CHICOPEE BANCORP, INC.
Form 10-Q
November 10, 2014

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

FORM 10-Q

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from __________________ to _________________

Commission File Number: 000-51996

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

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

| 70 Center Street, Chicopee, Massachusetts | 01013 |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

(413) 594-6692
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [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 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

| Large Accelerated Filer [ ] | Accelerated Filer [X] |
|---|---|
| Non-Accelerated Filer [ ] | Smaller Reporting Company [ ] |

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

As of November 7, 2014, there were 5,310,670 shares of the Registrant's Common Stock outstanding.

---

CHICOPEE BANCORP, INC.
FORM 10-Q
INDEX


| | | Page |
|---|---|---|
| PART I. FINANCIAL INFORMATION | | |
| Item 1. | Financial Statements | |
| | Consolidated Statements of Financial Condition at September 30, 2014 and December 31, 2013 | 1 |
| | Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013 | 2 |
| | Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2014 and 2013 | 3 |
| | Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2014 and 2013 | 4 |
| | Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013 | 5 |
| | Notes to Unaudited Consolidated Financial Statements | 6 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 34 |
| Item 3. | Quantitative and Qualitative Disclosures about Market Risk | 52 |
| Item 4. | Controls and Procedures | 54 |
| PART II. OTHER INFORMATION | | |
| Item 1. | Legal Proceedings | 54 |
| Item 1A. | Risk Factors | 54 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 54 |
| Item 3. | Defaults Upon Senior Securities | 55 |
| Item 4. | Mine Safety Disclosures | 55 |
| Item 5. | Other Information | 55 |
| Item 6. | Exhibits | 56 |
| SIGNATURES | | 57 |

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars In Thousands)
(Unaudited)

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $13,062 | $9,100 |
| Federal funds sold | 2,650 | 426 |
| Interest-bearing deposits with the Federal Reserve Bank of Boston | 29,671 | 9,389 |
| Total cash and cash equivalents | 45,383 | 18,915 |
| | | |
| Available-for-sale securities, at fair value | 383 | 602 |
| Held-to-maturity securities, at cost (fair value of $33,284 at September 30, 2014 and $49,338 at December 31, 2013) | 34,298 | 48,606 |
| Federal Home Loan Bank stock, at cost | 3,914 | 3,914 |
| Loans (net of allowance for loan losses of $4,922 at September 30, 2014 and $4,596 at December 31, 2013) | 509,714 | 485,619 |
| Loans held for sale | — | 70 |
| Other real estate owned | 1,121 | 407 |
| Mortgage servicing rights | 304 | 381 |
| Bank owned life insurance | 14,441 | 14,173 |
| Premises and equipment, net | 8,951 | 9,181 |
| Accrued interest and dividends receivable | 1,604 | 1,609 |
| Deferred income tax asset | 3,065 | 3,042 |
| Other assets | 2,635 | 1,208 |
| Total assets | $625,813 | $587,727 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits | | |
| Demand deposits | $106,620 | $90,869 |
| NOW accounts | 41,938 | 40,774 |
| Savings accounts | 50,717 | 49,755 |
| Money market deposit accounts | 114,238 | 111,126 |
| Certificates of deposit | 157,136 | 157,242 |
| Total deposits | 470,649 | 449,766 |
| | | |
| Federal Home Loan Bank advances | 66,007 | 44,992 |
| Accrued expenses and other liabilities | 533 | 739 |
| Total liabilities | 537,189 | 495,497 |
| | | |
| Stockholders' equity | | |
| Common stock (no par value, 20,000,000 shares authorized, 7,439,368 shares issued; 5,310,670 and 5,435,885 shares outstanding at September 30, 2014 and December 31, 2013, respectively) | 72,479 | 72,479 |

| | | |
|---|---|---|
| Treasury stock, at cost (2,128,698 and 2,003,483 shares at September 30, 2014 and December 31, 2013, respectively) | (28,467 ) | (26,435 ) |
| Additional paid-in-capital | 3,505 | 3,299 |
| Unearned compensation (restricted stock awards) | (8 ) | (12 ) |
| Unearned compensation (Employee Stock Ownership Plan) | (3,348 ) | (3,571 ) |
| Retained earnings | 44,454 | 46,418 |
| Accumulated other comprehensive income | 9 | 52 |
| Total stockholders' equity | 88,624 | 92,230 |
| Total liabilities and stockholders' equity | $625,813 | $587,727 |

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except for Number of Shares and Per Share Amounts)
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Interest and dividend income: | | | | |
| Loans, including fees | $5,539 | $5,272 | 16,115 | 16,080 |
| Interest and dividends on securities | 390 | 424 | 1,204 | 1,275 |
| Interest on other interest-earning assets | 5 | 14 | 23 | 44 |
| Total interest and dividend income | 5,934 | 5,710 | 17,342 | 17,399 |
| | | | | |
| Interest expense: | | | | |
| Deposits | 670 | 899 | 2,089 | 2,823 |
| Securities sold under agreements to repurchase | — | 2 | — | 9 |
| Federal Home Loan Bank advances | 243 | 168 | 672 | 537 |
| Total interest expense | 913 | 1,069 | 2,761 | 3,369 |
| | | | | |
| Net interest income | 5,021 | 4,641 | 14,581 | 14,030 |
| Provision for loan losses | 227 | 212 | 5,202 | 270 |
| Net interest income, after provision for loan losses | 4,794 | 4,429 | 9,379 | 13,760 |
| | | | | |
| Non-interest income: | | | | |
| Service charges, fees and commissions | 744 | 695 | 1,806 | 1,689 |
| Net loan sales and servicing | 58 | 70 | 167 | 559 |
| Net gain on sales of available-for-sale securities | — | — | 34 | — |
| Net gain (loss) on sale of other real estate owned | 6 | (93) | (3) | (154) |
| OREO writedowns | — | — | (72) | — |
| Income from bank owned life insurance | 91 | 92 | 268 | 275 |
| Other non-interest income | — | — | — | 24 |
| Total non-interest income | 899 | 764 | 2,200 | 2,393 |
| | | | | |
| Non-interest expenses: | | | | |
| Salaries and employee benefits | 2,492 | 2,564 | 7,481 | 7,656 |
| Occupancy expenses | 371 | 390 | 1,181 | 1,169 |
| Furniture and equipment | 182 | 194 | 534 | 633 |
| FDIC insurance assessment | 116 | 53 | 307 | 179 |
| Data processing services | 339 | 316 | 1,045 | 928 |
| Professional fees | 271 | 159 | 628 | 528 |
| Advertising expense | 140 | 164 | 473 | 456 |
| Stationery, supplies and postage | 65 | 62 | 193 | 212 |
| Foreclosure expense | 139 | 61 | 385 | 84 |
| Other non-interest expense | 622 | 542 | 1,823 | 1,949 |
| Total non-interest expenses | 4,737 | 4,505 | 14,050 | 13,794 |
| | | | | |
| Income (loss) before income taxes | 956 | 688 | (2,471) | 2,359 |
| Income tax expense (benefit) | 434 | 115 | (1,595) | 476 |
| Net income (loss) | $522 | $573 | (876) | 1,883 |

| | | | | |
|---|---|---|---|---|
| Earnings (loss) per share: | | | | |
| Basic | $0.10 | $0.11 | $(0.17) | $0.37 |
| Diluted | $0.10 | $0.11 | $(0.17) | $0.37 |
| | | | | |
| Adjusted weighted average shares outstanding: | | | | |
| Basic | 5,002,195 | 5,035,488 | 5,050,019 | 5,038,735 |
| Diluted | 5,056,621 | 5,138,815 | 5,130,282 | 5,125,438 |

See accompanying notes to unaudited consolidated financial statements.

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

| | Three Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| Net income | $522 | $573 |
| | | |
| Other comprehensive (loss) income, net of tax | | |
| Unrealized holding (losses) gains arising during period on investment securities available-for-sale | (23) | 29 |
| Tax effect | 8 | (10) |
| Other comprehensive (loss) income, net of tax | (15) | 19 |
| Comprehensive income | $507 | $592 |

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| Net (loss) income | $(876) | $1,883 |
| | | |
| Other comprehensive (loss) income, net of tax | | |
| Unrealized holding (losses) gains arising during period on investment securities available-for-sale | (32) | 10 |
| Reclassification adjustment for gains realized in net income (1) | (34) | — |
| Tax effect | 23 | (3) |
| Other comprehensive (loss) income, net of tax | (43) | 7 |
| Comprehensive (loss) income | $(919) | $1,890 |

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

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 2014 and 2013
(Dollars In Thousands)
(Unaudited)

| | Common Stock | Treasury Stock | Additional Paid-in Capital | Unearned Compensation (restricted stock awards) | Unearned Compensation (Employee Stock Ownership Plan) | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2013 | $72,479 | $(26,435) | $3,299 | $ (12) | $ (3,571) | $46,418 | $ 52 | $92,230 |
| Comprehensive loss: | | | | | | | | |
| Net loss | — | — | — | — | — | (876) | — | (876) |
| Change in net unrealized gain on available-for-sale securities (net of deferred income taxes of $23) | — | — | — | — | — | — | (43) | (43) |
| Total comprehensive loss | | | | | | | | (919) |
| Treasury stock purchased (134,915 shares) | — | (2,210) | — | — | — | — | — | (2,210) |
| Stock options exercised (9,700 shares) | — | 178 | (37) | — | — | — | — | 141 |
| Stock option expense | — | — | 90 | — | — | — | — | 90 |
| Change in unearned compensation: | | | | | | | | |
| Restricted stock award expense | — | — | — | 4 | — | — | — | 4 |
| Common stock held by ESOP committed to be released | — | — | 153 | — | 223 | — | — | 376 |
| Cash dividends declared ($0.21 per share) | — | — | — | — | — | (1,088) | — | (1,088) |
| Balance at September 30, 2014 | $72,479 | $(28,467) | $3,505 | $ (8) | $ (3,348) | $44,454 | $ 9 | $88,624 |
| Balance at December 31, 2012 | $72,479 | $(26,567) | $3,044 | $ (18) | $ (3,868) | $44,873 | $ 26 | $89,969 |
| Comprehensive income: | | | | | | | | |
| Net income | — | — | — | — | — | 1,883 | — | 1,883 |
| | — | — | — | — | — | — | 7 | 7 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Change in net unrealized gain on available-for-sale securities (net of deferred income taxes of $3) | | | | | | | | |
| Total comprehensive income | | | | | | | | 1,890 |
| Stock option expense | — | — | 94 | — | — | — | — | 94 |
| Treasury stock purchased (13,700 shares) | — | (242) | — | — | — | — | — | (242) |
| Change in unearned compensation: | | | | | | | | |
| Restricted stock award expense | — | — | — | 4 | — | — | — | 4 |
| Common stock held by ESOP committed to be released | — | — | 156 | — | 223 | — | — | 379 |
| Cash dividends declared ($0.15 per share) | — | — | — | — | — | (814) | — | (814) |
| Balance at September 30, 2013 | $72,479 | $(26,809) | $3,294 | $(14) | $(3,645) | $45,942 | $33 | $91,280 |

See accompanying notes to unaudited consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| Cash flows from operating activities: | (In Thousands) | |
| Net (loss) income | $(876) | $1,883 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 525 | 562 |
| Gain on disposal of premises and equipment | — | (24) |
| Provision for loan losses | 5,202 | 270 |
| Increase in cash surrender value of life insurance | (268) | (275) |
| Net realized gain on sales of securities available-for-sale | (34) | — |
| Realized gains on sales of mortgage loans | (50) | (344) |
| Change in mortgage servicing rights | 77 | (54) |
| (Increase) decrease in other assets | (1,427) | 81 |
| Decrease (increase) in accrued interest and dividends receivable | 5 | (46) |
| Decrease in FDIC prepaid insurance | — | 467 |
| Loans originated for sale | (4,288) | (24,199) |
| Proceeds from loan sales | 4,408 | 24,408 |
| Net loss on sales and write-downs of other real estate owned | 75 | 154 |
| (Decrease) increase in other liabilities | (205) | 197 |
| Change in unearned compensation | 380 | 383 |
| Stock option expense | 90 | 94 |
| Net cash provided by operating activities | 3,614 | 3,557 |
| | | |
| Cash flows from investing activities: | | |
| Purchase of premises and equipment | (295) | (268) |
| Loan originations, net of principal payments | (30,461) | 3,150 |
| Proceeds from sales of other real estate owned | 376 | 401 |
| Proceeds from sales of securities available-for-sale | 187 | — |
| Purchases of held-to-maturity securities | — | (27,015) |
| Maturities of held-to-maturity securities | 13,373 | 30,390 |
| Proceeds from principal paydowns of held-to-maturity securities | 934 | 1,079 |
| Proceeds from sale of Federal Home Loan Bank stock | — | 362 |
| Net cash (used) provided by investing activities | (15,886) | 8,099 |
| | | |
| Cash flows from financing activities: | | |
| Net increase in deposits | 20,882 | 18,336 |
| Decrease in repurchase agreements | — | (7,969) |
| Proceeds from long-term FHLB advances | 29,500 | — |
| Repayments of long-term FHLB advances | (8,485) | (6,984) |
| Treasury stock purchased | (2,210) | (242) |
| Cash dividends paid on common stock | (1,088) | (814) |
| Stock options exercised | 141 | — |
| Net cash provided by financing activities | 38,740 | 2,327 |
| | | |
| Net increase in cash and cash equivalents | 26,468 | 13,983 |

| | | |
|---|---|---|
| Cash and cash equivalents at beginning of year | 18,915 | 39,608 |
| Cash and cash equivalents at end of period | $45,383 | $53,591 |
| Supplemental cash flow information: | | |
| Interest paid on deposits | $2,089 | $2,823 |
| Interest paid on borrowings | 654 | 556 |
| Income taxes paid | 17 | 346 |
| Transfers from loans to other real estate owned | 1,166 | 483 |

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
September 30, 2014 and 2013

1. Basis of Presentation

Chicopee Bancorp, Inc. (the “Corporation”) has no significant assets other than all of the outstanding shares of its wholly-owned subsidiaries, Chicopee Savings Bank (the “Bank”) and Chicopee Funding Corporation (collectively, the “Company”). The Corporation was formed on March 14, 2006 and became the holding company for the Bank upon completion of the Bank’s conversion from a mutual savings bank to a stock savings bank. The conversion of the Bank was completed on July 19, 2006. The accounts of the Bank include its wholly-owned subsidiaries and a 99% owned subsidiary. The consolidated financial statements of the Company as of September 30, 2014 and for the periods ended September 30, 2014 and 2013 included herein are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of the financial condition, results of operations, changes in stockholders’ equity and cash flows, as of and for the periods covered herein, have been made. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2013 included in the Company’s Annual Report on Form 10-K.

