CHICOPEE BANCORP, INC.
Form 10-K
March 11, 2016

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

FORM 10-K

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

For the fiscal year ended December 31, 2015

OR

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

Commission File Number: 000-51996

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

Massachusetts (State or other jurisdiction of incorporation or organization)	20-4840562 (I.R.S. Employer Identification No.)
70 Center Street, Chicopee, Massachusetts (Address of principal executive offices)	01013 (Zip Code)

Registrant's telephone number: (413) 594-6692

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, no par value	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark whether the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. YES___ NO X

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO X

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 X 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) YES X NO___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

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 the definitions of “accelerated filer,” “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ] Accelerated filer [X]
Non-accelerated filer [ ] Smaller reporting company [ ]
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12(b)-2 of the Exchange Act).
YES ____NO X

On June 30, 2015, the aggregate market value of the voting and non-voting common equity held by non-affiliates was $86,301,411. The amount was based on the closing price as of June 30, 2015 on the NASDAQ Global select market for a share of the registrant's common stock, which was $17.10.

The number of shares of Common Stock outstanding as of March 8, 2016 was 5,210,739.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for our 2016 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K.

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PART I

Item 1. Business.

General

Chicopee Bancorp, Inc. (the “Company” or “Chicopee Bancorp”), a Massachusetts corporation, was formed on March 14, 2006 by Chicopee Savings Bank (the “Bank” or “Chicopee Savings Bank”) to become 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 and the offering were completed on July 19, 2006.

The Bank, a Massachusetts stock savings bank, was organized in 1845 under the name Cabot Savings Bank and adopted its present name in 1854. The Bank is a full-service, community oriented financial institution offering products and services to individuals and businesses through nine offices located in Western Massachusetts. The Bank’s deposits are insured by the Federal Deposit Insurance Corporation (“FDIC”) and Depositor’s Insurance Fund (“DIF”) of Massachusetts. The Bank is also a member of the Federal Home Loan Bank of Boston (“FHLB”) and is regulated by the FDIC and the Massachusetts Division of Banks. Chicopee Savings Bank’s business consists primarily of making loans to its customers, including residential mortgages, commercial real estate loans, commercial loans, consumer loans and home equity loans, and investing in a variety of investment securities. The Bank funds these lending and investment activities with deposits from the general public, funds generated from operations and borrowings. The Bank also sells residential one-to-four family real estate loans to the secondary market to reduce interest rate risk. The Bank’s revenues are derived from the generation of interest and fees on loans, interest and dividends on investment securities, fees from its retail banking operation, and investment management. The Bank’s primary sources of funds are deposits, principal and interest payments on loans and investments, advances from the FHLB and proceeds from loan sales. The Bank also provides access to insurance and investment products through its Financial Services Division.

Available Information

The Company’s website is www.chicopeesavings.com. The Company makes available free of charge, on or through its website, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission. Information on the Company’s website shall not be considered part of this Form 10-K.

Market Area

Chicopee Savings Bank is headquartered in Chicopee, Massachusetts. The Bank’s primary lending and deposit market areas include Hampden and Hampshire Counties in Western Massachusetts. Chicopee is located at the “Crossroads of New England”, the intersection of Interstate 91 and the Massachusetts Turnpike. Interstate 91 is the major north-south highway and Interstate 90 is the major east-west highway that crosses Massachusetts. The city is also bisected by several secondary highways, which include Routes 391, 116, 33 and 141. These roadways provide good access to major highways and centers of employment. Chicopee is located approximately 90 miles west of Boston, Massachusetts, 80 miles southeast of Albany, New York and 30 miles north of Hartford, Connecticut.

Chicopee is an urban community, which serves as the home of the Westover Air Force Base, which is the nation’s largest Air Force Reserve Base and is a key part of the local economy. More than 2,700 military and civilian workers are assigned to Westover’s 439th Military Airlift Wing. A diversified mix of industry groups also operate within

Hampden and Hampshire County, including manufacturing, health care, higher education, whole sale retail trade and service. The economy of our primary market area has benefited from the presence of large employers such as Baystate Health, Big Y Supermarkets, University of Massachusetts, Mass Mutual Financial Group, Hasbro Games, Peter Pan Bus Lines, Friendly's Ice Cream Corporation, Sisters of Providence Health Systems, Westover Air Force Base, Smith and Wesson, Yankee Candle and Verizon. Other employment and economic activity is provided by financial institutions, nine other colleges and universities, eight other hospitals, and a variety of wholesale and retail trade business. Our market also enjoys a strong tourism business with attractions such as the Eastern States Exposition called the Big E, the largest fair in the northeast, the Basketball Hall of Fame and Six Flags New England.

Competition

We face significant competition in attracting deposits and loans. Our most direct competition for deposits has historically come from the several financial institutions and credit unions operating in our market area and, to a lesser extent, from other financial service companies such as brokerage firms and insurance companies. We also face competition for depositors' funds

from money market funds, mutual funds and other corporate and government securities. At June 30, 2015, which is the most recent date for which data is available from the FDIC, we held approximately 5.02% of the deposits in Hampden County, which was the 7th largest market share out of the 17 banks and thrifts with offices in Hampden County. This data does not include deposits held by one of our primary competitors, credit unions, which, as tax-exempt organizations, are able to offer higher rates on deposits than banks. There are 14 credit unions headquartered in Hampden County, some of the larger of which are headquartered in Chicopee, Massachusetts. In addition, banks owned by large super-regional bank holding companies such as Bank of America Corporation, Santander Bank, N.A., Citizens Financial Group, First Niagara Financial Group, Inc., and TD Bank, Inc. also operate in our market area. These institutions are significantly larger than us and, therefore, have greater resources.

Our competition for loans comes primarily from financial institutions in our market areas, and, to a lesser extent, from other financial service providers such as mortgage companies and mortgage brokers. Competition for loans also comes from the increasing number of non-depository financial service companies entering the mortgage market such as insurance companies, securities companies and specialty finance companies.

We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Technological advances, for example, have lowered the barriers to market entry, allowed banks and other lenders to expand their geographic reach by providing services over the Internet and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. Changes in federal laws permit affiliation among banks, securities firms and insurance companies, which promotes a competitive environment in the financial services industry. Competition for deposits and the origination of loans could limit our future growth.

Lending Activities

General. The Company’s loan portfolio totaled $585.7 million at December 31, 2015 compared to $523.7 million at December 31, 2014, representing 86.3% and 81.9% of total assets, respectively. In its lending activity, the Company originates one-to-four family real estate loans, commercial real estate loans, residential and commercial construction loans, commercial and industrial loans, home equity lines-of-credit, fixed rate home equity loans and other consumer loans. The Company does not originate loans that generally target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios. While the Company makes loans throughout Massachusetts, most of its lending activities are concentrated in Hampden and Hampshire counties. Loans originated totaled $195.5 million in fiscal year 2015 and $140.5 million in 2014, including residential mortgage loans sold to the secondary market of $5.4 million and $4.8 million, respectively. Servicing rights are retained on all loans originated and sold into the secondary market.

Residential Real Estate Loans. At December 31, 2015 and 2014, the residential real estate loan portfolio totaled $127.6 million and $118.7 million, or 21.8% and 22.7% of the total loan portfolio, with an average yield of 3.79% and 3.87%, respectively. Residential real estate loans originated totaled $46.3 million and $36.2 million in 2015 and 2014, respectively, which includes loans sold to the secondary market of $5.4 million and $4.8 million in 2015 and 2014, respectively. Of the residential real estate loans outstanding at December 31, 2015, $102.7 million, or 80.5%, were adjustable rate loans. Total loans serviced for others as of December 31, 2015 and 2014 were $82.1 million and $91.3 million, respectively. Residential real estate loans enable borrowers to purchase or refinance existing homes, most of which serve as the primary residence of the owner. We offer fixed-rate and adjustable-rate loans with terms up to 30 years. Borrower demand for adjustable-rate loans versus fixed-rate loans is a function of the level of interest rates, the expectations of changes in the level of interest rates, and the difference between the interest rates and loan fees offered for fixed-rate mortgage loans and the initial period interest rates and loan fees for adjustable-rate loans. The relative amount of fixed-rate mortgage loans and adjustable-rate mortgage loans that can be originated at any time is largely

determined by the demand for each in a competitive environment. The loan fees, interest rates and other provisions of mortgage loans are determined by the demand for each in a competitive environment.

We offer fixed-rate residential real estate loans secured by one-to-four family residences with terms between 10 and 30 years. Management establishes the loan interest rates based on market conditions. Interest rates and payments on our adjustable-rate mortgage loans generally adjust annually after an initial fixed period that ranges from one to ten years. Interest rates and payments on our adjustable-rate loans generally are adjusted to a rate typically equal to 3.50 percentage points above the one-year constant maturity Treasury index. The maximum amount by which the interest rate on our adjustable-rate mortgage loans may be increased or decreased is generally 2 percentage points per adjustment period and the lifetime interest rate cap is generally 6 percentage points over the initial interest rate of the loan. We also offer adjustable-rate mortgage loans that adjust every three years after an initial three-year fixed period and adjustable-rate mortgage loans that adjust every five years after an initial six-year fixed period. Interest rates and payments on these adjustable-rate loans generally are adjusted to a rate typically equal to 3.50 percentage points above the three- and five-year constant maturity Treasury index.

The largest owner-occupied residential real estate loan was $1.7 million and was performing according to its original terms as of December 31, 2015.

All adjustable-rate mortgage loans are underwritten taking the indexed rate into consideration at each adjustment period until the full cap is reached. A Mass Attorney General Important Disclosure (MA Chapter 93A-Determining Affordability of ARM Loans) is completed for each adjustable rate mortgage request, which calculates the overall debt to income based on the initial principal and interest payment along with real estate taxes, insurance, and other monthly payments due from the borrower and also includes the repricing of these payments at each adjustment up to the maximum caps allowed under the note. This process minimizes the risk of qualification at the time the loan reaches the maximum rate for that product.

Adjustable rate mortgage loans help decrease the risk associated with changes in market interest rates by periodically repricing. However, upward adjustment of interest rates is limited by the maximum periodic and lifetime interest rate adjustments permitted by our loan documents. In addition, adjustable rate mortgage loans may increase credit risk because, as interest rates increase, interest payments on adjustable rate loans increase, which increases the potential for defaults by our borrowers. See “Loan Underwriting Risks” below.

While one-to-four-family residential real estate loans are normally originated with up to 30-year terms, such loans typically remain outstanding for substantially shorter periods because borrowers often prepay their loans in full upon sale of the property pledged as security or upon refinancing the original loan. Therefore, average loan maturity is a function of, among other factors, the level of purchase and sale activity in the real estate market, prevailing interest rates and the interest rates payable on outstanding loans.
We generally do not make conventional loans with loan-to-value ratios exceeding 95% at the time the loan is originated. Conventional loans with loan-to-value ratios in excess of 80% generally require private mortgage insurance or additional collateral. We require all properties securing mortgage loans to be appraised by a board-approved independent appraiser. We generally require title insurance on all first mortgage loans. Borrowers must obtain hazard insurance, and flood insurance for loans on properties located in a flood zone, before closing the loan.

In an effort to provide financing for first-time home buyers, we offer 30-year fixed-rate residential mortgage loans and 10/1 adjustable rate mortgage loans with loan-to-value ratios up to 97%. We offer mortgage loans through this program to qualified individuals and originate the loans using underwriting guidelines as set forth by the Company.

Commercial Real Estate Loans. At December 31, 2015 and 2014, commercial real estate loans totaled $287.8 million and $249.6 million, or 49.1% and 47.7% of the total loan portfolio, with an average yield of 4.53% and 4.75%, respectively. This yield calculation includes commercial construction and residential investment loan balances and interest income. Commercial real estate loans originated totaled $110.2 million and $66.6 million in 2015 and 2014, respectively. Our commercial real estate and residential investment loans are generally secured by apartment buildings and properties used for business purposes such as office buildings, industrial facilities and retail facilities. In addition to originating these loans, we also participate in loans with other financial institutions located primarily in Massachusetts.

We originate a variety of fixed- and adjustable-rate commercial real estate and residential investment loans for terms up to 25 years. Interest rates and payments on our adjustable-rate loans adjust every one to ten years and generally are adjusted to a rate equal to 2.0% to 3.0% above the corresponding U.S. Treasury rate or FHLB rate. Most of our adjustable-rate commercial real estate and residential investment loans adjust every five years. There are no adjustment period or lifetime interest rate caps. Loan amounts generally do not exceed 80% of the property’s appraised value at the time the loan is originated.

At December 31, 2015, our largest commercial real estate loan was $9.2 million and was secured by a medical office building located in Holyoke, Massachusetts. This loan was performing according to the original terms at December 31, 2015.

At December 31, 2015, our exposure to commercial real estate and commercial business loan participations purchased and sold totaled $14.8 million and $24.4 million, respectively. The properties securing these loans are located primarily in Massachusetts.

We also originate land loans primarily to local contractors and developers for making improvements on approved building lots. Such loans are generally written with a maximum 75% loan-to-value ratio based upon the appraised value or purchase price, whichever is less, for a term of up to three years. Interest rates on our land loans are fixed for three years. At December 31, 2015, we had nineteen land loans totaling $5.5 million.

Construction Loans. At December 31, 2015 and 2014, the Company had $56.6 million and $43.9 million of construction loans outstanding, representing 9.7% and 8.4% of the total loan portfolio, with an average yield of 4.18% and 4.12%, respectively. We originate fixed-rate and adjustable-rate loans to individuals and builders to finance the construction of residential dwellings.

We also make construction loans for commercial development projects, including apartment buildings, condominiums, small industrial buildings and retail and office buildings. Our construction loans generally provide for the payment of interest only during the construction phase, which is usually 12 to 36 months. At the end of the construction phase, the loan generally converts to a permanent mortgage loan. Loans generally can be made with a maximum loan to value ratio of 80% at the time the loan is originated. Before making a commitment to fund a construction loan, we require an appraisal of the property by an independent licensed appraiser. We also will require an inspection of the property before disbursement of funds during the term of the construction loan.

At December 31, 2015, our largest outstanding residential construction loan was $702,600, of which $602,570 was outstanding. At December 31, 2015, our largest outstanding commercial construction loan was $7.9 million, of which $7.3 million was outstanding for the development of an office building. These loans were performing in accordance with their original terms at December 31, 2015.

Commercial and Industrial Loans. The Company originated $26.3 million and $30.4 million in commercial and industrial loans in 2015 and 2014, respectively. As of December 31, 2015 and 2014, the Company had $71.5 million and $74.3 million in commercial and industrial loans, representing 12.2% and 14.1% of the total loan portfolio, with an average yield of 4.02% and 3.99%, respectively. We make commercial business loans primarily in our market area to a variety of professionals, sole proprietorships and small businesses. Commercial lending products include term loans, revolving lines of credit and letters of credit loans. Commercial loans and lines of credit are made with either variable or fixed rates of interest. Variable rates are based on the prime rate as published in The Wall Street Journal, plus a margin. Fixed-rate business loans are generally indexed to a corresponding U.S. Treasury rate, plus margin, or FHLB, plus margin. The Company generally does not make unsecured commercial and industrial loans.

When making commercial and industrial loans, we consider the financial statements of the borrower, our lending history with the borrower, the debt service capabilities of the borrower, the projected cash flows of the business and the value of the collateral, primarily accounts receivable, inventory and equipment, and are supported by personal guarantees. Depending on the collateral used to secure the loans, commercial loans are made in amounts of up to 80% of the value of the collateral securing the loan. The collateral securing commercial and industrial loans may depreciate over time, may be difficult to appraise and may fluctuate in value. See "-Loan Underwriting Risks" below.

At December 31, 2015, our largest commercial term loan was a $3.2 million loan secured by equipment located in Springfield, Massachusetts, including all assets of the borrower. The loan was performing according to its original terms at December 31, 2015. Our largest lending exposure was a $14.5 million commercial lending relationship, of which $10.0 million was outstanding at December 31, 2015. The relationship is secured by commercial real estate located in Westfield, Massachusetts. The loans were performing in accordance with their original terms at December 31, 2015.

Consumer Loans. The Company originated $18.1 million and $12.1 million of consumer loans, including home equity loans, in 2015 and 2014, respectively. At December 31, 2015 and 2014, consumer loans outstanding totaled $42.1 million and $37.2 million, or 7.4% and 7.1% of the total loan portfolio, with an average yield of 3.67% and 3.82%, respectively. We offer a variety of consumer loans, primarily home equity loans and lines of credit, and, to a much lesser extent, loans secured by automobiles, recreational vehicles, pools and spas and home improvement loans.

The procedures for underwriting consumer loans include an assessment of the applicant’s payment history on other debts and ability to meet existing obligations and payments on the proposed loan. Although the applicant’s creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount.

We generally offer home equity loans with a maximum combined loan to value ratio of 80% and home equity lines of credit with a maximum combined loan to value ratio of 80%. Home equity lines of credit have adjustable rates of interest that are indexed to the prime rate as reported in The Wall Street Journal. Home equity loans have fixed interest rates and terms that range from five to twenty years.

We offer automobile and recreational vehicle loans secured by new and used vehicles. These loans have fixed interest rates and generally have terms up to six years for new automobiles, five years for used automobiles and four years for recreational vehicles. We also offer fixed-rate pool and spa loans up to $10,000 for terms up to five years.

Loan Underwriting Risks

Adjustable-Rate Loans. While we anticipate adjustable-rate loans 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. In addition, although adjustable-rate mortgage loans help make our loan portfolio more responsive to changes in interest rates, the extent of this interest sensitivity is limited by the annual and lifetime interest rate adjustment limits.

Residential Real Estate. The Company’s primary residential real estate lending market areas include Hampden and Hampshire Counties in Western Massachusetts. If real estate prices decline, the value of real estate collateral securing our loans will be reduced. Our ability to recover defaulted loans by foreclosing and selling the real estate collateral would then be diminished, and we would be more likely to incur financial losses on defaulted loans. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws, regulations and acts of nature. Residential real estate loans are dependent on the borrower’s continuing financial stability and, therefore, are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. In addition, the application of various federal and state laws, including foreclosure, bankruptcy and insolvency laws may limit the amount that can be recovered on such loans.

Commercial Real Estate. Loans secured by commercial real estate and residential investment real estate generally have larger balances and involve a greater degree of risk than one-to four-family residential mortgage loans. Of primary concern in commercial real estate and residential investment lending is the 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. To monitor cash flows on income properties, we generally require borrowers and loan guarantors, if any, to provide annual financial statements and/or tax returns on commercial real estate and residential investment loans. In reaching a decision on whether to make a commercial real estate and residential investment loan, we consider the net operating income of the property, the borrower’s expertise, credit history and profitability and the value of the underlying property. We have generally required that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before debt service to debt service) of at least 1.20x; however, this ratio can be lower depending on the amount and type of collateral. Environmental surveys and inspections are obtained when circumstances suggest the possibility of the presence of hazardous materials.

We underwrite all loan participations to our own underwriting standards. In addition, we also consider the financial strength and reputation of the lead lender. To monitor cash flows on loan participations, we require the lead lender to provide annual financial statements for the borrower. Generally, we also conduct an annual internal loan review for loan participations.

Construction Loans. Construction financing is 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. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the building. If the estimate of value proves to be inaccurate, we may be confronted, at or before the maturity of the loan, with a building having a value which is insufficient to assure full repayment. If we are forced to foreclose on a building before or at completion due to a default, there can be no assurance that we will be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs.

Commercial and Industrial Loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower’s ability to make repayment from his or her employment or other income, and which are secured by real property the value of which tends to be more easily ascertainable, 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 and industrial loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

Consumer Loans. Consumer 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.

Loan Originations, Purchases, and Sales. Loan originations come from a number of sources. The primary sources of loan originations are existing customers, walk-in traffic, advertising and referrals from customers. We advertise on television, on the radio and in newspapers that are widely circulated in Hampden and Hampshire Counties, both in Massachusetts. Accordingly,

because our rates are competitive, we attract loans from throughout Hampden and Hampshire Counties. We occasionally purchase participation interests in loans to supplement our origination efforts.

We generally originate loans for our portfolio; however, we generally sell, prior to funding, to the secondary market all newly originated conforming fixed-rate, 10- to 30-year one-to-four-family residential real estate loans. Our decision to sell loans is based on prevailing market interest rate conditions and interest rate risk management. Generally, loans are sold to Freddie Mac with loan servicing retained. In addition, we sell participation interests in commercial real estate loans to local financial institutions, primarily on the portion of loans that exceed our borrowing limits.

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by our Board of Directors and management. Our Board of Directors has granted loan approval authority to certain officers up to prescribed limits, depending on the officer’s experience, the type of loan and whether the loan is secured or unsecured. Loans in excess of the Senior Lending Officer limits ($500,000 for real estate loans, secured consumer loans, and secured and unsecured commercial loans; and $100,000 for unsecured consumer loans.) must be authorized by the President and the Executive Vice President of Lending up to 1.5 times the Senior Lending Officer lending limits. All other extensions of credit exceeding such limitations require the approval of the executive committee, a committee of the Board of Directors of the Bank.

Loans to One Borrower. The maximum amount that we may lend to one borrower and the borrower’s related entities generally is limited, by statute, to 20% of our stated capital and reserves. At December 31, 2015, our general regulatory limit on loans to one borrower was $16.7 million. At December 31, 2015, our internal lending limit to one borrower was $8.0 million, unless approved in excess of this amount by the executive committee of the Board of Directors. Our largest lending exposure was a $14.5 million commercial lending relationship, of which $10.0 million was outstanding at December 31, 2015. The relationship is secured by commercial real estate located in Westfield, Massachusetts. The loans were performing in accordance with their original terms at December 31, 2015.

Loan Commitments. We issue commitments for fixed- and adjustable-rate mortgage loans conditioned upon the occurrence of certain events. Commitments to originate mortgage loans are legally binding agreements to lend to our customers. Generally, our mortgage loan commitments expire after 30 days.

Investment Activities

We have legal authority to invest in various types of liquid assets, including marketable equity securities, U.S. Treasury obligations, securities of various government sponsored enterprises and municipal governments, deposits at the FHLB and certificates of deposit of federally insured institutions. We are also required to maintain an investment in FHLB stock. While we have the authority under applicable law to invest in derivative securities, our investment policy does not permit us to do so and we had no investments in derivative securities at December 31, 2015.

At December 31, 2015, our investment portfolio consisted primarily of tax-exempt industrial revenue bonds, and to a lesser extent, certificates of deposit, collateralized mortgage obligations, and investment-grade marketable equity securities.

Our investment objectives are to provide and maintain liquidity, to establish an acceptable level of interest rate and credit risk, to provide an alternate source of low-risk investments when demand for loans is weak and to generate a favorable return. The Board of Directors of the Bank has the overall responsibility for approval of our investment policy. The Treasurer is responsible for the implementation of the investment policy. Individual investment transactions are reviewed and approved by our executive committee monthly while portfolio composition and performance are reviewed at least annually by the Board of Directors of the Bank.

Our Chief Financial Officer and Treasurer is responsible for ensuring that the investment policy is followed and that all securities are considered prudent for investment.

Deposit Activities and Other Sources of Funds

General. Deposits, borrowings and loan repayments are the major sources of our funds for lending and other investment purposes. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and money market conditions.

Deposits. Substantially all of our depositors are residents of the Commonwealth of Massachusetts. Deposits are attracted, by advertising and through our website, from within our market areas through the offering of a broad selection of deposit instruments, including non-interest-bearing demand accounts (such as checking accounts), interest-bearing accounts (such as NOW and money market deposit accounts), regular savings accounts (such as passbook accounts) and certificates of deposit. At December 31, 2015,

we did not utilize brokered deposits. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, our liquidity needs, profitability to us, matching deposit and loan products and customer preferences and concerns. We generally review our deposit mix and pricing weekly. Our current strategy is to offer competitive rates and price the deposit products depending on our needs for funds and rates on borrowings. Deposit accounts at the Bank are insured by the Deposit Insurance Fund of the FDIC, generally up to a maximum of $250,000 for each separately insured depositor and up to a maximum of $250,000 for self-directed retirement accounts. In addition, as a Massachusetts-chartered savings bank, Chicopee Savings Bank is required to be a member of DIF, a corporation that insures savings bank deposits in excess of federal deposit insurance coverage. The combination of FDIC and DIF insurance provides customers of Massachusetts-chartered savings banks with full deposit insurance on all their deposits.

