

CHICOPEE BANCORP, INC.
Form 10-Q
August 08, 2016

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

FORM 10-Q

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

For the quarterly period ended June 30, 2016

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 No

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

Yes No

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

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

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

As of August 2, 2016, there were 5,222,339 shares of the Registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars In Thousands)

(Unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	\$8,740	\$ 9,975
Federal funds sold	4,619	4,613
Interest-bearing deposits with the Federal Reserve Bank of Boston	20,933	13,641
Total cash and cash equivalents	34,292	28,229
Securities available-for-sale, at fair value	406	426
Securities held-to-maturity, at cost (fair value of \$31,618 at June 30, 2016 and \$32,935 at December 31, 2015)	31,591	32,229
Federal Home Loan Bank stock, at cost	4,225	4,764
Loans, net of allowance for loan losses of \$5,743 at June 30, 2016 and \$5,615 at December 31, 2015	599,296	580,959
Loans held for sale	596	296
Other real estate owned	1,061	1,435
Mortgage servicing rights	158	192
Bank owned life insurance	15,044	14,881
Premises and equipment, net	8,305	8,509
Accrued interest and dividends receivable	1,728	1,668
Deferred income tax asset	3,787	3,780
Other assets	1,300	1,206
Total assets	\$701,789	\$ 678,574
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Demand deposits	\$116,463	\$ 102,424
NOW accounts	46,967	45,228
Savings accounts	54,872	52,359
Money market deposit accounts	125,459	116,226
Certificates of deposit	196,873	190,872
Total deposits	540,634	507,109
Federal Home Loan Bank of Boston advances	70,454	81,330
Accrued expenses and other liabilities	948	861
Total liabilities	612,036	589,300
Stockholders' equity		
Common stock (no par value, 20,000,000 shares authorized, 7,439,368 shares issued; 5,222,339 and 5,210,739 shares outstanding at June 30, 2016 and December 31, 2015, respectively)	72,479	72,479
	(30,169)	(30,327)

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Treasury stock, at cost (2,217,029 and 2,228,629 shares at June 30, 2016 and December 31, 2015, respectively)

Additional paid-in-capital	4,289	4,111
Unearned compensation (restricted stock awards)	—	(1)
Unearned compensation (Employee Stock Ownership Plan)	(2,827)	(2,976)
Retained earnings	45,957	45,951
Accumulated other comprehensive income	24	37
Total stockholders' equity	89,753	89,274
Total liabilities and stockholders' equity	\$701,789	\$ 678,574

See accompanying notes to unaudited consolidated financial statements.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

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

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Interest and dividend income:				
Loans, including fees	\$6,143	\$ 5,877	\$12,196	\$ 11,481
Interest and dividends on securities	385	376	773	753
Interest on other interest-earning assets	28	20	60	39
Total interest and dividend income	6,556	6,273	13,029	12,273
Interest expense:				
Deposits	750	703	1,477	1,415
Federal Home Loan Bank of Boston advances	297	317	603	581
Total interest expense	1,047	1,020	2,080	1,996
Net interest income	5,509	5,253	10,949	10,277
Provision for loan losses	121	207	176	607
Net interest income, after provision for loan losses	5,388	5,046	10,773	9,670
Non-interest income:				
Service charges, fees and commissions	633	584	1,222	1,099
Net loan sales and servicing	60	77	135	116
Net gain on sale of other real estate owned	20	—	21	—
Other real estate owned writedowns	—	—	(104)	—
Increase in cash surrender value of bank owned life insurance	78	87	163	175
Total non-interest income	791	748	1,437	1,390
Non-interest expenses:				
Salaries and employee benefits	2,701	2,571	5,409	5,107
Occupancy expenses	384	370	804	844
Furniture and equipment	155	168	308	349
FDIC insurance and assessment	103	118	209	241
Data processing services	447	431	911	842
Professional fees	128	202	339	380
Advertising expense	160	144	320	289
Stationery, supplies and postage	55	56	143	132
Foreclosure expense	78	94	163	254
Merger related expenses	775	—	775	—
Other non-interest expense	602	620	1,250	1,206
Total non-interest expenses	5,588	4,774	10,631	9,644
Income before income taxes	591	1,020	1,579	1,416
Income tax expense	370	278	661	360
Net income	\$221	\$ 742	\$918	\$ 1,056

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Earnings per share:

Basic	\$0.04	\$ 0.15	\$0.19	\$ 0.21
Diluted	\$0.04	\$ 0.15	\$0.18	\$ 0.21

Adjusted weighted average shares outstanding:

Basic	4,924,764	4,943,290	4,919,896	4,942,965
Diluted	5,046,062	5,018,601	5,039,791	5,015,703

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,	
	2016	2015
Net income	\$221	\$742
Other comprehensive (loss) income, net of tax		
Unrealized holding (losses) gains arising during period on securities available-for-sale	(17)	1
Tax effect	6	—
Total other comprehensive (loss) income, net of tax	(11)	1
Total comprehensive income	\$210	\$743
	Six Months Ended June 30,	
	2016	2015
Net income	\$918	\$1,056
Other comprehensive loss, net of tax		
Unrealized holding losses arising during period on securities available-for-sale	(20)	(14)
Tax effect	7	5
Total other comprehensive loss, net of tax	(13)	(9)
Total comprehensive income	\$905	\$1,047

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Six Months Ended June 30, 2016 and 2015
(Dollars In Thousands)
(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Unearned Compensation (stock awards)	Unearned Compensation (Employee Stock Ownership Plan)	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2014	\$72,479	\$(29,119)	\$3,595	\$ (7)	\$(3,273)	\$44,430	\$ 29	\$88,134
Comprehensive income:								
Net income	—	—	—	—	—	1,056	—	1,056
Change in net unrealized gain on available-for-sale securities (net of deferred income taxes of \$5)	—	—	—	—	—	—	(9)	(9)
Total comprehensive income								1,047
Stock option expense	—		53	—	—	—	—	53
Stock options exercised (800 shares)	—	13	(2)	—	—	—	—	11
Change in unearned compensation:								
Restricted stock award expense	—	—	—	3	—	—	—	3
Common stock held by ESOP committed to be released	—	—	97	—	149	—	—	246
Cash dividends declared (\$0.14 per share)	—	—	—	—	—	(715)	—	(715)
Balance at June 30, 2015	\$72,479	\$(29,106)	\$3,743	\$ (4)	\$(3,124)	\$44,771	\$ 20	\$88,779
Balance at December 31, 2015	\$72,479	\$(30,327)	\$4,111	\$ (1)	\$(2,976)	\$45,951	\$ 37	\$89,274
Comprehensive income:								
Net income	—	—	—	—	—	918	—	918
Change in net unrealized gain on available-for-sale securities (net of deferred income taxes of \$7)	—	—	—	—	—	—	(13)	(13)
Total comprehensive income								905
Stock option expense	—	—	51	—	—	—	—	51
Stock options exercised (11,600 shares)	—	158	8	—	—	—	—	166

Change in unearned
compensation:

Restricted stock award expense	—	—	—	1	—	—	—	1
Common stock held by ESOP committed to be released	—	—	119	—	149	—	—	268
Cash dividends declared (\$0.18 per share)	—	—	—	—	—	(912)	—	(912)
Balance at June 30, 2016	\$72,479	\$(30,169)	\$4,289	\$ —	\$(2,827)	\$45,957	\$ 24	\$89,753

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30,	
	2016	2015
	(In Thousands)	
Cash flows from operating activities:		
Net income	\$918	\$1,056
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	336	359
Loss on disposal of premises and equipment	13	—
Provision for loan losses	176	607
Increase in cash surrender value of bank owned life insurance	(163)	(175)
Change in mortgage servicing rights	34	47
Net loss on other real estate owned	83	—
Loans originated for sale	(2,761)	(1,212)
Proceeds from loan sales	2,514	1,228
Realized gains on sales of mortgage loans	(53)	(16)
(Increase) decrease in other assets	(95)	299
Increase in accrued interest and dividends receivable	(60)	(130)
Increase in other liabilities	88	7
Change in unearned compensation	269	249
Stock option expense	51	53
Net cash provided by operating activities	1,350	2,372
Cash flows from investing activities:		
Purchase of premises and equipment	(145)	(252)
Loan originations, net of principal payments	(18,513)	(47,890)
Proceeds from sales of other real estate owned	291	185
Proceeds from principal paydowns of held-to-maturity securities	638	646
Redemption (purchase) of Federal Home Loan Bank stock	539	(691)
Net cash used by investing activities	(17,190)	(48,002)
Cash flows from financing activities:		
Net increase in deposits	33,525	9,194
Proceeds from long-term FHLB advances	—	33,100
Repayments of long-term FHLB advances	(15,876)	(9,713)
Proceeds from short-term FHLB advances	5,000	—
Cash dividends paid on common stock	(912)	(715)
Stock options exercised	166	11
Net cash provided by financing activities	21,903	31,877
Net increase (decrease) in cash and cash equivalents	6,063	(13,753)
Cash and cash equivalents at beginning of period	28,229	49,769
Cash and cash equivalents at end of period	\$34,292	\$36,016
Supplemental cash flow information:		

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Interest paid on deposits	\$1,477	\$1,415
Interest paid on borrowings	622	559
Income taxes paid	212	299
Transfers from loans to other real estate owned	—	195

See accompanying notes to unaudited consolidated financial statements.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
June 30, 2016 and 2015

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 June 30, 2016 and for the periods ended June 30, 2016 and 2015 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, 2015 included in the Company's Annual Report on Form 10-K.

The results for the six months ended June 30, 2016 are not necessarily indicative of the operating results for a full year.

2. Earnings Per Share

Basic earnings 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 per share have been computed based on the following:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(\$ in thousands, except share data)	2016	2015	2016	2015
Net income	\$221	\$ 742	\$918	\$ 1,056
Average number of shares issued	7,439,368	7,439,368	7,439,368	7,439,368
Less: average number of treasury shares	(2,217,002)	(2,168,346)	(2,221,745)	(2,168,521)
Less: average number of unallocated ESOP shares	(297,571)	(327,332)	(297,571)	(327,332)
Less: average number of outstanding restricted stock awards	—	(400)	(152)	(550)
Adjusted weighted average number of common shares outstanding	4,924,764	4,943,290	4,919,896	4,942,965
Plus: dilutive outstanding restricted stock awards	—	122	146	228
Plus: dilutive outstanding stock options	121,298	75,189	119,749	72,510
Weighted average number of diluted shares outstanding	5,046,062	5,018,601	5,039,791	5,015,703

Net income per share:				
Basic-common stock	\$0.04	\$ 0.15	\$0.19	\$ 0.21
Basic-unvested share-based payment awards	\$0.04	\$ 0.15	\$0.19	\$ 0.21
Diluted-common stock	\$0.04	\$ 0.15	\$0.18	\$ 0.21
Diluted-unvested share-based payment awards	\$0.04	\$ 0.15	\$0.18	\$ 0.21

There were 634,000 stock options that were not included in the calculation of diluted earnings per share for the six months ended June 30, 2016 because the effect was anti-dilutive. There were 87,000 stock options that were not included in the calculation of diluted earnings per share for the six months ended June 30, 2015 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. There were no stock options granted during the six month periods ended June 30, 2016 or 2015.