The results for the three and nine month interim periods ended September 30, 2014 are not necessarily indicative of the operating results for a full year.

2. Earnings (Loss) Per Share

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| ($ in thousands, except share data ) | 2014 | 2013 | 2014 | 2013 |
| Net income (loss) | $522 | $573 | $(876) | $1,883 |
| Average number of shares issued | 7,439,368 | 7,439,368 | 7,439,368 | 7,439,368 |
| Less: average number of treasury shares | (2,079,284) | (2,015,832) | (2,031,360) | (2,012,484) |
| Less: average number of unallocated ESOP shares | (357,089) | (386,848) | (357,089) | (386,848) |
| Less: average number of dilutive restricted stock awards | (800) | (1,200) | (900) | (1,301) |
| Adjusted weighted average number of common shares outstanding | 5,002,195 | 5,035,488 | 5,050,019 | 5,038,735 |
| Plus: dilutive outstanding restricted stock awards | 247 | 377 | 292 | 370 |
| Plus: dilutive outstanding stock options | 54,179 | 102,950 | 79,971 | 86,333 |
| Weighted average number of diluted shares outstanding | 5,056,621 | 5,138,815 | 5,130,282 | 5,125,438 |

| Earnings (loss) per share: | | | | |
|---|---|---|---|---|
| Basic-common stock | $0.10 | $0.11 | $(0.17 ) | $0.37 |
| Basic-unvested share-based payment awards | $0.10 | $0.11 | $(0.17 ) | $0.37 |
| Diluted-common stock | $0.10 | $0.11 | $(0.17 ) | $0.37 |
| Diluted-unvested share-based payment awards | $0.10 | $0.11 | $(0.17 ) | $0.37 |

6

There were 97,000 stock options that were not included in the calculation of diluted earnings per share for the three months ended September 30, 2014. Given the loss for the nine months ended September 30, 2014, diluted loss per share did not differ from basic loss per share as all potential shares were anti-dilutive. There were 100,000 stock options that were not included in the calculation of diluted earnings per share for the three and nine months ended September 30, 2013 because the effect was anti-dilutive.

3. Equity Incentive Plan

Stock Options

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

The Company recognizes compensation expense over the vesting period, based on the grant-date fair value of the options granted. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for options granted during the year ended December 31, 2013. There were no stock options granted during the nine months ended September 30, 2014.

| | Year Ended December 31, 2013 | |
|---|---|---|
| Expected dividend yield | 1.39 | % |
| Weighted average expected term | 6.5 years | |
| Weighted average expected volatility | 24.06 | % |
| Weighted average risk-free interest rate | 1.25 | % |

Expected volatility is based on the historical volatility of the Company's stock and other factors. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The Company uses historical data, such as option exercise and employee termination rates, to calculate the expected option life.

A summary of options under the Plan as of September 30, 2014 and changes during the nine months ended September 30, 2014, is as follows:

| | Number of Shares | | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (000's) |
|---|---|---|---|---|---|
| Outstanding at December 31, 2013 | 668,598 | | $14.58 | 4.61 | $1,894 |
| Granted | — | | — | — | — |
| Exercised | (9,700 | ) | 14.51 | 3.95 | — |
| Forfeited or expired | (5,800 | ) | 15.82 | 8.01 | — |
| Outstanding at September 30, 2014 | 653,098 | | $14.57 | 4.08 | $391 |

| | | | | |
|---|---|---|---|---|
| Exercisable at September 30, 2014 | 539,397 | $14.33 | 3.28 | $358 |
| Exercisable at September 30, 2013 | 534,598 | $14.26 | 3.99 | $1,790 |

The weighted-average grant-date fair value of options granted during 2013 was $3.59. The weighted-average grant-date fair value of the options outstanding and exercisable at September 30, 2014 was $3.81 and $3.87, respectively. For the nine months ended September 30, 2014, share based compensation expense applicable to options granted under the Plan was $90,000. For the nine months ended September 30, 2013, share based compensation expense applicable to options granted

7

under the Plan was $94,000. As of September 30, 2014, unrecognized stock-based compensation expense related to non-vested options amounted to $314,000. This amount is expected to be recognized over a period of 2.86 years.

Stock Awards

The Plan provides that the Company may grant stock awards to its directors, officers and employees for up to 297,574 shares of common stock. The stock awards vest 20% per year beginning on the first anniversary of the date of grant. The fair market value of the stock awards, based on the market price at the date of grant, is recorded as unearned compensation. Unearned compensation is amortized over the applicable vesting period. The weighted-average grant-date fair value of stock awards as of September 30, 2014 is $14.08. The Company recorded compensation cost related to stock awards of approximately $4,000 for the nine months ended September 30, 2014 and for the nine months ended September 30, 2013. There were no stock awards granted prior to July 1, 2007. There were no stock awards granted by the Company during the nine months ended September 30, 2014. The Company granted 2,000 stock awards during the year ended December 31, 2011 with a grant price of $14.08. As of September 30, 2014, unrecognized stock-based compensation expense related to non-vested restricted stock awards amounted to $8,000. This amount is expected to be recognized over a period of 1.44 years.

A summary of the status of the Company’s stock awards as of September 30, 2014, and changes during the nine months ended September 30, 2014, is as follows:

| Nonvested Shares | Number of Shares | Weighted Average Grant-Date Fair Value |
|---|---|---|
| Outstanding at December 31, 2013 | 1,200 | $14.08 |
| Granted | — | — |
| Vested | 400 | 14.08 |
| Forfeited | — | — |
| Outstanding at September 30, 2014 | 800 | $14.08 |

4. Long-term Incentive Plan

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

A total of 150,000 phantom stock units will be available for awards under the Phantom Stock Plan. The only awards that may be granted under the Phantom Stock Plan are Phantom Stock Units. A Phantom Stock Unit represents the right to receive a cash payment on the determination date equal to the book value of a share of the Company’s stock on the determination date. The settlement of a Phantom Stock Unit on the determination date shall be in cash. Unless the Compensation Committee of the Board of Directors of the Company determines otherwise, the required period of service for full vesting will be three years. The Company's total expense under the Phantom Stock Plan for the nine months ended September 30, 2014 and 2013, was $14,000 and $11,000, respectively. For the nine months ended September 30, 2014 and 2013, there were 4,074 and 2,942 phantom stock units granted, respectively.

5. Recent Accounting Pronouncements (Applicable to the Company)

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

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The ASU was issued to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards. The ASU is effective for annual reporting periods beginning after December 15, 2016, 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, the FASB issued ASU No. 2014-11, Transfers and Servicing: Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The ASU was issued to respond to concerns about current accounting and disclosures for repurchase agreements and similar transactions. The concern was that under current accounting guidance there is an unnecessary distinction between the accounting for different types of repurchase agreements. Under current guidance, the repurchase-to-maturity transactions are accounted for as sales with forward agreements, whereas repurchase agreements that settle before the maturity of the transferred financial asset are accounted for as secured borrowings. The ASU amendments require new disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secure borrowings. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The ASU will not have a material effect on the Company’s consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, Compensation - Stock Compensation: 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.

6. Investment Securities

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

| | September 30, 2014 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (In Thousands) | | | |
| Available-for-sale securities | | | | |
| Marketable equity securities | $369 | $14 | $— | $383 |
| Total available-for-sale securities | $369 | $14 | $— | $383 |
| | | | | |
| Held-to-maturity securities | | | | |
| Corporate and industrial revenue bonds | $33,841 | $60 | $(1,093) | $32,808 |
| Collateralized mortgage obligations | 457 | 19 | — | 476 |
| Total held-to-maturity securities | $34,298 | $79 | $(1,093) | $33,284 |
| | | | | |
| 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 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (In Thousands) | | | |
| Available-for-sale securities | | | | |
| Marketable equity securities | $522 | $80 | $— | $602 |
| Total available-for-sale securities | $522 | $80 | $— | $602 |
| | | | | |
| Held-to-maturity securities | | | | |
| U.S. Treasury securities | $5,000 | $— | $— | $5,000 |
| Corporate and industrial revenue bonds | 34,588 | 681 | — | 35,269 |
| Certificates of deposit | 8,373 | 15 | — | 8,388 |
| Collateralized mortgage obligations | 645 | 36 | — | 681 |
| Total held-to-maturity securities | $48,606 | $732 | $— | $49,338 |
| | | | | |
| Non-marketable securities | | | | |
| Federal Home Loan Bank stock | $3,914 | $— | $— | $3,914 |
| Banker's Bank Northeast stock | 183 | — | — | 183 |
| Total non-marketable securities | $4,097 | $— | $— | $4,097 |

The amortized cost and estimated fair value of debt securities by contractual maturity at September 30, 2014 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) | |
| Due in one year or less | $— | $— |
| Due after one year through five years | 457 | 476 |
| Due after five years through ten years | 7,919 | 7,979 |
| Due after ten years | 25,922 | 24,829 |
| | $34,298 | $33,284 |

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

Unrealized Losses on Investment Securities
Management conducts, at least on a monthly basis, a review of its investment portfolio including available-for-sale and held-to-maturity securities to determine if the fair value of any security has declined below its cost or amortized cost and whether such security is other-than-temporarily impaired. Securities are evaluated individually based on guidelines established by the FASB and the internal policy of the Company and include but are not limited to: (1) intent and ability of the Company to retain the investment for a period of time sufficient to allow for the anticipated recovery in fair value; (2) percentage and length of time which an issue is below book value; (3) financial condition and near-term prospects of the issuer; (4) whether the debtor is current on contractually obligated interest and principal payments; (5) the volatility of the market price of the security; and (6) 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.

There were no unrealized losses as of September 30, 2014 and December 31, 2013.

U.S. Treasury Securities
The Company did not hold U.S. Treasury securities at September 30, 2014. There were no unrealized losses within the U.S. Treasury securities portfolio at December 31, 2013.

Collateralized Mortgage Obligations (“CMO”)
As of September 30, 2014 and December 31, 2013, there were no unrealized losses within the CMO portfolio. The portfolio ended with an unrealized gain of $19,000 and $36,000 as of September 30, 2014 and December 31, 2013, respectively. As of September 30, 2014, the Company had six CMO bonds, or eight individual issues, with an aggregate book value of $457,300. Since the purchase of these bonds, interest payments have been current and the Company expects to receive all principal and interest due.

As of December 31, 2013, the Company had eight CMO bonds, or six individual issues, with an aggregate book value of $645,000. Since the purchase of these bonds, interest payments have been current and the Company expects to receive all principal and interest due.

Corporate and Industrial Revenue Bonds
The Company had six tax-exempt industrial revenue bonds ("IRB"), with an aggregate book value of $33.8 million and $34.6 million at September 30, 2014 and December 31, 2013, respectively . The portfolio ended with unrealized loss of $1.1 million as of September 30, 2014 and unrealized gains of $60,000 and $681,000 as of September 30, 2014 and December 31, 2013, respectively. The unrealized loss is attributable to current market interest rates and not credit

risk with the issuer. As of December 31, 2013, there were no unrealized losses within the corporate industrial revenue bond category.

Marketable Equity Securities

As of September 30, 2014 and December 31, 2013 there were no unrealized losses within the marketable equity securities portfolio, and the portfolio ended the period with a net unrealized gain of $13,600 and $80,000, respectively.

Non-Marketable Securities

The Company is a member of the Federal Home Loan Bank of Boston (“FHLB”). The FHLB is a cooperatively owned wholesale bank for housing and finance in the six New England States. Its mission is to support the residential mortgage and community development lending activities of its members, which include over 450 financial institutions across New England. As a requirement of membership in the FHLB, the Company must own a minimum required amount of FHLB stock, calculated periodically based

primarily on the Company's level of borrowings from the FHLB. The Company uses the FHLB for much of its wholesale funding needs. The Company's investment in FHLB stock totaled $3.9 million as of September 30, 2014 and December 31, 2013.

FHLB stock is a non-marketable equity security and therefore is reported at cost, which equals par value. Shares held in excess of the minimum required amount are generally redeemable at par value. For the nine months ended September 30, 2014 and for the year ended December 31, 2013, the Company received $44,000 and $15,000, respectively, in dividend income from its FHLB stock investment.

The Company periodically evaluates its investment in FHLB stock for impairment based on, among other factors, the capital adequacy of the FHLB and its overall financial condition. There have not been any impairment losses recorded through September 30, 2014 and the Company will continue to monitor its FHLB stock investment.

Banker's Bank Northeast (BBN) stock is reported under other assets on the Statement of Financial Condition and is carried at cost. The BBN stock investment is evaluated for impairment based on an estimate of the ultimate recovery to par value. As of September 30, 2014 and December 31, 2013, the Company's investment in BBN totaled $183,000. There have not been any impairment losses recorded through September 30, 2014 and the Company will continue to monitor its BBN stock investment.

7. Loans and Allowance for Loan Losses

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

| | September 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Amount | Percent of Total | Amount | Percent of Total |
| | (Dollars In Thousands) | | | |
| Real estate loans: | | | | |
| Residential(1) | $115,759 | 22.5 % | $112,524 | 23.0 % |
| Home equity | 32,922 | 6.4 % | 32,091 | 6.6 % |
| Commercial | 229,525 | 44.7 % | 211,161 | 43.1 % |
| Total | 378,206 | 73.6 % | 355,776 | 72.7 % |
| Construction-residential | 8,406 | 1.6 % | 6,130 | 1.3 % |
| Construction-commercial | 45,163 | 8.9 % | 38,441 | 7.9 % |
| Total | 53,569 | 10.5 % | 44,571 | 9.2 % |
| Total real estate loans | 431,775 | 84.1 % | 400,347 | 81.9 % |
| Consumer loans | 2,641 | 0.5 % | 2,405 | 0.4 % |
| Commercial and industrial loans | 79,291 | 15.4 % | 86,540 | 17.7 % |
| Total loans | 513,707 | 100.0 % | 489,292 | 100.0 % |
| Deferred loan origination costs, net | 929 | | 923 | |
| Allowance for loan losses | (4,922) | | (4,596) | |
| Loans, net | $509,714 | | $485,619 | |

(1) Excludes loans held for sale of $70,000 at December 31, 2013.