Borrowed Funds. We may utilize advances from the FHLB to supplement our supply of investable funds. The FHLB functions as a central reserve bank providing credit for its member financial institutions. As a member, we are required to own capital stock in the FHLB and are authorized to apply for advances on the security of such stock and certain of our whole first real estate loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution’s net worth or on the FHLB’s assessment of the institution’s creditworthiness.

Securities sold under agreements to repurchase are customer deposits that are invested overnight in U.S. Treasury securities. The customers, predominantly commercial customers, set a predetermined balance and deposits in excess of that amount are transferred into the repurchase account from each customer’s checking account. These types of accounts are often referred to as sweep accounts.

Financial Services

We have a partnership with a third-party registered broker-dealer, Linsco/Private Ledger ("LPL"). Through LPL, we offer customers a range of non-deposit investment products, including mutual funds, debt, equity and government securities, retirement accounts, insurance products and fixed and variable annuities. We receive a portion of the commissions generated by LPL from sales to customers. For the years ended December 31, 2015, 2014 and 2013, we received fees of $394,000, $374,000 and $320,000, respectively, through our relationship with LPL.

Subsidiary Activities

Chicopee Bancorp, Inc. conducts its principal business activities through its two wholly-owned subsidiaries: Chicopee Savings Bank and Chicopee Funding Corporation.

Chicopee Funding Corporation. Chicopee Funding Corporation was incorporated in Massachusetts in 2006. Chicopee Bancorp, Inc. contributed funds to Chicopee Funding Corporation to enable it to make a 20-year loan to the employee stock ownership plan to allow it to purchase shares of the Company’s common stock as part of the initial public offering. The Employee Stock Ownership Plan purchased 595,149 shares in the initial public offering, or 8% of the 7,439,368 shares issued in connection with the Bank’s mutual-to-stock conversion.

The following are descriptions of Chicopee Savings Bank’s wholly-owned subsidiaries:

CSB Colts, Inc. CSB Colts, Inc. was formed in 2003 as a Massachusetts corporation to engage in buying, selling and holding securities on its own behalf. At December 31, 2015, CSB Colts had total assets of $32.2 million consisting

primarily of tax-exempt industrial revenue bonds. CSB Colts' net income for the year ended December 31, 2015 was $1.4 million. As a Massachusetts securities corporation, the income earned on CSB Colts' investment securities is subject to a lower state tax rate than that assessed on income earned on investment securities maintained at Chicopee Savings Bank.

CSB Investment Corp. CSB Investment Corp. was formed in 2003 as a Massachusetts corporation to engage in buying, selling and holding securities on its own behalf. At December 31, 2015, CSB Investment had total assets of $604,000 consisting primarily of collateralized mortgage obligations and marketable equity securities. CSB Investment's net income for the year ended December 31, 2015 was $17,000. As a Massachusetts securities corporation, the income earned on CSB Investment's investment securities is subject to a lower state tax rate than that assessed on income earned on investment securities maintained at Chicopee Savings Bank.

Cabot Realty L.L.C. Cabot Realty L.L.C. was formed as a Massachusetts limited liability company to hold other real estate owned ("OREO"). At December 31, 2015, Cabot Realty had total assets of $1.7 million consisting primarily of cash and

cash equivalents of $217,000 and OREO of $1.4 million. Cabot Realty's net loss for the year ended December 31, 2015 was $297,000. Cabot Management Corporation, a wholly owned subsidiary of Chicopee Savings Bank, has a 1% membership interest in, and Chicopee Savings Bank has a 99% membership interest in, Cabot Realty.

Cabot Management Corporation. Cabot Management Corporation was formed in 1979 as a Massachusetts corporation to acquire and manage interests in real property and to acquire, construct, rehabilitate, lease, finance and dispose of housing facilities. Cabot Management is currently inactive and at December 31, 2015 had total assets of $17,000.

Personnel

As of December 31, 2015, we had approximately 112 full-time employees and 22 part-time employees, none of whom is represented by a collective bargaining unit. We believe we have a good relationship with our employees.

Regulation and Supervision

General

Chicopee Savings Bank is a Massachusetts-chartered stock savings bank and is the wholly-owned subsidiary of Chicopee Bancorp, Inc., a Maryland corporation and registered bank holding company. Chicopee Savings Bank's deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation, or "FDIC", and by the Depositors Insurance Fund of Massachusetts for amounts in excess of the FDIC insurance limits. Chicopee Savings Bank is subject to extensive regulation by the Massachusetts Commissioner of Banks, as its chartering agency, and by the FDIC, its primary federal regulator and deposit insurer. Chicopee Savings Bank is required to file reports with, and is periodically examined by, the FDIC and the Massachusetts Commissioner of Banks concerning its activities and financial condition and must obtain regulatory approvals prior to entering into certain transactions, including, but not limited to, mergers with or acquisitions of other financial institutions. Chicopee Savings Bank is also a member of and owns stock in the Federal Home Loan Bank of Boston, which is one of the twelve regional banks in the Federal Home Loan Bank System.

As a registered bank holding company, Chicopee Bancorp, Inc. is regulated by the Board of Governors of the Federal Reserve System, or the "Federal Reserve Board." Chicopee Bancorp, Inc. is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

The regulatory and supervisory structure establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of depositors and the deposit insurance funds, rather than for the protection of stockholders and creditors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies concerning the establishment of deposit insurance assessment fees, classification of assets and establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulatory requirements and policies, whether by the Massachusetts legislature, the Massachusetts Commissioner of Banks, the FDIC, the Federal Reserve Board or Congress, could have a material adverse impact on the financial condition and results of operations of Chicopee Bancorp, Inc. and Chicopee Savings Bank.

Set forth below are certain material statutory and regulatory requirements applicable to Chicopee Bancorp, Inc. and Chicopee Savings Bank. The summary is not intended to be a complete description of such statutes and regulations and their effects on Chicopee Bancorp, Inc. and Chicopee Savings Bank.

The Dodd-Frank Act

The Dodd-Frank Act has significantly changed the bank regulatory structure and is affecting the lending and investment activities and general operations of depository institutions and their holding companies.

The Dodd-Frank Act required the Federal Reserve Board to establish minimum consolidated capital requirements for bank holding companies that are as stringent as those required for insured depository institutions; the components of Tier 1 capital will be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. In addition, the proceeds of trust preferred securities are excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by bank or savings and loan holding companies with less than $15 billion of assets. The legislation also established a floor for capital of insured depository institutions that cannot be lower than the standards in effect on July 21, 2010, and directed the federal banking regulators to implement new leverage and capital requirements within 18 months of that date. The revised capital regulations were effective January 1, 2015.

The Dodd-Frank Act also created a new Consumer Financial Protection Bureau with extensive powers to implement and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rulemaking authority for a wide range of consumer protection laws that apply to all banks and savings associations, among other things, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings associations with more than $10 billion in assets. Banks and savings associations with $10 billion or less in assets will continue to be examined for compliance with federal consumer protection and fair lending laws by their applicable primary federal bank regulators.

The Dodd-Frank Act also broadened the base for FDIC insurance assessments. The FDIC was required to promulgate rules revising its assessment system so that it is based on the average consolidated total assets less tangible equity capital of an insured institution instead of deposits. That rule took effect April 1, 2011. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2008, and provided non-interest bearing transaction accounts with unlimited deposit insurance through December 31, 2012.

The Dodd-Frank Act requires companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments. The legislation also directed the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.

The Dodd-Frank Act made many other changes in banking regulation. These include authorizing depository institutions, for the first time, to pay interest on business checking accounts, mandating that regulation be issued requiring originators of securitized loans to retain a percentage of the risk for transferred loans and establishing regulatory rate-setting for certain debit card interchange fees and establishing a number of reforms for mortgage originations.

In addition, the Consumer Financial Protection Bureau issued a rule implementing the "Ability to Pay" requirements of the Dodd-Frank Act. The regulations generally require lenders to make a reasonable, good faith determination as to a potential borrower's ability to repay a residential mortgage loan. The final rule establishes a safe harbor for certain "Qualified Mortgages," which contain certain features and terms deemed to make the loan less risky. The Ability to Repay final rules were effective January 10, 2014.
Many of the provisions of the Dodd-Frank Act were subject to delayed effective dates and the legislation required various federal agencies to promulgate numerous and extensive implementing regulations over a period of years. It is therefore difficult to predict at this time what the full impact the new legislation and implementing regulations will have on community banks such as Chicopee Savings Bank. Although the substance and scope of many of these regulations cannot be determined at this time, it is expected that the legislation and implementing regulations, particularly those provisions relating to the new Consumer Financial Protection Bureau, may increase operating and compliance costs.

Massachusetts Banking Laws and Supervision

General. As a Massachusetts-chartered stock savings bank, Chicopee Savings Bank is subject to supervision, regulation and examination by the Massachusetts Commissioner of Banks and to various Massachusetts statutes and regulations which govern, among other things, investment powers, lending and deposit-taking activities, borrowings, maintenance of surplus and reserve accounts, distribution of earnings and payment of dividends. In addition, Chicopee Savings Bank is subject to Massachusetts consumer protection and civil rights laws and regulations. The approval of the Massachusetts Commissioner of Banks and/or the Massachusetts Board of Bank Incorporation is required for a Massachusetts-chartered bank to establish or close branches, merge with other financial institutions, issue stock and undertake certain other activities.

Massachusetts regulations generally allow Massachusetts banks to, with appropriate regulatory approvals, engage in activities permissible for federally chartered banks or banks chartered by another state. The Commissioner also has adopted procedures reducing regulatory burdens and expense and expediting branching by well-capitalized and well-managed banks.

New Massachusetts banking legislation, “An Act Modernizing the Banking Laws and Enhancing the Competitiveness of State-Chartered Banks,” was signed into law in January 2015 and is effective April 2015. Among other things, the legislation attempts to better synchronize Massachusetts laws with federal requirements in the same area, streamlines the process for an institution to engage in activities permissible for federally chartered and out of state institutions, consolidates corporate governance statutes and provides authority for the Commissioner to establish a tiered supervisory system for Massachusetts-chartered institutions based on factors such as asset size, capital level, balance sheet composition, examination rating, compliance and other factors deemed appropriate.

Dividends. 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. to its stockholders 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.

For the year ended December 31, 2015 there was no dividend declared from the Bank to the Company. For the years ended December 31, 2014 and 2013, a total of $6.8 million and $2.5 million, respectively, in dividends were declared from the Bank to the Company. During 2015, 2014 and 2013, a total of $690,000, $700,000 and $660,000, respectively, in dividends were declared from Chicopee Funding Corporation ("CFC") to the Company, respectively. CFC received contributions from the Company in the amount of $98,000, $100,000 and $77,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

For the years ended December 31, 2015, 2014 and 2013, a total of $1.5 million, $1.4 million and $1.0 million, respectively, in cash dividends were paid to the Company's stockholders. The first quarterly dividend declared by the Company was announced on January 24, 2013.

Loans to One Borrower Limitations. Massachusetts banking law grants broad lending authority. However, with certain limited exceptions, total obligations to one borrower may not exceed 20 percent of the total of the bank's capital, surplus and undivided profits.

Investment Activities. In general, Massachusetts-chartered savings banks may invest in preferred and common stock of any corporation organized under the laws of the United States or any state provided such investments do not involve control of any corporation and do not, in the aggregate, exceed 4% of the bank's deposits. Federal law imposes additional restrictions on Chicopee Savings Bank's investment activities. See "-Federal Regulations-Business and Investment Activities".

Regulatory Enforcement Authority. Any Massachusetts savings bank that does not operate in accordance with the regulations, policies and directives of the Massachusetts Commissioner of Banks may be subject to sanctions for non-compliance, including revocation of its charter. The Massachusetts Commissioner of Banks may, under certain circumstances, suspend or remove officers or directors who have violated the law, conducted the bank's business in an unsafe or unsound manner or contrary to the depositors' interests or been negligent in the performance of their duties. Upon finding that a bank has engaged in an unfair or deceptive act or practice, the Massachusetts Commissioner of Banks may issue an order to cease and desist and impose a fine on the bank concerned. The Commissioner also has authority to take possession of a bank and appoint a liquidating agent under certain conditions including an unsafe and unsound condition to transact business, the conduct of business in an unsafe or unauthorized manner, impaired capital, or violations of law or the bank's charter. In addition, Massachusetts consumer protection and civil rights statutes applicable to Chicopee Savings Bank permit private individual and class action law suits and provide for the rescission of consumer transactions, including loans, and the recovery of statutory and punitive damage and attorney's fees in the case of certain violations of those statutes.

Depositors Insurance Fund. All Massachusetts-chartered savings banks are required to be members of the Depositors Insurance Fund, a corporation that insures savings bank deposits in excess of federal deposit insurance coverage. The Depositors Insurance Fund is authorized to charge savings banks an annual assessment fee on deposit balances in excess of amounts insured by the FDIC. Assessment rates are based on the institution's risk category, similar to the method currently used to determine assessments by the FDIC discussed below under "-Federal Regulations-Federal

Insurance of Deposit Accounts."

Protection of Personal Information. Massachusetts has adopted regulatory requirements intended to protect personal information. The requirements, which became effective March 1, 2010, are similar to existing federal laws such as the Gramm-Leach-Bliley Act, discussed below under "-Federal Regulations-Privacy Regulations", that require organizations to establish written information security programs to prevent identity theft. The Massachusetts regulation also contains technology system requirements, especially for the encryption of personal information sent over wireless or public networks or stored on portable devices.

Massachusetts has other statutes or regulations that are similar to certain of the federal provisions discussed below.

Federal Regulations

Capital Requirements. Under the FDIC's regulations, federally insured state-chartered banks that are not members of the Federal Reserve System ("state non-member banks"), such as Chicopee Savings Bank, are required to comply with minimum leverage capital requirements. Federal regulations require federally insured depository institutions to meet several minimum

capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8%, and a Tier 1 capital to total assets leverage ratio of 4%. These capital requirements were effective January 1, 2015. In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% on January 1, 2019.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. In assessing an institution's capital adequacy, the FDIC takes into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions if it deems necessary.

Prompt Corrective Regulatory Action. Federal law establishes a system of prompt corrective action to resolve the problems of undercapitalized institutions. The FDIC has adopted regulations to implement the prompt corrective action legislation. The regulations were amended to incorporate the previously mentioned increased regulatory capital standards that were effective January 1, 2015. An institution is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is "undercapitalized" if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be "critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

"Undercapitalized" banks must adhere to growth, capital distribution (including dividend) and other limitations and are required to submit a capital restoration plan. A bank's compliance with such a plan must be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5% of the institution's total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an "undercapitalized" bank fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." "Significantly undercapitalized" banks must comply with one or more of a number of additional measures, including, but not limited to, a required sale of sufficient voting stock to become adequately capitalized, a requirement to reduce total assets, cessation of taking deposits from correspondent banks, the dismissal of directors or officers and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. "Critically undercapitalized" institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status.

Standards for Safety and Soundness. As required by statute, the federal banking agencies adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness to implement safety and soundness standards. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit system, credit underwriting, loan documentation, interest rate exposure, asset growth, asset quality, earnings, compensation, fees and benefits and, more recently, safeguarding

customer information. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard.

Business and Investment Activities. Under federal law, all state-chartered FDIC-insured banks, including savings banks, have been limited in their activities as principal and in their equity investments to the type and the amount authorized for national banks, notwithstanding state law. Federal law permits exceptions to these limitations. For example, certain state-chartered savings banks may, with FDIC approval, continue to exercise state authority to invest in common or preferred stocks listed on a national securities exchange and in the shares of an investment company registered under the Investment Company Act of 1940, as amended. The maximum permissible investment is the lesser of 100% of Tier 1 capital or the maximum amount permitted by Massachusetts law. Chicopee Savings Bank received approval from the FDIC to retain and acquire such equity instruments up to the specified limits. Any such grandfathered authority may be terminated upon the FDIC’s determination that such investments pose a safety and soundness risk or upon the occurrence of certain events such as the savings bank’s conversion to a different charter.

The FDIC is also authorized to permit state banks to engage in state authorized activities or investments not permissible for national banks (other than non-subsidiary equity investments) if they meet all applicable capital requirements and it is determined

that such activities or investments do not pose a significant risk to the FDIC insurance fund. The FDIC has adopted regulations governing the procedures for institutions seeking approval to engage in such activities or investments. The Gramm-Leach-Bliley Act of 1999 specified that a state bank may control a subsidiary that engages in activities as principal that would only be permitted for a national bank to conduct in a "financial subsidiary," if a bank meets specified conditions and deducts its investment in the subsidiary for regulatory capital purposes.

Transactions with Affiliates. Transactions between a bank (and, generally, its subsidiaries) and its related parties or affiliates are limited by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. In a holding company context, the parent bank holding company and any companies which are controlled by such parent holding company are affiliates of the bank. Generally, Sections 23A and 23B of the Federal Reserve Act limit the extent to which the bank or its subsidiaries may engage in "covered transactions" with any one affiliate to 10% of such institution's capital stock and surplus and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such institution's capital stock and surplus. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar transactions. In addition, loans or other extensions of credit by the institution to the affiliate are required to be collateralized in accordance with specified requirements. The law also requires that affiliate transactions be on terms and conditions that are substantially the same, or at least as favorable to the institution, as those provided to non-affiliates.

The Sarbanes-Oxley Act of 2002 generally prohibits loans by a company to its executive officers and directors. The law contains a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal banking laws, assuming such loans are also permitted under the law of the institution's chartering state. Under such laws, a bank's authority to extend credit to executive officers, directors and 10% shareholders ("insiders"), as well as entities such persons control, is restricted. The law limits both the individual and aggregate amount of loans that may be made to insiders based, in part, on the bank's capital position and requires certain board approval procedures to be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. Loans to executive officers are further limited to loans of specific types and amounts.

Enforcement. The FDIC has extensive enforcement authority over insured state savings banks, including Chicopee Savings Bank. That enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease and desist orders and remove directors and officers. In general, enforcement actions may be initiated in response to violations of laws and regulations and unsafe or unsound practices. The FDIC also has authority under federal law to appoint a conservator or receiver for an insured bank under certain circumstances. The FDIC is required, with certain exceptions, to appoint a receiver or conservator for an insured state non-member bank if that bank was "critically undercapitalized" on average during the calendar quarter beginning 270 days after the date on which the institution became "critically undercapitalized."

Federal Insurance of Deposit Accounts. Deposit accounts in Chicopee Savings Bank are insured by the FDIC's Deposit Insurance Fund, generally up to a maximum of $250,000 per separately insured depositor, pursuant to changes made permanent by the Dodd-Frank Act. The FDIC assesses insured depository institutions to maintain the Deposit Insurance Fund. No institution may pay a dividend if in default of its deposit insurance assessment.

Under the FDIC's risk-based assessment system, insured institutions are assigned to a risk category based on supervisory evaluations, regulatory capital levels and other risk-based factors. An institution's assessment rate depends upon the category to which it is assigned and certain adjustments specified by the FDIC, with less risky institutions paying lower assessments. On February 7, 2011, as required by the Dodd-Frank Act, the FDIC published a final rule to revise the deposit insurance assessment system. The rule, which took effect April 1, 2011, changes the assessment base used for calculating deposit insurance assessments from deposits to total assets less tangible (Tier 1) capital. Since the new base is larger than the previous base, the FDIC also lowered assessment rates so that the rule would not significantly alter the total amount of revenue collected from the industry. The range of adjusted assessment rates is

now 2.5 to 45 basis points of the new assessment base.

In addition to FDIC assessments, the Financing Corporation (“FICO”) is authorized to impose and collect, through the FDIC, assessments for costs related to bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. During the year ended December 31, 2015, Chicopee Savings Bank paid $34,000 in fees related to the FICO.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of $10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund

ratio, instead leaving it to the discretion of the FDIC. The FDIC has exercised that discretion by establishing a long range fund ratio of 2%.

A material increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of Chicopee Savings Bank. Management cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not know of any practice, condition or violation that might lead to termination of Chicopee Savings Bank's deposit insurance.

As a Massachusetts-chartered savings bank, Chicopee Savings Bank is also required to be a member of the Depositors Insurance Fund, a corporation that insures savings bank deposits in excess of federal deposit insurance coverage. See "Massachusetts Banking Laws and Supervision-Depositors Insurance Fund," above.

Community Reinvestment Act. Under the Community Reinvestment Act ("CRA"), a bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA does require the FDIC, in connection with its examination of a bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution, including applications to establish or acquire branches and merger with other depository institutions. The CRA requires the FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. Chicopee Savings Bank's latest FDIC CRA rating was "outstanding."

Massachusetts has its own statutory counterpart to the CRA which is also applicable to Chicopee Savings Bank. The Massachusetts version is generally similar to the CRA but utilizes a five-tiered descriptive rating system. The Massachusetts Commissioner of Banks is required to consider a bank's record of performance under the Massachusetts law in considering any application by the bank to establish a branch or other deposit-taking facility, relocate an office or to merge or consolidate with or acquire the assets and assume the liabilities of any other banking institution. Chicopee Savings Bank's most recent rating under Massachusetts law was "outstanding."

Federal Reserve System. The Federal Reserve Board regulations require savings institutions to maintain non-interest earning reserves against their transaction accounts (primarily Negotiable Order of Withdrawal (NOW) and regular checking accounts). The regulations currently provide that reserves be maintained against aggregate transaction accounts as follows: a 3% reserve ratio is assessed on net transaction accounts up to and including $110.2 million; a 10% reserve ratio is applied above $110.2 million. The first $15.2 million of otherwise reservable balances are exempted from the reserve requirements. The amounts are adjusted annually. Chicopee Savings Bank complies with the foregoing requirements.

Federal Home Loan Bank System. Chicopee Savings Bank is a member of the Federal Home Loan Bank System, which consists of eleven regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of the Federal Home Loan Bank of Boston, Chicopee Savings Bank is required to acquire and hold a specified amount of shares of capital stock in the Federal Home Loan Bank of Boston. As of December 31, 2015 and 2014, Chicopee Savings Bank was in compliance with this requirement with an investment in stock of the FHLB of $4.8 million.

For the years ended December 31, 2015 and 2014, the Company received dividend income from its FHLB stock investment of $109,000, and $58,000 , respectively.

Other Regulations

Some interest and other charges collected or contracted by Chicopee Savings Bank are subject to state usury laws and federal laws concerning interest rates and charges. Chicopee Savings Bank's operations also are subject to state and federal laws applicable to credit transactions and other operations, including, but not limited to, the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Real Estate Settlement Procedures Act, requiring that borrowers for mortgage loans for one- to four-family residential real estate receive various disclosures, including good faith estimates of settlement costs, lender servicing and escrow account practices, and prohibiting certain practices that increase the cost of settlement services;

- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed, or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies; and
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies.

The operations of Chicopee Savings Bank also are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, that govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;
- Gramm-Leach-Bliley Act privacy statute which requires each depository institution to disclose its privacy policy, identify parties with whom certain nonpublic customer information is shared and provide customers with certain rights to "opt out" of disclosure to certain third parties; and
- Title III of The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (referred to as the "USA PATRIOT Act"), which significantly expanded the responsibilities of financial institutions, in preventing the use of the United States financial system to fund terrorist activities. Among other things, the USA PATRIOT Act and the related regulations required banks operating in the United States to develop anti-money laundering compliance programs, due diligence policies and controls to facilitate the detection and reporting of money laundering.