A summary of options under the Plan as of June 30, 2016, and changes during the six months ended June 30, 2016, 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, 2015	646,098	\$ 14.55	2.79	\$ 1,800
Exercised	(11,600)	14.29	1.07	43
Forfeited or expired	—	—	—	—
Outstanding at June 30, 2016	634,498	\$ 14.56	2.31	\$ 2,348
Exercisable at June 30, 2016	588,897	\$ 14.45	2.00	\$ 2,245
Exercisable at June 30, 2015	570,097	\$ 14.39	2.76	\$ 1,547

The weighted-average grant-date fair value of the options outstanding and exercisable at June 30, 2016 was \$3.81 and \$3.83, respectively. For the six months ended June 30, 2016, share based compensation expense applicable to options granted under the Plan was \$51,000. For the six months ended June 30, 2015, share based compensation expense applicable to options granted under the Plan was \$53,000. As of June 30, 2016, unrecognized stock-based compensation expense related to non-vested options amounted to \$110,000. This amount is expected to be recognized over a period of 1.31 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 Company recorded compensation cost related to stock awards of approximately \$1,000 and \$3,000 for each of the six month periods ended June 30, 2016 and 2015, respectively. There were no stock awards granted prior to July 1, 2007. There were no stock awards granted by the Company during the six months ended June 30, 2016 and 2015. The Company granted 2,000 stock awards during the year ended December 31, 2011 with a grant price of \$14.08. As of June 30, 2016, there was no unrecognized stock-based compensation expense related to non-vested restricted stock awards.

A summary of the status of the Company's stock awards as of June 30, 2016, and changes during the six months ended June 30, 2016, is as follows:

Nonvested Shares	Number of Shares	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2015	400	\$ 14.08
Vested	400	14.08
Outstanding at June 30, 2016	—	\$ —

4. Long-term Incentive Plan

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

A total of 150,000 phantom stock units are available for awards under the Phantom Stock Plan. The only awards that may be granted under the Phantom Stock Plan are Phantom Stock Units. A Phantom Stock Unit represents the right to receive a cash payment on the determination date equal to the book value of a share of the Company's stock on the determination date. The settlement of a Phantom Stock Unit on the determination date shall be in cash. Unless the Compensation Committee of the Board of Directors of the Company determines otherwise, the required period of service for full vesting will be three years. The Company's total expense under the Phantom Stock Plan for the six months ended June 30, 2016 and 2015, was \$140,000 and \$13,000, respectively. There were 11,365 phantom stock units granted during the six months ended June 30, 2016. There were no phantom stock units granted during the six months ended June 30, 2015. As of June 30, 2016 and December 31, 2015, 14,308 and 7,016 phantom stock units were outstanding.

5. Recent Accounting Pronouncements (Applicable to the Company)

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

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

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

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of the adoption of the ASU on its consolidated financial statements.

In March 2016, FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU was issued to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of the ASU on its consolidated financial statements.

In June 2016, FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Under the new guidance, which will replace the existing incurred loss model for recognizing credit losses, banks and other lending institutions will be required to recognize the full amount of expected credit losses. The new guidance, which is referred to as the current expected credit loss model, requires that expected credit losses for financial assets held at the reporting date that are accounted for at amortized cost be measured and recognized based on historical experience and current and reasonably supportable forecasted conditions to reflect the full amount of expected credit losses. A modified version of these requirements also applies to debt securities classified as available for sale. The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within such years. The Company is evaluating the potential impact of the ASU on its 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:

	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities:				
Marketable equity securities	\$369	\$ 37	\$	—\$406
Total available-for-sale securities	\$369	\$ 37	\$	—\$406
Held-to-maturity securities:				
Corporate and industrial revenue bonds	\$31,472	\$ 24	\$	—\$31,496
Collateralized mortgage obligations	119	3	—	122
Total held-to-maturity securities	\$31,591	\$ 27	\$	—\$31,618
Non-marketable securities:				
Federal Home Loan Bank stock	\$4,225	\$ —	\$	—\$4,225
Banker's Bank Northeast stock	183	—	—	183
Total non-marketable securities	\$4,408	\$ —	\$	—\$4,408
	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities:				
Marketable equity securities	\$369	\$ 57	\$	—\$426
Total available-for-sale securities	\$369	\$ 57	\$	—\$426
Held-to-maturity securities:				
Corporate and industrial revenue bonds	\$32,029	\$ 700	\$	—\$32,729
Collateralized mortgage obligations	200	6	—	206
Total held-to-maturity securities	\$32,229	\$ 706	\$	—\$32,935
Non-marketable securities:				
Federal Home Loan Bank stock	\$4,764	\$ —	\$	—\$4,764
Banker's Bank Northeast stock	183	—	—	183
Total non-marketable securities	\$4,947	\$ —	\$	—\$4,947

The amortized cost and estimated fair value of debt securities by contractual maturity at June 30, 2016 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	7,771	7,963
Due after five years through ten years	6,458	6,413
Due after ten years	17,362	17,242
Total	\$31,591	\$31,618

There were no sales of available-for-sale securities during the six months ended June 30, 2016 and 2015.

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

Unrealized Losses on Investment Securities

There were no continuous unrealized losses as of June 30, 2016 and December 31, 2015.

Non-Marketable Securities

The Company is a member of the Federal Home Loan Bank of Boston (“FHLB”). The FHLB is a cooperatively owned wholesale bank for housing and finance in the six New England States. Its mission is to support the residential mortgage and community development lending activities of its members, which include over 450 financial institutions across New England. As a requirement of membership in the FHLB, the Company must own a minimum required amount of FHLB stock, calculated periodically based primarily on the Company’s level of borrowings from the FHLB. The Company uses the FHLB for much of its wholesale funding needs. The Company’s investment in FHLB stock totaled \$4.2 million and \$4.8 million at June 30, 2016 and December 31, 2015, respectively.

FHLB stock is a non-marketable equity security and therefore is reported at cost, which equals par value. Shares held in excess of the minimum required amount are generally redeemable at par value. For each of the six months ended June 30, 2016 and 2015, the Company received \$83,000 and \$35,000, 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 June 30, 2016 and the Company will continue to monitor its FHLB stock investment.

Banker’s Bank Northeast (BBN) stock is reported under other assets in the consolidated statement of financial condition and is carried at cost. The BBN stock investment is evaluated for impairment based on an estimate of the ultimate recovery to par value. As of June 30, 2016 and December 31, 2015, the Company’s investment in BBN totaled \$183,000. There have not been any impairment losses recorded through June 30, 2016 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.

	June 30, 2016		December 31, 2015	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars In Thousands)			
Real estate loans:				
Residential	\$133,980	22.2 %	\$127,610	21.8 %
Home equity	41,868	6.9 %	39,554	6.8 %
Commercial	297,673	49.3 %	287,849	49.1 %
Total	473,521	78.4 %	455,013	77.7 %
Construction-residential	6,936	1.2 %	8,490	1.5 %
Construction-commercial	50,077	8.3 %	48,128	8.2 %
Total	57,013	9.5 %	56,618	9.7 %
Total real estate loans	530,534	87.9 %	511,631	87.4 %
Consumer loans	2,646	0.4 %	2,516	0.4 %
Commercial and industrial loans	70,927	11.7 %	71,530	12.2 %
Total loans	604,107	100.0 %	585,677	100.0 %
Deferred loan origination costs, net	932		897	
Allowance for loan losses	(5,743)		(5,615)	
Loans, net	\$599,296		\$580,959	

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 June 30, 2016 and December 31, 2015, the Company was servicing loans for participating lenders totaling \$20.9 million and \$23.7 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 \$819,000 and \$1.2 million in residential real estate loans to the secondary market during the six month periods ended June 30, 2016 and 2015, respectively. The unpaid principal balance of residential real estate loans serviced for others was \$79.8 million at June 30, 2016 and \$82.1 million at December 31, 2015. Management expects to continue to retain servicing rights on all loans written and sold in the secondary market.

Credit Quality

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

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

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

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

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

The following describes the credit risk ratings for classified assets:

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

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

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

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

The following table presents an analysis of total loans segregated by risk rating and segment as of June 30, 2016:

	Commercial Credit Risk Exposure			
	Commercial and Industrial	Commercial Construction	Commercial Real Estate	Total
	(In Thousands)			
Pass	\$61,962	\$ 44,823	\$ 284,821	\$391,606
Special mention	5,852	5,041	8,346	19,239
Substandard	3,113	213	4,506	7,832
Total commercial loans	\$70,927	\$ 50,077	\$ 297,673	\$418,677

	Residential Credit Risk Exposure		
	Residential Real Estate	Residential Construction	Total
	(In Thousands)		
Performing	\$129,684	\$ 6,936	\$136,620
Nonperforming	4,296	—	4,296
Total residential loans (1)	\$133,980	\$ 6,936	\$140,916

Consumer Credit Risk Exposure

	Consumer	Home Equity	Total
	(In Thousands)		
Performing	\$2,631	\$ 41,587	\$44,218
Nonperforming	15	281	296
Total consumer loans	\$2,646	\$ 41,868	\$44,514

(1) At June 30, 2016, the Company had a total of \$252,000 in residential real estate loans in the process of foreclosure.

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

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

	Residential Credit Risk Exposure		
	Residential Real Estate	Residential Construction	Total
	(In Thousands)		
Performing	\$123,697	\$ 8,490	\$132,187
Nonperforming	3,913	—	3,913
Total residential loans (1)	\$127,610	\$ 8,490	\$136,100

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

(1) At December 31, 2015, the Company had a total of \$63,000 in residential real estate loans in the process of foreclosure.