The Company has transferred a portion of its originated commercial real estate and commercial loans to participating lenders. The amounts transferred have been accounted for as sales and therefore not included in the Company's consolidated statements of financial condition. The Company and participating lenders share proportionally, based on participating agreements, any gains or losses that may result from the borrowers lack of compliance with the terms of the loan. The Company continues to service the loans on behalf of the participating lenders. At September 30, 2014 and December 31, 2013, the Company was servicing loans for participating lenders totaling $18.0 million and $13.7 million, respectively.

In accordance with the Company's asset/liability management strategy and in an effort to reduce interest rate risk, the Company continues to sell fixed rate, low coupon residential real estate loans to the secondary market. The Company sold $4.4 million and $24.1 million in residential real estate loans to the secondary market during the nine month periods ended September 30, 2014 and 2013, respectively. The unpaid principal balance of residential real estate loans serviced for others was $94.0 million at September 30, 2014 and $97.6 million at December 31, 2013. Management expects to continue to retain servicing rights on all loans written and sold in the secondary market.

Credit Quality

To evaluate the risk in the loan portfolio, internal credit risk ratings are used for the following loan segments: commercial real estate, commercial construction and commercial. The risks evaluated in determining an adequate credit risk rating include the financial strength of the borrower and the collateral securing the loan. All commercial real estate, commercial construction and commercial 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, substandard, doubtful and loss. At least quarterly, classified assets are reviewed by management. Credit risk ratings are updated as soon as information is obtained that indicates a change in the credit risk rating may be warranted.

The following describes the classified credit risk ratings:

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.

Residential real estate and residential construction loans are categorized into pass and substandard risk ratings. Substandard residential loans are loans that are usually 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 table presents an analysis of total loans segregated by risk rating and segment as of September 30, 2014:

| | Commercial Credit Risk Exposure | | | |
|---|---|---|---|---|
| | Commercial and Industrial | Commercial Construction | Commercial Real Estate | Total |
| | (In Thousands) | | | |
| Pass | $63,959 | $36,117 | $215,936 | $316,012 |
| Special mention | 13,154 | 5,916 | 8,829 | 27,899 |
| Substandard | 2,178 | 3,130 | 4,760 | 10,068 |
| Total commercial loans | $79,291 | $45,163 | $229,525 | $353,979 |

| | Residential Credit Risk Exposure | | |
|---|---|---|---|
| | Residential Real Estate | Residential Construction | Total |
| | (In Thousands) | | |
| Performing | $111,518 | $8,406 | $119,924 |
| Substandard | 4,241 | — | 4,241 |
| Total residential loans | $115,759 | $8,406 | $124,165 |

| | Consumer Credit Risk Exposure | | |
|---|---|---|---|
| | Consumer | Home Equity | Total |
| | (In Thousands) | | |
| Performing | $2,641 | $32,553 | $35,194 |
| Nonperforming | — | 369 | 369 |
| Total consumer loans | $2,641 | $32,922 | $35,563 |

14

The following table presents an analysis of total loans segregated by risk rating and segment as of December 31, 2013:

| | Commercial Credit Risk Exposure | | | |
|---|---|---|---|---|
| | Commercial and Industrial | Commercial Construction | Commercial Real Estate | Total |
| | (In Thousands) | | | |
| Pass | $77,483 | $27,969 | $200,096 | $305,548 |
| Special mention | 4,050 | 6,584 | 3,594 | 14,228 |
| Substandard | 5,007 | 3,888 | 7,471 | 16,366 |
| Total commercial loans | $86,540 | $38,441 | $211,161 | $336,142 |

| | Residential Credit Risk Exposure | | |
|---|---|---|---|
| | Residential Real Estate | Residential Construction | Total |
| | (In Thousands) | | |
| Performing | $110,109 | $6,130 | $116,239 |
| Substandard | 2,415 | — | 2,415 |
| Total residential loans | $112,524 | $6,130 | $118,654 |

| | Consumer Credit Risk Exposure | | |
|---|---|---|---|
| | Consumer | Home Equity | Total |
| | (In Thousands) | | |
| Performing | $2,397 | $31,798 | $34,195 |
| Nonperforming | 8 | 293 | 301 |
| Total consumer loans | $2,405 | $32,091 | $34,496 |

Allowance for Loan Losses

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

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

Loans charged off

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

Residential loans. In general, a charge-off will not be recommended until a potential shortfall can be determined upon receipt of an updated appraisal and/or title to the property. However, any outstanding loan balance in excess of the fair value of the property, less cost to sell, is classified as a loss in the allocation of loan loss reserves and charged off when the property is acquired before being transferred to OREO.

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

General Component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following portfolio segments: residential real estate, residential construction, commercial real estate, commercial and industrial, commercial construction, consumer and home equity. Management uses an average of historical losses based on a time frame appropriate to capture relevant loss data for each portfolio segment. Management deems 36 months to be an appropriate time frame on which to base historical losses for each portfolio segment. This historical loss factor is adjusted for qualitative factors for each portfolio segment including, but not limited to: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and changes in lending policies, experience, ability, depth of lending management and staff; and national and local economic conditions. Management follows a similar process to estimate its liability for off-balance-sheet commitments to extend credit.

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

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

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

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

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

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

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

Allocated Component

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan by loan basis for residential real estate, home equity loans, commercial real estate and commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. The Company recognizes the change in present value attributable to the passage of time as provision for loan losses. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment, and the resulting allowance is reported as the general component, as described above.

Loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered

by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The Company may periodically agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). All TDRs are classified as impaired.
Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer loans for impairment evaluation, except for home equity loans.

During the nine months ended September 30, 2014, there were no changes in the Company's allowance methodology related to the qualitative or quantitative factors.

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

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

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

| | Residential Real Estate | Residential Construction | Commercial Real Estate | Commercial Construction | Commercial and Industrial | Consumer Loans | Home Equity | Total |
|---|---|---|---|---|---|---|---|---|
| Allowance for loan losses | (In Thousands) | | | | | | | |
| Balance as of December 31, 2013 | $650 | $ 94 | $ 2,121 | $ 435 | $ 1,110 | $ 35 | $ 151 | $ 4,596 |
| Provision for (reduction of) loan losses | 98 | 17 | 1,188 | 1,819 | 1,980 | 32 | 68 | 5,202 |
| Recoveries | — | — | 74 | — | 23 | 17 | 1 | 115 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Loans charged off | (233) | — | (938) | (1,539) | (2,174) | (50) | (57) | (4,991) |
| Balance as of September 30, 2014 | $515 | $ 111 | $ 2,445 | $715 | $ 939 | $34 | $163 | $4,922 |
| | | | | | | | | |
| Allowance for loan losses | | | | | | | | |
| Collectively evaluated for impairment | $467 | $ 111 | $ 2,421 | $715 | $ 939 | $34 | $143 | $4,830 |
| Individually evaluated for impairment | 48 | — | 24 | — | — | — | 20 | 92 |
| Total ending balance | $515 | $ 111 | $ 2,445 | $715 | $ 939 | $34 | $163 | $4,922 |
| | | | | | | | | |
| Total loans | | | | | | | | |
| Collectively evaluated for impairment | $111,518 | $ 8,406 | $ 226,220 | $42,033 | $ 78,234 | $2,641 | $32,553 | $501,605 |
| Individually evaluated for impairment | 4,241 | — | 3,305 | 3,130 | 1,057 | — | 369 | 12,102 |
| Total ending balance | $115,759 | $ 8,406 | $ 229,525 | $45,163 | $ 79,291 | $2,641 | $32,922 | $513,707 |

The following table presents the allowance for loan losses and select loan information as of and for the year ended December 31, 2013:

| | Residential Real Estate | Residential Construction | Commercial Real Estate | Commercial Construction | Commercial and Industrial | Consumer Loans | Home Equity | Total |
|---|---|---|---|---|---|---|---|---|
| Allowance for loan losses | (In Thousands) | | | | | | | |
| Balance as of December 31, 2012 | $536 | $ 93 | $ 1,966 | $ 502 | $ 1,099 | $44 | $124 | $4,364 |
| Provision for (reduction of) loan losses | 296 | 63 | (24) | (67) | 90 | 30 | 37 | 425 |
| Recoveries | 1 | — | 247 | — | 38 | 14 | — | 300 |
| Loans charged off | (183) | (62) | (68) | — | (117) | (53) | (10) | (493) |
| Balance as of December 31, 2013 | $650 | $ 94 | $ 2,121 | $ 435 | $ 1,110 | $35 | $151 | $4,596 |
| | | | | | | | | |
| Allowance for loan losses | | | | | | | | |
| Collectively evaluated for impairment | $407 | $ 94 | $ 2,109 | $ 435 | $ 1,100 | $35 | $137 | $4,317 |
| Individually evaluated for impairment | 243 | — | 12 | — | 10 | — | 14 | 279 |
| Total ending balance | $650 | $ 94 | $ 2,121 | $ 435 | $ 1,110 | $35 | $151 | $4,596 |
| | | | | | | | | |
| Total loans | | | | | | | | |
| Collectively evaluated for impairment | $109,866 | $ 6,130 | $ 206,813 | $ 34,553 | $ 85,168 | $2,405 | $31,798 | $476,733 |
| Individually evaluated for impairment | 2,658 | — | 4,348 | 3,888 | 1,372 | — | 293 | 12,559 |
| Total ending balance | $112,524 | $ 6,130 | $ 211,161 | $ 38,441 | $ 86,540 | $2,405 | $32,091 | $489,292 |

The following table presents the allowance for loan losses as of and for the three months ended September 30, 2013:

| | Residential Real Estate | Residential Construction | Commercial Real Estate | Commercial Construction | Commercial and Industrial | Consumer Loans | Home Equity | Total |
|---|---|---|---|---|---|---|---|---|
| Allowance for loan losses | (In Thousands) | | | | | | | |
| Balance as of June 30, 2013 | $561 | $ 52 | $ 1,921 | $ 373 | $ 1,251 | $ 38 | $140 | $4,336 |
| Provision for (reduction of) loan losses | 113 | 23 | 39 | 43 | (15) | 13 | (4) | 212 |
| Recoveries | — | — | 2 | — | 1 | 3 | — | 6 |
| Loans charged off | (52) | — | — | — | (47) | (16) | — | (115) |
| Balance as of September 30, 2013 | $622 | $ 75 | $ 1,962 | $ 416 | $ 1,190 | $ 38 | $136 | $4,439 |

The following table presents the allowance for loan losses and select loan information as of and for the nine months ended September 30, 2013:

| | Residential Real Estate | Residential Construction | Commercial Real Estate | Commercial Construction | Commercial and Industrial | Consumer Loans | Home Equity | Total |
|---|---|---|---|---|---|---|---|---|
| Allowance for loan losses | (In Thousands) | | | | | | | |
| Balance as of December 31, 2012 | $536 | $ 93 | $ 1,966 | $ 502 | $ 1,099 | $44 | $124 | $4,364 |
| (Reduction of) provision for loan losses | 198 | 44 | (15) | (86) | 101 | 16 | 12 | 270 |
| Recoveries | 1 | — | 11 | — | 37 | 11 | — | 60 |
| Loans charged off | (113) | (62) | — | — | (47) | (33) | — | (255) |
| Balance as of September 30, 2013 | $622 | $ 75 | $ 1,962 | $ 416 | $ 1,190 | $38 | $136 | $4,439 |
| | | | | | | | | |
| Allowance for loan losses | | | | | | | | |
| Collectively evaluated for impairment | $391 | $ 75 | $ 1,858 | $ 416 | $ 1,134 | $38 | $122 | $4,034 |
| Individually evaluated for impairment | 231 | — | 104 | — | 56 | — | 14 | 405 |
| Total ending balance | $622 | $ 75 | $ 1,962 | $ 416 | $ 1,190 | $38 | $136 | $4,439 |
| | | | | | | | | |
| Total loans | | | | | | | | |
| Collectively evaluated for impairment | $111,645 | $ 5,192 | $ 180,396 | $ 30,331 | $ 88,587 | $2,419 | $32,061 | $450,631 |
| Individually evaluated for impairment | 2,397 | — | 6,140 | 3,823 | 1,567 | — | 281 | 14,208 |
| Total ending balance | $114,042 | $ 5,192 | $ 186,536 | $ 34,154 | $ 90,154 | $2,419 | $32,342 | $464,839 |

Impairment

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

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

20

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

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

The $12.1 million of impaired loans include $11.6 million of non-accrual loans. The remaining impaired loans are TDRs or loans for which the Company believes, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