Holding Company Regulation

Chicopee Bancorp, Inc., as a bank holding company, is subject to examination, regulation, and periodic reporting under the Bank Holding Company Act of 1956, as amended, as administered by the Federal Reserve Board. Chicopee Bancorp, Inc. is required to obtain the prior approval of the Federal Reserve Board to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior Federal Reserve Board approval would be required for Chicopee Bancorp, Inc. to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if it would, directly or indirectly, own or control more than 5% of any class of voting shares of the bank or bank holding company.

A bank holding company is generally prohibited from engaging in, or acquiring, direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the principal activities that the Federal Reserve Board has determined by regulation to be closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing securities brokerage services; (iv) acting as fiduciary, investment or financial advisor; (v) leasing personal or real property under certain conditions; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings association.

The Gramm-Leach-Bliley Act of 1999 authorizes a bank holding company that meets specified conditions, including depository institutions subsidiaries that are "well capitalized" and "well managed," to opt to become a "financial holding company." A "financial holding company" may engage in a broader array of financial activities than permitted a typical bank holding company. Such activities can include insurance underwriting and investment banking. Chicopee

Bancorp, Inc. does not anticipate opting for “financial holding company” status at this time.

Chicopee Bancorp, Inc. is subject to the Federal Reserve Board’s consolidated capital adequacy guidelines for bank holding companies. Traditionally, those guidelines have been structured similarly to the regulatory capital requirements for the subsidiary depository institutions, but were somewhat more lenient. For example, the holding company capital requirements allowed inclusion of certain instruments in Tier 1 capital that were not includable at the institution level. The Dodd-Frank Act directed the Federal Reserve Board to issue consolidated capital requirements for depository institution holding companies that are not less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. The previously discussed final rule regarding regulatory capital requirements implements the Dodd-Frank Act as to bank holding company capital standards. Consolidated regulatory capital requirements identical to those applicable to the subsidiary banks applied to bank holding companies (with greater than $1.0 billion of assets) as of January 1, 2015. As is the case with institutions

themselves, the capital conservation buffer will be phased in between 2016 and 2019. Chicopee Bancorp, Inc. is not subject to this requirement.

A bank holding company is generally required to give the Federal Reserve Board prior written notice of any purchase or redemption of then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve Board order or directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. The Federal Reserve Board has adopted an exception to that approval requirement for well-capitalized bank holding companies that meet certain other conditions.

The Dodd-Frank Act codified the "source of strength" doctrine. That longstanding policy of the Federal Reserve Board requires bank holding companies to serve as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

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 Chicopee Bancorp, Inc. to pay dividends, repurchase shares of its stock or otherwise engage in capital distributions.

The Federal Deposit Insurance Act makes depository institutions liable to the FDIC for losses suffered or anticipated by the insurance fund in connection with the default of a commonly controlled depository institution or any assistance provided by the FDIC to such an institution in danger of default. That law would have potential applicability if Chicopee Bancorp, Inc. ever held as a separate subsidiary a depository institution in addition to Chicopee Savings Bank.

Chicopee Bancorp, Inc. and Chicopee Savings Bank are affected by the monetary and fiscal policies of various agencies of the United States Government, including the Federal Reserve System. In view of changing conditions in the national economy and in the money markets, it is impossible for management to accurately predict future changes in monetary policy or the effect of such changes on the business or financial condition of Chicopee Bancorp, Inc. or Chicopee Savings Bank.

The status of Chicopee Bancorp, Inc. as a registered bank holding company under the Bank Holding Company Act will not exempt it from certain federal and state laws and regulations applicable to corporations generally, including, without limitation, certain provisions of the federal securities laws.

Change in Control Regulations. Under the Change in Bank Control Act, no person may acquire control of a bank holding company such as Chicopee Bancorp, Inc. unless the Federal Reserve Board has been given 60 days' prior written notice and has not issued a notice disapproving the proposed acquisition, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition. Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, control in any manner of the election of a majority of the institution's directors, or a determination by the regulator that the acquiror has the power to direct, or directly or indirectly to exercise a controlling influence over, the management or policies of the institution. Acquisition of more than 10% of any class of a savings and loan holding company's voting stock constitutes a rebuttable determination of control under the regulations under certain circumstances including where, as will be the case with Chicopee Bancorp, Inc., the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934.

Massachusetts Holding Company Regulation. Under Massachusetts banking laws, a company owning or controlling two or more banking institutions, including a savings bank, is regulated as a bank holding company. Each Massachusetts bank holding company: (i) must obtain the approval of the Massachusetts Board of Bank Incorporation before engaging in certain transactions, such as the acquisition of more than 5% of the voting stock of another banking institution; (ii) must register, and file reports, with the Massachusetts Division of Banks; and (iii) is subject to examination by the Division of Banks. Chicopee Bancorp,

Inc. would become a Massachusetts bank holding company if it acquires a second banking institution and holds and operates it separately from Chicopee Savings Bank.

Federal Securities Laws

Our common stock is registered with the Securities and Exchange Commission under Section 12(b) of the Securities Exchange Act of 1934, as amended. We are subject to information, proxy solicitation, insider trading restrictions, and other requirements under the Exchange Act.

Executive Officers of the Registrant

Name	Principal Position
William J. Wagner	President and Chief Executive Officer of Chicopee Bancorp and Chicopee Savings Bank
Guida R. Sajdak	Senior Vice President, Chief Financial Officer and Treasurer of Chicopee Bancorp and Senior Vice President and Treasurer of Chicopee Savings Bank
Russell J. Omer	Executive Vice President of Chicopee Bancorp and Executive Vice President, Lending, of Chicopee Savings Bank

Below is information regarding our executive officers who are not also Directors. Unless otherwise stated, each executive officer has held his or her position for at least the last five years. Ages presented are as of December 31, 2015.

Russell J. Omer has served as Executive Vice President of Chicopee Bancorp since December 2008, and Senior Vice President of Chicopee Bancorp since 2006, and Senior Vice President, Lending, since 1998. Age 65.

Guida R. Sajdak was appointed Senior Vice President, Chief Financial Officer and Treasurer of the Company and Bank effective July 1, 2010. Ms. Sajdak has been employed by the Bank since 1989. Prior to her most recent appointment, Ms. Sajdak held the title of Senior Vice President of Finance. Age 42.

Item 1A. Risk Factors.

Our increased emphasis on commercial real estate and commercial and industrial lending may expose us to increased lending risks. At December 31, 2015, our loan portfolio included $287.8 million of commercial real estate loans, or 49.1% of total loans, and $71.5 million of commercial and industrial loans, or 12.2% of total loans. We have grown the commercial loan portfolio in recent years and intend to continue to grow commercial real estate and commercial and industrial loans. These types of loans generally expose a lender to greater risk of non-payment and loss than one-to-four-family residential real estate loans because repayment of the loans often depends on the successful operation of the property and the income stream of the borrowers. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one-to-four-family residential real estate loans. Commercial and industrial loans expose us to additional risks since they typically are made on the basis of the borrower's ability to make repayments from the cash flow of the borrower's business and are secured by non-real estate collateral that may depreciate over time. In addition, since such loans generally entail greater risk than one-to-four-family residential real estate loans, we may need to increase our allowance for loan losses in the future to account for the likely increase in probable credit losses associated with the growth of such loans. Also, many of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one-to-four-family residential mortgage loan.

Negative developments in the financial industry and the domestic and international credit markets may adversely affect our operations and results. Since the latter half of 2007, negative developments in the global credit and

securitization markets have resulted in uncertainty in the financial markets and a general economic downturn which has continued into 2014. The economic downturn was accompanied by deteriorated loan portfolio quality at many institutions, including Chicopee Savings Bank. In addition, the value of real estate collateral supporting many home mortgages has declined and may continue to decline. Bank and bank holding company stock prices have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets. These negative developments along with the turmoil and uncertainties that have accompanied them have heavily influenced the formulation and enactment of the Dodd-Frank Act, along with its implications as described elsewhere in this "Risk Factors" section. In addition to the many future implementing rules and regulations of the Dodd-Frank Act, the potential exists for other new federal or state laws and regulations regarding lending and funding practices and liquidity standards to be enacted. Bank regulatory agencies are expected to continue to be active in responding to concerns and trends identified in examinations. Negative developments in the financial industry and the domestic and international

credit markets, and the impact of new legislation in response to those developments, may negatively impact our operations by increasing our costs, restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance. In addition, these risks could affect the value of our loan portfolio as well as the value of our investment portfolio, which would also negatively affect our financial performance.

A downturn in the local economy or a decline in real estate values could decrease our profits. Nearly all of our real estate loans are secured by real estate in Hampden County. As a result of this concentration, a downturn in the local economy could cause significant increases in non-performing loans, which would decrease our profits. Additionally, a decrease in asset quality could require additions to our allowance for loan losses through increased provisions for loan losses, which would hurt our profits. A continued decline in real estate values could cause some of our real estate loans to become inadequately collateralized, which would expose us to a greater risk of loss. In addition, because we have a significant amount of commercial real estate loans, decreases in tenant occupancy may also have a negative effect on the ability of many of our borrowers to make timely repayments on their loans, which would have an adverse impact on our earnings.

We could be held responsible for environmental liabilities of properties we acquired through foreclosure. In the course of business, we may acquire, through foreclosure, properties securing loans originated or purchased that are in default. Particularly in commercial real estate lending, there is a risk that material environmental violations could be discovered on these properties. In this event, we might be required to remedy these violations at the affected properties at our sole cost and expense. The cost of remedial action could substantially exceed the value of affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have an adverse effect on our financial condition and results of operations.

We are subject to liquidity risk. Liquidity risk is the risk of potential loss if we are unable to meet our funding requirements at a reasonable cost. Our liquidity could be impaired by an inability to access the capital markets or by unforeseen outflows of cash. This situation may arise due to circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects parties or us.

Changes in interest rates could adversely affect our results of operations and financial condition. Our results of operations and financial condition are significantly affected by changes in interest rates. Our results of operations depend substantially on our net interest income, which is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings. Because our interest-earning assets generally reprice or mature more quickly than our interest-bearing liabilities, an increase in interest rates generally would tend to result in an increase in net interest income. Changes in interest rates also affect the current fair value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. Additionally, a majority of our single-family real estate loans held for investment are adjustable-rate loans. Any rise in market interest rates may result in increased payments for borrowers who have adjustable rate loans, increasing the possibility of default.

For further discussion of how changes in interest rates could impact us, see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Risk Management-Interest Rate Risk Management."

Prepayments of loans may negatively impact our business. Generally, our customers may prepay the principal amount of their outstanding loans at any time. The speeds at which such prepayments occur, as well as the size of such prepayments, are within our customers’ discretion. If customers prepay the principal amount of their loans, and we are unable to lend those funds to other borrowers or invest the funds at the same or higher interest rates, our interest income will be reduced. A significant reduction in interest income could have a negative impact on our results of operations and financial condition.

We face significant legal risks, both from regulatory investigations and proceedings and from private actions brought against us. From time to time, we may be named as a defendant or are otherwise involved in various legal proceedings, including class actions and other litigation or disputes with third parties. There is no assurance that litigation with private parties will not increase in the future. Future actions against us may result in judgments, settlements, fines, penalties or other results adverse to us, which could materially adversely affect our business, financial condition or results of operations, or cause serious reputational harm to us. As a participant in the financial services industry, we are exposed to a high level of potential litigation related to our businesses and operations. Although we maintain insurance, the scope of this coverage may not provide us with full, or even partial, coverage in any particular case. As a result, a judgment against us in any such litigation could have a material adverse effect on our financial condition and results of operation.

Our businesses and operations are also subject to increasing regulatory oversight and scrutiny, which may lead to additional regulatory investigations or enforcement actions. These and other initiatives from federal and state officials may subject us to

further judgments, settlements, fines or penalties, or cause us to be required to restructure our operations and activities, all of which could lead to reputational issues, or higher operational costs, thereby reducing our revenue.

We are subject to reputational risk. We are dependent on our reputation within our market area, as a trusted and responsible financial company, for all aspects of our relationships with customers, employees, vendors, third-party service providers, and others, with whom we conduct business or potential future business. Our actual or perceived failure to (a) identify and address potential conflicts of interest, ethical issues, money-laundering, or privacy issues; (b) meet legal and regulatory requirements applicable to the Bank and to the Company; (c) maintain the privacy of customer and accompanying personal information; (d) maintain adequate record keeping; (e) engage in proper sales and trading practices; and (f) identify the legal, reputational, credit, liquidity and market risks inherent in our products could give rise to reputational risk that could cause harm to the Bank and our business prospects. If we fail to address any of these issues in an appropriate manner, we could be subject to additional legal risks, which, in turn, could increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur related costs and expenses. Our ability to attract and retain customers and employees could be adversely affected to the extent our reputation is damaged.

We may incur fines, penalties and other negative consequences from regulatory violations, possibly even inadvertent or unintentional violations. We maintain systems and procedures designed to ensure that we comply with applicable laws and regulations. However, some legal/regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though there was in place at the time systems and procedures designed to ensure compliance. For example, we are subject to regulations issued by the Office of Foreign Assets Control, or “OFAC,” that prohibit financial institutions from participating in the transfer of property belonging to the governments of certain foreign countries and designated nationals of those countries. OFAC may impose penalties for inadvertent or unintentional violations even if reasonable processes are in place to prevent the violations. There may be other negative consequences resulting from a finding of noncompliance, including restrictions on certain activities. Such a finding may also damage our reputation as described below and could restrict the ability of institutional investment managers to invest in our securities.

Historically low interest rates may adversely affect our net interest income and profitability. During the past six years it has been the policy of the Board of Governors of the Federal Reserve System (“Federal Reserve Board”) to maintain interest rates at historically low levels through its targeted federal funds rate and the purchase of mortgage-backed securities. As a result, market rates on the loans we have originated and the yields on securities we have purchased have been at lower levels than available prior to 2008. As a general matter, our interest-bearing liabilities reprice or mature more quickly than our interest-earning assets, which has resulted in increases in net interest income as interest rates decreased. However, our ability to lower our interest expense is limited at these interest rate levels while the average yield on our interest-earning assets may continue to decrease. The Board of Governors of the Federal Reserve System has recently indicated its intention to increase short term rates. Accordingly, our net interest income (the difference between interest income earned on assets and interest expense paid on liabilities) may be adversely affected and may even decrease, which may have an adverse effect on our profitability.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings will decrease. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover probable losses in our loan portfolio, resulting in additions to our allowance. Our allowance for loan losses was 0.96% of total loans at December 31, 2015. Material additions to our allowance could materially decrease our net income. In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our allowance for loan losses or recognize further loan charge-offs. Any increase in our

allowance for loan losses or loan charge-offs as required by these regulatory authorities might have a material adverse effect on our financial condition and results of operations.

Changes in accounting standards could affect our reported results of operations. The bodies responsible for establishing accounting standards, including the Financial Accounting Standards Board, the Securities and Exchange Commission and other regulatory bodies, periodically change the financial accounting and reporting guidance that governs the preparation of our consolidated financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply new or revised guidance retroactively.

In December 2012, the Financial Accounting Standards Board issued for public comment a Proposed Accounting Standards Update that would remove the existing "probable" threshold in U.S. generally accepted accounting principles ("GAAP") for recognizing credit losses and broaden the range of information that must be considered in measuring the allowance for expected credit losses. This proposal, if adopted as presented, could have a material negative impact on our reported results of operations and capital.

We may be unable to attract and retain key personnel. Our success depends, in large part, on our ability to attract and retain key personnel. Competition for qualified personnel in the financial services industry can be intense and we may not be able to hire or retain the key personnel that we depend upon for success. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, knowledge of the markets in which we operate, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

We rely on other companies to provide key components of our business infrastructure. Third party vendors provide key components of our business infrastructure such as internet connections, network access and core application processing. While we have selected these third party vendors carefully, we do not control their actions. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services poorly, could adversely affect our ability to deliver products and services to our customers or otherwise conduct our business efficiently and effectively. Replacing these third party vendors could also entail significant delay and expense.

We are subject to extensive regulatory oversight. We are subject to extensive supervision, regulation, and examination by the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Massachusetts Division of Banks. As a result, we are limited in the manner in which we conduct our business, undertake new investments and activities, and obtain financing. This regulatory structure is designed primarily for the protection of the Deposit Insurance Fund of the FDIC, the Depositor's Insurance Fund of Massachusetts, and our depositors, and not to benefit our stockholders. This regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement actions and examination policies, including policies with respect to capital levels, the timing and amount of dividend payments, the classification of assets, the establishment of adequate loan loss reserves for regulatory purposes and the timing and amounts of assessments and fees.

In addition, we must comply with significant anti-money laundering and anti-terrorism laws and regulations, CRA laws and regulations, and fair lending laws and regulations. Government agencies have the authority to impose monetary penalties and other sanctions on institutions that fail to comply with these laws and regulations, which could significantly affect our business activities, including our ability to acquire other financial institutions or expand our branch network.

Government responses to economic conditions may adversely affect our operations, financial condition and earnings. The Dodd-Frank Act has changed the bank regulatory framework. For example, it has created an independent Consumer Financial Protection Bureau that has assumed the consumer protection responsibilities of the various federal banking agencies, and established more stringent capital standards for banks and bank holding companies. The legislation has also resulted in new regulations affecting the lending, funding, trading and investment activities of banks and bank holding companies. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions such as Home Federal, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. Banks and savings institutions with $10.0 billion or less in assets will continue to be examined by their applicable bank regulators. The new legislation also gives state attorneys general the ability to enforce applicable federal consumer protection laws. Bank regulatory agencies also have been responding aggressively to concerns and adverse trends identified in examinations. Ongoing uncertainty and adverse developments in the financial services industry and in the domestic and international credit markets, and the effect of new legislation and regulatory actions in response to these conditions, may adversely affect our operations by restricting our business activities, including our ability to originate or sell loans, modify loan terms, or foreclose on property securing loans.
The full impact of the Dodd-Frank Act on our business will not be known until all of the regulations implementing the statute are adopted and implemented. As a result, we cannot at this time predict the extent to which the Dodd-Frank Act will impact our business, operations or financial condition. However, compliance with these new laws and

regulations may require us to make changes to our business and operations and will likely result in additional costs and divert management's time from other business activities, any of which may adversely impact our results of operations, liquidity or financial condition.
Furthermore, the Federal Reserve Board, in an attempt to help the overall economy, has, among other things, adopted a low interest rate policy through its targeted federal funds rate and the purchase of mortgage-backed securities. If the Federal Reserve Board significantly increases the federal funds rate, market interest rates would likely rise, which may negatively affect the housing markets and the U.S. economic recovery.

Legislative or regulatory responses to perceived financial and market problems could impair our rights against borrowers. Federal, state and local laws and policies could reduce the amount distressed borrowers are otherwise contractually obligated to pay under their mortgage loans, and may limit the ability of lenders to foreclose on mortgage collateral. Restrictions on Chicopee Savings Bank's rights as creditor could result in increased credit losses on our loans and mortgage-backed securities, or increased expense in pursuing our remedies as a creditor.

Strong competition within our market area could hurt our profits and slow growth. We face intense competition both in making loans and attracting deposits. This competition has made it more difficult for us to make new loans and attract deposits. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which reduces net interest income. As of June 30, 2015, we held 5.02% of the deposits in Hampden County, which was the 7th largest market share of deposits out of the 17 financial institutions in the county. This data does not include deposits held by one of our primary competitors, credit unions, which, as tax-exempt organizations, are able to offer higher rates on retail deposits than banks. There are 14 credit unions headquartered in Hampden County, some of the larger of which are headquartered in Chicopee, Massachusetts. Some of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our market area.

We must adapt to information technology changes in the financial services industry, which could present operational issues, require significant capital spending, or impact our reputation. The financial services industry is constantly undergoing technological changes, with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

Systems failures, interruptions or breaches of security could have an adverse effect on our financial condition and results of operations. We are subject to certain operational risks, including, but not limited to, data processing system failures and errors, inadequate or failed internal processes, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. We depend upon data processing, software, communication, and information exchange on a variety of computing platforms and networks and over the Internet, and we rely on the services of a variety of vendors to meet our data processing and communication needs. Despite instituted safeguards, we cannot be certain that all of our systems are entirely free from vulnerability to attack or other technological difficulties or failures. Information security risks have increased significantly due to the use of online, telephone and mobile banking channels by customers and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. Our technologies, systems, networks and our customers’ devices may be the target of, cyber-attacks, computer viruses, malicious code, phishing attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers' confidential, proprietary and other information, the theft of customer assets through fraudulent transactions or disruption of our or our customers’ or other third parties’ business operations. If information security is breached or other technology difficulties or failures occur, information may be lost or misappropriated, services and operations may be interrupted and we could be exposed to claims from customers. While we maintain a system of internal controls and procedures, any of these results could have a material adverse effect on our business, financial condition, results of operations or liquidity.

The market value of wealth management assets under administration may be negatively affected by changes in economic and market conditions. A substantial portion of income from fiduciary services is dependent on the market value of wealth management assets under administration, which are primarily marketable securities. Changes in domestic and foreign economic conditions, volatility in financial markets, and general trends in business and finance, all of which are beyond our control, could adversely impact the market value of these assets and the fee revenues derived from the management of these assets.

We are a holding company and dependent upon our subsidiaries for dividends, distributions and other payments.

We are a legal entity separate and distinct from our subsidiaries. Our revenue (on a parent-only basis) is derived primarily from interest and dividends paid to us by the Bank. Our right, and consequently the right of our shareholders, to participate in any distribution of the assets or earnings of the Bank through the payment of such dividends or otherwise is necessarily subject to the prior claims of creditors of the Bank (including depositors), except to the extent that certain claims of us in a creditor capacity may be recognized.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

We conduct our business through our main office in Chicopee, Massachusetts, eight full service branch offices and our lending and operation center. Of our nine locations, we own six and lease three of the buildings. We also own the land for five of the six buildings we own. For one of our branches we own the building and lease the land. The net book value of our land, buildings, and improvements was $6.1 million at December 31, 2015. The following table sets forth ownership and lease information for the Company's offices as of December 31, 2015:

		Location	Year Opened	Lease Expires
Owned				
	Main Office:			
		70 Center Street Chicopee, MA 01013	1973	
	Branch Offices:			
		39 Morgan Road West Springfield, MA 01089	2005	
		569 East Street Chicopee, MA 01020	1976	
		435 Burnett Road Chicopee, MA 01020	1990	
		219/229 Exchange Street Chicopee, MA 01013	2009/1998	
Leased				
		599 Memorial Drive Chicopee, MA 01020	1977	2017
		477A Center Street Ludlow, MA 01056	2002	2022
		350 Palmer Road Ware, MA 01082	2009	2027
		32 Willimansett Street South Hadley, MA 01075	2008	2027 (1)

(1) The lease is for the land only, the building is owned by Chicopee Savings Bank.

Item 3. Legal Proceedings.

Periodically, we are involved in routine litigation incidental to our business, such as claims to enforce liens and contracts, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's common stock is traded on the NASDAQ Global Market (“NASDAQ”) under the symbol “CBNK.” The following table sets forth the high and low closing prices of the common stock and dividends declared for the years ended December 31, 2015 and 2014, as reported by NASDAQ. The first quarterly dividend declared by the Company was announced on January 24, 2013. The Company currently anticipates that comparable cash dividends will continue to be paid in the future.

	High	Low	Dividends Declared		High	Low	Dividends Declared
2015				2014			
First Quarter	$16.90	$15.80	$0.07	First Quarter	$17.88	$16.89	$0.07
Second Quarter	17.10	16.19	0.07	Second Quarter	17.69	16.46	0.07
Third Quarter	16.96	16.04	0.08	Third Quarter	16.85	14.81	0.07
Fourth Quarter	17.49	16.11	0.08	Fourth Quarter	16.95	13.80	0.07

The Company’s ability to pay dividends is dependent on dividends received from Chicopee Savings Bank and its other subsidiaries. For a discussion of restrictions on the payment of cash dividends by Chicopee Savings Bank, see “Business—Regulation and Supervision—Massachusetts Banking Laws and Supervision—Dividends” in this Annual Report o Form 10-K.