Allowance for Loan Losses

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

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

Loans charged off

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

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

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

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

General Component

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

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

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

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

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

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

Consumer and home equity loans may entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition,

consumer loan collections depend on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

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

Allocated Component

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

Loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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

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

During the six months ended June 30, 2016, 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 and select loan information as of and for the three months ended June 30, 2016:

	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 March 31, 2016	\$730	\$ 81	\$ 3,037	\$ 772	\$ 841	\$ 28	\$ 195	\$5,684
Provision for (reduction of) loan losses	(26)	(8)	46	43	(12)	23	55	121
Recoveries	—	—	—	—	9	—	1	10
Loans charged off	(32)	—	—	—	(19)	(21)	—	(72)
Balance as of June 30, 2016	\$672	\$ 73	\$ 3,083	\$ 815	\$ 819	\$ 30	\$ 251	\$5,743

The following table presents the allowance for loan losses and select loan information as of and for the six months ended June 30, 2016:

	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, 2015	\$658	\$ 89	\$ 3,012	\$ 783	\$ 856	\$ 31	\$ 186	\$5,615
Provision for (reduction of) loan losses	29	(16)	71	32	(36)	35	61	176
Recoveries	17	—	—	—	18	—	4	39
Loans charged off	(32)	—	—	—	(19)	(36)	—	(87)
Balance as of June 30, 2016	\$672	\$ 73	\$ 3,083	\$ 815	\$ 819	\$ 30	\$ 251	\$5,743

Allowance for loan losses

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Collectively evaluated for impairment	\$535	\$ 73	\$ 3,045	\$ 815	\$ 727	\$ 30	\$194	\$5,419
Individually evaluated for impairment	137	—	38	—	92	—	57	324
Total ending balance	\$672	\$ 73	\$ 3,083	\$ 815	\$ 819	\$ 30	\$251	\$5,743
Total loans								
Collectively evaluated for impairment	\$129,684	\$ 6,936	\$ 295,775	\$ 49,864	\$ 68,257	\$ 2,646	\$41,587	\$594,749
Individually evaluated for impairment	4,296	—	1,898	213	2,670	—	281	9,358
Total ending balance	\$133,980	\$ 6,936	\$ 297,673	\$ 50,077	\$ 70,927	\$ 2,646	\$41,868	\$604,107

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

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial and Industrial	Consumer Loans	Home Equity	Total
Allowance for loan losses (In Thousands)								
Balance as of December 31, 2014	\$486	\$ 107	\$ 2,699	\$ 568	\$ 879	\$ 35	\$ 153	\$4,927
Provision for (reduction of) loan losses	306	(18)	403	177	4	24	45	941
Recoveries	27	—	3	38	12	29	4	113
Loans charged off	(161)	—	(93)	—	(39)	(57)	(16)	(366)
Balance as of December 31, 2015	\$658	\$ 89	\$ 3,012	\$ 783	\$ 856	\$ 31	\$ 186	\$5,615
Allowance for loan losses								
Collectively evaluated for impairment	\$513	\$ 89	\$ 2,988	\$ 783	\$ 746	\$ 31	\$ 185	\$5,335
Individually evaluated for impairment	145	—	24	—	110	—	1	280
Total ending balance	\$658	\$ 89	\$ 3,012	\$ 783	\$ 856	\$ 31	\$ 186	\$5,615
Total loans								
Collectively evaluated for impairment	\$123,697	\$ 8,490	\$ 286,519	\$ 47,915	\$ 68,765	\$ 2,516	\$ 39,366	\$577,268
Individually evaluated for impairment	3,913	—	1,330	213	2,765	—	188	8,409
Total ending balance	\$127,610	\$ 8,490	\$ 287,849	\$ 48,128	\$ 71,530	\$ 2,516	\$ 39,554	\$585,677

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

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial and Industrial	Consumer Loans	Home Equity	Total
Allowance for loan losses (In Thousands)								
Balance as of March 31, 2015	\$546	\$ 100	\$ 2,849	\$ 651	\$ 850	\$ 36	\$ 152	\$5,184
Provision for (reduction of) loan losses	24	(40)	291	(59)	(31)	3	19	207
Recoveries	—	—	1	38	4	6	1	50
Loans charged off	—	—	(3)	—	(9)	(14)	(16)	(42)
Balance as of June 30, 2015	\$570	\$ 60	\$ 3,138	\$ 630	\$ 814	\$ 31	\$ 156	\$5,399

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

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial and Industrial	Consumer Loans	Home Equity	Total
Allowance for loan losses (In Thousands)								
Balance as of December 31, 2014	\$486	\$ 107	\$2,699	\$ 568	\$ 879	\$ 35	\$153	\$4,927
Provision for (reduction of) loan losses	169	(47)	444	24	(7)	7	17	607
Recoveries	—	—	1	38	4	14	2	59
Loans charged off	(85)	—	(6)	—	(62)	(25)	(16)	(194)
Balance as of June 30, 2015	\$570	\$ 60	\$3,138	\$ 630	\$ 814	\$ 31	\$156	\$5,399
Allowance for loan losses								
Collectively evaluated for impairment	\$525	\$ 60	\$3,112	\$ 630	\$ 784	\$ 31	\$155	\$5,297
Individually evaluated for impairment	45	—	26	—	30	—	1	102
Total ending balance	\$570	\$ 60	\$3,138	\$ 630	\$ 814	\$ 31	\$156	\$5,399
Total loans								
Collectively evaluated for impairment	\$122,101	\$ 5,732	\$289,786	\$ 36,854	\$ 71,223	\$ 2,599	\$35,247	\$563,542
Individually evaluated for impairment	3,224	—	2,032	734	1,663	—	183	7,836
Total ending balance	\$125,325	\$ 5,732	\$291,818	\$ 37,588	\$ 72,886	\$ 2,599	\$35,430	\$571,378

Impairment

The following table presents a summary of information pertaining to impaired loans by segment as of and for the three months ended June 30, 2016:

	Recorded Investment	Unpaid Balance	Average Recorded Investment	Related Allowance	Interest Income Recognized
	(In Thousands)				
Impaired loans without a valuation allowance:					
Residential real estate	\$2,588	\$2,795	\$ 2,507	\$ —	\$ 23
Residential construction	—	—	—	—	—
Commercial real estate	1,260	1,910	1,092	—	20
Commercial construction	213	213	213	—	3
Commercial and industrial	2,190	2,190	2,152	—	21
Consumer	—	—	—	—	—
Home equity	106	107	134	—	1
Total	\$6,357	\$7,215	\$ 6,098	\$ —	\$ 68
Impaired loans with a valuation allowance:					
Residential real estate	\$1,708	\$1,709	\$ 1,800	\$ 137	\$ 18
Residential construction	—	—	—	—	—
Commercial real estate	638	638	528	38	9
Commercial construction	—	—	—	—	—
Commercial and industrial	480	480	483	92	3
Consumer	—	—	—	—	—
Home equity	175	174	126	57	1
Total	\$3,001	\$3,001	\$ 2,937	\$ 324	\$ 31
Total impaired loans:					
Residential real estate	\$4,296	\$4,504	\$ 4,307	\$ 137	\$ 41
Residential construction	—	—	—	—	—
Commercial real estate	1,898	2,548	1,620	38	29
Commercial construction	213	213	213	—	3
Commercial and industrial	2,670	2,670	2,635	92	24
Consumer	—	—	—	—	—
Home equity	281	281	260	57	2
Total	\$9,358	\$10,216	\$ 9,035	\$ 324	\$ 99

The \$9.4 million of impaired loans include \$7.0 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 six months ended June 30, 2016:

	Recorded Investment	Unpaid Balance	Average Recorded Investment	Related Allowance	Interest Income Recognized
	(In Thousands)				
Impaired loans without a valuation allowance:					
Residential real estate	\$2,588	\$2,795	\$ 2,425	\$ —	\$ 52
Residential construction	—	—	—	—	—
Commercial real estate	1,260	1,910	1,031	—	34
Commercial construction	213	213	213	—	6
Commercial and industrial	2,190	2,190	2,186	—	43
Consumer	—	—	—	—	—
Home equity	106	107	129	—	2
Total	\$6,357	\$7,215	\$ 5,984	\$ —	\$ 137
Impaired loans with a valuation allowance:					
Residential real estate	\$1,708	\$1,709	\$ 1,750	\$ 137	\$ 43
Residential construction	—	—	—	—	—
Commercial real estate	638	638	493	38	17
Commercial construction	—	—	—	—	—
Commercial and industrial	480	480	492	92	10
Consumer	—	—	—	—	—
Home equity	175	174	107	57	3
Total	\$3,001	\$3,001	\$ 2,842	\$ 324	\$ 73
Total impaired loans:					
Residential real estate	\$4,296	\$4,504	\$ 4,175	\$ 137	\$ 95
Residential construction	—	—	—	—	—
Commercial real estate	1,898	2,548	1,524	38	51
Commercial construction	213	213	213	—	6
Commercial and industrial	2,670	2,670	2,678	92	53
Consumer	—	—	—	—	—
Home equity	281	281	236	57	5
Total	\$9,358	\$10,216	\$ 8,826	\$ 324	\$ 210

The \$9.4 million of impaired loans include \$7.0 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 year ended December 31, 2015:

	Recorded Investment	Unpaid Balance	Average Recorded Investment	Related Allowance	Interest Income Recognized
	(In Thousands)				
Impaired loans without a valuation allowance:					
Residential real estate	\$2,262	\$2,402	\$ 2,631	\$ —	\$ 105
Residential construction	—	—	—	—	—
Commercial real estate	908	1,559	1,679	—	90
Commercial construction	213	213	1,144	—	14
Commercial and industrial	2,255	2,255	1,484	—	71
Consumer	—	—	—	—	—
Home equity	119	119	210	—	3
Total	\$5,757	\$6,548	\$ 7,148	\$ —	\$ 283
Impaired loans with a valuation allowance:					
Residential real estate	\$1,651	\$1,651	\$ 1,113	\$ 145	\$ 64
Residential construction	—	—	—	—	—
Commercial real estate	422	422	527	24	21
Commercial construction	—	—	—	—	—
Commercial and industrial	510	510	366	110	24
Consumer	—	—	—	—	—
Home equity	69	69	63	1	3
Total	\$2,652	\$2,652	\$ 2,069	\$ 280	\$ 112
Total impaired loans:					
Residential real estate	\$3,913	\$4,053	\$ 3,744	\$ 145	\$ 169
Residential construction	—	—	—	—	—
Commercial real estate	1,330	1,981	2,206	24	111
Commercial construction	213	213	1,144	—	14
Commercial and industrial	2,765	2,765	1,850	110	95
Consumer	—	—	—	—	—
Home equity	188	188	273	1	6
Total	\$8,409	\$9,200	\$ 9,217	\$ 280	\$ 395

The \$8.4 million of impaired loans include \$6.4 million of non-accrual loans. The remaining impaired loans are TDRs or loans for which the Company believes, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