21

The following table presents a summary of information pertaining to impaired loans by segment as of and for the year ended December 31, 2013:

| | Recorded Investment | Unpaid Balance | Average Recorded Investment | Related Allowance | Interest Income Recognized |
|---|---|---|---|---|---|
| | (In Thousands) | | | | |
| Impaired loans without a valuation allowance: | | | | | |
| Residential real estate | $1,535 | $1,535 | $1,455 | $— | $52 |
| Residential construction | — | — | — | — | — |
| Commercial real estate | 4,099 | 4,232 | 3,725 | — | 192 |
| Commercial construction | 3,888 | 3,888 | 4,068 | — | 193 |
| Commercial and industrial | 1,254 | 1,584 | 937 | — | 44 |
| Consumer | — | — | — | — | — |
| Home equity | 131 | 131 | 131 | — | 4 |
| Total | $10,907 | $11,370 | $10,316 | $— | $485 |
| | | | | | |
| Impaired loans with a valuation allowance: | | | | | |
| Residential real estate | $1,123 | $1,123 | $1,056 | $243 | $30 |
| Residential construction | — | — | 132 | — | — |
| Commercial real estate | 249 | 249 | 403 | 12 | 23 |
| Commercial construction | — | — | — | — | — |
| Commercial and industrial | 118 | 118 | 134 | 10 | 3 |
| Consumer | — | — | — | — | — |
| Home equity | 162 | 162 | 108 | 14 | 1 |
| Total | $1,652 | $1,652 | $1,833 | $279 | $57 |
| | | | | | |
| Total impaired loans: | | | | | |
| Residential real estate | $2,658 | $2,658 | $2,511 | $243 | $82 |
| Residential construction | — | — | 132 | — | — |
| Commercial real estate | 4,348 | 4,481 | 4,128 | 12 | 215 |
| Commercial construction | 3,888 | 3,888 | 4,068 | — | 193 |
| Commercial and industrial | 1,372 | 1,702 | 1,071 | 10 | 47 |
| Consumer | — | — | — | — | — |
| Home equity | 293 | 293 | 239 | 14 | 5 |
| Total | $12,559 | $13,022 | $12,149 | $279 | $542 |

The $12.6 million of impaired loans include $6.8 million of non-accrual loans. The remaining impaired loans are TDRs or loans for which the Company believes, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

22

The following table presents a summary of information pertaining to impaired loans by segment as of and for the three months ended September 30, 2013:

| | Recorded Investment | Unpaid Balance | Average Recorded Investment | Related Allowance | Interest Income Recognized |
|---|---|---|---|---|---|
| | (In Thousands) | | | | |
| Impaired loans without a valuation allowance: | | | | | |
| Residential real estate | $1,259 | $1,259 | $1,409 | $— | $19 |
| Residential construction | — | — | — | — | — |
| Commercial real estate | 5,601 | 5,915 | 3,897 | — | 64 |
| Commercial construction | 3,823 | 3,823 | 4,016 | — | 46 |
| Commercial and industrial | 1,234 | 1,504 | 922 | — | 14 |
| Consumer | — | — | — | — | — |
| Home equity | 118 | 118 | 142 | — | 2 |
| Total | $12,035 | $12,619 | $10,386 | $— | $145 |
| | | | | | |
| Impaired loans with a valuation allowance: | | | | | |
| Residential real estate | $1,138 | $1,138 | $1,006 | $231 | $11 |
| Residential construction | — | — | 110 | — | — |
| Commercial real estate | 539 | 604 | 475 | 104 | 11 |
| Commercial construction | — | — | — | — | — |
| Commercial and industrial | 333 | 333 | 183 | 56 | 2 |
| Consumer | — | — | — | — | — |
| Home equity | 163 | 163 | 125 | 14 | — |
| Total | $2,173 | $2,238 | $1,899 | $405 | $24 |
| | | | | | |
| Total impaired loans: | | | | | |
| Residential real estate | $2,397 | $2,397 | $2,415 | $231 | $30 |
| Residential construction | — | — | 110 | — | — |
| Commercial real estate | 6,140 | 6,519 | 4,372 | 104 | 75 |
| Commercial construction | 3,823 | 3,823 | 4,016 | — | 46 |
| Commercial and industrial | 1,567 | 1,837 | 1,105 | 56 | 16 |
| Consumer | — | — | — | — | — |
| Home equity | 281 | 281 | 267 | 14 | 2 |
| Total | $14,208 | $14,857 | $12,285 | $405 | $169 |

The $14.2 million of impaired loans include $7.1 million of non-accrual loans. The remaining impaired loans are TDRs or loans for which the Company believes, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

The following table presents a summary of information pertaining to impaired loans by segment as of and for the nine months ended September 30, 2013:

| | Recorded Investment | Unpaid Balance | Average Recorded Investment | Related Allowance | Interest Income Recognized |
|---|---|---|---|---|---|
| | (In Thousands) | | | | |
| Impaired loans without a valuation allowance: | | | | | |
| Residential real estate | $1,259 | $1,259 | $1,434 | $— | $39 |
| Residential construction | — | — | — | — | — |
| Commercial real estate | 5,601 | 5,915 | 3,632 | — | 172 |
| Commercial construction | 3,823 | 3,823 | 4,113 | — | 147 |
| Commercial and industrial | 1,234 | 1,504 | 858 | — | 28 |
| Consumer | — | — | — | — | — |
| Home equity | 118 | 118 | 131 | — | 4 |
| Total | $12,035 | $12,619 | $10,168 | $— | $390 |
| | | | | | |
| Impaired loans with a valuation allowance: | | | | | |
| Residential real estate | $1,138 | $1,138 | $1,040 | $231 | $21 |
| Residential construction | — | — | 165 | — | — |
| Commercial real estate | 539 | 604 | 442 | 104 | 20 |
| Commercial construction | — | — | — | — | — |
| Commercial and industrial | 333 | 333 | 137 | 56 | 2 |
| Consumer | — | — | — | — | — |
| Home equity | 163 | 163 | 94 | 14 | 1 |
| Total | $2,173 | $2,238 | $1,878 | $405 | $44 |
| | | | | | |
| Total impaired loans: | | | | | |
| Residential real estate | $2,397 | $2,397 | $2,474 | $231 | $60 |
| Residential construction | — | — | 165 | — | — |
| Commercial real estate | 6,140 | 6,519 | 4,074 | 104 | 192 |
| Commercial construction | 3,823 | 3,823 | 4,113 | — | 147 |
| Commercial and industrial | 1,567 | 1,837 | 995 | 56 | 30 |
| Consumer | — | — | — | — | — |
| Home equity | 281 | 281 | 225 | 14 | 5 |
| Total | $14,208 | $14,857 | $12,046 | $405 | $434 |

24

Delinquency and Nonaccrual

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

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

The following table presents an aging analysis of past due loans and non-accrual loans at September 30, 2014:

| | 31-59 Days Past Due | 60-89 Days Past Due | 90 Days or Greater Past Due | Total Past Due | Current | Total Loans | Loans on Nonaccrual |
|---|---|---|---|---|---|---|---|
| | (In Thousands) | | | | | | |
| Residential real estate | $2,384 | $623 | $1,300 | $4,307 | $111,452 | $115,759 | $4,393 |
| Residential construction | — | — | — | — | 8,406 | 8,406 | — |
| Commercial real estate | 87 | 258 | 2,375 | 2,720 | 226,805 | 229,525 | 2,790 |
| Commercial construction | — | — | 1,810 | 1,810 | 43,353 | 45,163 | 3,130 |
| Commercial and industrial | 447 | — | 512 | 959 | 78,332 | 79,291 | 1,216 |
| Consumer | 73 | — | 34 | 107 | 2,534 | 2,641 | 33 |
| Home equity | 92 | — | 293 | 385 | 32,537 | 32,922 | 335 |
| Total | $3,083 | $881 | $6,324 | $10,288 | $503,419 | $513,707 | $11,897 |

The following table presents an aging analysis of past due loans and non-accrual loans at December 31, 2013:

| | 31-59 Days Past Due | 60-89 Days Past Due | 90 Days or Greater Past Due | Total Past Due | Current | Total Loans | Loans on Nonaccrual |
|---|---|---|---|---|---|---|---|
| | (In Thousands) | | | | | | |
| Residential real estate | $2,962 | $510 | $1,063 | $4,535 | $107,989 | $112,524 | $2,415 |
| Residential construction | — | — | — | — | 6,130 | 6,130 | — |
| Commercial real estate | 662 | — | 2,802 | 3,464 | 207,697 | 211,161 | 3,362 |
| Commercial construction | — | — | — | — | 38,441 | 38,441 | — |
| Commercial and industrial | 264 | 149 | 816 | 1,229 | 85,311 | 86,540 | 806 |
| Consumer | 80 | 2 | 6 | 88 | 2,317 | 2,405 | 8 |
| Home equity | 76 | 8 | 209 | 293 | 31,798 | 32,091 | 243 |
| Total | $4,044 | $669 | $4,896 | $9,609 | $479,683 | $489,292 | $6,834 |

Troubled Debt Restructuring (TDR)

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

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

In the normal course of business, the Company may modify a loan for a credit worthy borrower where the modified loan is not considered a TDR. In these cases, the modified terms are consistent with loan terms available to credit worthy borrowers and within normal loan

pricing. The modifications to such loans are done according to existing underwriting standards which include review of historical financial statements, including current interim information if available, and an analysis of the borrower's performance and projections to assess repayment ability going forward.

During the nine months ended September 30, 2014, the Company had no TDRs that had defaulted and had been modified within the previous twelve month period. During the nine months ended September 30, 2013, the Company had one TDR totaling $201,000 that had defaulted and had been modified within the previous twelve month period. TDR loans are considered defaulted at 90 days past due.

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

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

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

| For the Three and Nine Months Ended September 30, 2013 | Number of Modifications | Recorded Investment Pre-Modification | Recorded Investment Post-Modification |
|---|---|---|---|
| | (In Thousands) | | |
| Residential real estate | — | $— | $— |
| Residential construction | — | — | — |
| Commercial real estate | 1 | 249 | 249 |
| Commercial construction | — | — | — |
| Commercial and industrial | — | — | — |
| Consumer | — | — | — |
| Home equity | — | — | — |

| | | | |
|---|---|---|---|
| Total | 1 | $ 249 | $ 249 |

26

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

| | As of September 30, 2014 | | As of December 31, 2013 | |
|---|---|---|---|---|
| | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |
| | (In Thousands) | | | |
| Residential real estate | 3 | $613 | 2 | $364 |
| Residential construction | — | — | — | — |
| Commercial real estate | 4 | 618 | 4 | 620 |
| Commercial construction | 2 | 2,842 | — | — |
| Commercial and industrial | 4 | 148 | 4 | 156 |
| Consumer | — | — | — | — |
| Home equity | 1 | 34 | 1 | 34 |
| Total | 14 | $4,255 | 11 | $1,174 |

8. Fair Value Measurements and Disclosures

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

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

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

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

The fair value methods and assumptions are set forth below.

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

Held-to-maturity and non-marketable securities. The fair values of held-to-maturity securities are estimated by independent providers using matrix pricing and quoted market prices for similar securities. In obtaining such valuation information from third parties, the Company has evaluated their valuation methodologies used to develop the fair values in order to determine whether the valuations are representative of an exit price in the Company's principal

markets. The Company's principal markets for its securities portfolios are the secondary institutional markets, with an exit price that is predominately reflective of bid level pricing in those markets. Fair values are calculated based on the value of one unit without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications, or estimated transaction costs. If these considerations had been incorporated into the fair value estimates, the aggregate fair value could have been changed. The carrying values of non-marketable securities approximate fair values. As such, the Company classifies held-to-maturity and non-marketable securities as Level 2.

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

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

Loans held for sale. Loans held for sale are recorded at the lower of carrying value or fair value. The fair value of mortgage loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Company classifies loans held for sale as nonrecurring Level 2.

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

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

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

Deposits. The fair value of deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposits compared to the cost of borrowing funds in the market. If that value were considered, the fair value of the Company's net assets could increase. As such, the Company classifies deposits as Level 2.
Borrowed funds. The fair value of borrowed funds is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently available for borrowings of similar remaining maturities. As such, the Company classifies borrowed funds as Level 2.
Accrued interest payable. The fair value estimate approximates the carrying amount as this financial instrument has a short maturity. As such, the Company classifies accrued interest payable as Level 2.

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

Limitations. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These values do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market

exists for a significant portion of the Company's financial instruments, fair value estimates are based on Management's judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial instruments include the deferred tax asset, premises and equipment, and OREO. In addition, tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

Assets measured at fair value as of September 30, 2014 and December 31, 2013 on a recurring basis are summarized below:

| | Fair Value Measurements Using | | | |
|---|---|---|---|---|
| | September 30, 2014 | Readily Available Market Prices (Level 1) | Observable Market Data (Level 2) | Determined Fair Value (Level 3) |
| Assets (market approach) | (Dollars In Thousands) | | | |
| Available-for-sale securities | | | | |
| Equity securities by industry type: | | | | |
| Financial | $383 | $383 | $— | $— |
| Total equity securities | $383 | $383 | $— | $— |

| | Fair Value Measurements Using | | | |
|---|---|---|---|---|
| | December 31, 2013 | Readily Available Market Prices (Level 1) | Observable Market Data (Level 2) | Determined Fair Value (Level 3) |
| Assets (market approach) | (Dollars In Thousands) | | | |
| Available-for-sale securities | | | | |
| Equity securities by industry type: | | | | |
| Financial | $602 | $602 | $— | $— |
| Total equity securities | $602 | $602 | $— | $— |

Assets measured at fair value on a nonrecurring basis as of September 30, 2014 and December 31, 2013 are summarized below:

| | Fair Value Measurements Using | | | |
|---|---|---|---|---|
| | September 30, 2014 | Readily Available Market Prices (Level 1) | Observable Market Data (Level 2) | Determined Fair Value (Level 3) |
| | (Dollars In Thousands) | | | |
| Assets | | | | |
| Impaired loans | $5,408 | $— | $— | $5,408 |
| Other real estate owned | 1,121 | — | 1,121 | — |

Impaired loans are presented net of their related specific reserves of $92,000 and charge offs of $2.3 million as of September 30, 2014.

| | Fair Value Measurements Using | | | |
|---|---|---|---|---|
| | December 31, 2013 | Readily Available Market Prices (Level 1) | Observable Market Data (Level 2) | Determined Fair Value (Level 3) |
| | (Dollars In Thousands) | | | |
| Assets | | | | |
| Impaired loans | $1,869 | $— | $— | $1,869 |
| Other real estate owned | 407 | — | 407 | — |
| Loans held for sale | 70 | — | 70 | — |

Impaired loans are presented net of their related specific reserves of $279,000 and charge offs of $126,000 as of December 31, 2013.

Fair Value of Financial Instruments.

