%, of our certificates of deposit. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before September 30, 2016. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

### Capital Management

We are subject to various regulatory capital requirements administered by the Federal Deposit Insurance Corporation (FDIC), including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At September 30, 2015, the Company exceeded all of its regulatory capital requirements. The Company is considered “well capitalized” under regulatory guidelines. The Company is subject to the Federal Reserve Board’s capital adequacy guidelines for bank holding companies (on a consolidated basis) substantially similar to those of the FDIC. The Company exceeded these requirements at September 30, 2015.

The Company’s and Bank’s actual capital amounts and ratios as of September 30, 2015 and December 31, 2014 are presented in the following tables:

	Actual		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions			
	Amount	Ratio	Amount	Ratio	Amount	Ratio		
(Dollars In Thousands)								
As of September 30, 2015								
Total Capital to Risk Weighted Assets								
Company	\$92,949	16.4	% \$45,301	8.0	% N/A	N/A		
Bank	\$82,129	14.5	% \$45,179	8.0	% \$56,474	10.0	%	
Tier 1 Capital to Risk Weighted Assets								
Company	\$87,422	15.4	% \$33,976	6.0	% N/A	N/A		
Bank	\$76,602	13.6	% \$33,885	6.0	% \$45,179	8.0	%	
Tier 1 Capital to Average Assets								
Company	\$87,422	13.0	% \$26,813	4.0	% N/A	N/A		
Bank	\$76,602	11.5	% \$26,754	4.0	% \$33,442	5.0	%	
Common Equity Tier 1 Capital to Risk Weighted Assets								
Company	\$87,422	15.4	% \$25,482	4.5	% N/A	N/A		
Bank	\$76,602	13.6	% \$25,413	4.5	% \$43,475	6.5	%	

	Actual		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars In Thousands)						
As of December 31, 2014						
Total Capital to Risk Weighted Assets						
Company	\$91,331	17.5	% \$41,808	8.0	% N/A	N/A
Bank	\$78,337	15.0	% \$41,677	8.0	% \$52,096	10.0 %
Tier 1 Capital to Risk Weighted Assets						
Company	\$86,384	16.5	% \$20,904	4.0	% N/A	N/A
Bank	\$73,390	14.1	% \$20,838	4.0	% \$31,257	6.0 %
Tier 1 Capital to Average Assets						
Company	\$86,384	13.8	% \$24,956	4.0	% N/A	N/A
Bank	\$73,390	11.8	% \$24,871	4.0	% \$31,088	5.0 %

In July 2013, the FDIC and the other federal bank regulatory agencies issued a final rule that revised their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain “available-for-sale” securities holdings to be included for purposes of calculating regulatory capital unless a one-time opt-out is exercised. The rule limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule became effective for the Company and the Bank on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective.

The following is a reconciliation of the Company's stockholders' equity as disclosed in the consolidated balance sheet under GAAP to regulatory capital as disclosed in the table above.

	September 30, 2015	December 31, 2014
	(In Thousands)	
Total equity determined under GAAP	\$88,498	\$88,134
Accumulated other comprehensive income	(24	) (29
Disallowed mortgage servicing assets	—	(27
Disallowed deferred tax assets	(1,052	) (1,694
Tier 1 Capital	87,422	86,384
Allowable allowance for loan losses	5,511	4,927
Unrealized gain on available-for-sale equity securities, net of tax	16	20
Total regulatory capital	\$92,949	\$91,331



## Restrictions on Dividends and Stock Repurchases

Dividends from Chicopee Bancorp, Inc. may depend, in part, upon receipt of dividends from the Bank. The subsidiary may pay dividends to its parent out of so much of its net income as the Bank's directors deem appropriate, subject to the limitation that the total of all dividends declared by the Bank in any calendar year may not exceed the total of its net income of that year combined with its retained net income of the preceding two years and subject to minimum regulatory capital requirements. The approval of the Massachusetts Commissioner of Banks is required if the total of all dividends declared in any calendar year exceeds the total of its net profits for that year combined with its retained net profits of the preceding two years. Net profits for this purpose means the remainder of all earnings from current operations plus actual recoveries on loans and investments and other assets after deducting from the total thereof all current operating expenses, actual losses, accrued dividends on preferred stock, if any and all federal and state taxes.

A Massachusetts stock bank may declare cash dividends from net profits not more frequently than quarterly. Non-cash dividends may be declared at any time. No dividends may be declared, credited or paid if the Bank's capital stock is impaired. The approval of the Massachusetts Commissioner of Banks is required if the total of all dividends declared in any calendar year exceeds the total of its net profits for that year combined with its retained net profits of the preceding two years. Dividends from Chicopee Bancorp, Inc. may depend, in part, upon receipt of dividends from Chicopee Savings Bank. The payment of dividends from Chicopee Savings Bank would be restricted by federal law if the payment of such dividends resulted in Chicopee Savings Bank failing to meet regulatory capital requirements.