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

	Recorded Investment	Unpaid Balance	Average Recorded Investment	Related Allowance	Interest Income Recognized
	(In Thousands)				
Impaired loans without a valuation allowance:					
Residential real estate	\$2,369	\$2,541	\$ 2,775	\$ —	\$ 27
Residential construction	—	—	—	—	—
Commercial real estate	1,605	2,256	1,530	—	26
Commercial construction	734	2,272	1,451	—	4
Commercial and industrial	1,230	1,247	1,286	—	23
Consumer	—	—	—	—	—
Home equity	151	178	224	—	—
Total	\$6,089	\$8,494	\$ 7,266	\$ —	\$ 80
Impaired loans with a valuation allowance:					
Residential real estate	\$855	\$855	\$ 858	\$ 45	\$ 12
Residential construction	—	—	—	—	—
Commercial real estate	427	427	490	26	7
Commercial construction	—	—	—	—	—
Commercial and industrial	433	433	435	30	7
Consumer	—	—	—	—	—
Home equity	32	32	40	1	1
Total	\$1,747	\$1,747	\$ 1,823	\$ 102	\$ 27
Total impaired loans:					
Residential real estate	\$3,224	\$3,396	\$ 3,633	\$ 45	\$ 39
Residential construction	—	—	—	—	—
Commercial real estate	2,032	2,683	2,020	26	33
Commercial construction	734	2,272	1,451	—	4
Commercial and industrial	1,663	1,680	1,721	30	30
Consumer	—	—	—	—	—
Home equity	183	210	264	1	1
Total	\$7,836	\$10,241	\$ 9,089	\$ 102	\$ 107

The \$7.8 million of impaired loans include \$6.3 million of non-accrual loans. The remaining impaired loans are TDRs or loans for which the Company believes, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

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

	Recorded Investment	Unpaid Balance	Average Recorded Investment	Related Allowance	Interest Income Recognized
	(In Thousands)				
Impaired loans without a valuation allowance:					
Residential real estate	\$2,369	\$2,541	\$ 3,015	\$ —	\$ 61
Residential construction	—	—	—	—	—
Commercial real estate	1,605	2,256	1,920	—	55
Commercial construction	734	2,272	1,765	—	8
Commercial and industrial	1,230	1,247	1,206	—	30
Consumer	—	—	—	—	—
Home equity	151	178	250	—	1
Total	\$6,089	\$8,494	\$ 8,156	\$ —	\$ 155
Impaired loans with a valuation allowance:					
Residential real estate	\$855	\$855	\$ 776	\$ 45	\$ 24
Residential construction	—	—	—	—	—
Commercial real estate	427	427	596	26	13
Commercial construction	—	—	—	—	—
Commercial and industrial	433	433	290	30	9
Consumer	—	—	—	—	—
Home equity	32	32	42	1	1
Total	\$1,747	\$1,747	\$ 1,704	\$ 102	\$ 47
Total impaired loans:					
Residential real estate	\$3,224	\$3,396	\$ 3,791	\$ 45	\$ 85
Residential construction	—	—	—	—	—
Commercial real estate	2,032	2,683	2,516	26	68
Commercial construction	734	2,272	1,765	—	8
Commercial and industrial	1,663	1,680	1,496	30	39
Consumer	—	—	—	—	—
Home equity	183	210	292	1	2
Total	\$7,836	\$10,241	\$ 9,860	\$ 102	\$ 202

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 June 30, 2016:

23

	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	\$529	\$47	\$261	\$837	\$133,143	\$133,980	\$3,701
Residential construction	—	—	—	—	6,936	6,936	—
Commercial real estate	796	400	225	1,421	296,252	297,673	1,658
Commercial construction	—	—	—	—	50,077	50,077	213
Commercial and industrial	155	404	461	1,020	69,907	70,927	1,196
Consumer	15	—	1	16	2,630	2,646	15
Home equity	82	—	58	140	41,728	41,868	251
Total	\$1,577	\$851	\$1,006	\$3,434	\$600,673	\$604,107	\$7,034

The following table presents an aging analysis of past due loans and non-accrual loans at December 31, 2015:

	31-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Loans on Nonaccrual
(In Thousands)							
Residential real estate	\$2,396	\$514	\$196	\$3,106	\$124,504	\$127,610	\$3,355
Residential construction	—	—	—	—	8,490	8,490	—
Commercial real estate	786	71	413	1,270	286,579	287,849	1,330
Commercial construction	245	—	—	245	47,883	48,128	213
Commercial and industrial	139	72	360	571	70,959	71,530	1,276
Consumer	9	—	—	9	2,507	2,516	18
Home equity	87	47	71	205	39,349	39,554	205
Total	\$3,662	\$704	\$1,040	\$5,406	\$580,271	\$585,677	\$6,397

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 six months ended June 30, 2016, the Company had three TDRs that had defaulted and had been modified within the previous twelve month period. During the six months ended June 30, 2015, the Company had no TDRs that

had defaulted and had been modified within the previous twelve month period. TDR loans are considered defaulted at 90 days past due.

The Company did not have any new TDR activity during the three months ended June 30, 2016, or during the three and six months ended June 30, 2015.

The following table provides new TDR activity by segment during the period indicated:

For the Six Months Ended June 30, 2016	Number of Investment Modifications (In Thousands)	Recorded Investment Post-Modification
Residential real estate	2 \$ 432	\$ 437
Residential construction	—	—
Commercial real estate	1 —	—
Commercial construction	— 49	49
Commercial and industrial	—	—
Consumer	—	—
Home equity	—	—
Total	3 \$ 481	\$ 486

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

	As of June 30, 2016	As of December 31, 2015
	Number of Recorded Investment Loans (Dollars In Thousands)	Number of Recorded Investment Loans
Residential real estate	6 \$ 1,274	4 \$ 847
Residential construction	— —	— —
Commercial real estate	3 355	3 442
Commercial construction	— —	— —
Commercial and industrial	2 228	3 236
Consumer	— —	— —
Home equity	2 67	2 69
Total	13 \$ 1,924	12 \$ 1,594

8. Fair Value Measurements and Disclosures

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

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

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

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

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

The fair value methods and assumptions are set forth below.

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

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

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

Loans. Fair values are estimated for portfolios of loans with similar financial characteristics. The fair values of performing loans are calculated by discounting scheduled cash flows through the estimated maturity using estimated

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

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 and compared to fair value for impairment. In evaluating the fair values of the mortgage servicing rights, the Company obtains third party valuations based on loan level data including note rate, type and term of the underlying loans. As such, the Company classifies mortgage servicing rights as Level 2.

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

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

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

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

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

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

Assets measured at fair value as of June 30, 2016 and December 31, 2015 on a recurring basis are summarized below:

	Fair Value Measurements Using			
	Readily Available Market Prices (Level 1)	Observable Market Data (Level 2)	Determined Fair Value (Level 3)	
Assets (market approach)	(Dollars In Thousands)			
Available-for-sale securities:				
Equity securities by industry type:				
Financial	\$406	\$ 406	\$ —	\$ —
Total equity securities	\$406	\$ 406	\$ —	\$ —

	Fair Value Measurements Using			
	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	\$426	\$ 426	\$ —	\$ —
Total equity securities	\$426	\$ 426	\$ —	\$ —

Assets measured at fair value on a nonrecurring basis as of June 30, 2016 and December 31, 2015 are summarized below:

	Fair Value Measurements Using			
	Readily Available Market Prices (Level 1)	Observable Market Data (Level 2)	Determined Fair Value (Level 3)	
Assets				
Impaired loans	\$4,300	\$ —	\$ —	\$ 4,300
Other real estate owned	1,061	—	1,061	—
Loans held for sale	596	—	596	—
Mortgage servicing rights	158	—	158	—

Impaired loans are presented net of their related specific reserves of \$324,000 and charge offs of \$858,000 as of June 30, 2016.

	Fair Value Measurements Using			
	Readily Available Market Prices (Level 1)	Observable Market Data (Level 2)	Determined Fair Value (Level 3)	
Assets				

(Dollars In Thousands)

Assets

Impaired loans	\$3,614	\$	—\$	—\$ 3,614
Other real estate owned	1,435	—	1,435	—
Loans held for sale	296	—	296	—
Mortgage servicing rights	192	—	192	—

Impaired loans are presented net of their related specific reserves of \$280,000 and charge offs of \$790,000 as of December 31, 2015.

Fair Value of Financial Instruments

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

The carrying amounts and estimated fair values for financial instruments as of June 30, 2016 and December 31, 2015 were as follows:

	Carrying Amount at June 30, 2016	Fair Value Using Readily Observable		Determined Fair Value (Level 3)
		Available Market Prices (Level 1)	Market Data (Level 2)	
(Dollars In Thousands)				
Financial assets:				
Cash and cash equivalents	\$34,292	\$34,292	\$—	\$ —
Available-for-sale securities	406	406	—	—
Held-to-maturity securities	31,591	—	31,618	—
FHLB stock	4,225	—	4,225	—
Loans held for sale	596	—	596	—
Loans:				
Residential real estate	133,890	—	—	136,620
Residential construction	6,863	—	—	6,839
Commercial real estate	294,940	—	—	297,644
Commercial construction	49,262	—	—	49,496
Commercial and industrial	70,108	—	—	70,339
Consumer	2,616	—	—	2,825
Home equity	41,617	—	—	41,622
Net loans	599,296	—	—	605,385
Accrued interest and dividends receivable	1,728	—	1,728	—
Mortgage servicing rights	158	—	458	—
Financial liabilities:				
Deposits	\$540,634	\$—	\$ 541,744	\$ —
FHLB advances	70,454	—	71,441	—
Accrued interest payable	94	—	94	—

	Carrying Amount at December 31, 2015	Fair Value Using		
		Readily Available Market Prices (Level 1)	Observable Market Data (Level 2)	Determined Fair Value (Level 3)
(Dollars In Thousands)				
Financial assets:				
Cash and cash equivalents	\$28,229	\$28,229	\$ —	\$ —
Available-for-sale securities	426	426	—	—
Held-to-maturity securities	32,229	—	32,935	—
FHLB stock	4,764	—	4,764	—
Loans held for sale	296	—	296	—
Loans:				
Residential real estate	127,551	—	—	129,514
Residential construction	8,401	—	—	8,365
Commercial real estate	285,135	—	—	283,566
Commercial construction	47,345	—	—	47,480
Commercial and industrial	70,674	—	—	71,090
Consumer	2,485	—	—	2,657
Home equity	39,368	—	—	39,273
Net loans	580,959	—	—	581,945
Accrued interest and dividends receivable	1,668	—	1,668	—
Mortgage servicing rights	192	—	517	—
Financial liabilities:				
Deposits	\$507,109	\$ —	\$ 507,493	\$ —
FHLB advances	81,330	—	81,646	—
Accrued interest payable	109	—	109	—

9. Common Stock

On September 16, 2015, the Company announced that the Board of Directors authorized an Eighth Stock Repurchase Program to purchase up to 260,000 shares, or approximately 5% of the Company's then outstanding stock. The Company intends to repurchase its shares from time to time at prevailing prices in the open market, in block transactions or in privately negotiated transactions. Repurchases will be made under Rule 10b-5(1) repurchase plans. The shares will be repurchased by the Company as treasury stock and will be available for general corporate purposes.