Stock Performance Graph

The following graph illustrates the annual percentage change in the cumulative total shareholder return of the Company’s common stock for the period December 31, 2010 through December 31, 2015. For purposes of comparison, the graph illustrates comparable shareholder returns of the SNL Thrift $500M – $1B Bank Index and the NASDAQ Stock Index (U.S. Companies). The graph assumes a $100 investment on December 31, 2010 in each case and measures the amount by which the market value, assuming reinvestment of dividends, has changed as of December 31, 2015.

	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
Chicopee Bancorp, Inc.	100.00	111.46	125.61	139.26	136.25	143.62
NASDAQ Composite	100.00	99.21	116.82	163.75	188.03	201.40
SNL Thrift $500M - $1B	100.00	94.38	119.39	146.74	171.23	203.90

Shareholders and Issuer Purchases of Equity Securities

As of March 8, 2016, the Company had approximately 577 registered holders of record of the Company’s common stock.

The following table provides information regarding the Company’s purchase of its equity securities during the three months ended December 31, 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 (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
10/01/2015-10/31/2015	—	$—	260,000	260,000
11/01/2015-11/30/2015	—	—	260,000	260,000
12/01/2015-12/31/2015	—	—	260,000	260,000
Total	—		-	260,000

On June 1, 2012, the Company announced that the Board of Directors authorized a common stock repurchase program (the "Plan"). The Plan allowed for the repurchase of up to 272,000 shares, or approximately 5.0%, of the Company’s outstanding common stock. This program was completed in August 2015, with the purchase of all 272,000 shares at an average price of $16.30. During the year ended December 31, 2015, the Company repurchased 60,731 shares at an average price of $16.58, completing its Seventh Stock Repurchase Program. As of December 31, 2015, the Company repurchased a total of $2.2 million shares of common stock at a total cost of $30.4 million, or an average price per share of $13.57.

On September 16, 2015, the Company announced that the Board of Directors authorized an Eighth Stock Repurchase Program (the "Eighth Repurchase Program") for the purpose 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. A total of 260,000 shares may yet be purchased under the Plan.

Item 6. Selected Financial Data.

We have derived the following selected consolidated financial and other data of the Company in part from our consolidated financial statements and notes appearing elsewhere in this Form 10-K.

	At or for the year ended December 31,				
	2015	2014	2013	2012	2011
	(In Thousands)				
Selected Financial Data:					
Total assets	$678,574	$639,222	$587,727	$599,982	$616,306
Cash and cash equivalents	28,229	49,769	18,915	39,608	61,122
Loans	586,574	524,684	490,215	469,575	448,047
Allowance for loan losses	5,615	4,927	4,596	4,364	4,576
Available-for-sale securities	426	414	602	621	613
Held-to-maturity securities	32,229	33,747	48,606	59,568	73,852
Deposits	507,109	483,558	449,766	466,177	453,377
Federal Home Loan Bank advances	81,330	67,039	44,992	33,332	59,265
Stockholders' equity	89,274	88,134	92,230	89,969	90,782
Nonperforming assets	7,832	12,243	7,241	4,559	5,624
Selected Operating Data:					
Interest and dividend income	$25,202	$23,354	$23,069	$24,397	$24,850
Interest expense	4,075	3,683	4,349	5,627	6,902
Net interest and dividend income	21,127	19,671	18,720	18,770	17,948
Provision for loan losses	941	5,271	425	442	842
Net interest income after provision for loan losses	20,186	14,400	18,295	18,328	17,106
Non-interest income	3,028	2,817	3,100	3,023	2,650
Non-interest expense	19,186	18,900	18,155	18,305	18,734
Income (loss) before provision for income taxes	4,028	(1,683)	3,240	3,046	1,022
Income tax expense (benefit)	1,029	(1,105)	687	581	(78)
Net income (loss)	$2,999	$(578)	$2,553	$2,465	$1,100
Basic earnings (loss) per share	$0.61	$(0.12)	$0.51	$0.49	$0.21
Diluted earnings (loss) per share	$0.60	$(0.12)	$0.50	$0.48	$0.21

	At or For the Years Ended December 31,									
	2015		2014		2013		2012		2011	
Selected Operating Ratios and Other Data:										
Performance Ratios:										
Average yield on interest-earning assets (1)	4.16	%	4.30	%	4.39	%	4.55	%	4.73	%
Average rate paid on interest-bearing liabilities	0.85	%	0.88	%	1.04	%	1.27	%	1.57	%
Average interest rate spread (2)	3.31	%	3.42	%	3.35	%	3.28	%	3.16	%
Net interest margin (3)	3.51	%	3.65	%	3.60	%	3.54	%	3.47	%
Ratio of interest-earning assets to interest-bearing liabilities	131.64	%	134.79	%	132.02	%	126.51	%	124.18	%
Non-interest expenses as a percent of average assets	2.88	%	3.13	%	3.10	%	3.06	%	3.21	%
Return on average assets	0.45	%	(0.10	)%	0.44	%	0.41	%	0.19	%
Return on average equity	3.37	%	(0.64	)%	2.79	%	2.75	%	1.20	%
Ratio of average equity to average assets	13.35	%	15.01	%	15.58	%	15.02	%	15.72	%
Efficiency ratio (4)	76.22	%	80.09	%	79.00	%	79.43	%	88.06	%
Regulatory Capital Ratios:										
Total risk-based capital	16.5	%	17.5	%	19.6	%	19.3	%	19.6	%
Tier 1 risk-based capital	15.5	%	16.5	%	18.6	%	18.4	%	18.7	%
Tier 1 leverage capital	12.8	%	13.8	%	15.8	%	15.0	%	14.8	%
Common equity tier 1 capital	15.5	%	-		-		-		-	
Asset Quality Ratios:										
Nonperforming loans as a percent of total loans	1.09	%	2.14	%	1.40	%	0.85	%	1.05	%
Nonperforming assets as a percent of total assets	1.15	%	1.92	%	1.23	%	0.76	%	0.91	%
Allowance for loan losses as a percent of total loans	0.96	%	0.94	%	0.94	%	0.93	%	1.02	%
Allowance for loan losses as a percent of nonperforming loans	87.78	%	44.02	%	67.25	%	109.46	%	97.13	%
Net loans charged-off to average interest-earning loans	0.04	%	0.98	%	0.04	%	0.14	%	0.16	%
Other Data:										
Banking offices at end of year	9		9		9		9		8	

(1) Municipal securities income and net interest income are presented on a tax equivalent basis using a tax rate of 41%. The tax equivalent adjustment is deducted from the tax equivalent net interest income to agree to the amount reported on the income statement.

(2) Tax equivalent net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

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

(4) The efficiency ratio represents the ratio of non-interest expenses divided by the sum of tax equivalent net interest income and non-interest income. This ratio excludes gains (losses) on sales of investment securities, property, loans held for sale and other, net. At December 31, 2015 the ratio is calculated as follows (in thousands):

Non-interest expenses	$19,186
Tax equivalent net interest income	$22,098
Non-interest income	3,028

Add back:		
Loss and writedowns on sale of other real estate owned	47	
Total income included in calculation	$25,173	
Non-interest expenses divided by total income	76.22	%

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the “Selected Financial Data” and the Company’s Consolidated Financial Statements and notes thereto, each appearing elsewhere in this Annual Report on Form 10-K.

Forward-Looking Statements

This Annual Report on Form 10-K 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.

By identifying these forward-looking statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in the forward-looking statements include, among others, those discussed under “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K. In addition to these risk factors, there are other factors that may impact any public company, including ours, which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries. These additional factors include, but are not limited to: (1) changes in consumer spending, borrowing and savings habits; (2) the financial health of certain entities, including government-sponsored enterprises, the securities of which are owned or acquired by the Company; (3) adverse changes in the securities market; and (4) the costs, effects and outcomes of existing or future litigation. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

Overview

Income. The Company's primary source of pre-tax income is net interest income. Net interest income is the difference between interest income, which is the income that we earn on our loans and securities, and interest expense, which is the interest that we pay on our deposits and borrowings. Other significant sources of pre-tax income are service charges, fees and commissions, which include service charges on deposit accounts, brokerage fee income and other loan fees (including loan brokerage fees and late charges), income from bank-owned life insurance and income from loan sales and servicing. In addition, we recognize income or losses from the sale of available-for-sale securities in years that we have such sales.

Allowance for Loan Losses. The allowance for loan losses is a valuation allowance to cover the inherent probable losses in the loan portfolio. 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. Management estimates the allowance balance required using past loan loss experience, information about specific borrower situations, estimated collateral values, economic conditions, and other factors. Allocation of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management’s judgment, should be charged off.

Non-interest expenses. The non-interest expenses we incur in operating our business consist of salaries and employee benefits expenses, occupancy expenses, furniture and equipment expenses, data processing expenses, foreclosure

related expenses, professional fees, advertising expense, FDIC insurance expense, stationery, supplies and postage expense, and various other miscellaneous expenses.

Critical Accounting Policies

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the following to be our critical accounting policies:

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.

Management believes the allowance for loan losses requires the most significant estimates and assumptions used in the preparation of the consolidated financial statements. The allowance for loan losses is based on management's evaluation of the

level of the allowance required in relation to the probable loss exposure in the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management. Qualitative factors, or risks considered in evaluating the adequacy of the allowance for loan losses for all loan classes include historical loss experience; levels and trends in delinquencies, nonaccrual loans, impaired loans and net charge-offs; the character and size of the loan portfolio; effects of any changes in underwriting policies; experience of management and staff; current economic conditions and their effect on borrowers; effects of changes in credit concentrations, and management's estimation of probable losses. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as doubtful, substandard, special mention, or loss. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors.

Loans individually considered for impairment include all loans included in the class of commercial and residential, as well as home equity loans. These 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.

Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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.

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, our banking regulators, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings.

Valuation of OREO. In connection with the determination of the carrying value of other real estate owned ("OREO") management obtains independent appraisals for significant properties. While management uses available information to recognize losses on OREO, future write-downs of OREO may be necessary based upon changes in economic and market conditions.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's valuation of its OREO. Such agencies may require the Company to recognize write-downs of OREO based

upon their judgment about information available to them at the time of their examination.

Mortgage Servicing Rights. Mortgage servicing rights associated with loans originated and sold, where servicing is retained, are capitalized and included in other assets in the consolidated balance sheet. Mortgage servicing rights are amortized into non-interest income in proportion to, and over the period of, estimated future net servicing income of the underlying financial assets. Mortgage servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. The value of the capitalized servicing rights represents the present value of the future servicing fees arising from the right to service loans in the portfolio. Critical accounting policies for mortgage servicing rights relate to the initial valuation and subsequent impairment tests. The methodology used to determine the valuation of mortgage servicing rights requires the development and use of a number of estimates, including anticipated principal amortization and prepayments of that principal balance. Events that may significantly affect the estimates used are changes in interest rates, mortgage loan prepayment speeds and the payment performance of the underlying loans. The carrying value of the mortgage servicing rights is periodically reviewed for impairment based on a determination of fair value. Impairment, if any, is recognized through a valuation allowance and is recorded as a component of non-interest expense.

Other-Than-Temporary Impairment. Companies are required to perform periodic reviews of individual securities in their investment portfolios to determine whether decline in the value of a security is other than temporary. A review of other-than-temporary impairment requires companies to make certain judgments regarding the materiality of the decline, its effect on the financial statements and the probability, extent and timing of a valuation recovery and the company's intent and ability to hold the security. Pursuant to these requirements, we assess valuation declines to determine the extent to which such changes are attributable to (1) fundamental factors specific to the issuer, such as financial condition, business prospects or other factors or (2) market-related factors, such as interest rates or equity market declines. Declines in the fair value of individual equity securities below their costs that are deemed to be other than temporary are recorded in earnings as realized losses. For declines in the fair value of individual debt available-for-sale securities below their cost that are deemed to be other-than-temporary, where the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in the fair value of the debt security related to 1) credit loss is recognized in earnings and 2) other factors is recognized in other comprehensive income or loss. Credit loss is determined to exist if the present value of expected future cash flows using the effective rate at acquisition is less than the amortized cost basis of the debt security. For individual debt securities where the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment is recognized in earnings equal to the difference between the security's cost basis and its fair value at the balance sheet date. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Operating Strategy

Our mission is to operate and grow a profitable community-oriented financial institution serving primarily retail customers and businesses in our market areas. We plan to continue our strategy of:

- increasing our overall commercial relationships, as well as broadening individual commercial relationships, in our market area;
- increasing our deposit market share in our market area;
- increasing our sale of non-deposit investment products;
- improving operating efficiency and cost control; and
- applying disciplined underwriting practices to maintain a high quality loan portfolio.

Continuing to increase our commercial relationships in our market area. We have diversified our loan portfolio beyond residential loans by increasing our commercial relationships. Our goal is to increase the number of our commercial customers, while also broadening individual relationships. Our commercial real estate, commercial construction and commercial and industrial loan portfolio has increased $121.6 million, or 42.5%, from $285.9 million, or 63.9% of the total loan portfolio, at December 31, 2011 to $407.5 million, or 69.6% of the total loan portfolio, at December 31, 2015. Business deposit accounts have increased $23.4 million, or 44.0%, from $53.2 million at December 31, 2011 to $76.6 million at December 31, 2015. In order to support the growth in the commercial loan portfolio, we have also increased the number of commercial lenders and commercial underwriting and support staff.

Increasing our deposit market share in our market area. Retail deposits are our primary source of funds for investing and lending. By offering a variety of deposit products, special and tiered pricing, and superior customer service, we intend to retain and expand existing customer relationships as well as attract new deposit customers. Personalized

service and flexibility with regard to customer needs will continue to be augmented with a full array of delivery channels to maximize customer convenience. These include drive-up banking, ATMs, internet banking, automated bill payment, remote capture, and telephone banking. Through our continued focus on these deposit-gathering efforts in existing branch locations, coupled with our plans for geographic expansion, we expect to increase the overall level of deposits and our market share in the markets we serve.

Historically, one of our primary competitors for retail deposits in the Chicopee market area has been credit unions. Credit unions are formidable competitors since, as tax-exempt organizations, they are able to offer higher rates on retail deposits than banks. By expanding our market area beyond the immediate Chicopee market area, and beyond the market areas of our larger credit union competitors, we intend to increase our overall deposit market share of Hampden County.

Increasing our sale of non-deposit investment products. Our profits rely heavily on the spread between the interest earned on loans and securities and interest paid on deposits and borrowings. In order to decrease our reliance on interest rate spread

income, we have pursued initiatives to increase non-interest income. We offer non-deposit investment products, including mutual funds, annuities, pension plans, life insurance, long-term care and 529 college savings plans through a third party registered broker-dealer, Linsco/Private Ledger. This initiative generated $394,000, $374,000 and $320,000 of non-interest income during the years ended December 31, 2015, 2014, and 2013, respectively.

Improving operating efficiency and cost control. Non-interest expense increased $286,000, or 1.5% to $19.2 million, or 2.88% of average assets for 2015, from $18.9 million, or 3.13% of average assets, for the year ended December 31, 2014. The increase in non-interest expense was primarily due to the increase in salaries and benefits of $279,000, or 2.8%, an increase in data processing of $141,000, or 10.1%, an increase of $89,000, or 3.4%, in other non-interest expense, an increase of $24,000, or 5.7%, in FDIC insurance expense, an increase of $9,000, or 0.6%, in occupancy expense, an increase in advertising expense of $23,000, or 4.1%, and an increase of $7,000, or 2.7%, in stationery, supplies and postage. These increases were partially offset by a decrease of $220,000, or 23.3%, in professional fees, a decrease in foreclosure and loan collection related expenses of $32,000, or 6.5%, and a decrease in furniture and fixtures of $34,000, or 4.7%. We recognize that our growth strategies have required greater investments in personnel, marketing, premises and equipment which have had a negative impact on our expense ratio over the short term. We will also recognize additional annual employee compensation and benefit expenses stemming from our employee stock ownership plan and stock options. These additional expenses adversely affect our profitability. We recognize expenses for our employee stock ownership plan when shares are committed to be released to participants' accounts and recognize expenses for stock options over the vesting period of awards made to recipients pursuant to our 2007 Equity Incentive Plan.

Applying disciplined underwriting practices to maintain a high quality loan portfolio. We believe that high asset quality is a key to long-term financial success. We have sought to grow and diversify the loan portfolio, while maintaining a high level of asset quality and moderate credit risk, using underwriting standards that we believe are conservative and diligent monitoring and collection efforts. At December 31, 2015, our ratio of nonperforming loans (loans which are 90 or more days delinquent) to total loans was 1.09% of our total loan portfolio, compared to 2.14% at December 31, 2014. Although we intend to continue our efforts to originate commercial real estate, commercial and industrial, and construction loans, we intend to continue our philosophy of managing large loan exposures through our conservative approach to lending.

Balance Sheet Analysis

Comparison of Financial Condition at December 31, 2015 and December 31, 2014

Total Assets. Total assets increased $39.4 million, or 6.2%, from $639.2 million at December 31, 2014 to $678.6 million at December 31, 2015. The increase in total assets was primarily due to the increase in net loans of $61.2 million, or 11.8%, from $519.8 million, or 81.3% of total assets, at December 31, 2014 to $581.0 million, or 85.6% of total assets, at December 31, 2015, partially offset by the $21.5 million or 43.3%, decrease in cash and cash equivalents.

Cash and Cash Equivalents. Cash, including correspondent bank balances and federal funds sold, decreased $21.5 million, or 43.3%, from $49.8 million at December 31, 2014 to $28.2 million at December 31, 2015.

Investments. The investment securities portfolio, including held-to-maturity and available-for-sale securities, decreased $1.5 million, or 4.4%, from $34.2 million at December 31, 2014 to $32.7 million at December 31, 2015. The decrease in investments was primarily due to the $1.3 million, or 3.9%, decrease in the tax-exempt industrial revenue bonds and the $203,000, or 50.4%, decrease in collateralized mortgage obligations, partially offset by the $12,000, or 2.9%, increase in securities available for sale.

Total Loans. Total loans increased $61.9 million, or 11.8%, from $523.7 million, or 81.9% of total assets, at December 31, 2014 to $585.7 million, or 86.3% of total assets at December 31, 2015. The increase in total loans was due to an increase of $38.2 million, or 15.3%, in commercial real estate loans, an increase of $12.7 million, or 28.9%, increase in construction loans, an increase of $8.9 million, or 7.5%, in one- to four-family real estate loans, and an increase of $5.0 million, or 14.6%, in home equity loans, partially offset by a decrease in commercial and industrial loans of $2.8 million, or 3.8% and a decrease in consumer loans of $146,000, or 5.5%. The increase in construction loans of $12.7 million, or 28.9%, was primarily due to the $12.3 million, or 34.5%, increase in commercial construction loans due to the expansion of an existing borrower's facilities. We expect the loan to be fully funded by the end of the second quarter of 2016 and transferred to the commercial real estate portfolio. 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, the servicing rights will continue to be retained on all loans written and sold in the secondary market.

Deposits and Borrowed Funds. Total deposits increased $23.6 million, or 4.9%, from $483.6 million at December 31, 2014 to $507.1 million at December 31, 2015. Core deposits, consisting of demand, NOW, savings and money market accounts, increased $4.3 million, or 1.4%, from $311.9 million at December 31, 2014 to $316.2 million at December 31, 2015. Demand deposits increased $4.5 million, or 4.6%, to $102.4 million, NOW accounts increased $3.1 million, or 7.2%, to $45.2 million, savings accounts increased $1.6 million, or 3.2%, to $52.4 million and money market accounts decreased $4.9 million, or 4.0%, to $116.2 million. Certificates of deposit increased $19.2 million, or 11.2%, from $171.6 million at December 31, 2014 to $190.9 million at December 31, 2015. FHLB advances increased $14.3 million, or 21.3%, from $67.0 million at December 31, 2014 to $81.3 million at December 31, 2015. FHLB advances increased to fund the $61.9 million, or 11.8%, increase in loans during 2015.

Total Stockholders' Equity. Stockholders' equity was $89.3 million, or 13.2% of total assets, at December 31, 2015 compared to $88.1 million, or 13.8% of total assets, at December 31, 2014. The Company's stockholders' equity increased as a result of net income of $3.0 million for the year ended December 31, 2015, an increase in stock-based compensation of $303,000, or 9.2%, and an increase in additional paid-in-capital of $516,000, or 14.4%, partially offset by the $1.5 million in cash dividends paid during the year ended December 31, 2015. In addition, during 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. The Company's book value per share increased $0.41, or 2.5%, from $16.72 at December 31, 2014 to $17.13 at December 31, 2015.

Loans. Our primary lending activity is the origination of loans secured by real estate. We originate one-to-four-family residential loans, commercial real estate loans and commercial and industrial loans. To a lesser extent, we originate residential investment, construction and consumer loans.

Our residential real estate loan portfolio has increased from $118.7 million, or 22.7% of total loans, at December 31, 2014 to $127.6 million, or 21.8% of total loans, at December 31, 2015. In accordance with the Company's asset/liability management strategy and in an effort to reduce interest rate risk, the Company sold $5.4 million of fixed-rate, low coupon residential real estate loans originated in 2015 to the secondary market.

The commercial real estate portfolio increased $38.2 million, or 15.3%, from $249.6 million, or 47.7% of total loans, at December 31, 2014 to $287.8 million, or 49.1% of total loans, at December 31, 2015 as a result of new commercial loan relationships. Commercial and industrial loans decreased $2.8 million, or 3.8%, from $74.3 million at December 31, 2014 to $71.5 million at December 31, 2015.

The construction loan portfolio increased from $43.9 million, or 8.4% of total loans, at December 31, 2014 to $56.6 million, or 9.7% of total loans, at December 31, 2015. Commercial construction loans increased $12.3 million, or 34.5%, from $35.8 million at December 31, 2014 to $48.1 million at December 31, 2015 and residential construction loans increased $361,000, or 4.4% to $8.5 million.

The consumer and home equity loan portfolio increased $4.9 million, or 13.2%, from $37.2 million at December 31, 2014 to $42.1 million at December 31, 2015, primarily due to the $5.0 million, or 14.5%, increase in home equity loans.

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

	At December 31,									
	2015		2014		2013		2012		2011	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars In Thousands)									
Real estate loans										
Residential real estate	$127,610	21.8 %	$118,692	22.7 %	$112,524	23.0 %	$120,265	25.7 %	$123,294	27.6 %
Home equity	39,554	6.8 %	34,508	6.6 %	32,091	6.6 %	31,731	6.8 %	29,790	6.7 %
Commercial	287,849	49.1 %	249,632	47.7 %	211,161	43.1 %	189,472	40.4 %	174,761	39.0 %
Total real estate loans	455,013	77.7 %	402,832	77.0 %	355,776	72.7 %	341,468	72.9 %	327,845	73.3 %
Construction loans:										
Residential	8,490	1.5 %	8,129	1.6 %	6,130	1.3 %	4,334	0.9 %	5,597	1.3 %
Commercial	48,128	8.2 %	35,786	6.8 %	38,441	7.9 %	35,781	7.6 %	31,706	7.0 %
Total construction loans	56,618	9.7 %	43,915	8.4 %	44,571	9.2 %	40,115	8.5 %	37,303	8.3 %
Total real estate and construction loans	511,631	87.4 %	446,747	85.4 %	400,347	81.9 %	381,583	81.4 %	365,148	81.6 %
Consumer	2,516	0.4 %	2,662	0.5 %	2,405	0.4 %	2,492	0.6 %	2,566	0.6 %
Commercial and industrial	71,530	12.2 %	74,331	14.1 %	86,540	17.7 %	84,583	18.0 %	79,412	17.8 %
Total loans	585,677	100.0 %	523,740	100.0 %	489,292	100.0 %	468,658	100.0 %	447,126	100.0 %
Deferred loan origination costs, net	897		944		923		917		921	
Allowance for loan losses	(5,615)		(4,927)		(4,596)		(4,364)		(4,576)	
Loans, net	$580,959		$519,757		$485,619		$465,211		$443,471	

Loan Maturity. The following table sets forth certain information at December 31, 2015 regarding the dollar amount of loan principal repayments becoming due during the periods indicated. The table does not include any estimate of prepayments which significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown. Demand loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less. Real estate mortgage loans include residential and commercial real estate loans and home equity loans.