The Federal Reserve Board has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to dividends in certain circumstances such as where the company's net income for the past four quarters, net of dividends' previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. The policy statement also provides for regulatory consultation prior to a holding company redeeming or repurchasing regulatory capital instruments when the holding company is experiencing financial weaknesses or redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction as of the end of a quarter in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies could affect the ability of the Chicopee Bancorp, Inc. to pay dividends, repurchase shares of its stock or otherwise engage in capital distributions.

On January 26, 2015, the Company declared a cash dividend of \$0.07 per share payable on February 20, 2015.

On April 24, 2015, the Company declared a cash dividend of \$0.07 per share payable on May 22, 2015.

On July 23, 2015, the Company declared a cash dividend of \$0.08 per share payable on August 21, 2015.

On October 22, 2015, the Company declared a cash dividend of \$0.08 per share payable on November 19, 2015.

See Item 2. Unregistered Sales of Equity Securities and Use of Proceeds regarding stock repurchases.

## Off-Balance Sheet Arrangements

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with GAAP, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, letters of credit and lines of credit. We currently have no plans to engage in hedging activities in the future.

#### Credit-Related Financial Instruments

The Company is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and various financial instruments with off-balance-sheet risk. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

The following financial instruments were outstanding whose contract amounts represent credit risk:

	September 30, 2015	December 31, 2014
Commitments to grant loans	\$ 17,021	\$ 35,418
Unfunded commitments for construction loans	20,652	17,210
Unfunded commitments under lines of credit	81,851	79,092
Standby letters of credit	930	904

Commitments to extend credit are agreements to lend to a customer as long as 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. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment, and real estate.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized, usually do not contain a specified maturity date, and may not be drawn upon to the total extent to which the Company is committed.

The Company does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. The Company has issued conditional commitments in the form of standby letters of credit to guarantee payment on behalf of a customer and guarantee the performance of a customer to a third party. Standby letters of credit generally arise in connection with lending relationships. The credit risk involved in issuing these instruments is essentially the same as that involved in extending loans to customers. Contingent obligations under standby letters of credit totaled \$930,000 and \$904,000 at September 30, 2015 and December 31, 2014, respectively, and represent the maximum potential future payments the Company could be required to make. Typically, these instruments have terms of 12 months or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. Each customer is evaluated individually for creditworthiness under the same underwriting standards used for commitments to extend credit and on-balance sheet instruments. The Company's policies governing loan collateral apply to standby letters of credit at the time of credit extension. Loan-to-value ratios are generally consistent with loan-to-value requirements for other commercial loans secured by similar types of collateral. The fair value of the Company's standby letters of credit at September 30, 2015 and December 31, 2014 was not significant.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk.

#### Qualitative Aspects of Market Risk

We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the

match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Our strategy for managing interest rate risk emphasizes: adjusting the maturities of borrowings; adjusting the investment portfolio mix and duration; increasing our focus on shorter-term, adjustable-rate commercial and multi-family lending; selling fixed-rate mortgage loans; and periodically selling available-for-sale securities. We currently do not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments.

We have an Asset/Liability Committee, which includes members of management, to communicate, coordinate and control all aspects involving asset/liability management. The committee reports to the Board of Directors of the Bank quarterly and establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

## Quantitative Aspects of Market Risk

We analyze our interest rate sensitivity to manage the risk associated with interest rate movements through the use of interest income simulation. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are “interest rate sensitive.” An asset or liability is said to be “interest rate sensitive” within a specific time period if it will mature or reprice within that time period.

Our goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income. Interest income simulations are completed quarterly and presented to the Asset/Liability Committee and Board of Directors of the Bank. The simulations provide an estimate of the impact of changes in interest rates on net interest income under a range of assumptions. The numerous assumptions used in the simulation process are reviewed by the Asset/Liability Committee and the Board of Directors of the Bank on a quarterly basis. Changes to these assumptions can significantly affect the results of the simulation. The simulation incorporates assumptions regarding the potential timing in the repricing of certain assets and liabilities when market rates change and the changes in spreads between different market rates. The simulation analysis incorporates management’s current assessment of the risk that pricing margins will change adversely over time due to competition or other factors.

Simulation analysis is only an estimate of our interest rate risk exposure at a particular point in time. We continually review the potential effect changes in interest rates could have on the repayment of rate sensitive assets and funding requirements of rate sensitive liabilities.

The table below sets forth an approximation of our exposure as a percentage of estimated net interest income for the next 12 month period using interest income simulation. The simulation uses projected repricing of assets and liabilities at September 30, 2015 on the basis of contractual maturities, anticipated repayments and scheduled rate adjustments. Prepayment rates can have a significant impact on interest income simulation. Because of the large percentage of loans we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that, in turn, affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe such assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate future mortgage-backed security and loan repayment activity.