Pursuant to the Agreement and Plan of Merger between the Company and Westfield Financial, Inc. ("Westfield Financial") dated April 4, 2016, the Company may not repurchase any shares of its common stock without the prior written consent of Westfield Financial.

10. Subsequent Events

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

The Company is an SEC filer and management has evaluated subsequent events through the date that the financial statements were issued.

On April 4, 2016, the Company, and Westfield Financial, the holding company for Westfield Bank (“Westfield Bank”), entered into an Agreement and Plan of Merger pursuant to which (i) the Company will merge with and into Westfield Financial, the separate corporate existence of the Company will thereupon cease and Westfield Financial will continue as the surviving corporation (the “Merger”), and (ii) it is anticipated that the Bank will merge with and into Westfield Bank, the separate corporate existence of the Bank will thereupon cease and Westfield Bank will continue as the surviving corporation. The consummation of the Merger is subject to customary closing conditions, including the receipt of regulatory approvals and approval of the Merger by the stockholders of the Company. The Merger is currently expected to be completed early in the fourth quarter of 2016.

Pursuant to the terms of the Merger Agreement, at the effective time of the Merger, each outstanding share of common stock of the Company will be exchanged for 2.425 shares of common stock of Westfield Financial. The Merger Agreement provides each of the Company and Westfield Financial with specified termination rights. If the Merger is not consummated under specified circumstances, including if Chicopee Bancorp, Inc. terminates the Merger Agreement for a Superior Proposal (as defined in the Merger Agreement), Chicopee Bancorp, Inc. has agreed to pay Westfield Financial a termination fee equal to \$4.0 million or an expense reimbursement fee of up to \$750,000.

On April 18, 2016, the Company announced that its Board of Directors declared a quarterly cash dividend of \$0.09 per share of its common stock to stockholders of record as of the close of business on May 6, 2016, payable on or about May 23, 2016.

On July 22, 2016, the Company announced that its Board of Directors declared a quarterly cash dividend of \$0.09 per share of its common stock to stockholders of record as of the close of business on August 5, 2016, payable on or about August 19, 2016.

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 June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016 and 2015, 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 2015 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 June 30, 2016, we operated out of our main office, lending and operations center, and eight branch offices located in Chicopee, Ludlow, South Hadley, Ware, and West Springfield. All of our offices are located in Western Massachusetts.

CRITICAL ACCOUNTING POLICIES

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

assumptions or conditions. Our accounting policies are more fully described in Note 1 in the "Notes to Consolidated Financial Statements" presented in our 2015 Annual Report on Form 10-K. A brief description of our current accounting policies involving significant management judgment are discussed in the Company's 2015 Annual Report on Form 10-K under "Critical Accounting Policies."

Comparison of Financial Condition at June 30, 2016 and December 31, 2015

Total assets increased \$23.2 million, or 3.4%, from \$678.6 million at December 31, 2015 to \$701.8 million at June 30, 2016. The increase in total assets was primarily due to the \$18.3 million, or 3.2%, increase in net loans, and the \$6.1 million, or 21.5%, increase in cash and cash equivalents, partially offset by the decrease in investments of \$658,000, or 2.0%. Net loans increased from \$581.0 million, or 85.6% of total assets, as of December 31, 2015 to \$599.3 million, or 85.4% of total assets, as of June 30, 2016.

The \$18.3 million, or 3.2%, increase in net loans was due to an increase of \$9.8 million, or 3.4%, in commercial real estate loans, an increase of \$6.4 million, or 5.0%, in one- to four-family real estate loans, an increase of \$2.3 million, or 5.8%, in home equity loans, an increase of \$395,000, or 0.7%, in construction loans, and an increase of \$130,000, or 5.2%, in consumer loans. These increases were partially offset by a decrease of \$603,000, or 0.8%, in commercial and industrial loans. 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 \$79.3 million in loans sold to the secondary market. In order to service our customers, the servicing rights will continue to be retained on all loans written and sold in the secondary market.

The held-to-maturity investment portfolio decreased \$638,000, or 2.0%, from \$32.2 million at December 31, 2015 to \$31.6 million at June 30, 2016. The fair value of available-for-sale securities decreased \$20,000, or 4.7%, from \$426,000 at December 31, 2015 to \$406,000 at June 30, 2016.

Total deposits increased \$33.5 million, or 6.6%, from \$507.1 million at December 31, 2015 to \$540.6 million at June 30, 2016. Core deposits, which we consider to include all deposits except for certificates of deposit, increased \$27.5 million, or 8.7%, from \$316.2 million at December 31, 2015 to \$343.8 million at June 30, 2016. Demand deposits increased \$14.0 million, or 13.7%, to \$116.5 million, NOW accounts increased \$1.7 million, or 3.8%, to \$47.0 million, savings accounts increased \$2.5 million, or 4.8%, to \$54.9 million and money market accounts increased \$9.2 million, or 7.9%, to \$125.5 million. Certificates of deposit increased \$6.0 million, or 3.1%, from \$190.9 million at December 31, 2015 to \$196.9 million at June 30, 2016.

The Company utilizes borrowings from a variety of sources to supplement its supply of funds for loans and investments to manage liquidity and interest rate risk. FHLB advances decreased \$10.9 million, or 13.4%, from \$81.3 million at December 31, 2015 to \$70.5 million at June 30, 2016 as a portion of excess funds was used to pay off maturing advances.

Stockholders' equity was \$89.8 million, or 12.8% of total assets, at June 30, 2016 compared to \$89.3 million, or 13.2% of total assets, at December 31, 2015. The Company's stockholders' equity increased as a result of net income of \$918,000 for the six months ended June 30, 2016, a decrease in treasury stock of \$158,000, or 0.5%, due to the release of 11,600 shares to fund employee stock option exercises, an allocation of unearned compensation of \$150,000, or 5.0%, and an increase in additional paid-in-capital of \$178,000, or 4.3%, related to stock option exercises and ESOP shares, partially offset by the \$912,000 in cash dividends paid during the six months ended June 30, 2016. The Company's book value per share increased by \$0.06, or 0.35%, from \$17.13 at December 31, 2015 to \$17.19 at June 30, 2016.

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 Six Months Ended June 30,			
	2016	2015		
	(Dollars In Thousands)			
Allowance for loan losses, beginning of period:	\$5,615	\$4,927		
Charged off loans:				
Residential real estate	(32)	(85)		
Construction	—	—		
Commercial real estate	—	(6)		
Commercial and industrial	(19)	(62)		
Home equity	—	(16)		
Consumer	(36)	(25)		
Total charged off loans	(87)	(194)		
Recoveries on loans previously charged off:				
Residential real estate	17	—		
Construction	—	38		
Commercial real estate	—	1		
Commercial and industrial	18	4		
Home equity	4	2		
Consumer	—	14		
Total recoveries	39	59		
Net loan charge offs	(48)	(135)		
Provision for loan losses	176	607		
Allowance for loan losses, end of period	\$5,743	\$5,399		
Ratios:				
Net loan charge offs to total average loans	0.01	%	0.02	%
Allowance for loan losses to total loans (1)	0.95	%	0.94	%
Allowance for loan losses to nonperforming loans (2)	81.63	%	85.47	%
Recoveries to charge offs	44.83	%	30.41	%
Net loans charged off to allowance for loan losses	0.84	%	2.50	%

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

(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 June 30, 2016, the Company had thirteen troubled debt restructured loans totaling \$1.9 million, of which seven totaling \$991,000 were included in nonperforming loans. Six of the thirteen restructured loans totaling \$933,000 were performing as

modified and on accrual status. At June 30, 2015, the Company had thirteen troubled debt restructured loans totaling \$1.8 million, of which eight totaling \$495,000 were included in nonperforming loans. Five of the thirteen restructured loans totaling \$1.3 were performing as modified and on accrual status.

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

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 June 30, 2016, the allowance for loan losses represented 0.95% of total loans and 81.6% of nonperforming loans. The allowance for loan losses increased \$128,000, or 2.3%, from \$5.6 million at December 31, 2015 to \$5.7 million at June 30, 2016. The increase of \$128,000 was due to the \$176,000 provision for loan losses, offset by charge-offs of \$87,000 and recoveries of \$39,000.

Nonperforming Assets

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

	June 30, 2016	December 31, 2015
	(Dollars In Thousands)	
Nonaccrual loans (3):		
Residential real estate	\$3,701	\$3,355
Commercial real estate	1,658	1,330
Commercial construction	213	213
Commercial and industrial	1,196	1,276
Home equity	251	205
Consumer	15	18
Total nonaccrual loans	7,034	6,397
Other real estate owned	1,061	1,435
Total nonperforming assets	\$8,095	\$7,832

Ratios:

Total nonperforming loans as a percentage of total loans (1)	1.16	%	1.09	%
Total nonperforming assets as a percentage of total assets (2)	1.15	%	1.15	%

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

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

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 (3) well-secured and in the process of collection. At June 30, 2016, there were no loans that were over 90 days delinquent and still accruing interest.

At June 30, 2016, nonperforming loans increased \$637,000, or 10.0%, to \$7.0 million from \$6.4 million at December 31, 2015. The increase in nonperforming loans is primarily due to an increase of \$346,000, or 10.3%, in residential real estate loans, an increase of \$328,000, or 24.7%, in commercial real estate loans, and an increase of \$46,000, or 22.4%, in home equity loans, partially offset by a decrease of \$80,000, or 6.3%, in commercial and industrial loans and a decrease of \$3,000, or 16.7%, in consumer 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. At June 30, 2016, other real estate owned decreased \$374,000, or 26.1%, to \$1.1 million.