	Real Estate Mortgage	Construction	Commercial and Industrial	Consumer	Total Loans
	(In Thousands)				
Amounts due					

One year or less	$602	$21,399	$43,788	$181	$65,970
More than one year to five years	8,031	7,627	20,483	1,447	37,588
More than five years	446,380	27,592	7,259	888	482,119
Total amount due	$455,013	$56,618	$71,530	$2,516	$585,677

The following table sets forth the dollar amount of all loans at December 31, 2015 that are due after December 31, 2016 that have either fixed interest rates or adjustable interest rates. The amounts shown below exclude unearned interest on consumer loans and deferred loan origination costs. Real estate loans include residential and commercial real estate loans and home equity loans.

	Due After December 31, 2016		
	Fixed	Adjustable	Total
	(In Thousands)		
Real estate loans	$57,396	$397,015	$454,411
Construction	7,682	27,537	35,219
Commercial	25,586	2,156	27,742
Consumer	2,313	22	2,335
Total loans	$92,977	$426,730	$519,707

Investment Securities. The investment securities portfolio consists primarily of tax-exempt industrial revenue bonds, collateralized mortgage obligations and marketable equity securities. Total investment securities decreased $1.5 million, or 4.4%, from $34.2 million at December 31, 2014 to $32.7 million at December 31, 2015. The $1.5 million decrease was primarily due to paydowns on tax-exempt industrial revenue bonds of $1.3 million, or 3.9%, and paydowns of $203,000, or 50.3%, on collateralized mortgage obligations.

The amortized cost of available-for-sale securities remained at $369,000 at December 31, 2014 and 2015. The fair value of available-for-sale securities increased $12,000, or 2.9%, from $414,000 at December 31, 2014 to $426,000 at December 31, 2015. At December 31, 2015, available-for-sale securities had a net unrealized gain of $57,000, or 15.4%.

Total investment securities decreased $15.0 million, or 30.6%, from $49.2 million at December 31, 2013 to $34.2 million at December 31, 2014. The $15.0 million decrease was primarily due to maturities in certificates of deposit of $8.4 million, maturities or U.S. Treasury securities of $5.0 million, paydowns of tax-exempt industrial revenue bonds of $1.2 million, and paydowns of collateralized mortgage obligations of $242,000.

The amortized cost of available-for-sale securities decreased $153,000, or 29.3%, from $522,000 at December 31, 2013 to $369,000 at December 31, 2014, due to the sale of 10,000 shares of common stock issued by one company in the financial industry with a realized gain of $34,000. The fair value of available-for-sale securities decreased $188,000, or 31.2%, from $602,000 at December 31, 2013 to $414,000 at December 31, 2014 due to the sale of the 10,000 shares. At December 31,2014, available-for-sale securities had a net unrealized gain of $45,000.

At December 31, 2015 and 2014, there were no investments in a single company or entity (other than the U.S. Government) that had an aggregate book value in excess of 10% of our equity.

The following table sets forth, at the dates indicated, information regarding the amortized cost and market values of the Company's investment securities.

	At December 31,					
	2015		2014		2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)					
Available-for-sale securities						
Marketable equity securities [1]	$369	$426	$369	$414	$522	$602
Total available-for-sale securities	$369	$426	$369	$414	$522	$602
Held-to-maturity securities						
U.S. Treasury securities	$—	$—		$—	$5,000	$5,000
Corporate and industrial revenue bonds	32,029	32,729	33,344	33,811	34,588	35,269
Certificates of deposit	—	—		—	8,373	8,388
Collateralized mortgage obligations	200	206	403	418	645	681
Total held-to-maturity securities:	$32,229	$32,935	$33,747	$34,229	$48,606	$49,338
Total investment securities	$32,598	$33,361	$34,116	$34,643	$49,128	$49,940

[1] Does not include investments in restricted stock consisting of FHLB stock of $4.8 million at December 31, 2015 and $3.9 million at December 31, 2014 and 2013.

The table below sets forth the stated maturities and weighted average yields of debt securities at December 31, 2015. Weighted average yields on tax-exempt securities are not presented on a tax equivalent basis because the impact would be insignificant.

	One Year or Less			More than One Year to Five Years			More than Five Years to Ten Years			More than Ten Years			Total		
	Amortized Cost	Weighted Average Yield		Amortized Cost	Weighted Average Yield		Amortized Cost	Weighted Average Yield		Amortized Cost	Weighted Average Yield		Amortized Cost	Weighted Average Yield	
	(Dollars in Thousands)														
Held-to-maturity securities															
Industrial revenue bonds	$—	—	%	$7,731	4.36	%	$—	—	%	$24,298	4.10	%	$32,029	4.16	%
Collateralized mortgage obligations	—	—	%	200	0.11	%	—	—	%	—	—		200	0.11	%
Total held-to-maturity securities	$—	—	%	$7,931	4.47	%	$—	—	%	$24,298	4.10	%	$32,229	4.19	%

Restricted Equity Securities. At December 31, 2015 and 2014, the Company held $4.8 million and $3.9 million of FHLB stock. This stock is restricted and must be held as a condition of membership in the FHLB and as a condition for the Bank to borrow from the FHLB. 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. No impairment losses have been recorded through December 31, 2015. The Company will continue to monitor its investment in FHLB stock. For additional information regarding our FHLB stock, see Note 3 to the notes to the consolidated financial statements. At December 31, 2015 and 2014, the Company held $183,000 of Banker's Bank Northeast stock. The stock is restricted and carried in other assets at cost. The stock is evaluated for impairment based on an estimate of the ultimate recovery to par value.

Deposits. Our primary source of funds are deposits, which are comprised of certificates of deposit, money market deposit accounts, demand deposits, passbook accounts, and NOW accounts. These deposits are provided primarily by individuals and businesses within our market areas. At December 31, 2015, 2014 and 2013, we did not use brokered deposits as a source of funding.

Total deposits increased $23.6 million, or 4.9%, from $483.6 million at December 31, 2014 to $507.1 million at December 31, 2015. Core deposits, defined as savings accounts, money markets, NOW accounts, and demand deposit accounts, increased $4.3 million, or 1.4%, from $311.9 million at December 31, 2014 to $316.2 million at December 31, 2015. NOW accounts increased $3.1 million, or 7.2%, to $45.2 million, demand accounts increased $4.5 million, or 4.6%, to $102.4 million, savings accounts increased $1.6 million, or 3.2%, to $52.4 million, and money market accounts decreased $4.9 million, or 4.0%, to $116.2 million. Certificates of deposit increased $19.2 million, or 11.2%, from $171.6 million at December 31, 2014 to $190.9 million at December 31, 2015. The increase in certificates of deposit was the result of promotional rates to increase deposit accounts to fund loan growth.

At December 31, 2014, deposits increased $33.8 million, or 7.5%, from $449.8 million at December 31, 2013 to $483.6 million at December 31, 2014. Core deposits, defined as savings accounts, money market accounts, demand deposit accounts and NOW accounts, increased $19.4 million, or 6.6%, from $292.5 million at December 31, 2013 to $311.9 million at December 31, 2014. Money market accounts increased $10.0 million, or 9.0%, to $121.1 million, demand deposits increased $7.1 million, or 7.8%, to $97.9 million, savings accounts increased $1.0 million, or 1.9%, to $50.7 million, and NOW accounts increased $1.4 million, or 3.4%, to $42.2 million. Certificates of deposit increased $14.4 million, or 9.2%, from $157.2 million at December 31, 2013 to $171.6 million at December 31, 2014. The increase in certificates of deposit was the result of management's focus to replace maturing high cost accounts with lower cost accounts by offering promotional rates which are lower than the accounts scheduled to reprice. Demand accounts increased due to increases in commercial accounts as well as an increase in low cost relationship focused transaction and savings accounts.

The following table sets forth the distribution of the Company's deposit accounts as of the dates indicated:

	December 31,		
	2015	2014	2013
	(In Thousands)		
Demand deposits	$102,424	$97,922	$90,869
NOW accounts	45,228	42,177	40,774
Savings accounts	52,359	50,716	49,755
Money market deposit accounts	116,226	121,106	111,126
Certificates of deposit	190,872	171,637	157,242
Total deposits	$507,109	$483,558	$449,766

The following table sets forth certificates of deposit of the Company classified by interest rate as of the dates indicated:

	December 31,		
	2015	2014	2013
Interest rate	(In Thousands)		
Less than 1.0%	$41,583	$43,091	$66,675
1.00% to 1.99%	136,238	96,362	32,466
2.00% to 2.99%	13,051	19,876	29,669
3.00% to 3.99%	—	12,308	28,432
Total certificates of deposit	$190,872	$171,637	$157,242

The following table sets forth maturities of certificates of deposit by year of maturity and interest rate as of December 31, 2015:

Interest rate	2016	2017	2018	2019	2020	Total
	(In Thousands)					
Less than 1.0%	$37,713	$2,833	$1,012	$25	$—	$41,583
1.00% to 1.99%	64,465	47,386	11,756	5,882	6,749	136,238
2.00% to 2.99%	5,717	—	1,278	6,056	—	$13,051
Total certificates of deposit	$107,895	$50,219	$14,046	$11,963	$6,749	$190,872

As of December 31, 2015, the aggregate amount of outstanding certificates of deposits in amounts greater than or equal to $100,000 was $98.6 million, or 51.6%, of total certificates of deposits. The following table sets forth the maturity of those certificates of deposits as of December 31, 2015:

Maturity Period	Amount	Weighted Average Rate	
	(Dollars in Thousands)		
Three months or less	$9,814	0.76	%
Over three months through six months	13,677	0.88	%
Over six months through 12 months	31,411	1.34	%
Over 12 months	43,649	1.48	%
Total certificates of deposit greater than or equal to $100,000:	$98,551	1.28	%

Borrowings. The Company utilizes borrowings from a variety of sources to supplement our supply of funds for loans and investments.

	Years Ended December 31,					
	2015		2014		2013	
	(Dollars in Thousands)					
Maximum amount of advances outstanding at any month-end during the year:						
FHLB advances	$94,158		$67,039		$44,992	
Securities sold under agreements to repurchase	—		—		15,312	
Average advances outstanding during the year:						
FHLB advances	$82,362		$57,182		$29,202	
Securities sold under agreements to repurchase	—		—		7,243	
Weighted average interest rate during the year:						
FHLB advances	1.54	%	1.59	%	2.41	%
Securities sold under agreements to repurchase	—	%	—	%	0.12	%
Balance outstanding at end of year:						
FHLB advances	$81,330		$67,039		$44,992	
Securities sold under agreements to repurchase	—		—		—	
Weighted average interest rate at end of year:						
FHLB advances	1.56	%	1.43	%	1.93	%
Securities sold under agreements to repurchase	—	%	—	%	0.12	%

FHLB advances increased $14.3 million, or 21.3%, to $81.3 million at December 31, 2015 from $67.0 million at December 31, 2014. FHLB advances increased to help fund the $61.9 million, or 11.8%, increase in loans from

$523.7 million at December 31, 2014 to $585.7 million at December 31, 2015.

FHLB advances increased $22.0 million, or 49.0%, to $67.0 million at December 31, 2014 from $45.0 million at December 31, 2013. The increase was due to long-term advances of $33.0 million to fund loan growth and minimize interest rate risk, partially offset by paydowns of long-term advances of $11.0 million.

At December 31, 2014, securities sold under agreements to repurchase were zero and all agreements were terminated in October of 2013.

At December 31, 2015, the Company had an Ideal Way Line of Credit with the FHLB of $2.0 million and the ability to borrow a total of $41.8 million with the Federal Reserve Bank of Boston's discount window. In addition, we had the ability to borrow a total of $4.0 million from Banker's Bank Northeast. As of December 31, 2015, the Company did not utilize any of these contingency funding sources.

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.

Average Balance Sheet. The following table sets forth information relating to the Company for the years ended December 31, 2015, 2014 and 2013. The average yields and costs are derived by dividing interest income or interest expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The yields include fees which are considered adjustments to yields. Loan interest and yield data does not include any accrued interest from non-accruing loans.

	Average Balance, Interest and Yield/Rate Analysis December 31,								
	2015			2014			2013		
(Dollars in Thousands)	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
Interest-earning assets:									
Investments (1)	$37,888	$2,511	6.63 %	$42,005	$2,607	6.21 %	$64,405	$2,754	4.28 %
Loans:									
Residential real estate loans	125,463	4,754	3.79 %	115,791	4,483	3.87 %	115,402	4,717	4.09 %
Home equity loans	35,961	1,094	3.04 %	32,470	1,124	3.46 %	31,840	1,151	3.61 %
Commercial real estate loans	280,342	12,694	4.53 %	223,988	10,635	4.75 %	187,751	9,840	5.24 %
Residential construction loans	6,796	264	3.88 %	7,477	299	4.00 %	4,778	198	4.14 %
Commercial construction loans	38,693	1,638	4.23 %	42,550	1,762	4.14 %	34,824	1,574	4.52 %
Consumer loans	2,589	169	6.53 %	2,497	160	6.41 %	2,376	156	6.57 %
Commercial and industrial loans	74,141	2,979	4.02 %	81,789	3,261	3.99 %	87,190	3,688	4.23 %
Loans, net (2)	563,985	23,592	4.18 %	506,562	21,724	4.29 %	464,161	21,324	4.59 %
Other	27,679	70	0.25 %	17,602	41	0.23 %	21,069	55	0.26 %
Total interest-earning assets	629,552	26,173	4.16 %	566,169	24,372	4.30 %	549,635	24,133	4.39 %
Noninterest-earning assets	42,608			42,037			41,307		
Less: Allowance for loan losses	(5,276)			(4,685)			(4,362)		
Total assets	$666,884			$603,521			$586,580		
Interest-bearing liabilities:									
Deposits:									
Money market deposit accounts	$119,527	$287	0.24 %	$113,205	$339	0.30 %	$120,405	$378	0.31 %
Savings accounts (3)	52,239	54	0.10 %	50,341	52	0.10 %	49,851	52	0.10 %
NOW accounts	42,798	283	0.66 %	41,761	322	0.77 %	39,435	371	0.94 %
Certificates of deposit	181,307	2,182	1.20 %	157,564	2,060	1.31 %	170,195	2,834	1.67 %
Total interest-bearing deposits	395,871	2,806	0.71 %	362,871	2,773	0.76 %	379,886	3,635	0.96 %
Total interest-bearing borrowings:									
FHLB advances	82,362	1,269	1.54 %	57,182	910	1.59 %	29,202	705	2.41 %
	—	—	—	—	—	—	7,243	9	0.12 %

Securities sold under agreement to repurchase												
Total interest-bearing borrowings	82,362	1,269	1.54	%	57,182	910	1.59	%	36,445	714	1.96	%
Total interest-bearing liabilities:	478,233	4,075	0.85	%	420,053	3,683	0.88	%	416,331	4,349	1.04	%
Demand deposits	98,925				92,347				77,949			
Other noninterest-bearing liabilities	667				546				887			
Total liabilities	577,825				512,946				495,167			
Total stockholders' equity	89,059				90,575				91,413			
Total liabilities and stockholders' equity	$666,884				$603,521				$586,580			
Net interest-earning assets	$151,319				$146,116				$133,304			
Net interest income (fully-taxable equivalent)		22,098				20,689				19,784		
Less: tax equivalent adjustment (1)		(971)				(1,018)				(1,064)		
Net interest income		$21,127				$19,671				$18,720		
Net interest rate spread (fully-taxable equivalent) (4)			3.31	%			3.42	%			3.35	%
Net interest margin (fully-taxable equivalent) (5)			3.51	%			3.65	%			3.60	%
Ratio of interest-earning assets to interest-bearing liabilities			131.64	%			134.79	%			132.02	%

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(1) Municipal securities income and net interest income are presented on a tax equivalent basis using a tax rate of 41%.
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) Loans, net excludes loans held for sale and the allowance for loan losses and includes nonperforming loans.
(3) Savings accounts include mortgagors' escrow deposits.
(4) Tax equivalent interest rate spread represents the difference between the weighted average yield on interest-earning
assets and the weighted average cost of interest-bearing liabilities.
(5) Tax equivalent net interest margin represents tax equivalent net interest income divided by total average interest-earning assets.

Rate/Volume Analysis. The following table presents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected the Company's tax equivalent interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volume (changes in volume multiplied by prior rate); (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Year Ended December 31, 2015 Compared to December 31, 2014 Increase (Decrease) Due to			Year Ended December 31, 2014 Compared to December 31, 2013 Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(Dollars in Thousands)					
Interest-earning assets:						
Investment securities	$(266)	$170	$(96)	$(1,146)	$999	$(147)
Loans:						
Residential real estate	368	(97)	271	16	(250)	(234)
Home equity	114	(144)	(30)	23	(50)	(27)
Commercial real estate	2,572	(513)	2,059	1,779	(984)	795
Residential construction	(27)	(8)	(35)	108	(7)	101
Commercial construction	(317)	193	(124)	328	(140)	188
Consumer	6	3	9	8	(4)	4
Commercial and industrial	(307)	25	(282)	(221)	(206)	(427)
Total loans	2,409	(541)	1,868	2,041	(1,641)	400
Other	25	4	29	(8)	(6)	(14)
Total interest-earning assets	$2,168	$(367)	$1,801	$887	$(648)	$239
Interest-bearing liabilities:						
Deposits:						
Money market deposit accounts	$18	$(70)	$(52)	$(23)	$(16)	$(39)
Savings accounts (1)	2	—	2	—	—	—
NOW accounts	8	(47)	(39)	21	(70)	(49)
Certificates of deposit	293	(171)	122	(198)	(576)	(774)

Total interest-bearing deposits	321	(288)	33	(200)	(662)	(862)
FHLB advances	389	(30)	359	511	(306)	205
Securities sold under agreement to repurchase	—	—	—	(4)	(5)	(9)
Total interest-bearing borrowings	389	(30)	359	507	(311)	196
Total interest-bearing liabilities	710	(318)	392	307	(973)	(666)
Increase in net interest income	$1,458	$(49)	$1,409	$580	$325	$905

(1) Includes interest on mortgagors' escrow deposits.

Results of Operations

Comparison of Operating Results for the Years Ended December 31, 2015 and December 31, 2014

Net Income. The Company reported net income of $3.0 million, or $0.61 basic earnings per share, for the year ended December 31, 2015, compared to a net loss of $578,000, or $0.12 basic loss per share, for the year ended December 31, 2014. The increase in net income for the year ended December 31, 2015 compared to the year ended December 31, 2014, was primarily due to the $4.3 million, or 82.1%, decrease in the provision for loan losses, an increase in net interest income of $1.5 million, or 7.4%, and an increase in non-interest income of $211,000, or 7.5%, partially offset by an increase of $286,000, or 1.5%, in non-interest expense and an increase of $2.1 million, or 193.1%, in income tax expense due to the higher level of income during the year ended December 31, 2015.

Net Interest Income. The tables on the preceding pages set forth the components of the Company's net interest income, yields on interest-earning assets and interest-bearing liabilities, and the effect on net interest income arising from changes in volume and rate. There was a $1.4 million, or 6.8% increase in tax equivalent net interest income to $22.1 million for the year ended December 31, 2015. Based on the methodology used in the Rate/Volume Analysis table, the increase in the volume of interest-earning assets increased interest and dividend income $2.2 million. The increase in the volume of interest bearing deposits, especially certificates of deposits, increased interest expense $320,000. The increase in the volume of interest-bearing borrowings increased interest expense $389,000. The changes in volume had the effect of increasing net interest income $1.5 million. The changes in the rates of interest-bearing liabilities decreased interest expense $318,000, offset by changes in the rates of interest-earning assets which decreased interest income $367,000. The changes in the rates of interest-earning assets and interest-bearing liabilities had the effect of decreasing net interest income $49,000. Net interest margin, on a tax equivalent basis, decreased 14 basis points from 3.65% for the year ended December 31, 2014 to 3.51% for the year ended December 31, 2015.

Interest and Dividend Income. Interest and dividend income, on a tax equivalent basis, increased $1.8 million, or 7.4%, to $26.2 million for the year ended December 31, 2015 compared to $24.4 million for the year ended December 31, 2014. The increase of $1.8 million was primarily due to the $1.9 million, or 8.6%, increase in income from loans, partially offset by the $96,000, or 3.7%, decrease in interest and dividend income, on a tax equivalent basis, from investments. Average interest-earning assets increased $63.4 million, or 11.2%, from $566.2 million for the year ended December 31, 2014 to $629.6 million for the year ended December 31, 2015, primarily due to commercial real estate lending, partially offset by the decrease in residential construction loans and commercial and industrial loan activity. Average investment securities decreased $4.1 million, or 9.8%, primarily due to maturities of U.S. Treasury securities and certificates of deposit and paydowns of collateralized mortgage obligations and tax-exempt industrial revenue bonds.The tax equivalent yield on interest-earning assets decreased 14 basis points to 4.16% for the year ended December 31, 2015 from 4.30% for the year ended December 31, 2014, largely attributable to lower market rates of interest in 2015.

Interest Expense. Total interest expense increased $392,000, or 10.6%, to $4.1 million for the year ended December 31, 2015 from $3.7 million for the year ended December 31, 2014. The increase in interest expense was primarily due to the increase in the volume of interest-bearing liabilities. Average interest-bearing liabilities totaled $478.2 million for the year ended December 31, 2015, representing an increase of $58.2 million, or 13.9%, from $420.1 million. The rate paid on interest-bearing liabilities decreased 3 basis points to 0.85% for the year ended December 31, 2015 from 0.88% in 2014, reflecting the continued lower interest rate environment.

Provision for Loan Losses. The provision for loan losses decreased $4.3 million, or 82.1%, from $5.3 million for the year ended December 31, 2014 to $941,000 for the year ended December 31, 2015. For the year ended December 31, 2015, net charge-offs decreased $4.7 million, or 94.9%, to $253,000, or 0.04% of total average loans, from $4.9 million, or 0.98% of total average loans, for the year ended December 31, 2014.

The allowance for loan losses of $5.6 million at December 31, 2015 represented 0.96% of total loans, as compared to an allowance for loan losses of $4.9 million, representing 0.94% of total loans at December 31, 2014. An analysis of the changes in the allowance for loan losses is presented under “Risk Management – Analysis and Determination of the Allowance for Loan Losses” and in Note 4 of the financial statements.

Non-interest Income. Non-interest income increased $211,000, or 7.5%, from $2.8 million for the year ended December 31, 2014 to $3.0 million for the year ended December 31, 2015. Income from service charges, fees and commissions increased $130,000, or 5.5%, income from loan sales and servicing, net, increased $46,000, or 23.4%, and write-downs and loss on other real estate owned (OREO) decreased $78,000, or 62.4%. These improvements were partially offset by the decrease of $34,000, or 100.0%, in net gain on the sales of securities available for sale, and a decrease of $9,000, or 2.5%, in income from BOLI.