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

| | Carrying Amount at September 30, 2014 | Fair Value Using Readily Available Market Prices (Level 1) | Observable Market Data (Level 2) | Determined Fair Value (Level 3) |
|---|---|---|---|---|
| | (Dollars In Thousands) | | | |
| Financial assets: | | | | |
| Cash and cash equivalents | $45,383 | $45,383 | $— | $— |
| Available-for-sale securities | 383 | 383 | — | — |
| Held-to-maturity securities | 34,298 | — | 33,284 | — |
| FHLB stock | 3,914 | — | 3,914 | — |
| | | | | |
| Residential real estate | 115,891 | — | — | 118,414 |
| Residential construction | 8,295 | — | — | 8,281 |
| Commercial real estate | 227,362 | — | — | 228,313 |
| Commercial construction | 44,448 | — | — | 43,318 |
| Commercial and industrial | 78,352 | — | — | 78,490 |
| Consumer | 2,607 | — | — | 2,909 |
| Home equity | 32,759 | — | — | 32,916 |
| Net loans | 509,714 | — | — | 512,641 |
| | | | | |
| Accrued interest and dividends receivable | 1,604 | — | 1,604 | — |
| Mortgage servicing rights | 304 | — | 677 | — |
| | | | | |
| Financial liabilities: | | | | |
| Deposits | $470,649 | $— | $471,468 | $— |
| FHLB advances | 66,007 | — | 66,595 | — |
| Accrued interest payable | 78 | — | 78 | — |

| | Carrying Amount at December 31, 2013 | Fair Value Using Readily Available Market Prices (Level 1) | Observable Market Data (Level 2) | Determined Fair Value (Level 3) |
|---|---|---|---|---|
| | (Dollars In Thousands) | | | |
| Financial assets: | | | | |
| Cash and cash equivalents | $18,915 | $18,915 | $— | $— |
| Available-for-sale securities | 602 | 602 | — | — |
| Held-to-maturity securities | 48,606 | — | 49,338 | — |
| FHLB stock | 3,914 | — | 3,914 | — |
| Residential real estate | 112,551 | — | — | 115,372 |
| Residential construction | 6,036 | — | — | 6,028 |
| Commercial real estate | 209,286 | — | — | 211,982 |
| Commercial construction | 38,006 | — | — | 36,432 |
| Commercial and industrial | 85,430 | — | — | 85,511 |
| Consumer | 2,370 | — | — | 2,530 |
| Home equity | 31,940 | — | — | 32,183 |
| Net loans | 485,619 | — | — | 490,038 |
| Loans held for sale | 70 | — | 70 | — |
| Accrued interest and dividends receivable | 1,609 | — | 1,609 | — |
| Mortgage servicing rights | 381 | — | 831 | — |
| Financial liabilities: | | | | |
| Deposits | $449,766 | $— | $458,010 | $— |
| FHLB advances | 44,992 | — | 45,699 | — |
| Accrued interest payable | 59 | — | 59 | — |

9. Other Comprehensive Income

As of the statement of financial condition dates, accumulated other comprehensive income was entirely comprised of net unrealized gains on available-for-sale investment securities.

The following table illustrates changes in the balances of each component of accumulated other comprehensive income for the dates indicated:

| | Three Months Ended September 30, 2014 | 2013 |
|---|---|---|
| | (Dollars in Thousands) | |
| Beginning balance | $24 | $14 |
| Current-period change | (15 ) | 19 |
| Ending balance | $9 | $33 |

32

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| | (Dollars in Thousands) | |
| Beginning balance | $52 | $26 |
| Current-period change | (43) | 7 |
| Ending balance | $9 | $33 |

During the nine months ended September 30, 2014, 10,000 shares issued by one company in the financial industry were sold with a realized gain of $34,000. There were no sales of available-for-sale securities during the nine months ended September 30, 2013.

## 10. Common Stock

On June 1, 2012, the Company announced that the Board of Directors authorized a Seventh Stock Repurchase Program for the purchase of up to 272,000 shares, or approximately 5%, of the Company's then outstanding common stock. As of September 30, 2014, a total of 100,731 shares may be repurchased under the current stock repurchase program. The Company may repurchase its shares from time to time at prevailing prices in the open market, in block transactions or in privately negotiated transactions. Repurchases will be made under rule 10b-5(1) repurchase plans. The repurchased shares will be held by the Company as treasury stock and will be available for general corporate purposes.

## 11. Subsequent Events

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

The Company is a Securities and Exchange Commission filer and management has evaluated subsequent events through the date that the financial statements were issued. On October 24, 2014, the Company announced a quarterly cash dividend of $0.07 per share of its common stock to stockholders of record as of the close of business on November 7, 2014, payable on or about November 20, 2014.

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

The following analysis discusses changes in the financial condition and results of operations of Chicopee Bancorp Inc. ("the, Company") at September 30, 2014 and December 31, 2013 and for the three and nine months ended September 30, 2014 and 2013, and should be read in conjunction with the Company’s Unaudited Consolidated Financial Statements and the notes thereto, appearing in Part I, Item 1 of this document.

Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identified by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project” or similar expressions. The Company’s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company include, but are not limited to: changes in interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company’s market area and accounting principles and guidelines. Additional factors are discussed in the Company’s 2013 Annual Report on Form 10-K under “Item 1A-Risk Factors” and in “Part II. Item 1A. Risk Factors” of this 10-Q. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

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

General

Chicopee Savings Bank ("the Bank"), a subsidiary of the Company, is a community-oriented financial institution dedicated to serving the financial services needs of consumers and businesses within its market area. We attract deposits from the general public and use such funds to originate primarily one- to four-family residential real estate loans, commercial real estate loans, commercial loans, multi-family loans, construction loans and consumer loans. At September 30, 2014, we operated out of our main office, lending and operations center, and eight branch offices located in Chicopee, Ludlow, South Hadley, Ware, and West Springfield. All of our offices are located in Western Massachusetts.

CRITICAL ACCOUNTING POLICIES

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

assumptions or conditions. Additional accounting policies are more fully described in Note 1 in the “Notes to Consolidated Financial Statements” presented in our 2013 Annual Report on Form 10-K. A brief description of our current accounting policies involving significant management judgment follows.

Allowance for Loan Losses. 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 losses inherent in the loan portfolio. Management believes the allowance for loan losses is a significant estimate and therefore regularly evaluates it for adequacy by taking into consideration factors such as: levels and historical trends in delinquencies, impaired loans, non-accruing loans, charge-offs and recoveries, and classified assets; trends in the volume and terms of the loans; effects of any change in underwriting policies, procedures, and practices; experience, ability, and depth of management staff; national and local economic trends and conditions; trends and conditions in the industries in which borrowers operate; and effects of changes in credit concentrations. The use of different estimates or assumptions could produce a different provision for loan losses.

Other-Than-Temporary Impairment of Securities. One of the significant estimates related to investment securities is the evaluation of other-than-temporary impairment. The evaluation of securities for other-than- temporary impairment 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 quarterly to determine if other-than-temporary impairment is present based on certain quantitative and qualitative factors and measures. The primary factors considered in evaluating whether a decline in 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 securities 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.

Mortgage Servicing Rights. 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. Mortgage servicing rights are recognized when they are acquired through the sale of loans, and are reported in other assets. They are amortized into 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 the fair value. The Company uses the amortization method for financial reporting. The most important assumption is the anticipated loan prepayment rate, and increases in prepayment speeds result in lower valuations of mortgage servicing rights. Management evaluates for impairment based upon the fair value of the rights, which can vary depending upon current interest rates and prepayment expectations, as compared to amortized cost. 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.

Valuation of Other Real Estate Owned ("OREO"). Periodically, the Company acquires property through foreclosure or acceptance of a deed in lieu-of-foreclosure as OREO. OREO is recorded at fair value less costs to sell. The valuation of this property is accounted for individually based on its net realizable value on the date of acquisition. At the acquisition date, if the net realizable value of the property is less than the book value of the loan, a charge or reduction in the allowance for loan losses is recorded. If the fair value of the property becomes subsequently impaired, as determined by an appraisal or an evaluation in accordance with the Company's appraisal policy, the decline is recorded by a charge against current earnings. Upon acquisition of a property, a current appraisal or broker's opinion must substantiate market value for the property.

35

Comparison of Financial Condition at September 30, 2014 and December 31, 2013

Total assets increased $38.1 million, or 6.5%, from $587.7 million at December 31, 2013 to $625.8 million at September 30, 2014. The increase in total assets was primarily due to the increase in cash and cash equivalents of $26.5 million, or 139.9%, and an increase in net loans of $24.1 million, or 5.0%, from $485.6 million, or 82.6% of total assets at December 31, 2013, to $509.7 million, or 81.4% of total assets at September 30, 2014, partially offset by a decrease in held-to-maturity securities of $14.3 million, or 29.4%, to $34.3 million at September 30, 2014.

The significant components of the $24.1 million, or 5.0%, increase in net loans were a $3.2 million, or 2.9%, increase in one-to-four-family residential real estate loans, a $9.0 million, or 20.2%, increase in construction loans, an increase of $18.4 million, or 8.7%, in commercial real estate loans and an increase in home equity loans of $831,000, or 2.6%. These increases were partially offset by the decrease in commercial and industrial loans of $7.2 million, or 8.4%. 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 $94.0 million in loans sold to the secondary market. In order to service our customers, Management intends to continue to retain the servicing rights on all loans written and sold in the secondary market.

The investment securities portfolio, including held-to-maturity and available-for-sale securities, decreased $14.5 million, or 29.5%, to $34.7 million at September 30, 2014 from $49.2 million at December 31, 2013. This decrease was primarily the result of a $14.3 million, or 29.4%, decrease in the held-to-maturity portfolio due to maturities of $5.0 million in U.S. Treasuries and maturities of $8.4 million in certificates of deposit. The fair value of available-for-sale securities decreased $219,000, or 36.4%, from $602,000, at December 31, 2013 to $383,000, at September 30, 2014, due to the sale of such securities.

Total deposits increased $20.9 million, or 4.6%, from $449.8 million at December 31, 2013 to $470.6 million at September 30, 2014. Core deposits, which we consider to include all deposits except for certificates of deposit, increased $21.0 million, or 7.2%, from $292.5 million at December 31, 2013 to $313.5 million at September 30, 2014. Demand deposits increased $15.8 million, or 17.3%, to $106.6 million, money market accounts increased $3.1 million, or 2.8%, to $114.2 million, NOW accounts increased $1.2 million, or 2.9%, to $41.9 million, and savings accounts increased $962,000, or 1.9%, to $50.7 million. Certificates of deposit decreased $106,000, or 0.1%, from $157.2 million at December 31, 2013 to $157.1 million at September 30, 2014. The increase of 7.2% in core deposits was mostly due to fluctuations in commercial accounts related to business activity and the increase in retail checking accounts. We continue to focus on allowing high cost deposits to mature and be replaced with low cost relationship-based core deposits.

Stockholders' equity was $88.6 million, or 14.2% of total assets, at September 30, 2014 compared to $92.2 million, or 15.7% of total assets, at December 31, 2013. The Company's stockholders' equity decreased as a result of the $876,000 net loss for the period and the $1.1 million cash dividend paid during the nine months ended September 30, 2014, partially offset by a decrease of $227,000, or 6.3%, in unearned compensation, and an increase in additional paid-in-capital of $206,000, or 6.2%, related to stock-based compensation. Pursuant to the Company's Stock Repurchase Programs previously announced, during the nine months ended September 30, 2014, the Company repurchased 134,915 shares of Company stock at an average price per share of $16.38. The Company's tangible book value per share decreased $0.28, or 1.7%, from $16.97 at December 31, 2013 to $16.69 at September 30, 2014, primarily due to the net loss for the nine months ended September 30, 2014.

Allowance for Loan Losses

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

| | At or for the Nine Months Ended September 30, | |
|---|---|---|
| | 2014 | 2013 |
| | (Dollars In Thousands) | |
| Allowance for loan losses, beginning of period: | $4,596 | $4,364 |
| Charged off loans: | | |
| Residential real estate | (233) | (113) |
| Construction | (1,539) | (62) |
| Commercial real estate | (938) | — |
| Commercial | (2,174) | (47) |
| Home equity | (57) | — |
| Consumer | (50) | (33) |
| Total charged off loans | (4,991) | (255) |
| Recoveries on loans previously charged off: | | |
| Residential real estate | — | 1 |
| Construction | — | — |
| Commercial real estate | 74 | 11 |
| Commercial | 23 | 37 |
| Home equity | 1 | — |
| Consumer | 17 | 11 |
| Total recoveries | 115 | 60 |
| Net loan charge offs | (4,876) | (195) |
| Provision for loan losses | 5,202 | 270 |
| Allowance for loan losses, end of period | $4,922 | $4,439 |
| Ratios: | | |
| Net loan charge offs to total average loans | 0.97% | 0.04% |
| Allowance for loan losses to total loans (1) | 0.96% | 0.95% |
| Allowance for loan losses to nonperforming loans (2) | 41.37% | 61.76% |
| Recoveries to charge offs | 2.30% | 23.53% |
| Net loans charged off to allowance for loan losses | 99.07% | 4.39% |

(1) Total loans includes 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 September 30, 2014, the Company had fourteen troubled debt restructured loans totaling $4.3 million, of which nine totaling $3.7 million were included in nonperforming loans. Five of the twelve restructured loans totaling $509,000 were performing as modified. At September 30, 2013, the Company had one troubled debt restructured loans totaling $249,000 included in nonperforming loans.

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

Our methodology for assessing the appropriateness of the allowance for loan losses consists of: (1) a specific allowance on identified problem loans; and (2) a general valuation allowance on the remainder of the loan portfolio. Although we determine the amount of

each element of the allowance separately, the entire allowance for loan losses is available for the entire portfolio. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Specific allowance required for identified problem loans. The allocated component of the allowance for loan losses relates to loans that are classified as impaired. Impairment is measured on a loan by loan basis for residential real estate, home equity loans, commercial real estate and commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. The Company recognizes the change in present value attributable to the passage of time as provision for loan losses. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment, and the resulting allowance is reported as the general component, as described above.