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

Deposits

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

Deposit Type:	June 30, 2016		December 31, 2015	
	Balance	Percent of Total Deposits (Dollars In Thousands)	Balance	Percent of Total Deposits
Demand deposits	\$ 116,463	21.5 %	\$ 102,424	20.2 %
NOW accounts	46,967	8.7 %	45,228	8.9 %
Savings accounts	54,872	10.2 %	52,359	10.3 %
Money market deposit accounts	125,459	23.2 %	116,226	22.9 %
Total core deposits	343,761	63.6 %	316,237	62.4 %
Certificates of deposit	196,873	36.4 %	190,872	37.6 %
Total deposits	\$540,634	100.0 %	\$507,109	100.0 %

Comparison of Operating Results for the Three Months Ended June 30, 2016 and 2015

General

The Company reported net income of \$221,000, or \$0.04 basic earnings per share, for the three months ended June 30, 2016, a decrease of \$521,000, or 70.2%, from net income of \$742,000, or \$0.15 basic earnings per share, for the same period in 2015. Earnings for the three months ended June 30, 2016 were impacted by the \$775,000 in merger related expenses relating to the pending merger with Westfield Financial. Excluding non-tax deductible merger related expenses of \$775,000, or \$0.16 per basic share, the Company would have reported pre-tax income of \$1.4 million for the three months ended June 30, 2016, compared to pre-tax income of \$1.0 million for the three months ended June 30, 2015, an increase of \$346,000, or 33.9%. The decrease in net income was also due to the \$92,000, or 33.1%, increase in income tax expense. The increase in income tax expense was due to the higher level of taxable income due to the non-deductible merger related expenses during the three months ended June 30, 2016. The increase in non-interest expense was partially offset by the \$256,000, or 4.9%, increase in net interest income, the decrease in the provision for loan losses of \$86,000, or 41.5%, and an increase in non-interest income of \$43,000, or 5.7%.

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 June 30,							
	2016		Average	2015	Average	Interest	Average	
	Average	Interest	Yield/	Average	Interest	Yield/	Yield/	
	Balance		Rate	Balance		Rate	Rate	
	(Dollars in Thousands)							
Interest-earning assets:								
Investments (1)	\$36,364	\$619	6.85 %	\$37,950	\$619	6.54 %		
Loans:								
Residential real estate	134,369	1,236	3.70 %	124,010	1,191	3.85 %		
Home equity	40,723	306	3.02 %	35,000	271	3.11 %		
Commercial real estate	293,154	3,252	4.46 %	281,614	3,199	4.56 %		
Residential construction	7,594	68	3.60 %	6,201	60	3.88 %		
Commercial construction	49,660	532	4.31 %	37,023	381	4.13 %		
Consumer	2,503	40	6.43 %	2,578	42	6.53 %		
Commercial and industrial	69,421	709	4.11 %	72,600	733	4.05 %		
Total loans (2)	597,424	6,143	4.14 %	559,026	5,877	4.22 %		
Other interest-earning assets	24,067	28	0.47 %	28,686	20	0.28 %		
Total interest-earning assets	657,855	6,790	4.15 %	625,662	6,516	4.18 %		
Non-interest earning assets	42,364			42,674				
Less: Allowance for loan losses	(5,666)			(5,243)				
Total assets	\$694,553			\$663,093				
Interest-bearing liabilities:								
Deposits:								
Money market deposit accounts	\$119,210	\$76	0.26 %	\$122,166	\$74	0.24 %		
Savings accounts (3)	53,860	14	0.10 %	52,064	14	0.10 %		
NOW accounts	46,389	75	0.65 %	42,775	72	0.68 %		
Certificates of deposit	197,079	585	1.19 %	178,509	543	1.22 %		
Total interest-bearing deposits	416,538	750	0.72 %	395,514	703	0.71 %		
Federal Home Loan Bank advances	72,490	297	1.65 %	82,690	317	1.54 %		
Total interest-bearing borrowings	72,490	297	1.65 %	82,690	317	1.54 %		
Total interest-bearing liabilities	489,028	1,047	0.86 %	478,204	1,020	0.86 %		
Demand deposits	114,439			95,348				
Other non-interest bearing liabilities	785			552				
Total liabilities	604,252			574,104				
Total stockholders' equity	90,301			88,989				
Total liabilities and stockholders' equity	\$694,553			\$663,093				
Net interest-earning assets	\$168,827			\$147,458				
Net interest income (fully-taxable equivalent)		5,743			5,496			
Less: tax equivalent adjustment (1)		(234)			(243)			
Net interest income		\$5,509			\$5,253			
Net interest rate spread (fully-taxable equivalent) (4)			3.29 %			3.32 %		
Net interest margin (fully-taxable equivalent) (5)			3.51 %			3.52 %		
Ratio of interest earning assets to interest-bearing liabilities (1)			134.52 %			130.84 %		

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

(3) Savings accounts include mortgagors' escrow deposits.

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

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

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

Net interest income, on a tax equivalent basis, increased \$247,000, or 4.5%, to \$5.7 million for the three months ended June 30, 2016, compared to the three months ended 2015. Net interest margin, on a tax equivalent basis, decreased one basis point from 3.52% for the three months ended June 30, 2015 to 3.51% for the three months ended June 30, 2016.

Interest and dividend income, on a tax equivalent basis, increased \$274,000, or 4.21%, from \$6.5 million for the three months ended June 30, 2015 to \$6.8 million for the three months ended June 30, 2016. Average interest-earning assets increased \$32.2 million, or 5.1%, from \$625.7 million for the three months ended June 30, 2015 to \$657.9 million for the three months ended June 30, 2016. Average loans increased \$38.4 million, or 6.9%, primarily due to the increase in average commercial construction loans of \$12.6 million, or 34.1%, an increase in average commercial real estate loans of \$11.5 million, or 4.1%, and an increase in average residential real estate loans of \$10.4 million, or 8.4%. Average investment securities decreased \$1.6 million, or 4.2%. Other interest earning assets, consisting of overnight funds, decreased \$4.6 million, or 16.1%. The tax equivalent yield on average interest-earning assets decreased three basis points to 4.15% for the three months ended June 30, 2016, primarily as a result of lower market rates of interest.

Total interest expense increased \$27,000, or 2.6%, to \$1.0 million for the three months ended June 30, 2016 from \$1.0 million for the three months ended June 30, 2015, primarily due to the increase in interest expense of \$47,000, or 6.7%, on deposits, partially offset by the decrease in interest expense of \$20,000, or 6.3%, on FHLB advances. Average interest-bearing liabilities increased \$10.8 million, or 2.3%, to \$489.0 million for the three months ended June 30, 2016 from \$478.2 million for the three months ended June 30, 2015. Rates paid on average interest-bearing liabilities remained unchanged at 0.86% for the three months ended June 30, 2016. The low interest rate environment led to a decrease in rates paid for certificates of deposit of three basis points from 1.22% for the three months ended June 30, 2015 to 1.19% for the three months ended June 30, 2016. The cost of FHLB advances increased 11 basis points from 1.54% for the three months ended June 30, 2015 to 1.65% for the three months ended June 30, 2016 due to the pay down of low cost FHLB advances.

Provision for Loan Losses

The provision for loan losses decreased \$86,000, or 41.5%, to \$121,000, for the three months ended June 30, 2016, compared to \$207,000 for the three months ended June 30, 2015. The allowance for loan losses as a percentage of total loans increased from 0.94% at June 30, 2015 to 0.95% at June 30, 2016. The allowance for loan losses as a percentage of non-performing loans increased from 85.5% at June 30, 2015 to 81.6% at June 30, 2016. Non-performing loans increased \$718,000, or 11.4%, from \$6.3 million, or 1.11% of total loans, at June 30, 2015, to \$7.0 million, or 1.16% of total loans, at June 30, 2016. Total delinquent loans decreased from 1.16% of total loans at June 30, 2015 to 0.57% at June 30, 2016.

Non-Interest Income

For the three months ended June 30, 2016, non-interest income of \$791,000 increased \$43,000, or 5.7%, from \$748,000 for the three months ended June 30, 2015. The increase in non-interest income was due to the \$49,000, or 8.4%, increase in income from service charges, fees and commissions, and a gain on the sale of other real estate owned ("OREO") of \$20,000, partially offset by a \$17,000, or 22.1%, decrease in income from loan sales and servicing, net, and a decrease of \$9,000, or 10.3%, in income from bank-owned life insurance ("BOLI").

Non-Interest Expenses

Non-interest expense of \$5.6 million for the three months ended June 30, 2016 increased \$814,000, or 17.1%, compared to the same three months in 2015. The increase was primarily due to merger-related expenses of \$775,000 due to the pending merger with Westfield Financial. Merger-related expenses include investment banking costs

associated with a fairness opinion and legal fees for the drafting of the definitive merger agreement and regulatory approvals. Excluding the merger-related expenses, non-interest expense would have increased \$39,000, or 0.8%, from \$4.8 million for the three months ended June 30, 2015 to \$4.8 million for the three months ended June 30, 2016. Salaries and benefits increased \$130,000, or 5.1%, data processing increased \$16,000, or 3.7%, advertising expense increased \$16,000, or 11.1%, and occupancy expense increased \$14,000, or 3.8%. These increases were partially offset by the decrease in professional fees of \$74,000, or 36.6%, a decrease in foreclosure related expenses of \$16,000, or 17.0%, a decrease in furniture and equipment of \$13,000, or 7.7%, a decrease in FDIC insurance expense of \$15,000, or 12.7%, and a decrease in other non-interest expense of \$18,000, or 2.9%.

Income Taxes

Income tax expense increased \$92,000, or 33.1% from \$278,000 for the three months ended June 30, 2015 to \$370,000 for the three months ended June 30, 2016. The majority of the Company's merger-related expenses are non-deductible, which had the consequence

of increasing its effective tax rate for the three months ended June 20, 2016 to 62.6%, compared to 27.2% for the three months ended June 30, 2015.

Comparison of Operating Results for the Six Months Ended June 30, 2016 and 2015

General

The Company reported a decrease of \$138,000, or 13.1%, in net income for the six months ended June 30, 2016, to \$918,000, or \$0.19 basic earnings per share, compared to \$1.1 million, or \$0.21 basic earnings per share, for the six months ended June 30, 2015. Earnings for the six months ended June 30, 2016 were impacted by \$775,000 in merger related expenses relating to the pending merger with Westfield Financial. Excluding nondeductible merger-related expenses of \$775,000, or \$0.15 per diluted share, the Company would have reported pre-tax income of \$2.4 million for the six months ended June 30, 2016 compared to pre-tax income of \$1.4 million for the six months ended June 30, 2015 - an increase of \$938,000, or 66.2%.