Non-interest Expenses. For the year ended December 31, 2015, non-interest expense increased $286,000, or 1.5%, to $19.2 million, or 2.9% of average assets, from $18.9 million, or 3.13% of average assets, for the year ended December 31, 2014. The increase in non-interest expense was primarily due to the increase in salaries and benefits of $279,000, or 2.8%, an increase in data processing of $141,000, or 10.1%, an increase of $89,000, or 3.4%, in other non-interest expense, an increase of $24,000, or 5.7%, in FDIC insurance expense, an increase of $9,000, or 0.6%, in occupancy expense, an increase in advertising expense of $23,000, or 4.1%, and an increase of $7,000, or 2.7%, in stationery, supplies and postage. These increases were partially offset by a decrease of $220,000, or 23.3%, in professional fees, a decrease in foreclosure and loan collection related expenses of $32,000, or 6.5%, and a decrease in furniture and equipment of $34,000, or 4.7%.

Income Taxes. Income tax expense increased $2.1 million, or 193.1% from a tax benefit of $1.1 million for the year ended December 31, 2014 to a tax expense of $1.0 million for the year ended December 31, 2015. The increase in the tax expense was due to the higher level of income during the year ended December 31, 2015.

As of December 31, 2014, no valuation allowance was established against deferred tax assets.

Comparison of Operating Results for the Years Ended December 31, 2014 and December 31, 2013

Net Loss. The Company reported a net loss of $578,000, or $0.12 basic loss per share, for the year ended December 31, 2014, compared to net income of $2.6 million, or $0.51 basic earnings per share, for the year ended December 31, 2013. The net loss reported for the year ended December 31, 2014 was due to the increase in the provision for loan losses of $4.8 million, resulting primarily from charge-offs taken in three loan relationships, the increase in non-interest expense of $745,000, or 4.1%, a decrease in non-interest income of $283,000, or 9.1%, partially offset by the increase in net interest income of $951,000, or 5.1%, and the decrease in income tax expense of $1.8 million, or 260.8%. The tax benefit was the result of a change in the effective tax rate of 21.2% for the year ended December 31, 2013 to 65.7% for the year ended December 31, 2014, due to the net loss reported as well as the benefit of the tax-exempt investment income.

Net Interest Income. The tables on the preceding pages set forth the components of the Company's net interest income, yields on interest-earning assets and interest-bearing liabilities, and the effect on net interest income arising from changes in volume and rate. There was a increase in tax equivalent net interest income for the year ended December 31, 2014 of $905,000, or 4.6%, to $20.7 million, for the same period in 2013. Based on the methodology used in the Rate/Volume Analysis table, the increase in the volume of interest-earning assets increased interest and dividend income $887,000. The decrease in the volume of interest bearing deposits, especially certificates of deposits, decreased interest expense $200,000. The increase in the volume of interest-bearing borrowings increased interest expense $507,000. The changes in volume had the effect of increasing net interest income $580,000. The changes in the rates of interest-bearing liabilities decreased interest expense $973,000, partially offset by changes in the rates of interest-earning assets which decreased interest income $648,000. The changes in the rates of interest-earning assets and interest-bearing liabilities had the effect of increasing net interest income $325,000. Net interest margin, on a tax equivalent basis, increased from 3.60% for the year ended December 31, 2013 to 3.65% for the year ended December 31, 2014.

Interest and Dividend Income. Interest and dividend income, on a tax equivalent basis, increased $239,000, or 1.0%, to $24.4 million for the year ended December 31, 2014 compared to $24.1 million for the year ended December 31, 2013, largely reflecting the increase in income from loans of $400,000, or 1.9%, partially offset by the decrease in income, on a tax equivalent basis, from investments of $147,000, or 5.3%. Average interest-earning assets totaled $566.2 million for the year ended December 31, 2014 compared to $549.6 million for the same period 2013, representing an decrease of $16.5 million, or 3.0%. Average loans increased $42.4 million, or 9.1%, primarily due to commercial real estate lending, partially offset by the decrease in commercial and industrial loan activity. Average

investment securities decreased $22.4 million, or 34.8%, primarily due to maturities of U.S. Treasury securities and certificates of deposit and pay downs of collateralized mortgage obligations and tax-exempt industrial revenue bonds. The tax equivalent yield on interest-earning assets decreased 9 basis points to 4.30% for the year ended December 31, 2014 from 4.39% for the year ended December 31, 2013, largely attributable to lower market rates of interest in 2014 and the increase in nonperforming loans.

Interest Expense. Total interest expense decreased $666,000, or 15.3%, to $3.7 million for the year ended December 31, 2014 from $4.3 million for the year ended December 31, 2013. The decrease in interest expense was primarily due to the decrease in interest rates. Average interest-bearing liabilities totaled $420.1 million for the year ended December 31, 2014, representing an increase of $3.7 million, or 0.9%, from $416.3 million for the same period in 2013, primarily due to the decrease in average interest-bearing deposits of $17.0 million, or 4.5%, and an increase in average interest-bearing borrowings of $20.7 million, or 56.9%. The rate paid on interest-bearing liabilities decreased 16 basis points to 0.88% for the year ended December 31, 2014 from 1.04% in 2013, reflecting the lower interest rate environment.

Provision for Loan Losses. The provision for loan losses increased $4.8 million, or 1,140.2%, from $425,000, for the year ended December 31, 2013 to $5.3 million for the year ended December 31, 2014, due to charge-offs taken in three relationships.

Charge-offs for the years ended December 31, 2014 and 2013 were $5.1 million and $493,000, respectively, partially offset by recoveries of $181,000 and $300,000 for the years ended December 31, 2014 and December 31, 2013, respectively.

The allowance for loan losses of $4.9 million at December 31, 2014 represented 0.94% of total loans, as compared to an allowance for loan losses of $4.6 million, representing 0.94% of total loans at December 31, 2013. An analysis of the changes in the allowance for loan losses is presented under "Risk Management – Analysis and Determination of the Allowance for Loan Losses" and in Note 4 of the financial statements.

Non-interest Income. Non-interest income decreased $283,000, or 9.1%, from $3.1 million for the year ended December 31, 2013 to $2.8 million for the year ended December 31, 2014. The decrease in non-interest income was due to the $425,000, or 68.3%, decrease in income from net loan sales and servicing, partially offset by the $142,000, or 6.4%, increase in income from customer service fees and commissions, and a $33,000, or 20.9%, decrease in net losses on the sale of OREO from $158,000 for the year ended December 31, 2013 to $125,000 for the year ended December 31, 2014.

Non-interest Expenses. Non-interest expense increased $745,000, or 4.1%, for the year ended December 31, 2014 compared to the year ended December 31, 2013. Non-interest expense increased due to the increase of $339,000, or 218.7%, in foreclosure and loan collection related expenses, an increase of $291,000, or 44.6%, in professional fees, an increase of $146,000, or 11.7%, in data processing, an increase of $193,000, or 83.5%, in FDIC insurance expense, an increase of $27,000, or 3.9%, in furniture and equipment, and an increase of $45,000, or 1.8%, in other non-interest expense. These increases were partially offset by a decrease in salaries and benefits of $238,000, or 2.3%, a decrease of $31,000, or 10.7%, in stationery, supplies and postage, a decrease of $17,000, or 1.1% in occupancy expenses and a decrease of $10,000, or 1.7%, in advertising expense.

Income Taxes. Income tax expense decreased $1.8 million, or 260.8% from a tax expense of $687,000 for the year ended December 31, 2013 to a tax benefit of $1.1million for the year ended December 31, 2014. The tax benefit was the result of a change in the effective tax rate of 21.2%, for the year ended December 31, 2013 to 65.7%, for the year ended December 31, 2014, due to the net loss reported as well as the benefit of the tax-exempt investment income.

As of December 31, 2013, a valuation allowance of $54,000 was established against deferred tax assets related to the uncertain utilization of the charitable contribution carry forward created primarily by the donation to the Foundation as part of the conversion, as well as to a capital loss carry forward. The decrease in the valuation reserve in 2014 is due to an increase in expected future capital gains. The judgment applied by management considers the likelihood that sufficient taxable income will be realized within the carry forward period in light of our tax planning strategies and changes in market conditions. See Note 9 for additional income tax disclosures.

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 non-GAAP financial information. A reconciliation to GAAP is provided below.

	For the Years Ended December 31,								
	2015			2014			2013		
	(Dollars in Thousands)								
	Interest	Average Yield		Interest	Average Yield		Interest	Average Yield	
Investment securities (non-tax adjustment)	$1,540	4.06	%	$1,589	3.78	%	$1,690	2.62	%
Tax equivalent adjustment (1)	971			1,018			1,064		

Investment securities (tax equivalent basis)	$2,511	6.63	%	$2,607	6.21	%	$2,754	4.28	%
Net interest income (non-tax adjustment)	$21,127			$19,671			$18,720		
Tax equivalent adjustment (1)	971			1,018			1,064		
Net interest income (tax equivalent basis)	$22,098			$20,689			$19,784		
Interest rate spread (no tax adjustment)		3.15	%		3.25	%		3.16	%
Net interest margin (no tax adjustment)		3.36	%		3.47	%		3.41	%

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

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Risk Management

Overview. Managing risk is an essential part of successfully managing a financial institution. Our most prominent risk exposures are credit risk, interest rate risk and market risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or investment when due. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates. Market risk arises from fluctuations in interest rates that may result in changes in the values of financial instruments, such as available-for-sale securities, that are accounted for on a mark-to-market basis. Other risks that we face are operational risks, liquidity risks and reputation risk. Operational risks include risks related to fraud, regulatory compliance, processing errors, and technology and disaster recovery. Liquidity risk is the possible inability to fund obligations to depositors, lenders or borrowers. Reputation risk is the risk that negative publicity or press, whether true or not, could cause a decline in our customer base or revenue.

Credit Risk Management. Our strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans.

Management performs a monthly review of all delinquent loans. The actions taken with respect to delinquency vary depending upon the nature of the delinquent loans and the period of delinquency. A late charge is normally assessed on loans where the scheduled payment remains unpaid after a 15 day grace period. After mailing delinquency notices, the Company’s collection department calls the borrower to determine the reason for the delinquency and the repayment status. Through continued heightened account monitoring, collection, and workout efforts, the Company attempts to work out a payment schedule with the borrower in order to avoid foreclosure. If these actions do not result in a satisfactory resolution, the Company refers the loan to legal counsel and counsel initiates foreclosure proceedings. The Company is committed to assist the homeowners to remain in their homes.

Management reports to the executive committee monthly regarding the amount of loans delinquent. All loans that are delinquent greater than 90 days, loans that are in foreclosure, and all foreclosed and repossessed property that we own are reported in greater detail to the executive committee monthly.

Analysis of Nonperforming and Classified Assets. We consider repossessed assets, loans that are 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 to be nonperforming assets. Loans are placed on nonaccrual status when they become 90 days delinquent, at which time the accrual of interest ceases and the allowance for any uncollectible accrued interest is established and charged against operations. Typically, payments received on a nonaccrual loan are applied to the outstanding principal and interest as determined at the time of collection of the loan.

Real estate that we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as OREO until it is sold. When property is acquired and placed in OREO, it is recorded at the fair value, less estimated selling expenses. Holding costs and declines in fair value after acquisition of the property result in charges against income. As of December 31, 2015 and 2014, the Company had $1.4 million and $1.1 million classified as OREO, respectively.

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The following table provides information with respect to our nonperforming assets at the dates indicated. We did not have any accruing loans past due 90 days or more at the dates presented.

	At December 31,				
	2015	2014	2013	2012	2011
	(Dollars in Thousands)				
Nonaccrual loans					
Residential real estate	$3,355	$4,308	$2,415	$2,587	$2,222
Residential construction	—	—	—	331	—
Commercial real estate	1,330	3,000	3,362	902	798
Commercial construction	213	2,396	—	—	—
Commercial	1,276	1,196	806	47	1,306
Home equity	205	261	243	96	306
Consumer	18	32	8	24	79
Total nonaccrual loans	6,397	11,193	6,834	3,987	4,711
Other real estate owned	1,435	1,050	407	572	913
Total nonperforming assets	$7,832	$12,243	$7,241	$4,559	$5,624
Total nonperforming loans as a percentage of total loans (1)	1.09 %	2.14 %	1.40 %	0.85 %	1.05 %
Total nonperforming assets as a percentage of total assets (2)	1.15 %	1.92 %	1.23 %	0.76 %	0.91 %

(1) Total loans equals net loans plus the allowance for loan losses.

(2) 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 December 31, 2015, the Company had 12 troubled debt restructured loans totaling $1.6 million, of which six totaling $888,000 were included in nonperforming loans. Six of the 12 restructured loans totaling $706,000 were performing as modified and on accrual status. At December 31, 2014, the Company had 15 troubled debt restructured loans totaling $3.7 million, of which 10 totaling $3.2 million were included in nonperforming loans. Five of the 15 restructured loans totaling $499,000 were performing as modified and on accrual status.

As of December 31, 2015, the following loan classes were not accruing interest: there were 25 residential real estate loans, with total principal balances of $3.4 million and total collateral values of $4.1 million, 10 commercial real estate loans, with total principal balances of $1.3 million and total collateral values of $2.1 million; there were 16 commercial and industrial loans, with total principal balances of $1.3 million and total collateral values of $2.5 million; there was one commercial construction loan with a total principal balance of $213,000 and total collateral value of $333,000; there was one consumer loan, with a principal balance of $18,000 and there were eight home equity loans, with principal balances of $205,000 and total collateral values of $418,000. We do not separately identify consumer loans for impairment. Any shortfalls of collateral were charged against the allowance for loan losses. At December 31, 2015, the Company’s total nonperforming loans as a percentage of total loans of 1.09% was below the peer average of 1.24%. This statistical data was obtained from the December 31, 2015 UBPR Peer Group Average Report and included average data for 865 insured savings banks.

As of December 31, 2014, the following loan classes were not accruing interest: there were 36 residential real estate loans, with total principal balances of $4.3 million and total collateral values of $5.3 million, 10 commercial real estate loans, with total principal balances of $3.0 million and total collateral values of $3.1 million; there were 29 commercial and industrial loans, with total principal balances of $1.2 million and total collateral values of $1.4

million; there were three commercial construction loans with total principal balances of $2.4 million and total collateral values of $4.0 million; there were three consumer loans, with principal balances of $32,000 and there were eight home equity loans, with principal balances of $261,000 and total collateral values of $402,000. We do not separately identify consumer loans, for impairment. Any shortfalls of collateral were charged against the allowance for loan losses. At December 31, 2014, the Company's total nonperforming loans as a percentage of total loans of 2.14% was above the peer average of 1.24%. This statistical data was obtained from the December 31, 2014 UBPR Peer Group Average Report and included average data for 865 insured savings banks.

As of December 31, 2013, the following loan classes were not accruing interest: there were 17 residential real estate loans, with total principal balances of $2.4 million and total collateral values of $2.6 million, seven commercial real estate loans, with total principal balances of $3.4 million and total collateral values of $2.4 million; there were 24 commercial and industrial loans,

with total principal balances of $806,000 and total collateral values of $1.3 million; there were seven consumer loans, with principal balances of $8,000 and there were four home equity loans, with principal balances of $243,000 and total collateral values of $432,000. We do not separately identify consumer loans for impairment. Any shortfalls of collateral were charged against the allowance for loan losses. At December 31, 2013, he Company's total nonperforming loans as a percentage of total loans of 1.40% was below the peer average of 1.59%. This statistical data was obtained from the December 31, 2013 UBPR Peer Group Average Report and included average data for 933 insured savings banks.

Interest income that would have been recorded for the years ended December 31, 2015, 2014 and 2013 had nonperforming loans and troubled debt restructurings been current according to their original terms amounted to $684,000, $1.4 million and $527,000, respectively. Interest income recognized on impaired loans and troubled debt restructurings for the years ended December 31, 2015, 2014 and 2013 was $395,000, $381,000 and $542,000, respectively.

Regulators have adopted various regulations and practices regarding problem assets of financial institutions. Under such regulations, federal and state examiners have authority to identify problem assets during examinations and, if appropriate, require them to be classified. We perform an internal analysis of our loan portfolio and assets to classify such loans and assets similar to the manner in which such loans and assets are classified by the federal banking regulators. In addition, we regularly analyze the probable losses inherent in our loan portfolio and our nonperforming loans to determine the appropriate level of the allowance for loan losses. There are four classifications for problem assets: special mention, substandard, doubtful, and loss. Assets that do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated "special mention". "Substandard" assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Non-accruing loans are normally classified as substandard. "Doubtful" assets 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. An asset classified as "loss" is normally fully charged-off.

The following table shows the aggregate amounts of our classified loans at the dates indicated.

	December 31,		
	2015	2014	2013
Classified loans	(Dollars in Thousands)		
Special mention loans	$17,947	$20,868	$14,228
Substandard loans	11,761	14,513	19,082
Doubtful loans	—	—	—
Total classified loans	$29,708	$35,381	$33,310

At December 31, 2015, special mention loans consisted of $4.2 million in commercial and industrial loans, $5.3 million in commercial construction loans, and $8.5 million in commercial real estate loans. Substandard loans consisted of $3.9 million in commercial and industrial loans, $213,000 in commercial constructions loans, $3.8 million in commercial real estate loans and $3.9 million in residential real estate loans and $188,000 in consumer and home equity loans. The decrease in classified loans of $5.7 million was due to a decrease of $2.9 million in special mention loans and a $2.8 million decrease in substandard loans. At December 31, 2015, 95.9 % of our classified loans were current with payments. Other than disclosed in the above tables, there are no other loans at December 31, 2015 that management had serious doubts about the ability of the borrowers to comply with the present loan repayment terms.

At December 31, 2014, special mention loans consisted of $5.0 million in commercial and industrial loans, $5.8 million in commercial construction loans, and $10.0 million in commercial real estate loans, Substandard loans consisted of $2.9 million in commercial and industrial loans, $2.4 million in commercial constructions loans, $4.7 million in commercial real estate loans
and $4.1 million in residential real estate loans and $381,000 in consumer and home equity loans. The increase in classified loans of $2.1 million was due to an increase of $6.6 million in special mention loans, partially offset by the $4.6 million decrease in substandard loans. At December 31, 2014, 80.5% of our classified loans were current with payments. Other than disclosed in the above tables, there are no other loans at December 31, 2014 that management had serious doubts about the ability of the borrowers to comply with the present loan repayment terms.

Analysis and Determination of the Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable credit losses inherent in the loan portfolio. We evaluate the need to establish allowances against losses on loans on a monthly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings. The allowance for loan losses is maintained at an amount that management considers appropriate to cover inherent probable 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.

Specific Allowance Required for Identified Problem Loans. We establish an allowance on certain identified problem loans based on such factors as: (1) the strength of the customer's personal or business cash flows; (2) the availability of other sources of repayment; (3) the amount due or past due; (4) the type and value of collateral; (5) the strength of our collateral position; (6) the estimated cost to sell the collateral; and (7) the borrower's effort to cure the delinquency.

General Valuation Allowance on the Remainder of the Loan Portfolio. We establish a general allowance for loans that are not delinquent to recognize the probable losses associated with lending activities. This general valuation allowance is determined by segregating the loans by loan category and assigning percentages to each category. 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; effects of changes in credit concentrations. The applied loss factors are reevaluated quarterly to ensure their relevance in the current economic environment.

We identify loans that may need to be charged off as a loss by reviewing all delinquent loans, classified loans and other loans that 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 collateral value would result in our allocating a portion of the allowance to the loan that was impaired.

At December 31, 2015, our allowance for loan losses represented 0.96% of total loans and 87.78% of nonperforming loans. The allowance for loan losses increased $688,000, or 14.0%, from $4.9 million at December 31, 2014 to $5.6 million at December 31, 2015, due to a provision for loan losses of $941,000, partially offset by net charge-offs of $253,000, or 0.04%, of total average loans. The provision for loan losses decreased $4.3 million, or 82.1% from $5.3 million for the year ended December 31, 2014 to $941,000 for the year ended December 31, 2015. Net charge-offs decreased $4.7 million from $4.9 million, or 0.98% of total average loans, for the same period in December 31, 2014 to $253,000, or 0.04%. Nonperforming loans decreased $4.8 million, or 42.9%, from $11.2 million, or 2.14% of total loans, at December 31, 2014 to $6.4 million, or 1.09% of total loans, at December 31, 2015. 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.

The provision for loan losses in the year ended December 31, 2015 reflects management's assessment of several factors. In particular, nonaccrual loans decreased $4.8 million, or 42.8%, to $6.4 million at December 31, 2015 from $11.2 million at December 31, 2014.

At December 31, 2014, our allowance for loan losses represented 0.94% of total loans and 44.02% of nonperforming loans. The allowance for loan losses increased $331,000, or 7.2%, from $4.6 million at December 31, 2013 to $4.9 million at December 31, 2014, due to a provision for loan losses of $5.3 million, partially offset by net charge-offs of $4.9 million, or 0.98%, of total average loans. The provision for loan losses increased $4.8 million from $425,000 for the year ended December 31, 2013 to $5.3 million for the year ended December 31, 2014. Net charge-offs increased $4.7 million from $193,000, or 0.04% of total average loans, for the same period in December 31, 2014. The increases in the provision for loan losses and net charge-offs were primarily related to three loan relationships. Nonperforming

loans increased $4.4 million, or 63.7%, from $6.8 million, or 1.40% of total loans, at December 31, 2013 to $11.2 million, or 2.14% of total loans, at December 31, 2014.

At December 31, 2013, our allowance for loan losses represented 0.94% of total loans and 67.5% of nonperforming loans. The allowance for loan losses increased $232,000, or 5.3% from $4.4 million at December 31, 2012 to $4.6 million at December 31, 2013, due to a provision for loan losses of $425,000, partially offset by net charge-offs of $193,000, or 0.4% of total average loans. Net charge-offs decreased $461,000, or 70.5%, in 2013 from $654,000, or 0.14% of total average loans in 2012. In the fourth quarter of 2013, a recovery of $235,000 on a previous charge-off was recognized.

The following table sets forth the Company's percent of allowance for loan losses by category to total allowances and the percent of loans to total loans in each of the categories listed at the dates indicated. Real estate includes residential, commercial and home equity loans.

	For Years Ended December 31,														
	2015					2014					2013				
	Amount	% of Allowance in each Category to Total Allowance		Percent of Loans in each Category to Total Loans		Amount	% of Allowance in each Category to Total Allowance		Percent of Loans in each Category to Total Loans		Amount	% of Allowance in each Category to Total Allowance		Percent of Loans in each Category to Total Loans	
Allowance for loan losses:	(Dollars in Thousands)														
Real estate	$3,856	68.7	%	77.7	%	$3,338	67.8	%	77.0	%	$2,922	63.6	%	72.7	%
Construction	872	15.5	%	9.7	%	675	13.7	%	8.4	%	529	11.5	%	9.2	%
Commercial and industrial	856	15.2	%	12.2	%	879	17.8	%	14.1	%	1,110	24.2	%	17.7	%
Consumer	31	0.6	%	0.4	%	35	0.7	%	0.5	%	35	0.7	%	0.4	%
Unallocated	—	—		—		—	—		—		—	—		—	
Total:	$5,615	100.0	%	100.0	%	$4,927	100.0	%	100.0	%	$4,596	100.0	%	100.0	%

	For Years Ended December 31,									
	2012					2011				
	Amount	% of Allowance in each Category to Total Allowance		Percent of Loans in each Category to Total Loans		Amount	% of Allowance in each Category to Total Allowance		Percent of Loans in each Category to Total Loans	
Allowance for loan losses:	(Dollars in Thousands)									
Real estate	$2,626	60.2	%	72.9	%	$2,571	56.2	%	73.3	%
Construction	595	13.6	%	8.5	%	615	13.4	%	8.3	%
Commercial and industrial	1,099	25.2	%	18.0	%	1,343	29.4	%	17.8	%
Consumer	44	1.0	%	0.6	%	47	1.0	%	0.6	%
Unallocated	—	—		—		—	—		—	
Total:	$4,364	100.0	%	100.0	%	$4,576	100.0	%	100.0	%

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and our results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while we believe we have established our allowance for loan losses in conformity with U.S. generally accepted accounting principles, there can be no assurance that our banking regulators, in reviewing our loan portfolio, will not request us to increase our allowance for loan losses. Our banking regulators may require us to increase our allowance for loan losses based on judgments different from ours. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations.