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

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

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

At September 30, 2014, the allowance for loan losses represented 0.96% of total loans and 41.4% of nonperforming loans. The allowance for loan losses increased $326,000, or 7.1%, from $4.6 million at December 31, 2013 to $4.9 million at September 30, 2014. The increase was due to the $5.2 million provision for loan losses, offset by net charge-offs of $4.9 million. The provision for loan losses was $5.2 million for the nine months ended September 30, 2014, compared to $270,000 for the nine months ended September 30, 2013.

38

Nonperforming Assets

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

| | September 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | (Dollars In Thousands) | | | |
| Nonaccrual loans (3): | | | | |
| Residential real estate | $4,393 | | $2,415 | |
| Residential construction | — | | — | |
| Commercial real estate | 2,790 | | 3,362 | |
| Commercial construction | 3,130 | | — | |
| Commercial and industrial | 1,216 | | 806 | |
| Home equity | 335 | | 243 | |
| Consumer | 33 | | 8 | |
| Total nonaccrual loans | 11,897 | | 6,834 | |
| Other real estate owned | 1,121 | | 407 | |
| Total nonperforming assets | $13,018 | | $7,241 | |
| Ratios: | | | | |
| Total nonperforming loans as a percentage of total loans (1) | 2.32 | % | 1.40 | % |
| Total nonperforming assets as a percentage of total assets (2) | 2.08 | % | 1.23 | % |

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

(2) Nonperforming assets consist of nonperforming loans including nonperforming TDRs and OREO. 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.

(3) Loans are placed on nonaccrual status either when reasonable doubt exists as to the timely collection of principal and interest or when a loan becomes 90 days past due unless an evaluation clearly indicates that the loan is well-secured and in the process of collection. At September 30, 2014, there were no loans that were over 90 days delinquent and still accruing interest.

At September 30, 2014, nonperforming loans increased $5.1 million, or 74.1%, to $11.9 million compared to $6.8 million at December 31, 2013. The increase in nonperforming loans is primarily due to the increase of $3.1 million in commercial construction loans, an increase of $2.0 million, or 81.9%, in residential real estate loans, an increase of $410,000 or 50.9%, in commercial and industrial loans and an increase of $25,000, or 312.5%, in consumer loans and an increase of $92,000, or 37.9%, in nonperforming home equity loans. These increases were partially offset by a decrease of $572,000, or 17.0%, in commercial real estate loans. Loans that are less than 90 days past due and were previously on nonaccrual continue to be on nonaccrual status until all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

For the nine months ended September 30, 2014, the provision for loan losses increased $4.9 million from $270,000, for the nine months ended September 30, 2013 to $5.2 million. The increase in the provision for loan losses was primarily due to three commercial relationships.

The $5.2 million provision for loan losses for the nine months ended September 30, 2014 is the result of a $1.5 million charge off related to a $4.7 million commercial real estate developer loan secured by commercial real estate. With regard to the commercial real estate development loan, the $1.5 million charge off reflects the decline in the fair value

of the collateral securing the loan resulting from an updated independent appraisal. The Company has had a lending relationship with the commercial developer for over 25 years. The relationship was previously classified as impaired but was performing in accordance with the terms of the loan. The Company has restructured the loan and is working with the borrower to reduce exposure through sales of existing units. The borrower remains responsible for the full indebtedness, including any amounts charged off. At September 30, 2014, the loan was on nonaccrual as an indication that there is reasonable doubt as to the full collectability of principal and interest.

The provision for loan losses also includes the effect of a $568,000 charge off related to a $3.4 million nonperforming loan disclosed in the third quarter of 2013. The loan is secured by commercial real estate, equipment and all assets of the borrower. The Company is in the process of initiating foreclosure proceedings on such collateral.

The increased provision for the nine months ended September 30, 2014 also reflects the effect of a $2.4 million charge off to a previously disclosed $4.5 million commercial loan relationship suspected of fraud. The loan is secured by inventory, equipment and real estate. The Company has initiated legal proceedings against the principals of the borrower for fraud and is conducting a review and investigation, including the use of forensic accountants. The Company believes the principals made fraudulent misrepresentations about the collateral securing the loan and intends to pursue all legal remedies against the principals for any losses or costs related to the loan, but there can be no assurance that these efforts will result in significant recoveries. The Company has completed liquidation of the inventory and equipment and completed foreclosure action on three properties that were pledged as collateral.

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

Deposits

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

| | September 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | Balance | Percent of Total Deposits | | Balance | Percent of Total Deposits | |
| | | (Dollars In Thousands) | | | | |
| Demand deposits | $106,620 | 22.6 | % | $90,869 | 20.1 | % |
| NOW accounts | 41,938 | 8.9 | % | 40,774 | 9.1 | % |
| Savings accounts | 50,717 | 10.8 | % | 49,755 | 11.1 | % |
| Money market deposit accounts | 114,238 | 24.3 | % | 111,126 | 24.7 | % |
| Total transaction accounts | 313,513 | 66.6 | % | 292,524 | 65.0 | % |
| Certificates of deposit | 157,136 | 33.4 | % | 157,242 | 35.0 | % |
| Total deposits | $470,649 | 100.0 | % | $449,766 | 100.0 | % |

Total deposits increased $20.9 million, or 4.6%, from $449.8 million at December 31, 2013 to $470.6 million at September 30, 2014. Core deposits, which we consider to include all deposits except for certificates of deposit, increased $21.0 million, or 7.2%, from $292.5 million at December 31, 2013 to $313.5 million at September 30, 2014. Demand deposits increased $15.8 million, or 17.3%, to $106.6 million, money market accounts increased $3.1 million, or 2.8%, to $114.2 million, NOW accounts increased $1.2 million, or 2.9%, to $41.9 million, and savings accounts increased $962,000, or 1.9%, to $50.7 million. Certificates of deposit decreased $106,000, or 0.1%, from $157.2 million at December 31, 2013 to $157.1 million at September 30, 2014. The increase of 7.2% in core deposits was mostly due to fluctuations in commercial accounts related to seasonal business activity and the increase in money market accounts. We continue to focus on allowing high cost deposits to mature and be replaced with low cost relationship based core deposits.

Borrowings

The following sets forth information concerning the Company's borrowings for the periods indicated:

| | As of or for the nine months ended September 30, 2014 (In Thousands) | | As of or for the year ended December 31, 2013 | |
|---|---|---|---|---|
| Maximum amount of borrowings outstanding at any month-end during the period: | | | | |
| Federal Home Loan Bank (FHLB) advances | $66,007 | | $44,992 | |
| Securities sold under agreements to repurchase | — | | 15,312 | |
| Average borrowings outstanding during the period: | | | | |
| FHLB advances | $54,515 | | $29,202 | |
| Securities sold under agreements to repurchase | — | | 7,243 | |
| Weighted average interest rate during the period: | | | | |
| FHLB advances | 1.77 | % | 2.41 | % |
| Securities sold under agreements to repurchase | — | % | 0.12 | % |
| Balance outstanding at end of period: | | | | |
| FHLB advances | $66,007 | | $44,992 | |
| Securities sold under agreements to repurchase | — | | — | |
| Weighted average interest rate at end of period: | | | | |
| FHLB advances | 1.43 | % | 1.93 | % |
| Securities sold under agreements to repurchase | — | % | — | % |

The Company utilizes borrowings from a variety of sources to supplement its supply of funds for loans and investments. FHLB advances increased $21.0 million, or 46.7%, from $45.0 million at December 31, 2013 to $66.0 million at September 30, 2014 due to an increase in long-term advances of $29.5 million.

Comparison of Operating Results for the Three Months Ended September 30, 2014 and 2013

General

The Company reported net income of $522,000, or $0.10 earnings per share, for the three months ended September 30, 2014, compared to net income of $573,000, or $0.11 earnings per share, for the same period in 2013. The decrease in net income for the three months ended September 30, 2014 compared to the three months ended September 30, 2013, was due to an increase in non-interest expense of $232,000, or 5.1%, an increase in the provision for loan losses of $15,000, or 7.1%, and an increase in income tax expense of $319,000, or 277.4%, offset by the $380,000, or 8.2%, increase in net interest income and an increase of $135,000, or 17.7%, in non-interest income.

Analysis of Net Interest Income

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

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

| | For the Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| | Average Balance | Interest | Average Yield/ Rate | Average Balance | Interest | Average Yield/ Rate |
| | (Dollars in Thousands) | | | | | |
| Interest-earning assets: | | | | | | |
| Investments (1) | $39,239 | $643 | 6.50 % | $67,593 | $691 | 4.06 % |
| Loans: | | | | | | |
| Residential real estate loans | 116,206 | 1,126 | 3.84 % | 114,580 | 1,165 | 4.03 % |
| Home equity | 32,339 | 281 | 3.45 % | 32,049 | 290 | 3.59 % |
| Commercial real estate loans | 228,383 | 2,702 | 4.69 % | 185,479 | 2,416 | 5.17 % |
| Residential construction | 7,789 | 77 | 3.92 % | 4,067 | 45 | 4.39 % |
| Commercial construction | 44,012 | 452 | 4.07 % | 32,369 | 363 | 4.45 % |
| Consumer loans | 2,561 | 41 | 6.35 % | 2,351 | 39 | 6.58 % |
| Commercial and industrial loans | 83,333 | 860 | 4.09 % | 91,157 | 954 | 4.15 % |
| Loans, net (2) | 514,623 | 5,539 | 4.27 % | 462,052 | 5,272 | 4.53 % |
| Other interest-earning assets | 9,970 | 5 | 0.20 % | 21,798 | 14 | 0.25 % |
| Total interest-earning assets | 563,832 | 6,187 | 4.35 % | 551,443 | 5,977 | 4.30 % |
| Non-interest earning assets | 39,585 | | | 37,965 | | |
| Total assets | $603,417 | | | $589,408 | | |
| Interest-bearing liabilities: | | | | | | |
| Deposits: | | | | | | |
| Money market accounts | $110,555 | $80 | 0.29 % | $127,065 | $100 | 0.31 % |
| Savings accounts (3) | 50,431 | 13 | 0.10 % | 50,174 | 13 | 0.10 % |
| NOW accounts | 41,810 | 72 | 0.68 % | 40,109 | 90 | 0.88 % |
| Certificates of deposit | 155,875 | 505 | 1.29 % | 168,253 | 696 | 1.64 % |
| Total interest-bearing deposits | 358,671 | 670 | 0.74 % | 385,601 | 899 | 0.92 % |
| Federal Home Loan Bank advances | 63,526 | 243 | 1.52 % | 27,153 | 168 | 2.45 % |
| Securities sold under agreement to repurchase | — | — | — % | 8,155 | 2 | 0.10 % |
| Total interest-bearing borrowings | 63,526 | 243 | 1.52 % | 35,308 | 170 | 1.91 % |
| Total interest-bearing liabilities | 422,197 | 913 | 0.86 % | 420,909 | 1,069 | 1.01 % |
| Demand deposits | 90,862 | | | 76,059 | | |
| Other non-interest bearing liabilities | 577 | | | 861 | | |
| Total liabilities | 513,636 | | | 497,829 | | |
| Total stockholders' equity | 89,781 | | | 91,579 | | |
| Total liabilities and stockholders' equity | $603,417 | | | $589,408 | | |
| Net interest-earning assets | $141,635 | | | $130,534 | | |
| Tax equivalent net interest income/interest rate spread (4) | | 5,274 | 3.49 % | | 4,908 | 3.29 % |
| Tax equivalent net interest margin (5) (net interest income as a percentage of interest-earning assets) | | | 3.71 % | | | 3.53 % |
| Ratio of interest-earning assets to interest-bearing liabilities | | | 133.55 % | | | 131.01 % |
| Less: tax equivalent adjustment (1) | | (253 ) | | | (267 ) | |
| | | $5,021 | | | $4,641 | |

Net interest income as reported in statement of operations

(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 income. 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. See 'Explanation of Use of Non-GAAP Financial Measurements'.
(5) See 'Explanation of Use of Non-GAAP Financial Measurements.'

42

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.

| | Three Months Ended September 30, 2014 compared to 2013 Increase (Decrease) Due to | | |
|---|---|---|---|
| | Volume | Rate | Net |
| | (Dollars in Thousands) | | |
| Interest-earning assets: | | | |
| Investment securities (1) | $(698) | $650 | $(48) |
| Loans: | | | |
| Residential real estate loans | 41 | (80) | (39) |
| Home equity | 7 | (16) | (9) |
| Commercial real estate loans | 834 | (548) | 286 |
| Residential construction | 46 | (14) | 32 |
| Commercial construction | 171 | (82) | 89 |
| Consumer loans | 6 | (4) | 2 |
| Commercial and industrial loans | (81) | (13) | (94) |
| Total loans | 1,024 | (757) | 267 |
| Other interest-earning assets | (7) | (2) | (9) |
| Total interest-earning assets (2) | $319 | $(109) | $210 |
| | | | |
| Interest-bearing liabilities: | | | |
| Deposits: | | | |
| Money market accounts | $(12) | $(8) | $(20) |
| Savings accounts (2) | — | — | — |
| NOW accounts | 4 | (22) | (18) |
| Certificates of deposit | (48) | (143) | (191) |
| Total interest-bearing deposits | (56) | (173) | (229) |
| Federal Home Loan Bank advances | 159 | (84) | 75 |
| Securities sold under agreement to repurchase | (1) | (1) | (2) |
| Total interest-bearing borrowings | 158 | (85) | 73 |
| Total interest-bearing liabilities | 102 | (258) | (156) |
| Increase (decrease) in net interest income (3) | $217 | $149 | $366 |

(1) The changes in state and municipal income are reflected on a tax equivalent basis using a tax rate of 41%.
(2) Includes interest on mortgagors' escrow deposits.
(3) The changes in interest income and net interest income are reflected on a tax equivalent basis and thus do not correspond to the statement of operations.

Net interest income, on a tax equivalent basis, increased $366,000, or 7.5%, to $5.3 million for the three months ended September 30, 2014, mainly driven by the decrease in the cost of funds. Net interest margin, on a tax equivalent basis, increased 18 basis points from 3.53% for the three months ended September 30, 2013 to 3.71% for the three months ended September 30, 2014.