The decrease in net income was also due to the increase of \$301,000, or 83.6%, in income tax expense, and was partially offset by the increase in net interest income of \$672,000, or 6.5%, a decrease in provision for loan losses of \$431,000, or 71.0%, and the \$47,000, or 3.4%, increase 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 Six Months Ended June 30,							
	2016			2015				
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate		
	(Dollars in Thousands)							
Interest-earning assets:								
Investments (1)	\$36,718	\$1,243	6.81 %	\$37,949	\$1,239	6.58 %		
Loans:								
Residential real estate	132,978	2,450	3.71 %	122,627	2,341	3.85 %		
Home equity	40,057	599	3.01 %	34,636	543	3.16 %		
Commercial real estate	290,000	6,428	4.46 %	271,329	6,171	4.59 %		
Residential construction	7,616	138	3.64 %	6,892	133	3.89 %		
Commercial construction	48,922	1,045	4.30 %	36,413	750	4.15 %		
Consumer	2,482	79	6.40 %	2,596	84	6.53 %		
Commercial and industrial	69,598	1,457	4.21 %	72,950	1,459	4.03 %		
Total loans (2)	591,653	12,196	4.15 %	547,443	11,481	4.23 %		
Other interest-earning assets	24,296	60	0.50 %	31,166	39	0.25 %		
Total interest-earning assets	652,667	13,499	4.16 %	616,558	12,759	4.17 %		
Non-interest earning assets	42,209			42,205				
Less: Allowance for loan losses	(5,648)			(5,125)				
Total assets	\$689,228			\$653,638				
Interest-bearing liabilities:								
Deposits:								
Money market deposit accounts	\$118,628	\$147	0.25 %	\$119,375	\$153	0.26 %		
Savings accounts (3)	53,303	27	0.10 %	51,864	26	0.10 %		
NOW accounts	46,368	146	0.63 %	42,535	143	0.68 %		
Certificates of deposit	194,918	1,157	1.19 %	178,631	1,093	1.23 %		
Total interest-bearing deposits	413,217	1,477	0.72 %	392,405	1,415	0.73 %		
Federal Home Loan Bank advances	74,629	603	1.62 %	76,556	581	1.53 %		
Total interest-bearing liabilities	487,846	2,080	0.86 %	468,961	1,996	0.86 %		
Demand deposits	110,461			95,328				
Other non-interest bearing liabilities	794			525				
Total liabilities	599,101			564,814				
Total stockholders' equity	90,127			88,824				
Total liabilities and stockholders' equity	\$689,228			\$653,638				
Net interest-earning assets	\$164,821			\$147,597				
Net interest income (fully-taxable equivalent)		11,419			10,763			
Less: tax equivalent adjustment (1)		(470)			(486)			
Net interest income		\$10,949			\$10,277			
Net interest rate spread (fully-taxable equivalent) (4)			3.30 %			3.31 %		
Net interest margin (fully-taxable equivalent) (5)			3.52 %			3.52 %		
Ratio of interest earning assets to interest-bearing liabilities			133.79%			131.47%		

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

(3) Savings accounts include mortgagors' escrow deposits.

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

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

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

Net interest income, on a tax equivalent basis, increased \$656,000, or 6.1%, to \$11.4 million for the six months ended June 30, 2016, compared to the six months ended June 30, 2015. Net interest margin, on a tax equivalent basis, remained unchanged at 3.52% for the six months ended June 30, 2016, compared to the six months ended June 30, 2015.

Interest and dividend income, on a tax equivalent basis, increased \$740,000, or 5.8%, from \$12.8 million for the six months ended June 30, 2015 to \$13.5 million for the six months ended June 30, 2016. Average interest-earning assets increased \$36.1 million, or 5.9%, from \$616.6 million for the six months ended June 30, 2015 to \$652.7 million for the six months ended June 30, 2016. Average loans increased \$44.2 million, or 8.1%, primarily due to the increase in average commercial real estate loans of \$18.7 million, or 6.9%, an increase in commercial construction loans of \$12.5 million, or 34.4%, and an increase in residential real estate loans of \$10.4 million, or 8.4%. Average investment securities decreased \$1.2 million, or 3.2%. Other interest earning assets, consisting of overnight federal funds, decreased \$6.9 million, or 22.0%. The tax equivalent yield on average interest-earning assets decreased one basis point from 4.17% for the six months ended June 30, 2015 to 4.16% for the six months ended June 30, 2016, primarily as a result of lower market rates of interest.

Total interest expense increased \$84,000, or 4.2%, to \$2.1 million for the six months ended June 30, 2016 from \$2.0 million for the six months ended June 30, 2015, primarily due to the increase in interest expense of \$62,000, or 4.4%, on deposits and an increase of \$22,000, or 3.8%, in the cost of FHLB advances. Average interest-bearing liabilities increased \$18.9 million, or 4.0%, to \$487.8 million for the six months ended June 30, 2016 from \$469.0 million for the six months ended June 30, 2015. Rates paid on average interest-bearing liabilities remained unchanged at 0.86% for the six months ended June 30, 2016, compared to the same period in 2015. The low interest rate environment led to a decrease in rates paid for certificates of deposit of four basis points from 1.23% for the six months ended June 30, 2015 to 1.19% for the six months ended June 30, 2016. The cost of FHLB advances increased nine basis points from 1.53% for the six months ended June 30, 2015 to 1.62% for the six months ended June 30, 2016 due to the pay down of relatively lower cost FHLB advances.

Provision for Loan Losses

The provision for loan losses decreased \$431,000, or 71.0%, from \$607,000 for the six months ended June 30, 2015 to \$176,000 for the six months ended June 30, 2016. For the six months ended June 30, 2016, net charge-offs decreased \$86,000, or 64.2%, to \$48,000, or 0.01% of total average loans, from \$134,000, or 0.02% of total average loans, for the six months ended June 30, 2015.

Non-Interest Income

Non-interest income increased \$47,000, or 3.4%, from \$1.4 million, or 0.43% of average assets, for the six months ended June 30, 2015 to \$1.4 million, or 0.42% of average assets, for the six months ended June 30, 2016. Income from customer service fees and commissions increased \$123,000, or 11.2%, income from loan sales and servicing, net, increased \$19,000, or 16.4%, and gains on OREO increased \$21,000, or 100.0%. These improvements were partially offset by OREO write-downs of \$104,000 and a decrease in income from BOLI of \$12,000, or 6.9%. Excluding the \$83,000 net loss on OREO write-downs and gains, non-interest income would have increased \$130,000, or 9.4%.

Non-Interest Expenses

Non-interest expense of \$10.6 million for the six months ended June 30, 2016 increased \$987,000, or 10.2%, compared to the same six months in 2015. The increase was primarily due to merger-related expenses of \$775,000 due to the pending merger with Westfield Financial. Merger related expenses include investment banking costs associated with a fairness opinion and legal fees for the drafting of the definitive merger agreement and regulatory approvals.

Excluding the merger-related expenses, non-interest expense would have increased \$212,000, or 2.2%, from \$9.6 million for the six months ended June 30, 2015 to \$9.9 million for the six months ended June 30, 2016. During the same period, salaries and benefits increased \$302,000, or 5.9%, data processing increased \$69,000, or 8.2%, other non-interest expense increased \$44,000, or 3.6%, and stationary, supplies and postage increased \$11,000, or 8.3%. These increases were partially offset by a decrease in foreclosure and loan collection expenses of \$91,000, or 35.8%, a decrease in furniture and equipment of \$41,000, or 11.7%, a decrease in professional fees of \$41,000, or 10.8%, a decrease in occupancy expense of \$40,000, or 4.7%, and a decrease in FDIC insurance expense of \$32,000, or 13.3%.

Income Taxes

The majority of the Company's merger-related expenses are non-deductible, which had the consequence of increasing the Company's effective tax rate for the six months ended June 30, 2016 to 41.9%, compared to 25.4% for the six months ended June 30, 2015.

Reconciliation and Explanation of Use of Non-GAAP Financial Measurements

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
	(Dollars in Thousands)				(Dollars in Thousands)			
	Interest	Average Yield	Interest	Average Yield	Interest	Average Yield	Interest	Average Yield
Investment securities (no tax adjustment)	\$385	4.26 %	\$376	3.97 %	\$773	4.23 %	\$753	4.00 %
Tax equivalent adjustment (1)	234		243		470		486	
Investment securities (tax equivalent basis)	\$619	6.85 %	\$619	6.54 %	\$1,243	6.81 %	\$1,239	6.58 %
Net interest income (no tax adjustment)	\$5,509		\$5,253		\$10,949		\$10,277	
Tax equivalent adjustment (1)	234		243		470		486	
Net interest income (tax equivalent basis)	\$5,743		\$5,496		\$11,419		\$10,763	
Interest rate spread (no tax adjustment)		3.15 %		3.17 %		3.16 %		3.16 %
Net interest margin (no tax adjustment)		3.37 %		3.37 %		3.37 %		3.36 %

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

Liquidity Management

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

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

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. At June 30, 2016, total cash and cash equivalents totaled

\$34.3 million, net of reserve requirements.

In addition, at June 30, 2016, the Company had the ability to borrow a total of approximately \$145.5 million from the FHLB. On June 30, 2016, we had \$70.5 million of such borrowings outstanding. The Company's unused borrowing capacity with the Federal Reserve Bank of Boston was approximately \$71.8 million at June 30, 2016. 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 June 30, 2016 totaled \$110.6 million, or 56.82%, 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 June 30, 2017. 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 June 30, 2016, 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 June 30, 2016.