Analysis of Loan Loss Experience. The following table sets forth an analysis of the allowance for loan losses for the periods indicated.

	At or for the Years Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars in Thousands)				
Allowance for loan losses, beginning of period	$4,927	$4,596	$4,364	$4,576	$4,431
Charged-off loans:					
Residential real estate	(161)	(303)	(183)	(98)	(87)
Residential construction	—	—	(62)	—	(76)
Commercial real estate	(93)	(975)	(68)	(65)	(164)
Commercial construction	—	(1,539)	—	—	—
Commercial and industrial	(39)	(2,181)	(117)	(406)	(317)
Home equity	(16)	(57)	(10)	(35)	(6)
Consumer	(57)	(66)	(53)	(74)	(65)
Total charged-off loans	(366)	(5,121)	(493)	(678)	(715)
Recoveries on loans previously charged-off:					
Residential real estate	27	—	1	1	—
Residential construction	—	—	—	—	—
Commercial real estate	3	74	247	—	—
Commercial construction	38	—	—	—	—
Commercial and industrial	12	83	38	4	—
Home equity	4	1	—	—	—
Consumer	29	23	14	19	18
Total recoveries	113	181	300	24	18
Net loans charged-off	(253)	(4,940)	(193)	(654)	(697)
Provision for loan losses	941	5,271	425	442	842
Allowance for loan losses, end of period	$5,615	$4,927	$4,596	$4,364	$4,576
Net charge-offs to average loans outstanding	0.04%	0.98%	0.04%	0.14%	0.16%
Allowance for loan losses to total loans (1)	0.96%	0.94%	0.94%	0.93%	1.02%
Allowance for loan losses to nonperforming loans (2)	87.78%	44.02%	67.25%	109.46%	97.13%
Net charge-offs to allowance for loan losses	4.51%	100.26%	4.20%	14.99%	15.23%
Recoveries to charge-offs	30.87%	3.53%	60.85%	3.54%	2.52%

(1) Total loans equals net loans plus the allowance for loan losses.
(2) 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.

Interest Rate Risk Management. 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 residential investment 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 and one member of the Board of Directors, 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.

Net Interest Income Simulation Analysis. We use a simulation model to monitor interest rate risk. This model reports the net interest income at risk under seven primary different interest rate environments. Specifically, net interest income is measured in one scenario that assumes no change in interest rates, and six scenarios where interest rates increase 100 and 200 basis points instantaneous increase in interest rates, 300 basis point increase over a 12-month horizon, and a 400 and 500 basis point increase over a 24-month time horizon and a decrease of 100 basis points, from current rates over the one year time period following the current consolidated financial statements.

The changes in interest income and interest expense due to changes in interest rates reflect the rate sensitivity of our interest earning assets and interest bearing liabilities. For example, in a rising interest rate environment, the interest income from an adjustable rate loan is likely to increase depending on its repricing characteristics while the interest income from a fixed rate loan would not increase until the funds were repaid and loaned out at a higher interest rate.

The following table reflects changes in estimated net interest income for the Company at December 31, 2015 through December 31, 2016.

Changes In Interest Rates (Basis Points)	Net Interest Income	Dollar Change in Estimated Net Interest Income Over Twelve Months		Percentage Change in Estimated Net Interest Income Over Twelve Months	
Flat Up 500 - 24 Months	$20,713	$(437	)	(2.1	)%
Up 400 - 24 Months	20,868	(282	)	(1.4	)%
Up 300 - instantaneous	20,814	(336	)	(1.6	)%
Up 200 - 12 months	20,868	(282	)	(1.4	)%
Up 100 - instantaneous	21,128	(22	)	(0.1	)%
Base	21,150	—		—	%
Down 100 - 12 Months	20,786	(364	)	(1.8	)%

As indicated in the table above, a 100 basis point decrease in interest rates is estimated to decrease net interest income by 1.8%. A 100 and 300 basis point instantaneous increase in interest rates is projected to decrease net interest income by 0.1% and 1.6%, respectively. A 200 basis point gradual increase in interest rates over a 12 month period is projected to decrease net interest income by 1.4%. A 400 and flat 500 basis point increase in interest rates over a 24-month period is estimated to decrease net interest income by 1.4% and 2.1%, respectively, in the first 12 months.

The repricing and/or new rates of assets and liabilities moved in tandem with market rates. However, in certain deposit products, the use of data from a historical analysis indicated that the rates on these products would move only a fraction of the rate change amount. Pertinent data from each loan account, deposit account and investment security was used to calculate future cash flows. The data included such items as maturity date, payment amount, next repricing date, repricing frequency, repricing index and spread. Prepayment speed assumptions were based upon the difference between the account rate and the current market rate.
The income simulation analysis was based upon a variety of assumptions. These assumptions include but are not limited to asset mix, prepayment speeds, the timing and level of interest rates, and the shape of the yield curve. As market conditions vary from the assumptions in the income simulation analysis, actual results will differ. As a result, the income simulation analysis does not serve as a forecast of net interest income, nor do the calculations represent any actions that management may undertake in response to changes in interest rates. In all simulations, the lowest possible interest rate would be zero.

There are inherent shortcomings in any income simulation, given the number and variety of assumptions that must be made in performing the analysis. The assumptions relied upon in making these calculations of interest rate sensitivity include the level of market interest rates, the shape of the yield curve, the degree to which certain assets and liabilities with similar maturities or periods to repricing react to changes in market interest rates, the degree to which non-maturity deposits react to changes in market rates, the expected prepayment rates on loans and the degree to which early withdrawals occur on certificates of deposit and the volume of other deposit flows.

Although the analysis shown above provides an indication of the Company's sensitivity to interest rate changes at a point in time, these estimates are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on the Company's net interest income and will differ from actual results.

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 investments primarily consist of U.S. Treasury and government agencies, which we use primarily for collateral for sweep accounts maintained by commercial customers. The balances of these investments 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.

The Company's 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 December 31, 2015, total Bank cash and cash equivalents totaled $20.2 million, net of reserve requirements. Securities classified as available-for-sale whose market value exceeds our cost, which provide additional sources of liquidity, totaled $426,000 at December 31, 2015.

On December 31, 2015, we had $81.3 million of borrowings outstanding with the FHLB and we had the ability to borrow an additional $68.9 million based on the collateral pledged to the FHLB. The Company is able to pledge additional collateral to increase the availability of FHLB borrowings to 50% of its asset base. The Company’s unused borrowing capacity with the Federal Reserve Bank was approximately $41.8 million at December 31, 2015. In addition, at December 31, 2015 we had the following contingency funding sources available: a $2.0 million available line of credit with the FHLB, and an unsecured line of credit of $4.0 million with Bankers Bank, N.E. In addition, we had $101.6 million, or 15.0% of total assets available from the brokered deposit market. During the year ended December 31, 2015, we did not utilize any of these three contingency funding sources. Future growth of our loan portfolio resulting from our expansion efforts may require us to borrow additional funds.

At December 31, 2015, we had $16.2 million in loan commitments outstanding, which consisted of: $10.7 million in commercial loan commitments, $4.8 million of mortgage loan commitments, and $657,000 in home equity and consumer commitments; $21.0 million in unadvanced construction loan commitments; $88.3 million in unused lines of credit; and $976,000 in standby letters of credit. Certificates of deposit due within one year of December 31, 2015 totaled $107.9 million, or 56.5% of 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 December 31, 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.

The following table sets forth information relating to the Company’s payments due under contractual obligations at December 31, 2015:

	Payments due by period				
	Total	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years

	(In Thousands)				
Long-term debt	$81,330	$21,334	$39,263	$19,859	$874
Operating lease obligations	4,574	478	892	882	2,322
Other long-term liabilities reflected on the Company's balance sheet under GAAP	—	—	—	—	—
Total	$85,904	$21,812	$40,155	$20,741	$3,196

Our primary investing activities are the origination and purchase of loans and the purchase of securities. Our primary financing activities consist of activity in deposit accounts and FHLB advances. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. We generally manage the

pricing of our deposits to be competitive and to increase core deposit relationships. Occasionally, we offer promotional rates on certain deposit products to attract deposits.

Capital Management. We are subject to various regulatory capital requirements administered by the 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 December 31, 2015, we exceeded all of our regulatory capital requirements. We are considered “well capitalized” under regulatory guidelines.

Total stockholders’ equity increased $1.1 million, or 1.3%, from $88.1 million, or 13.8% of total assets, at December 31, 2014 to $89.3 million, or 13.2% of total assets, at December 31, 2015. The Company's increase in stockholders' equity was a result of net income of $3.0 million for the year ended December 31, 2015, an increase in stock-based compensation of $303,000, or 9.2%, and an increase in additional paid-in-capital of $516,000, or 14.4%, partially offset by the $1.5 million cash dividend paid during the year ended December 31, 2015. In addition, during the year ended December 31, 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.

The Company's book value per share increased $0.41, or 2.5%, to $17.13 at December 31, 2015 compared to $16.72 at December 31, 2014. During 2015 and 2014, the Company repurchased approximately $1.0 million, or 60,731 shares, and $2.9 million, or 174,915 shares, of the Company's stock, respectively.

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, 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. For information about our loan commitments and unused lines of credit, see note 11 of the notes to the consolidated financial statements. We currently have no plans to engage in hedging activities in the future.

For the years ended December 31, 2015 and 2014, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

Impact of Inflation and Changing Prices.

The financial statements and related financial data presented in this Form 10-K have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution’s performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Application of Critical Accounting Policies.

Our financial statements reflect the selection and application of accounting policies that require management to make significant estimates and judgments. The information pertaining to the Company’s significant accounting policies is incorporated herein by reference to Note 1 “Summary of Significant Accounting Policies” in the Notes to the Consolidated Financial Statements and in the discussion under “Critical Accounting Policies” contained in Item 7 of this Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

The information required by this item is incorporated herein by reference to the Section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report on Form 10-K.

Item 8. Financial Statements and Supplementary Data.

Information required by this item is included herein beginning on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a)Disclosure 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.

(b)Internal Controls Over Financial Reporting

Management's annual report on internal control over financial reporting is incorporated herein by reference to the Company's audited Consolidated Financial Statements in this 2015 Annual Report on Form 10-K.

(c)Changes to Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15 that occurred during the Company's last fiscal quarter that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors

For information relating to the directors of Chicopee Bancorp, the section captioned "Proposal 1 – Election of Directors" in Chicopee Bancorp's Proxy Statement for the 2016 Annual Meeting of Stockholders is incorporated by reference.

Executive Officers

For information relating to officers of Chicopee Bancorp, the information contained under "Proposal 1 – Election of Directors" in Chicopee Bancorp's Proxy Statement for the 2016 Annual Meeting of Stockholders and under Part I, Item 1, "Business — Executive Officers of the Registrant" of this Annual Report on Form 10-K is incorporated by reference.

Compliance with Section 16(a) of the Exchange Act

For information regarding compliance with Section 16(a) of the Exchange Act, the section captioned “Section 16(a) Beneficial Ownership Compliance” in Chicopee Bancorp’s Proxy Statement for the 2016 Annual Meeting of Stockholders is incorporated by reference.

Disclosure of Code of Ethics

A copy of the Code of Ethics and Business Conduct is available to stockholders on the Governance Documents portion of the Investors Relations section on Chicopee Bancorp’s website at www.chicopeesavings.com.

Corporate Governance

For information regarding the audit committee and its composition and the audit committee financial expert, the section captioned “Corporate Governance – Committees of the Board of Directors – Audit Committee” in Chicopee Bancorp’s Proxy Statement for the 2016 Annual Meeting of Stockholders is incorporated by reference.

Item 11. Executive Compensation.

Executive Compensation

For information regarding executive compensation, the sections captioned “Compensation Disclosure and Analysis,” “Executive Compensation” and “Director Compensation” in Chicopee Bancorp’s Proxy Statement for the 2016 Annual Meeting of Stockholders is incorporated by reference.

Corporate Governance

For information regarding the compensation committee report, the section captioned “Compensation Committee Report” in Chicopee Bancorp’s Proxy Statement for the 2016 Annual Meeting of Stockholders is incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters.

(a) Security Ownership of Certain Beneficial Owners Information required by this item is incorporated herein by reference to the section captioned “Stock Ownership” in Chicopee Bancorp’s Proxy Statement for the 2016 Annual Meeting of Stockholders.

(b) Security Ownership of Management Information required by this item is incorporated herein by reference to the section captioned “Stock Ownership” in Chicopee Bancorp’s Proxy Statement for the 2016 Annual Meeting of Stockholders.

(c) Changes in Control

Management of Chicopee Bancorp knows of no arrangements, including any pledge by any person of securities of Chicopee Bancorp, the operation of which may at a subsequent date result in a change in control of the registrant.

(d) Equity Compensation Plan Information

The following table sets forth information as of December 31, 2015 about Company common stock that may be issued under the Chicopee Bancorp, Inc. 2007 Equity Incentive Plan. The plan was approved by the Company’s stockholders.

Plan Category	Number of Securities to be Issued Upon the Exercise of Outstanding Options Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders	646,498	$14.55	52,374

Equity compensation plans not approved by security holders	n/a	n/a	n/a
Total	646,498	$14.55	52,374

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Certain Relationships and Related Transactions

For information regarding certain relationships and related transactions, the section captioned “Other Information Relating to Directors and Executive Officers-Transactions with Related Parties” and “Policies and Procedures for Approval of Related Person Transactions” in Chicopee Bancorp’s Proxy Statement for the 2016 Annual Meeting of Stockholders is incorporated by reference.

Director Independence

For information regarding director independence, the section captioned “Corporate Governance – Director Independence” in Chicopee Bancorp’s Proxy Statement for the 2016 Annual Meeting of Stockholders is incorporated by reference.

Item 14. Principal Accountant Fees and Services.

For information regarding the principal accountant fees and expenses, the section captioned “Proposal 2 – Ratification of Independent Registered Public Accounting Firm” in Chicopee Bancorp’s Proxy Statement for the 2016 Annual Meeting of Stockholders is incorporated by reference.

PART IV

Item 15. Exhibits and Financial Statements Schedules.

1. Financial Statements

The following consolidated financial statements of the Company and its subsidiaries are filed as part of this document under Item 8:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets at December 31, 2015 and 2014
- Consolidated Statements of Operations for the Years Ended December 31, 2015, 2014 and 2013
- Consolidated Statements of Other Comprehensive Income for the Years Ended December 31, 2015, 2014 and 2013
- Consolidated Statements of Changes in Stockholders’ Equity for the Years Ended December 31, 2015, 2014 and 2013
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2014 and 2013
- Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Financial Statement Schedules have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or notes thereto.

3. Exhibits

No.	Description
3.1	Certificate of Incorporation of Chicopee Bancorp, Inc. (1)
3.2	Bylaws of Chicopee Bancorp, Inc. (2)
4.1	Stock Certificate of Chicopee Bancorp, Inc. (1)
10.1*	Amended and Restated Employment Agreement between William J. Wagner and Chicopee Bancorp, Inc. (3)
10.2*	Amended and Restated Employment Agreement between William J. Wagner and Chicopee Savings Bank (3)
10.3*	Form of Chicopee Savings Bank Employee Stock Ownership Plan (1)
10.4*	Form of Trust Agreement between Chicopee Savings Bank and the Trustee for Chicopee Savings Bank Employee Stock Ownership Plan Trust (1)
10.5*	Form of Loan Agreement (1)
10.6*	Amended and Restated Chicopee Savings Bank Employee Severance Compensation Plan (3)
10.7*	Amended and Restated Chicopee Savings Bank Supplemental Executive Retirement Plan (3)
10.8*	Form of Executive Supplemental Retirement Income Agreement between Chicopee Savings Bank and Russell J. Omer and William J. Wagner (1)
10.9*	Form of First Amendment to the Executive Supplemental Retirement Income Agreement between Chicopee Savings Bank and Russell J. Omer and William J. Wagner (3)
10.10*	First Amendment to Amended and Restated Employment Agreement between William J. Wagner and Chicopee Bancorp, Inc. (3)
10.11*	First Amendment to Amended and Restated Employment Agreement between William J. Wagner and Chicopee Savings Bank (3)
10.12*	Employment Agreement between Guida R. Sajdak and Chicopee Savings Bank (6)
10.13*	Employment Agreement between Russell J. Omer and Chicopee Bancorp, Inc. (4)
10.14*	Employment Agreement between Russell J. Omer and Chicopee Savings Bank (4)
10.15*	Chicopee Bancorp, Inc. 2007 Equity Incentive Plan (5)
10.16*	2012 Phantom Stock Unit Award and Long-Term Incentive Plan (7)
21.0	List of Subsidiaries
23.0	Consent of Berry Dunn McNeil & Parker, LLC
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 of Chief Executive Officer and Chief Financial Officer

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* Management contract or compensatory plan, contract or agreement.

(1) Incorporated by reference in this document to the exhibits to the Company's Registration Statement on Form S-1 (File No. 333-132512) and any amendments thereto, initially filed with the Securities and Exchange Commission on March 17, 2006.

(2) Incorporated by reference in this document to the Company's Current Report on Form 8-K filed on August 1, 2007 (File No. 000-51996).

(3) Incorporated by reference in this document to the Company's Annual Report on Form 10-K for the year ended December 31, 2009, filed on March 13, 2009 (File No. 000-51996).

(4) Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 22, 2010.

(5) Incorporated herein by reference to Appendix A to the Company's definitive proxy statement filed with the Securities and Exchange Commission on April 18, 2007 (File No. 000-51996).

(6) Incorporated by reference to the Company's 8-K filed with the SEC on October 29, 2015.

(7) Incorporated by reference to the Company's 8-K filed with the SEC on March 14, 2012.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.
Chicopee Bancorp, Inc.

By:	/s/ William J. Wagner William J. Wagner Chairman of the Board, President and Chief Executive Officer	March 11, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Name	Title	Date
/s/ William J. Wagner William J. Wagner	Chairman of the Board, President and Chief Executive Officer (principal executive officer)	March 11, 2016
/s/ Guida R. Sajdak Guida R. Sajdak	Senior Vice President, Chief Financial Officer and Treasurer (principal financial and chief accounting officer)	March 11, 2016
/s/ James P. Lynch James P. Lynch	Director	March 11, 2016
/s/ William D. Masse William D. Masse	Director	March 11, 2016
/s/ William J. Giokas William J. Giokas	Director	March 11, 2016
/s/ Gregg F. Orlen Gregg F. Orlen	Director	March 11, 2016
/s/ Judith T. Tremble Judith T. Tremble	Director	March 11, 2016
/s/ James H. Bugbee James H. Bugbee	Director	March 11, 2016
/s/ Gary G. Fitzgerald Gary G. Fitzgerald	Director	March 11, 2016
/s/ Paul C. Picknelly Paul C. Picknelly	Director	March 11, 2016

Management's Annual Report on Internal Control over Financial Reporting

The management of Chicopee Bancorp, Inc. and Subsidiaries (collectively the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system is a process designed to provide reasonable assurance to the management and board of directors regarding the preparation and fair presentation of published consolidated financial statements.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with U.S. generally accepted accounting principles ("GAAP"), and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our consolidated financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, management believes that, as of December 31, 2015, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm that audited the consolidated financial statements has issued an audit report on our assessment of, and the effective operation of, the Company's internal control over financial reporting as of December 31, 2015, a copy of which is included in this annual report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Stockholders and Board of Directors
Chicopee Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Chicopee Bancorp, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. We have also audited Chicopee Bancorp, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Chicopee Bancorp, Inc.'s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ("GAAP"). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chicopee Bancorp, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the consolidated results of their operations and their consolidated cash flows for each of the years in the three-year period ended

December 31, 2015, in conformity with GAAP. Also, in our opinion, Chicopee Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in COSO.

Berry Dunn McNeil & Parker, LLC
Portland, Maine

March 11, 2016

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2015	2014
ASSETS	(In Thousands, except share data)	
Cash and due from banks	$9,975	$8,794
Federal funds sold	4,613	2,915
Interest-bearing deposits with the Federal Reserve Bank of Boston	13,641	38,060
Cash and cash equivalents	28,229	49,769
Available-for-sale securities, at fair value	426	414
Held-to-maturity securities, at cost (fair value $32,935 and $34,229 at December 31, 2015 and December 31, 2014, respectively)	32,229	33,747
Federal Home Loan Bank stock, at cost	4,764	3,914
Loans held for sale	296	—
Loans receivable, net of allowance for loan losses ($5,615 and $4,927 at December 31, 2015 and December 31, 2014, respectively)	580,959	519,757
Other real estate owned	1,435	1,050
Mortgage servicing rights	192	269
Bank owned life insurance	14,881	14,531
Premises and equipment, net	8,509	8,855
Accrued interest receivable	1,668	1,591
Deferred income tax asset	3,780	3,683
Other assets	1,206	1,642
Total assets	$678,574	$639,222
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Demand deposits	$102,424	$97,922
NOW accounts	45,228	42,177
Savings accounts	52,359	50,716
Money market deposit accounts	116,226	121,106
Certificates of deposit	190,872	171,637
Total deposits	507,109	483,558
Federal Home Loan Bank advances	81,330	67,039
Accrued expenses and other liabilities	861	491
Total liabilities	589,300	551,088
Commitments and contingencies (Notes 9, 10, 11, 12, 14, 15, 16 and 19)		
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 December 31, 2015 and December 31, 2014, respectively)	72,479	72,479
Treasury stock, at cost, 2,228,629 and 2,168,698 shares at December 31, 2015 and December 31, 2014, respectively	(30,327)	(29,119)
Additional paid-in capital	4,111	3,595
Unearned compensation (restricted stock awards)	(1)	(7)

Unearned compensation (Employee Stock Ownership Plan)	(2,976)	(3,273)
Retained earnings	45,951	44,430
Accumulated other comprehensive income	37	29
Total stockholders' equity	89,274	88,134
Total liabilities and stockholders' equity	$678,574	$639,222

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

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2015	2014	2013
	(In Thousands, except share data)		
Interest and dividend income:			
Loans, including fees	$23,592	$21,724	$21,324
Interest and dividends on securities	1,540	1,589	1,690
Other interest-earning assets	70	41	55
Total interest and dividend income	25,202	23,354	23,069
Interest expense:			
Deposits	2,806	2,773	3,635
Securities sold under agreements to repurchase	—	—	9
Other borrowed funds	1,269	910	705
Total interest expense	4,075	3,683	4,349
Net interest income	21,127	19,671	18,720
Provision for loan losses	941	5,271	425
Net interest income after provision for loan losses	20,186	14,400	18,295
Non-interest income:			
Service charges, fee and commissions	2,482	2,352	2,210
Loan sales and servicing, net	243	197	622
Net gain on sales of available-for-sale securities	—	34	37
Net loss on sale and writedowns of other real estate owned	(47)	(125)	(158)
Income from bank owned life insurance	350	359	366
Other non-interest income	—	—	23
Total non-interest income	3,028	2,817	3,100
Non-interest expenses:			
Salaries and employee benefits	10,206	9,927	10,165
Occupancy expenses	1,567	1,558	1,575
Furniture and equipment	692	726	699
FDIC insurance assessment	448	424	231
Data processing	1,531	1,390	1,244
Professional fees	723	943	652
Advertising	586	563	573
Foreclosure expense	462	494	155
Stationery, supplies and postage	267	260	291
Other non-interest expense	2,704	2,615	2,570
Total non-interest expenses	19,186	18,900	18,155
Income (loss) before income tax expense (benefit)	4,028	(1,683)	3,240
Income tax expense (benefit)	1,029	(1,105)	687
Net income (loss)	$2,999	$(578)	$2,553
Earnings (loss) per share:			
Basic earnings (loss) per share	$0.61	$(0.12)	$0.51