Interest and dividend income, on a tax equivalent basis, increased $210,000, or 3.5%, from $6.0 million for the three months ended September 30, 2013 to $6.2 million for the three months ended September 30, 2014. Average interest-earning assets increased $12.4 million, or 2.2%, from $551.4 million at September 30, 2013 to $563.8 million at September 30, 2014. Average loans increased $52.6 million, or 11.4%, primarily due to the increase in average commercial real estate loans of $42.9 million, or 23.1%.

Average investment securities decreased $28.4 million, or 41.9%, for the period due to the maturities in the U.S. Treasury and certificate of deposit investment portfolio. Other interest earning assets, consisting of overnight fed funds, decreased $11.8 million, or 54.3%. The tax equivalent yield on average interest-earning assets increased 5 basis points to 4.35% for the three months ended September 30, 2014.

Total interest expense decreased $156,000, or 14.6%, to $913,000 for the three months ended September 30, 2014 from $1.1 million for the three months ended September 30, 2013, due to the $229,000, or 25.5%, decrease in deposit costs, partially offset by an increase in cost of FHLB advances of $75,000, or 44.6%. Average interest-bearing liabilities increased $1.3 million, or 0.3%, to $422.2 million for the three months ended September 30, 2014 from $420.9 million for the three months ended September 30, 2013. Rates paid on average interest-bearing liabilities declined 15 basis points from 1.01% for the three months ended September 30, 2013 to 0.86% for the three months ended September 30, 2014. The lower interest rate environment and management’s strategic decision not to renew higher cost short-term time deposits led to a decrease in rates paid for certificates of deposit of 35 basis points from 1.64% at September 30, 2013 to 1.29% at September 30, 2014.

Provision for Loan Losses

The provision for loan losses increased $15,000, or 7.1%, to $227,000, for the three months ended September 30, 2014, compared to the three months ended September 30, 2013. Nonperforming loans increased $4.7 million, or 66.1%, from $7.2 million, or 1.54% of total loans, at September 30, 2013, to $11.9 million, or 2.32% of total loans, at September 30, 2014. Total nonperforming assets increased $5.3 million, or 68.8%, from $7.7 million, or 1.27% of total assets, at September 30, 2013, to $13.0 million, or 2.08% of total assets, at September 30, 2014. The allowance for loan losses as a percentage of total loans increased from 0.95% at September 30, 2013 to 0.96% at September 30, 2014. The allowance for loan losses as a percentage of nonperforming loans decreased from 61.8% at September 30, 2013 to 41.4% at September 30, 2014, primarily due to the charge offs taken on loans that have become nonperforming.

Non-Interest Income

For the three months ended September 30, 2014, non-interest income increased $135,000, or 17.7% to $899,000 compared to the three months ended September 30, 2013. The increase was primarily due to the decrease of $99,000, or 106.5%, from losses on the sale of other real estate owned (OREO), and an increase of $49,000, or 7.1%, in service charges, fees and commissions, primarily due to seasonal activity in commercial deposit accounts. These improvements were partially offset by a decrease in income from loan sales and servicing of $12,000, or 17.1%, due to a lower volume of mortgage origination activity.

Non-Interest Expenses

Non-interest expense increased $232,000, or 5.1% to $4.7 million for the three months ended September 30, 2014 compared to the three months ended September 30, 2013. The increase in non-interest expense was due to the increase in professional fees of $112,000, or 70.4%, an increase of $78,000, or 127.9%, in foreclosure and loan collection related expenses, an increase of $63,000, or 118.9%, in FDIC insurance expense, an increase of $23,000, or 7.3%, in data processing, and an increase of $80,000, or 14.8%, in other non-interest expense, partially offset by the $72,000, or 2.8%, decrease in salaries and benefits, a decrease of $24,000, or 14.6%, in advertising expense, a decrease of $19,000, or 4.9%, in occupancy expense and a $12,000, or 6.2%, decrease in furniture and equipment expense.

Income Taxes

Income tax expense increased from $115,000 for the three months ended September 30, 2013 to $434,000 for the three months ended September 30, 2014. The year-to-date effective tax rate included the tax benefit of the loss as well as the tax benefit related to income from tax-advantaged investments, resulting in a rate significantly different from that for 2013 in which there was net income and a corresponding tax expense before consideration of income from tax-advantaged investments.

Comparison of Operating Results for the Nine Months Ended September 30, 2014 and 2013

General

The Company reported a net loss of $876,000, or $0.17 loss per share, for the nine months ended September 30, 2014, compared to net income of $1.9 million, or $0.37 earnings per share, for the same period in 2013. The net loss for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013, was due to the $4.9 million increase in the provision for loan losses primarily related to three loan relationships (see "Nonperforming Assets"), a decrease of $193,000, or 8.1%, in non-interest income and an increase of $256,000, or 1.9%, in non-interest expense, partially offset by the $551,000, or 3.9%, increase in net interest income and a tax benefit of $1.6 million for the nine months ended September 30, 2014, compared to a tax expense of $476,000 for the nine months ended September 30, 2013. The tax benefit was the result of a change in the effective tax rate, projected loss due to the increase in the provision for loan losses, as well as the benefit of the tax-exempt investment income.

Analysis of Net Interest Income

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

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

| | For the Nine Months Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | | | 2013 | | | |
| | Average Balance | Interest | Average Yield/ Rate | | Average Balance | Interest | Average Yield/ Rate | |
| | (Dollars in Thousands) | | | | | | | |
| Interest-earning assets: | | | | | | | | |
| Investments (1) | $43,247 | $1,972 | 6.10 | % | $66,826 | $2,074 | 4.15 | % |
| Loans: | | | | | | | | |
| Residential real estate loans | 114,669 | 3,358 | 3.92 | % | 115,575 | 3,586 | 4.15 | % |
| Home equity | 32,081 | 841 | 3.50 | % | 31,734 | 865 | 3.64 | % |
| Commercial real estate loans | 220,199 | 7,828 | 4.75 | % | 186,794 | 7,430 | 5.32 | % |
| Residential construction | 7,254 | 219 | 4.04 | % | 4,430 | 137 | 4.13 | % |
| Commercial construction | 42,298 | 1,310 | 4.14 | % | 34,016 | 1,161 | 4.56 | % |
| Consumer loans | 2,412 | 117 | 6.49 | % | 2,362 | 116 | 6.57 | % |
| Commercial and industrial loans | 83,073 | 2,442 | 3.93 | % | 86,856 | 2,785 | 4.29 | % |
| Loans, net (2) | 501,986 | 16,115 | 4.29 | % | 461,767 | 16,080 | 4.66 | % |
| Other interest-earning assets | 13,655 | 23 | 0.23 | % | 22,722 | 44 | 0.26 | % |
| Total interest-earning assets | 558,888 | 18,110 | 4.33 | % | 551,315 | 18,198 | 4.41 | % |
| Non-interest earning assets | 37,205 | | | | 37,311 | | | |
| Total assets | $596,093 | | | | $588,626 | | | |
| Interest-bearing liabilities: | | | | | | | | |
| Deposits: | | | | | | | | |
| Money market accounts | $112,242 | $258 | 0.31 | % | $121,786 | $287 | 0.32 | % |
| Savings accounts (3) | 50,269 | 39 | 0.10 | % | 49,665 | 38 | 0.10 | % |
| NOW accounts | 41,667 | 253 | 0.81 | % | 39,186 | 280 | 0.96 | % |
| Certificates of deposit | 155,530 | 1,539 | 1.32 | % | 173,700 | 2,218 | 1.71 | % |
| Total interest-bearing deposits | 359,708 | 2,089 | 0.78 | % | 384,337 | 2,823 | 0.98 | % |
| Federal Home Loan Bank advances | 54,515 | 672 | 1.65 | % | 29,460 | 537 | 2.44 | % |
| Securities sold under agreement to repurchase | — | — | — | % | 9,684 | 9 | 0.12 | % |
| Total interest-bearing borrowings | 54,515 | 672 | 1.65 | % | 39,144 | 546 | 1.86 | % |
| Total interest-bearing liabilities | 414,223 | 2,761 | 0.89 | % | 423,481 | 3,369 | 1.06 | % |
| Demand deposits | 90,178 | | | | 73,072 | | | |
| Other non-interest bearing liabilities | 511 | | | | 843 | | | |
| Total liabilities | 504,912 | | | | 497,396 | | | |
| Total stockholders' equity | 91,181 | | | | 91,230 | | | |
| Total liabilities and stockholders' equity | $596,093 | | | | $588,626 | | | |
| Net interest-earning assets | $144,665 | | | | $127,834 | | | |
| Tax equivalent net interest income/interest rate spread (4) | | 15,349 | 3.44 | % | | 14,829 | 3.35 | % |
| Tax equivalent net interest margin (5) (net interest income as a percentage of interest-earning assets) | | | 3.67 | % | | | 3.60 | % |
| Ratio of interest-earning assets to interest-bearing liabilities | | | 134.92 | % | | | 130.19 | % |
| Less: tax equivalent adjustment (1) | | (768 ) | | | | (799 ) | | |
| | | $14,581 | | | | $14,030 | | |

Net interest income as reported in statement of operations

(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 income. 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. See 'Explanation of Use of Non-GAAP Financial Measurements'.
(5) See 'Explanation of Use of Non-GAAP Financial Measurements.'

46

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.

| | Nine Months Ended September 30, 2014 compared to 2013 Increase (Decrease) Due to | | |
|---|---|---|---|
| | Volume | Rate | Net |
| | (Dollars in Thousands) | | |
| Interest-earning assets: | | | |
| Investment securities (1) | $(602) | $500 | $(102) |
| Loans: | | | |
| Residential real estate loans | (28) | (200) | (228) |
| Home equity | 4 | (28) | (24) |
| Commercial real estate loans | 912 | (514) | 398 |
| Residential construction | 83 | (1) | 82 |
| Commercial construction | 212 | (63) | 149 |
| Consumer loans | 2 | (1) | 1 |
| Commercial and industrial loans | (118) | (225) | (343) |
| Total loans | 1,067 | (1,032) | 35 |
| Other interest-earning assets | (17) | (4) | (21) |
| Total interest-earning assets (2) | $448 | $(536) | $(88) |
| | | | |
| Interest-bearing liabilities: | | | |
| Deposits: | | | |
| Money market accounts | $(22) | $(7) | $(29) |
| Savings accounts (2) | 1 | — | 1 |
| NOW accounts | 17 | (44) | (27) |
| Certificates of deposit | (215) | (464) | (679) |
| Total interest-bearing deposits | (219) | (515) | (734) |
| Federal Home Loan Bank stock | 353 | (218) | 135 |
| Securities sold under agreement to repurchase | (4) | (5) | (9) |
| Total interest-bearing borrowings | 349 | (223) | 126 |
| Total interest-bearing liabilities | 130 | (738) | (608) |
| Increase (decrease) in net interest income (3) | $318 | $202 | $520 |

(1) The changes in state and municipal income are reflected on a tax equivalent basis using a tax rate of 41%.
(2) Includes interest on mortgagors' escrow deposits.
(3) The changes in interest income and net interest income are reflected on a tax equivalent basis and thus do not correspond to the statement of operations.

Net interest income, on a tax equivalent basis, increased $520,000, or 3.5%, to $15.3 million for the nine months ended September 30, 2014, compared to the nine months ended September 30, 2013. Net interest margin, on a tax equivalent basis, increased 7 basis points from 3.60% for the three months ended September 30, 2013 to 3.67% for the nine months ended September 30, 2014.

Interest and dividend income, on a tax equivalent basis, decreased $88,000, 0.5%, from $18.2 million for the nine months ended September 30, 2013 to $18.1 million for the nine months ended September 30, 2014. Average interest-earning assets increased $7.6 million, or 1.4%, from $551.3 million at September 30, 2013 to $558.9 million at September 30, 2014. Average loans increased $40.2 million, or 8.7%, primarily due to the increase in average commercial real estate loans of $33.4 million, or 17.9%.

Average investment securities decreased $23.6 million, or 35.3%, for the period due to the maturities in the U.S. Treasury and certificate of deposit investment portfolio. Other interest earning assets, consisting of overnight fed funds, decreased $9.1 million, or 39.9%. The tax equivalent yield on average interest-earning assets decreased 8 basis points to 4.33% for the nine months ended September 30, 2014, primarily as a result of lower market rates of interest.

Total interest expense decreased $608,000, or 18.0%, to $2.8 million for the nine months ended September 30, 2014 from $3.4 million for the nine months ended September 30, 2013, due to the $734,000, or 26.0%, decrease in deposit costs. Average interest-bearing liabilities decreased $9.3 million, or 2.2%, to $414.2 million for the nine months ended September 30, 2014 from $423.5 million for the nine months ended September 30, 2013. Rates paid on average interest-bearing liabilities declined 17 basis points from 1.06% for the nine months ended September 30, 2013 to 0.89% for the nine months ended September 30, 2014. The lower interest rate environment and management's strategic decision not to renew higher cost short term time deposits led to a decrease in rates paid for certificates of deposit of 39 basis points from 1.71% at September 30, 2013 to 1.32% for the nine months ended September 30, 2014. The cost of FHLB advances decreased 79 basis points from 2.44% for the nine months ended September 30, 2013 to 1.65% for the nine months ended September 30, 2014.

Provision for Loan Losses

The provision for loan losses increased $4.9 million from $270,000 for the nine months ended September 30, 2013 to $5.2 million for the nine months ended September 30, 2014. For the nine months ended September 30, 2014, net charge-offs increased $4.7 million from $195,000, or 0.04% of total average loans, for the nine months ended September 30, 2013, to $4.9 million, or 0.97% of total average loans. The increases in the provision for loan losses and net charge-offs were primarily related to three loan relationships (see "Nonperforming Assets"). Nonperforming loans increased $4.7 million, or 66.1%, from $7.2 million, or 1.54% of total loans, at September 30, 2013, to $11.9 million, or 2.32% of total loans, at September 30, 2014. The allowance for loan losses as a percentage of total loans increased from 0.95% at September 30, 2013 to 0.96% at September 30, 2014. The allowance for loan losses as a percentage of nonperforming loans decreased from 61.8% at September 30, 2013 to 41.4% at September 30, 2014.