The following table reflects changes in estimated net interest income for the Company at September 30, 2015 through September 30, 2016 under varying assumptions:

Changes in Interest Rates (Basis Points)	Percentage Change in Estimated Net Interest Income over Twelve Months
Up 500 - 24 months	(0.9)%
Up 400 - 24 months	(0.3)%
Up 300 - 12 months shock	1.0%
Up 200 - 12 months	(0.3)%
Up 100 - 12 months shock	0.7%
Base	
Down 100 - 12 months	(1.2)%

As indicated in the table above, the results of a 100 and 300 basis point shock increase in interest rates is estimated to increase net interest income over a 12-month time horizon by 0.7% and 1.0%, respectively. A 200 basis point increase over 12-months is estimated to decrease net interest income by 0.3%. A 400 and 500 basis point increase in market interest rates over a 24-month time horizon is estimated to decrease net interest income by 0.3% and 0.9% in the first

twelve months, respectively. A 100 basis point gradual decrease over a 12-month time horizon is estimated to decrease net interest income by 1.2%.

Item 4. Controls and Procedures.

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in the Company's internal control over financial reporting during the three months ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Such routine legal proceedings, in the aggregate, are believed by management to be immaterial to the financial condition and results of operations of the Company.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014, which could materially affect our business, financial condition or future results. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations. At September 30, 2015, the risk factors for the Company have not changed materially from those reported in our 2014 Annual Report on Form 10-K. However, the risks described in our 2014 Annual Report on Form 10-K are not the only risks that we face.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On June 1, 2012, the Company announced that the Board of Directors authorized a Seventh Stock Repurchase Program (the “Seventh Stock Repurchase Program”) for the purchase of up to 272,000 shares of the Company's stock, or 5% of the Company’s then outstanding common stock. During the nine months ended September 30, 2015, the Company repurchased 60,731 shares of Company stock at an average price per share of \$16.58, completing its Seventh Stock Repurchase Program. The following table provides information regarding the Company's purchase of its equity securities during the three months ended September 30, 2015:

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1-31, 2015	—	\$—	211,269	60,731
August 1-31, 2015	60,731	16.58	272,000	—
September 1-30, 2015	—	—	—	260,000
Total	60,731	\$16.58		

On September 16, 2015, the Company announced that the Board of Directors authorized an Eighth Stock Repurchase Program (the “Eighth Repurchase Program”) for the purchase of up to 260,000 shares, or approximately 5% of the Company’s outstanding common stock. The Company intends to purchase its shares from time to time at prevailing prices in the open market, in block transactions, in privately negotiated transactions, and under any plan that may be deployed in accordance with Rule 10b-5(1). The repurchased shares will be held by the Company as treasury stock and will be available for general corporate purposes.

## Item 3. Defaults Upon Senior Securities.

None.

## Item 4. Mine Safety Disclosures.

Not applicable.

## Item 5. Other Information.

None.



Item 6. Exhibits.

- 3.1 Articles of Incorporation of Chicopee Bancorp, Inc. (1)
- 3.2 Bylaws of Chicopee Bancorp, Inc. (2)
- 4.0 Stock Certificate of Chicopee Bancorp, Inc. (1)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32.0 Section 1350 Certification

The following financial information from Chicopee Bancorp Inc.'s Quarterly Report on Form 10-Q for the nine months ended September 30, 2015, formatted in XBRL (Extensible Business Reporting Language) includes: (i) the Consolidated Statements of Financial Condition as of September 30, 2015 and December 31, 2014, (ii) the Consolidated Statements of Operations for the three and nine months ended September 30, 2015 and 2014, (iii) the Consolidated Statement of Comprehensive Income (Loss) for each of the three and nine months ended September 30, 2015 and 2014, (iv) the Consolidated Statements of Changes in Stockholders' Equity for each of the nine months ended September 30, 2015 and 2014, (v) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014, and (vi) the Notes to Consolidated Financial Statements, tagged in summary and detail.

- 
- (1) Incorporated herein by reference to the Exhibits to the Company's Registration Statement on Form S-1 (File No. 333-132512), as amended, initially filed with the Securities and Exchange Commission on March 17, 2006.
  - (2) Incorporated herein by reference to Exhibit 3.2 to the Company's 8-K (File No. 000-51996) filed with the Securities and Exchange Commission on August 1, 2007.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHICOPEE BANCORP, INC.

Dated: November 4, 2015

By: /s/ William J. Wagner  
William J. Wagner  
Chairman of the Board, President and  
Chief Executive Officer  
(principal executive officer)

Dated: November 4, 2015

By: /s/ Guida R. Sajdak  
Guida R. Sajdak  
Senior Vice President,  
Chief Financial Officer and Treasurer  
(principal financial and chief  
accounting officer)