Diluted earnings (loss) per share	$0.60	$(0.12)	$0.50
Basic weighted average number of common shares outstanding	4,920,002	5,020,140	5,037,783
Diluted weighted average number of common shares outstanding	4,996,137	5,020,140	5,129,527

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

CHICOPEE BANCORP, INC. AND SUBSIDARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,		
	2015	2014	2013
	(In Thousands)		
Net income (loss)	$2,999	$(578)	$2,553
Other comprehensive income (loss), net of tax			
Available-for-sale securities:			
Net unrealized holding gains (losses) arising during period	12	(1)	77
Reclassification adjustment for gains realized in net income (1)	—	(34)	(37)
Tax effect	(4)	12	(14)
Total other comprehensive income (loss), net of tax	8	(23)	26
Total comprehensive income (loss)	$3,007	$(601)	$2,579

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

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

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2015, 2014, and 2013

(In Thousands, except number of shares)	Common Stock	Treasury Stock	Additional Paid-in Capital	Unearned Compensation (Equity Incentive Plan)	Unearned Compensation (ESOP)	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2012	$72,479	$(26,567)	$3,044	$ (18)	$ (3,868)	$44,873	$ 26	$89,969
Comprehensive income:								
Net income	—	—	—	—	—	2,553	—	2,553
Change in net unrealized gain on available-for-sale securities (net of deferred income taxes of $14)	—	—	—	—	—	—	26	26
Total comprehensive income	—	—	—	—	—	—	—	2,579
Treasury stock purchased (13,700 shares)	—	(242)	—	—	—	—	—	(242)
Stock options exercised	—	374	(75)	—	—	—	—	299
Stock option expense	—	—	118	—	—	—	—	118
Change in unearned compensation:								
Restricted stock award expense	—	—	—	6	—	—	—	6
Common stock held by ESOP committed to be released	—	—	212	—	297	—	—	509
Cash dividends ($0.20 per share)	—	—	—	—	—	(1,008)	—	(1,008)
Balance at December 31, 2013	72,479	(26,435)	3,299	(12)	(3,571)	46,418	52	92,230
Comprehensive loss:								
Net loss	—	—	—	—	—	(578)	—	(578)
Change in net unrealized gain on available-for-sale securities (net of deferred income taxes of $12)	—	—	—	—	—	—	(23)	(23)
Total comprehensive loss	—	—	—	—	—	—	—	(601)
Treasury stock purchased (174,915 shares)	—	(2,862)	—	—	—	—	—	(2,862)
Stock options exercised	—	178	(37)	—	—	—	—	141
Stock option expense	—	—	140	—	—	—	—	140
Change in unearned compensation:								

Restricted stock award expense	—	—	—	5	—	—	—	5
Common stock held by ESOP committed to be released	—	—	193	—	298	—	—	491
Cash dividends ($0.28 per share)	—	—	—	—	—	(1,410)	—	(1,410)
Balance at December 31, 2014	72,479	(29,119)	3,595	(7)	(3,273)	44,430	29	88,134
Comprehensive income:								
Net income	—	—	—	—	—	2,999	—	2,999
Change in net unrealized gain on available-for-sale securities (net of deferred income taxes of $4)	—	—	—	—	—	—	8	8
Total comprehensive income	—	—	—	—	—	—	—	3,007
Treasury stock purchased (60,731 shares)	—	(1,007)	—	—	—	—	—	(1,007)
Reclassification adjustment for stock options exercised	—	(214)	214	—	—	—	—	—
Stock options exercised (800 shares)	—	13	(2)	—	—	—	—	11
Stock option expense	—	—	109	—	—	—	—	109
Change in unearned compensation:								
Restricted stock award expense	—	—	—	6	—	—	—	6
Common stock held by ESOP committed to be released	—	—	195	—	297	—	—	492
Cash dividends ($0.30 per share)	—	—	—	—	—	(1,478)	—	(1,478)
Balance at December 31, 2015	$72,479	$(30,327)	$4,111	$ (1)	$ (2,976)	$45,951	$ 37	$89,274

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

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:	(In Thousands)		
Net income (loss)	$2,999	$(578)	$2,553
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	703	703	945
Gain on disposal of premises and equipment	—	—	(24)
Provision for loan losses	941	5,271	425
Increase in cash surrender value of life insurance	(350)	(359)	(366)
Net gain on sales of available-for-sale securities	—	(34)	(37)
Net gain on sales of mortgages	(55)	(55)	(367)
Change in mortgage servicing rights	77	112	(13)
Net loss on sales and write downs of other real estate owned	47	125	158
Loans originated for sale	(5,673)	(4,681)	(26,398)
Proceeds from loan sales	5,432	4,806	26,695
Deferred income taxes	(100)	(629)	196
Decrease in FDIC prepaid insurance	—	—	467
Decrease (increase) in other assets	437	(434)	(35)
(Increase) decrease in accrued interest receivable	(77)	18	(42)
Increase (decrease) in other liabilities	369	(248)	(2)
Stock option expense	109	140	118
Change in unearned compensation	498	496	515
Net cash provided by operating activities	5,357	4,653	4,788
Cash flows from investing activities:			
Purchase of premises and equipment	(357)	(375)	(439)
Net increase in loans	(62,798)	(40,619)	(21,650)
Proceeds from sales of other real estate owned	222	442	644
Proceeds from sales of available-for-sale securities	—	187	97
Purchases of held-to-maturity securities	—	—	(27,015)
Maturities of held-to-maturity securities	—	13,373	36,390
Proceeds from principal paydowns of held-to-maturity securities	1,517	1,486	1,595
Net (purchase) redemption of FHLB stock	(850)	—	362
Net cash used in investing activities	(62,266)	(25,506)	(10,016)
Cash flows from financing activities:			
Net increase (decrease) in deposits	23,552	33,791	(16,411)
Net decrease in securities sold under agreements to repurchase	—	—	(9,763)
Proceeds from long-term FHLB advances	38,100	33,000	21,000
Payments on long-term FHLB advances	(23,809)	(10,953)	(9,340)
Treasury stock purchased	(1,007)	(2,862)	(242)
Stock options exercised	11	141	299
Cash dividends paid on common stock	(1,478)	(1,410)	(1,008)
Net cash provided by (used in) financing activities	35,369	51,707	(15,465)

Net (decrease) increase in cash and cash equivalents	(21,540)	30,854	(20,693)
Cash and cash equivalents at beginning of year	49,769	18,915	39,608
Cash and cash equivalents at end of year	$28,229	$49,769	$18,915
Supplemental cash flow information:			
Interest paid on deposits	$2,806	$2,773	$3,635
Interest paid on borrowings	1,242	887	715
Income taxes paid	891	22	571
Transfers from loans to other real estate owned	655	1,211	636

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

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2015, 2014 and 2013

Nature of Business

Chicopee Bancorp, Inc. (the “Company”), a Massachusetts corporation, was formed on March 14, 2006 by Chicopee Savings Bank (the “Bank”) to become 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 Company provides a variety of financial services to individuals and businesses through its bank subsidiary, Chicopee Savings Bank. The Bank is a Massachusetts state-chartered savings bank operating eight full service branch offices and a lending and operation center in Western Massachusetts. The Bank’s primary source of revenue is earned by providing loans to small and middle-market businesses and to residential property homeowners. The Bank’s primary deposit products are savings and term certificate accounts.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The consolidated financial statements include the accounts of Chicopee Bancorp, Inc. and its wholly-owned subsidiaries, Chicopee Savings Bank and Chicopee Funding Corporation. The accounts of the Bank include all of its wholly-owned subsidiaries, Cabot Management Corporation, Cabot Realty, LLC, CSB Colts, Inc., and CSB Investment Corporation.

All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates

In preparing consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of servicing assets, the valuation of other real estate owned ("OREO"), and the determination of other-than-temporary impairment of investment securities (“OTTI”). In connection with the determination of the allowance for loan losses and the carrying value of OREO, management obtains independent appraisals for significant properties. While management uses available information to recognize losses on loans and OREO, future additions to the allowance for loan losses or future write-downs of OREO may be necessary based upon changes in economic and market conditions.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company’s allowance for loan losses and the valuation of its OREO. Such agencies may require the Company to recognize additions to the allowance for loan losses or write-down of OREO based upon their judgment about information available to them at the time of their examination.

Significant group concentrations of credit risk

The Company does not have any significant concentrations to any one industry or customer. Although the Company has a diversified loan portfolio, most of the Company’s activities are with customers located in Western Massachusetts. As a result, the Company and its borrowers may be especially vulnerable to the consequences of changes in the local economy.

Cash and cash equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, due from banks, interest-bearing deposits with the Federal Reserve Bank of Boston, short-term investments with original maturities of ninety days or less and federal funds sold. The Company’s due from bank accounts, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risk on cash and cash equivalents.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Securities not classified as held-to-maturity, including equity securities with readily determinable fair values, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Restricted stock is carried at cost and evaluated for impairment.

Purchase premiums and discounts are recognized in interest income over the period to call or maturity using a method which yields results that do not differ materially from those which would be recognized by use of the effective-yield method.

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

Other-than-temporary impairment of investment securities

One of the significant estimates related to investment securities is the evaluation of OTTI. The evaluation of securities for OTTI is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition and/or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period of unrealized losses. Securities that are in an unrealized loss position are reviewed at least monthly to determine if OTTI is present based on certain quantitative and qualitative factors and measures. The primary factors considered in evaluating whether a decline in the value of securities is other-than-temporary include: (a) the length of time and extent to which the fair value has been less than cost or amortized cost and the expected recovery period of the security, (b) the financial condition, credit rating and future prospects of the issuer, (c) whether the debtor is current on contractually obligated interest and principal payments, (d) the volatility of the security's market price, (e) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery, which may be at maturity and (f) any other information and observable data considered relevant in determining whether other-than-temporary impairment has occurred, including the expectation of receipt of all principal and interest due.

Federal Home Loan Bank stock

As a member of the Federal Home Loan Bank of Boston ("FHLB"), the Company is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted

market value and is carried at cost. At its discretion, the FHLB may declare dividends on its stock. The Company reviews its investment in FHLB stock for impairment based on the ultimate recoverability of the cost basis in the FHLB stock. As of December 31, 2015 and 2014, no impairment has been recognized.

Loans held for sale

Loans originated and intended for sale in the secondary market are carried at the lower of amortized cost or estimated fair value, as determined by current investor yield requirements, in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to non-interest income.

Loans

The Company grants residential real estate, commercial and consumer loans to customers. Residential real estate loans include residential loans secured by owner-occupied, first lien real estate and residential construction loans. Commercial loans include commercial real estate, commercial and industrial, commercial construction and residential investment loans. Consumer loans include second mortgages, home improvement loans, equity loans, automobile loans and, to a lesser extent, personal loans. For

purposes of evaluating the risk in the loan portfolio, management identified the following loan classes, which are used in evaluating the adequacy of the allowance for loan losses: residential real estate, residential construction, commercial real estate, commercial construction, commercial and industrial, consumer and home equity loans.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

Delinquency and nonaccrual

The Company considers all loan classes past due greater than 30 days delinquent based on the contractual terms of the loan and factored on a 30-day month. Management continuously monitors delinquency and nonaccrual levels and trends. The accrual of interest on residential real estate, commercial real estate, construction and commercial and industrial loans is discontinued at the earlier of when reasonable doubt exists as to the full collection of interest and principal or at the time the loan is 90 days past due or earlier if the loan is considered impaired. Other loans are typically charged off no later than 120 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis until qualifying for return to accrual status. Nonaccrual loans, including modified loans, are returned to accrual status when the borrower has shown the ability and an acceptable history of repayment and when subsequent performance reduces the concern as to the collectability of principal and interest. In order to demonstrate the ability and acceptable history of repayment, the borrower must be current with the payments in accordance with the loan terms for a minimum of six months as determined on a case-by-case basis.

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.

Residential loans. In general, one-to-four family residential loans and home equity loans that are delinquent 90 days or more are classified substandard. 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.

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.

Management believes the allowance for loan losses requires the most significant estimates and assumptions used in the preparation of the consolidated financial statements. The allowance for loan losses is based on management's evaluation of the level of the allowance required in relation to the probable loss exposure in the loan portfolio. The allowance for loan losses is evaluated on a regular basis by management. Qualitative factors or risks considered in evaluating the adequacy of the allowance for loan losses for all loan classes include historical loss experience; levels and trends in delinquencies, nonaccrual loans, impaired loans and net charge-offs; the character and size of the loan portfolio; effects of any changes in underwriting policies; experience of management and staff; current economic conditions and the effect on borrowers; effects of changes in credit concentrations; and management's estimation of probable losses. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard, special mention, or loss. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for

qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. There was no unallocated component of the allowance at December 31, 2015 and 2014.

There were no changes in the allowance for loan losses methodology during the years ended December 31, 2015 and 2014.

Impairment

Loans individually considered for impairment include all classes of commercial and residential, as well as home equity loans. These 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.

Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral, less costs to sell, if the loan is collateral dependent.

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.

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.

Other real estate owned

The Company classifies property acquired through foreclosure or acceptance of a deed-in-lieu of foreclosure as OREO in its consolidated financial statements. The Company generally obtains a new or updated valuation of OREO at the time of acquisition, including periodic reappraisals, at least annually, to ensure any material change in market conditions or the physical aspects of the property is recognized. When property is placed in OREO, it is recorded at fair value less estimated cost to sell at the date of foreclosure or acceptance of deed-in-lieu of foreclosure. At the time of transfer to OREO, any excess of carrying value over fair value less estimated cost to sell is charged to the allowance for loan losses. Management, or its designee, inspects all OREO property periodically. Holding costs and declines in fair value result in charges to expense after the property is acquired.

Loan servicing

The valuation of mortgage servicing rights is a critical accounting policy, which requires significant estimates and assumptions. The Company often sells mortgage loans it originates and retains the ongoing servicing of such loans, receiving a fee for these services, generally 1% of the outstanding balance of the loan per annum. Servicing assets are recognized at fair value as separate assets when servicing rights are acquired through the sale of loans. Capitalized servicing rights are amortized against non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Management uses an independent firm which specializes in the valuation of mortgage servicing rights to determine fair value. The most important assumption is the anticipated loan prepayment rate, and increases in prepayment speed result in lower valuations of mortgage servicing rights. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rate in increments of 50 basis points and term primarily of 15 and 30 years. Fair value is based upon discounted cash flows using market-based assumptions. Projected prepayments on the portfolio are estimated using the Public Securities Association Standard Prepayment Model. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum. The use of different assumptions could produce a different valuation. All of the assumptions are based on standards the Company believes would be utilized by market participants in valuing mortgage servicing rights and are consistently derived and/or benchmarked against independent public sources.

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Credit related financial instruments

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

Premises and equipment

Land is carried at cost. Buildings, leasehold improvements and equipment are stated at cost, less accumulated depreciation and amortization, computed on the straight-line method over the shorter of the estimated useful lives of the assets or the lease term. The cost of maintenance is expensed as incurred.

Income taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and certain carryforwards of losses and deductions that are available to offset future taxable income and gives current recognition to changes in tax rates and laws.

Employee stock ownership plan (“ESOP”)

Compensation expense is recognized as ESOP shares are committed to be released and is calculated based upon the average market price for the current year. Allocated and committed-to-be-released ESOP shares are considered outstanding for earnings per share calculations based on debt service payments. Other ESOP shares are excluded from earnings per share calculations. Dividends declared on allocated ESOP shares are charged to retained earnings. Dividends declared on unallocated ESOP shares are used to satisfy debt service. The value of unearned shares to be allocated to ESOP participants for future services not yet performed is reflected as a reduction of stockholders’ equity.

Equity Incentive Plan

The Company expenses compensation cost associated with share-based payment transactions, such as options and restricted stock awards, in the consolidated financial statements over the requisite service (vesting) period.

Advertising

Advertising costs are expensed as incurred.

Earnings (loss) per common share

Basic earnings (loss) per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. The adjusted outstanding common shares equals the gross number of common shares issued less treasury shares, unallocated shares of the Chicopee Savings Bank ESOP, and nonvested 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.

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and, therefore, are included in computing earnings per share pursuant to the two-class method. The two-class method determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings. The Company’s stock options and stock awards receive non-forfeitable dividends at the same rate as common stock. During the years ended December 31, 2015 and 2014, the Company paid cash dividends of $0.30 and $0.28 per share, respectively. There were no dividends paid prior to 2013. The first dividend was declared on January 20, 2013. The following table sets forth the computation of basic and diluted earnings per share under the two-class method:

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	Years Ended December 31,		
(In Thousands, except share data)	2015	2014	2013
Net income (loss)	$2,999	$(578)	$2,553
Weighted average number of common shares issued	7,439,368	7,439,368	7,439,368
Less: average number of treasury shares	(2,191,559)	(2,061,264)	(2,013,461)
Less: average number of unallocated ESOP shares	(327,332)	(357,089)	(386,848)
Less: average number of nonvested restricted stock awards	(475)	(875)	(1,276)
Adjusted weighted average number of common shares outstanding	4,920,002	5,020,140	5,037,783
Plus: dilutive nonvested restricted stock awards	240	—	395
Plus: dilutive outstanding stock options	75,895	—	91,349
Weighted average number of diluted shares outstanding	4,996,137	5,020,140	5,129,527
Net income (loss) per share:			
Basic- common stock	$0.61	$(0.12)	$0.51
Basic- unvested share-based payment awards	$0.61	$(0.12)	$0.51
Diluted- common stock	$0.60	$(0.12)	$0.50
Diluted- unvested share-based payment awards	$0.60	$(0.12)	$0.50

There were 87,000 and 97,000 stock options for the years ended December 31, 2015 and 2013, respectively, which were excluded from the diluted earnings per share because their effect is anti-dilutive. All common stock equivalents were excluded from shares outstanding in arriving at diluted earnings per share in 2014 because their effect is anti-dilutive due to the net loss.

Segment reporting

The Company’s operations are solely in the financial services industry and consist of providing traditional banking services to its customers. Management makes operating decisions and assesses performance based on an ongoing review of the Company’s consolidated financial results. Therefore, the Company has a single operating segment for financial reporting purposes.

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 for 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. 2014-12, 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. 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.

In January 2016, FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The ASU was issued to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. This ASU changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. The ASU also changes certain disclosure requirements and other aspects of U.S. GAAP, including a requirement for public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The ASU will not have a material effect on the Company's consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key

information about leasing arrangements. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of the adoption of the ASU on its consolidated financial statements.

Reclassifications

Certain amounts in the 2014 and 2013 financial statements have been reclassified to conform to the 2015 presentation.

2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Company is required to maintain average balances on hand or deposits with the Federal Reserve Bank of Boston. At December 31, 2015 and 2014, these reserve balances amounted to $7.0 million and $6.9 million, respectively, and are included in interest bearing deposits.

3. 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:

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities:				
Marketable equity securities	$369	$57	$—	$426
Total available-for-sale securities	$369	$57	$—	$426
Held-to-maturity securities:				
Corporate and industrial revenue bonds	$32,029	$700	$—	$32,729
Collateralized mortgage obligations	200	6	—	206
Total held-to-maturity securities	$32,229	$706	$—	$32,935
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

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	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 December 31, 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	Fair Value
	(In Thousands)	
Within 1 year	$—	$—
From 1 to 5 years	7,931	8,270
From 5 to 10 years	—	—
Over 10 years	24,298	24,665
Total	$32,229	$32,935

There were no sales of available-for-sale securities during the year ended December 31, 2015. During the years ended December 31, 2014 and 2013, proceeds from sales of available-for-sale securities amounted to $187,000 and $97,000, respectively. Gross realized gains of $34,000 and $37,000 were realized during the years ended December 31, 2014 and 2013, respectively. The tax provision applicable to these net realized gains in 2014 and 2013 was $12,000 and $13,000, respectively.

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 value of any security has declined below its cost or amortized cost and whether such decline is OTTI.

For the years ended December 31, 2015, 2014 and 2013, management determined that there were no securities other-than-temporarily impaired.

Unrealized Losses on Investment Securities

There were no continuous unrealized losses for the years ended December 31, 2015 and 2014, respectively.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

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Non-Marketable Securities

The Company is a member of the FHLB, 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. As of December 31, 2015 and 2014, the Company's investment in FHLB stock totaled $4.8 million and $3.9 million, 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 years ended December 31, 2015 and 2014, the Company received $109,000 and $58,000, 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 December 31, 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 balance sheets 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 December 31, 2015 and 2014, the Company's investment in BBN totaled $183,000. There have not been any impairment losses recorded through December 31, 2015 and the Company will continue to monitor its BBN stock investment.

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4. LOANS

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

	December 31, 2015		December 31, 2014	
	Amount	Percent of Total	Amount	Percent of Total
	(In Thousands)			
Real estate loans:				
Residential real estate[1]	$127,610	21.8 %	$118,692	22.7 %
Home equity	39,554	6.8 %	34,508	6.6 %
Commercial	287,849	49.1 %	249,632	47.7 %
Total	455,013	77.7 %	402,832	77.0 %
Construction-residential	8,490	1.5 %	8,129	1.6 %
Construction-commercial	48,128	8.2 %	35,786	6.8 %
Total construction	56,618	9.7 %	43,915	8.4 %
Total real estate loans	511,631	87.4 %	446,747	85.4 %
Consumer loans	2,516	0.4 %	2,662	0.5 %
Commercial and industrial loans	71,530	12.2 %	74,331	14.1 %
Total loans	585,677	100.0 %	523,740	100.0 %
Deferred loan origination costs, net	897		944	
Allowance for loan losses	(5,615)		(4,927)	
Loans, net	$580,959		$519,757	

[1] Excludes loans held for sale of $296,000 at December 31, 2015.

Risk characteristics

Residential real estate includes loans which 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 include the 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 adverse

conditions in the real estate market or the economy to a greater extent than residential real estate loans.

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 high 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 these loans may depend substantially on the success of the business itself. 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.

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 assets 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 pass and nonperforming risk ratings. Substandard residential loans are loans that are on nonaccrual status and 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.

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The following table presents an analysis of total loans segregated by risk rating and class at December 31, 2015:

	Commercial Credit Risk Exposure			
	Commercial and Industrial	Commercial Construction	Commercial Real Estate	Total
	(In Thousands)			
Pass	$63,499	$42,585	$275,628	$381,712
Special mention	4,163	5,330	8,454	17,947
Substandard	3,868	213	3,767	7,848
Doubtful	—	—	—	—
Loss	—	—	—	—
Total commercial loans	$71,530	$48,128	$287,849	$407,507

	Residential Credit Risk Exposure		
	Residential Real Estate	Residential Construction	Total
	(In Thousands)		
Pass	$123,697	$8,490	$132,187
Nonperforming	3,913	—	3,913
Total residential loans	$127,610	$8,490	$136,100

	Consumer Credit Risk Exposure		
	Consumer	Home Equity	Total
	(In Thousands)		
Performing	$2,516	$39,366	$41,882
Nonperforming	—	188	188
Total consumer loans	$2,516	$39,554	$42,070

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

	Commercial Credit Risk Exposure			
	Commercial and Industrial	Commercial Construction	Commercial Real Estate	Total
	(In Thousands)			
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
Doubtful	—	—	—	—
Loss	—	—	—	—
Total commercial loans	$74,331	$35,786	$249,632	$359,749

	Residential Credit Risk Exposure		
	Residential Real Estate	Residential Construction	Total
	(In Thousands)		
Pass	$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	Home Equity	Total
	(In Thousands)		
Performing	$2,630	$34,159	$36,789
Nonperforming	32	349	381
Total consumer loans	$2,662	$34,508	$37,170

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The following table presents the allowance for loan losses and select loan information as of and for the year ended December 31, 2015:

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial and Industrial	Consumer	Home Equity	Total
Allowance for loan losses:	(In Thousands)							
Balance as of December 31, 2014	$ 486	$ 107	$ 2,699					