Non-Interest Income

Non-interest income decreased $193,000, or 8.1%, from $2.4 million for the nine months ended September 30, 2013 to $2.2 million for the nine months ended September 30, 2014. Income from loan sales and servicing decreased $392,000, or 70.1%, due to a lower volume of mortgage origination activity as a result of an increase in interest rates, other non-interest income decreased $24,000, or 100%, and income from bank owned life insurance decreased $7,000, or 2.5%. These decreases were partially offset by increases in income from customer service fees, charges and commissions of $117,000, or 6.9%, a $34,000 gain on the sale of available-for-sale securities and a decrease of $79,000, or 51.3%, in OREO losses and write downs to current market values

Non-Interest Expenses

Non-interest expense of $14.1 million for the nine months ended September 30, 2014 increased $256,000, or 1.9%, from the nine months ended September 30, 2013. The increase was primarily due to the increase of $301,000, or 358.3%, in foreclosure and loan collection related expenses, an increase of $117,000, or 12.6%, in data processing expense, an increase of $128,000, or 71.5%, in FDIC insurance expense, an increase of $100,000, or 18.9%, in professional fees, an increase of $12,000, or 1.0%, in occupancy expense and an increase of $17,000, or 3.7%, in advertising expense. These increased expenses were partly offset by a decrease in salaries and benefits of $175,000, or

2.3%, a decrease in other non-interest expense of $126,000, or 6.5%, a decrease in furniture and equipment of $99,000, or 15.6%, and a decrease in stationery, supplies and postage of $19,000, or 9.0%.

Income Taxes

Income tax expense changed from a tax expense of $476,000 for the nine months ended September 30, 2013 to a tax benefit of $1.6 million for the nine months ended September 30, 2014. The tax benefit was the result of a change in the tax effective rate, the net loss due to the increase in the provision for loan losses, as well as the benefit of the tax-exempt investment income.

Explanation of Use of Non-GAAP Financial Measurements

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

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| | (Dollars in Thousands) | | | | (Dollars in Thousands) | | | |
| | Interest | Average Yield | Interest | Average Yield | Interest | Average Yield | Interest | Average Yield |
| Investment securities (no tax adjustment) | $390 | 3.94 % | $424 | 2.49 % | $1,204 | 3.72 % | $1,275 | 2.55 % |
| Tax equivalent adjustment (1) | 253 | | 267 | | 768 | | 799 | |
| Investment securities (tax equivalent basis) | $643 | 6.50 % | $691 | 4.06 % | $1,972 | 6.10 % | $2,074 | 4.15 % |
| | | | | | | | | |
| Net interest income (no tax adjustment) | $5,021 | | $4,641 | | $14,581 | | $14,030 | |
| Tax equivalent adjustment (1) | 253 | | 267 | | 768 | | 799 | |
| Net interest income (tax equivalent basis) | $5,274 | | $4,908 | | $15,349 | | $14,829 | |
| | | | | | | | | |
| Interest rate spread (no tax adjustment) | | 3.32 % | | 3.10 % | | 3.26 % | | 3.16 % |
| Net interest margin (no tax adjustment) | | 3.53 % | | 3.34 % | | 3.49 % | | 3.40 % |

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

Liquidity Management

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

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

asset/liability management policy.

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. At September 30, 2014, total cash and cash equivalents totaled $45.4 million, net of reserve requirements.

In addition, at September 30, 2014, the Company had the ability to borrow a total of approximately $111.3 million from the FHLB. On September 30, 2014, we had $66.0 million of such borrowings outstanding. The Company's unused borrowing capacity with the Federal Reserve Bank of Boston was approximately $43.3 million at September 30, 2014. In addition, we had the following available lines of credit to use as contingency funding sources: $4.0 million with Banker's Bank Northeast and available Fed Funds to purchase of $3.0 million.

Certificates of deposit due within one year of September 30, 2014 totaled $93.0 million, or 59.18%, of our certificates of deposit. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit

and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before September 30, 2015. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Capital Management

We are subject to various regulatory capital requirements administered by the Federal Deposit Insurance Corporation (FDIC), including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At September 30, 2014, the Company exceeded all of its regulatory capital requirements. The Company is considered "well capitalized" under regulatory guidelines. The Company is subject to the Federal Reserve Board's capital adequacy guidelines for bank holding companies (on a consolidated basis) substantially similar to those of the FDIC. The Company exceeded these requirements at September 30, 2014.

The Company's and Bank's actual capital amounts and ratios as of September 30, 2014 and December 31, 2013 are presented in the following tables:

| | Actual | | | Minimum for Capital Adequacy Purposes | | | Minimum to be Well Capitalized Under Prompt Corrective Action Provisions | | |
|---|---|---|---|---|---|---|---|---|---|
| | Amount | Ratio | | Amount | Ratio | | Amount | Ratio | |
| | (Dollars In Thousands) | | | | | | | | |
| As of September 30, 2014 | | | | | | | | | |
| Total Capital to Risk Weighted Assets | | | | | | | | | |
| Company | $93,513 | 18.1 | % | $41,248 | 8.0 | % | N/A | N/A | |
| Bank | $84,415 | 16.4 | % | $41,080 | 8.0 | % | $51,350 | 10.0 | % |
| Tier 1 Capital to Risk Weighted Assets | | | | | | | | | |
| Company | $88,585 | 17.2 | % | $20,624 | 4.0 | % | N/A | N/A | |
| Bank | $79,487 | 15.5 | % | $20,540 | 4.0 | % | $30,810 | 6.0 | % |
| Tier 1 Capital to Average Assets | | | | | | | | | |
| Company | $88,585 | 14.9 | % | $23,850 | 4.0 | % | N/A | N/A | |
| Bank | $79,487 | 13.2 | % | $24,053 | 4.0 | % | $30,066 | 5.0 | % |

| | Actual | | | Minimum for Capital Adequacy Purposes | | | Minimum to be Well Capitalized Under Prompt Corrective Action Provisions | | |
|---|---|---|---|---|---|---|---|---|---|
| | Amount | Ratio | | Amount | Ratio | | Amount | Ratio | |
| | (Dollars In Thousands) | | | | | | | | |
| As of December 31, 2013 | | | | | | | | | |
| Total Capital to Risk Weighted Assets | | | | | | | | | |
| Company | $96,446 | 19.6 | % | $39,424 | 8.0 | % | N/A | N/A | |
| Bank | $85,931 | 17.5 | % | $39,339 | 8.0 | % | $49,173 | 10.0 | % |
| Tier 1 Capital to Risk Weighted Assets | | | | | | | | | |
| Company | $91,814 | 18.6 | % | $19,712 | 4.0 | % | N/A | N/A | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Bank | $81,299 | 16.5 | % | $19,669 | 4.0 | % | $29,504 | 6.0 | % |
| Tier 1 Capital to Average Assets | | | | | | | | | |
| Company | $91,814 | 15.8 | % | $23,210 | 4.0 | % | N/A | N/A | |
| Bank | $81,299 | 14.0 | % | $23,172 | 4.0 | % | $28,965 | 5.0 | % |

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

Restrictions on Dividends

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

On January 24, 2014, the Company declared a cash dividend of $0.07 per share payable on February 21, 2014.

On April 24, 2014, the Company declared a cash dividend of $0.07 per share payable on May 21, 2014.

On July 24, 2014, the Company declared a cash dividend of $0.07 per share payable on August 21, 2014.

On October 24, 2014 the Company declared a cash dividend of $0.07 per share payable on November 20, 2014

Off-Balance Sheet Arrangements

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

Credit-Related Financial Instruments

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

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

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

| | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Commitments to grant loans | $43,716 | $17,904 |
| Unfunded commitments for construction loans | 16,276 | 29,339 |
| Unfunded commitments under lines of credit | 81,626 | 79,306 |
| Standby letters of credit | 1,001 | 1,311 |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment, and real estate.

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

The Company does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. The Company has issued conditional commitments in the form of standby letters of credit to guarantee payment on behalf of a customer and guarantee the performance of a customer to a third party. Standby letters of credit generally arise in connection with lending relationships. The credit risk involved in issuing these instruments is essentially the same as that involved in extending loans to customers. Contingent obligations under standby letters of credit totaled $1.0 million and $1.3 million at September 30, 2014 and December 31, 2013, respectively, and represent the maximum potential future payments the Company could be required to make. Typically, these instruments have terms of 12 months or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. Each customer is evaluated individually for creditworthiness under the same underwriting standards used for commitments to extend credit and on-balance sheet instruments. The Company's policies governing loan collateral apply to standby letters of credit at the time of credit extension. Loan-to-value ratios are generally consistent with loan-to-value requirements for other commercial loans secured by similar types of collateral. The fair value of the Company's standby letters of credit at September 30, 2014 and December 31, 2013 was not significant.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Qualitative Aspects of Market Risk

We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Our strategy for managing interest rate risk emphasizes: adjusting the maturities of borrowings; adjusting the investment

portfolio mix and duration; increasing our focus on shorter-term, adjustable-rate commercial and multi-family lending; selling fixed-rate mortgage loans; and periodically selling available-for-sale securities. We currently do not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments.

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

Quantitative Aspects of Market Risk

We analyze our interest rate sensitivity to manage the risk associated with interest rate movements through the use of interest income simulation. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are

"interest rate sensitive." An asset or liability is said to be "interest rate sensitive" within a specific time period if it will mature or reprice within that time period.

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

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

The table below sets forth an approximation of our exposure as a percentage of estimated net interest income for the next 12 month period using interest income simulation. The simulation uses projected repricing of assets and liabilities at September 30, 2014 on the basis of contractual maturities, anticipated repayments and scheduled rate adjustments. Prepayment rates can have a significant impact on interest income simulation. Because of the large percentage of loans we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that, in turn, affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe such assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate future mortgage-backed security and loan repayment activity.

The following table reflects changes in estimated net interest income for the Company at September 30, 2014 through September 30, 2015 under varying assumptions:

| Changes in Interest Rates (Basis Points) | Percentage Change in Estimated Net Interest Income over Twelve Months |
|---|---|
| Up 500 - 24 months | 0.3% |
| Up 400 - 24 months | 0.7% |
| Up 300 - 12 months shock | 3.1% |
| Up 200 - 12 months | 0.7% |
| Up 100 - 12 months shock | 1.3% |
| Base | |
| Down 100 - 12 months | (1.0)% |

As indicated in the table above, the results of a 100 shock and 200 basis increment increase in interest rates is estimated to increase net interest income over a 12-month time horizon by 1.3% and 0.7%, respectively. A 300 basis point shock increase over 12-months is estimated to increase net interest income by 3.1%. A 400 basis point increase in market interest rates over a 24-month time horizon is estimated to increase net interest income by 0.7% and 500 basis point increase in market interest rates over a 24-month time horizon is estimated to decrease net interest income by 0.3% in the first twelve months. A 100 basis point gradual decrease over a 12-month time horizon is estimated to decrease net interest income by 1.0%.

53

Item 4. Controls and Procedures.

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

There have been no changes in the Company's internal control over financial reporting during the three months ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2013, which could materially affect our business, financial condition or future results. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations. At September 30, 2014, the risk factors for the Company have not changed materially from those reported in our 2013 Annual Report on Form 10-K. However, the risks described in our 2013 Annual Report on Form 10-K are not the only risks that we face.

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

On June 1, 2012, the Company announced that the Board of Directors authorized a Seventh Stock Repurchase Program (the "Seventh Stock Repurchase Program") for the purchase of up to 272,000 shares of the Company's stock, or 5% of the Company's then outstanding common stock. During the nine months ended September 30, 2014, the Company repurchased 134,915 shares of Company stock at an average price per share of $16.38. The following table provides information regarding the Company's purchase of its equity securities during the three months ended September 30, 2014:

54

| Period | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid Per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| July 1-31, 2014 | 37,072 | $16.71 | 97,955 | 174,045 |
| August 1-31, 2014 | 8,314 | 16.06 | 106,269 | 165,731 |
| September 1-30, 2014 | 65,000 | 16.00 | 171,269 | 100,731 |
| Total | 110,386 | $16.24 | | |

The Company may want to repurchase its shares under the Seventh Repurchase Program from time to time at prevailing prices in the open market, in block transactions or in privately negotiated transactions. Repurchases will be made under rule 10b-5(1) repurchase plans. The repurchased shares will be held by the Company as treasury stock and will be available for general corporate purposes.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

| | |
|---|---|
| 3.1 | Articles of Incorporation of Chicopee Bancorp, Inc. (1) |
| 3.2 | Bylaws of Chicopee Bancorp, Inc. (2) |
| 4.0 | Stock Certificate of Chicopee Bancorp, Inc. (1) |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer |
| 32.0 | Section 1350 Certification |
| 101.0 | The following financial information from Chicopee Bancorp Inc.'s Quarterly Report on Form 10-Q for the nine months ended September 30, 2014, formatted in XBRL (Extensible Business Reporting Language) includes: (i) the Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013, (ii) the Consolidated Statements of Operations for each of the three and nine months ended September 30, 2014 and 2013, (iii) the Consolidated Statement of Comprehensive Income (Loss) for each of the three and nine months ended September 30, 2014 and 2013, (iv) the Consolidated Changes in Stockholders' Equity for the nine months ended September 30, 2014 and 2013, (v) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013, and (vi) the Notes to Consolidated Financial Statements, tagged in summary and detail. |

---

(1) Incorporated herein by reference to the Exhibits to the Company’s Registration Statement on Form S-1 (File No. 333-132512), as amended, initially filed with the Securities and Exchange Commission on March 17, 2006.

(2) Incorporated herein by reference to Exhibit 3.2 to the Company’s 8-K (File No. 000-51996) filed with the Securities and Exchange Commission on August 1, 2007.

SIGNATURES

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

CHICOPEE BANCORP, INC.

| | | |
|---|---|---|
| Dated: November 10, 2014 | By: | /s/ William J. Wagner<br>William J. Wagner<br>Chairman of the Board, President and<br>Chief Executive Officer<br>(principal executive officer) |
| Dated: November 10, 2014 | By: | /s/ Guida R. Sajdak<br>Guida R. Sajdak<br>Senior Vice President,<br>Chief Financial Officer and Treasurer<br>(principal financial and chief<br>accounting officer) |