The Company’s and Bank’s actual capital amounts and ratios as of June 30, 2016 and December 31, 2015 are presented in the following tables:

					Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Actual Amount (Dollars In Thousands)	Ratio	Minimum for Capital Adequacy Purposes Amount	Ratio	Amount	Ratio
As of June 30, 2016						
Total Capital to Risk Weighted Assets						
Company	\$94,766	16.3 %	\$46,594	8.0 %	N/A	N/A
Bank	\$82,732	14.2 %	\$46,531	8.0 %	\$58,164	10.0 %
Tier 1 Capital to Risk Weighted Assets						
Company	\$89,007	15.3 %	\$34,945	6.0 %	N/A	N/A
Bank	\$76,973	13.2 %	\$34,898	6.0 %	\$46,531	8.0 %
Tier 1 Capital to Average Assets						
Company	\$89,007	12.8 %	\$27,753	4.0 %	N/A	N/A
Bank	\$76,973	11.1 %	\$27,712	4.0 %	\$34,639	5.0 %
Common Equity Tier 1 Capital to Risk Weighted Assets						
Company	\$89,007	15.3 %	\$26,208	4.5 %	N/A	N/A
Bank	\$76,973	13.2 %	\$26,174	4.5 %	\$37,806	6.5 %

	Actual		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars In Thousands)						
As of December 31, 2015						
Total Capital to Risk Weighted Assets						
Company	\$93,862	16.5 %	\$45,560	8.0 %	N/A	N/A
Bank	\$83,502	14.7 %	\$45,458	8.0 %	\$56,822	10.0 %
Tier 1 Capital to Risk Weighted Assets						
Company	\$88,222	15.5 %	\$34,170	6.0 %	N/A	N/A
Bank	\$77,862	13.7 %	\$34,093	6.0 %	\$45,458	8.0 %
Tier 1 Capital to Average Assets						
Company	\$88,222	12.8 %	\$27,525	4.0 %	N/A	N/A
Bank	\$77,862	11.3 %	\$27,492	4.0 %	\$34,365	5.0 %
Common Equity Tier 1 Capital Ratio						
Company	\$88,222	15.5 %	\$25,627	4.5 %	N/A	N/A
Bank	\$77,862	13.7 %	\$25,570	4.5 %	\$36,934	6.5 %

In July 2013, the FDIC and the other federal bank regulatory agencies issued a final rule that revised their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. Among other things, the rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also requires unrealized gains and losses on certain "available-for-sale" securities holdings to be included for purposes of calculating regulatory capital unless a one-time opt-out is exercised. The rule limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule became effective for the Company and the Bank on January 1, 2015. The capital conservation buffer requirement was phased on January 1, 2016 beginning at 0.625% and will end January 1, 2019, when the full capital conservation buffer requirement will be effective. As of June 30, 2016, the Bank had a capital conservation buffer of 6.2%, which was in excess of the regulatory requirement.

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

	June 30, 2016	December 31, 2015
(In Thousands)		
Total equity determined under GAAP	\$89,753	\$89,274
Net unrealized gain on available-for-sale securities, net of tax	(24)	—

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Disallowed mortgage servicing assets	—	—
Disallowed deferred tax assets	(722)	(1,052)
Tier 1 Capital	89,007	88,222
Allowable allowance for loan losses	5,742	5,615
Unrealized gain on available-for-sale equity securities, net of tax	17	25
Total regulatory capital	\$94,766	\$93,862

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Restrictions on Dividends and Stock Repurchases

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

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

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

Pursuant to the Agreement and Plan of Merger between the Company and Westfield Financial dated April 4, 2016, the Company may not pay quarterly dividends in excess of \$0.09 per share without the prior written consent of Westfield Financial.

On January 22, 2016, the Company declared a cash dividend of \$0.09 per share payable on February 20, 2016.

On April 18, 2016, the Company declared a cash dividend of \$0.09 per share payable on or about May 23, 2016.

On July 22, 2016, the Company declared a cash dividend of \$0.09 per share payable on or about August 19, 2016.

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

Off-Balance Sheet Arrangements

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

Credit-Related Financial Instruments

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

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

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

	June 30, December	
	2016	31, 2015
Commitments to grant loans	\$17,663	\$ 16,188
Unfunded commitments for construction loans	17,321	20,963
Unfunded commitments under lines of credit	91,393	88,342
Standby letters of credit	1,268	976

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 \$1.3 million and \$976,000 at June 30, 2016 and December 31, 2015, 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 June 30, 2016 and December 31, 2015 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 June 30, 2016 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 June 30, 2016 through June 30, 2017 under varying assumptions:

Changes in Interest Rates (Basis Points)	Percentage Change in Estimated Net Interest Income over Twelve Months
Up 500 - 24 months	(1.8)%
Up 400 - 24 months	(1.3)%
Up 300 - 12 months shock	(3.0)%
Up 200 - 12 months	(1.3)%
Up 100 - 12 months shock	(0.7)%
Base	
Down 100 - 12 months	(1.7)%

As indicated in the table above, the results of a 100 basis point shock increase in interest rates is estimated to decrease net interest income over a 12-month time horizon by 0.7%. A 300 basis point shock increase in interest rates is estimated to decrease net interest income over 12-month time horizon by 3.0%. A 200 basis point increase over 12-months is estimated to decrease net interest income by 1.3%. A 400 and 500 basis point increase in market interest

rates over a 24-month time horizon is estimated to decrease net interest income by 1.3% and 1.8% in the first twelve months, respectively. A 100 basis point gradual decrease over a 12-month time horizon is estimated to decrease net interest income by 1.7%.

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 June 30, 2016 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 contained in this Quarterly Report on Form 10-Q, the following risk factors represent material updates and additions to the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 as filed with the Securities and Exchange Commission. 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. Further, to the extent that any of the information contained in this Quarterly Report on Form 10-Q constitutes forward-looking statements, the risk factor set forth below also is a cautionary statement identifying important factors that could cause our actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of us.

Risks Related to Our Business

A new accounting standard may require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The Financial Accounting Standards Board has adopted Accounting Standards Update 2016-13, which will be effective for Chicopee Bancorp, Inc. and Chicopee Savings Bank for the first quarter of the fiscal year ending December 31, 2020. This standard, often referred to as “CECL” (reflecting a current expected credit loss model), will require companies to recognize an allowance for credit losses based on estimates of losses expected to be realized over the contractual lives of the loans. Under current U.S. GAAP, companies generally recognize credit losses only when it is probable that a loss has been incurred as of the balance sheet date. This new standard will require us to collect and review increased types and amounts of data for us to determine the appropriate level of the allowance for loan losses, and may require us to increase our allowance for loan losses. Any increase in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses may have a material adverse effect on our financial condition and results of operations. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

Risks Related to the Merger

If the merger with Westfield Financial, Inc. ("Westfield Financial") is not completed, we will have incurred substantial expenses without our stockholders realizing the expected benefits.

On April 4, 2016, we entered into an Agreement and Plan of Merger with Westfield Financial pursuant to which we will merge with and into Westfield Financial, with Westfield Financial as the surviving corporation. Completion of the merger is subject to closing conditions including, but not limited to, various regulatory approvals and the approval of our stockholders. We currently expect that the merger will be completed early in the fourth quarter of 2016. It is possible, however, that factors outside of our control could require the parties to complete the merger at a later time, or not to complete the merger at all. In the event that the merger is not consummated for any reason, we will be subject to many risks, including the costs related to the merger, such as legal, accounting and advisory fees, which must be paid even if the merger is not completed, and, potentially, the payment of a termination fee under certain circumstances. If the merger is not consummated, the market price of our common stock could decline. We also could be subject to litigation related

to any failure to complete the merger or related to any enforcement proceeding commenced against us to perform our obligations under the merger agreement.

Our stockholders will receive a fixed ratio of 2.425 shares of Westfield Financial common stock for each share of Chicopee Bancorp, Inc. common stock, regardless of any changes in the market value of our common stock or Westfield Financial common stock before the completion of the merger.

Upon completion of the merger, each share of Company common stock will be converted into the right to receive 2.425 shares of Westfield Financial common stock. There will be no adjustment to the exchange ratio (except for adjustments to reflect the effect of any stock split, reverse stock split, stock dividend, recapitalization, reclassification or other similar transaction with respect to Company common stock), and we do not have a right to terminate the merger agreement based upon changes in the market price of Westfield Financial common stock, subject to the limited exception described below. Accordingly, the dollar value of Westfield Financial common stock that our stockholders will receive upon completion of the merger will depend upon the market value of Westfield Financial common stock at the time of completion of the merger, which may be lower or higher than the closing price of Westfield Financial common stock on the last full trading day preceding public announcement that Westfield Financial and we entered into the merger agreement, the last full trading day prior to the date of proxy statement delivered to our stockholders or the date of the stockholder meeting. The market values of Westfield Financial's common stock and our common stock have varied since Westfield Financial and we entered into the merger agreement and will continue to vary in the future due to changes in the business, operations or prospects of Westfield Financial and us, market assessments of the merger, regulatory considerations, market and economic considerations, and other factors, most of which are beyond our control.

If, on the date on which all regulatory approvals for the merger have been received, the average closing price of Westfield Financial common stock for the 20-consecutive trading period ending the 10th on such date is less than \$6.77, and since the date of the merger agreement the percentage decrease in the market price of the Westfield Financial common stock is more than 20% greater than any percentage decrease in the average market price of a prescribed index, we may elect to terminate the merger agreement. If we provide notice of our intent to terminate, Westfield Financial will have the option of paying additional consideration, as specified in the merger agreement, in order to proceed with the merger.

We will be subject to business uncertainties and contractual restrictions while the merger is pending.

Uncertainty about the effect of the merger on employees, suppliers and customers may have an adverse effect on us. These uncertainties may impair our ability to attract, retain and motivate key personnel until the merger is completed, and could cause customers, suppliers and others who deal with us to seek to change existing business relationships with us. Our employee retention and recruitment may be particularly challenging prior to the effective time of the merger, as employees and prospective employees may experience uncertainty about their future roles with the combined company.

The pursuit of the merger and the preparation for the integration may place a significant burden on management and internal resources. Any significant diversion of management attention away from ongoing business and any difficulties encountered in the transition and integration process could affect our financial results. In addition, the merger agreement requires that we operate in the usual, regular and ordinary course of business and restricts us from taking certain actions prior to the effective time of the merger or termination of the merger agreement without Westfield Financial's consent in writing. These restrictions may prevent us from pursuing attractive business opportunities that may arise prior to the completion of the merger.

Regulatory approvals may not be received, may take longer than expected or impose conditions that are not presently anticipated.

Before the merger may be completed, certain approvals or consents must be obtained from the various bank regulatory and other authorities in the United States and the Commonwealth of Massachusetts. There can be no assurance as to whether the federal or state regulatory approval will be received or the timing of the approvals. Westfield Financial is not obligated to complete the merger if the regulatory approvals received in connection with the completion of the merger include any conditions or restrictions that would constitute a “Material Adverse Effect” as defined in the merger agreement. While we do not currently expect that any such conditions or restrictions would be imposed, there can be no assurance that they will not be, and such conditions or restrictions could have the effect of delaying completion of the merger.

The termination fee and the restrictions on solicitation contained in the merger agreement may discourage other companies from trying to acquire us.

Until the completion of the merger, we are prohibited from soliciting, initiating, encouraging, or with some exceptions, considering any inquiries or proposals that may lead to a proposal or offer for a merger or other business combination transaction with any person other than Westfield Financial. In addition, we have agreed to pay a termination fee of \$4.0 million following the termination of the

merger agreement under certain circumstances. These provisions could discourage other companies from trying to acquire us even though those other companies might be willing to offer greater value to our stockholders than Westfield Financial has offered in the merger. The payment of the termination fee also could have a material adverse effect on our results of operations.

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

On September 16, 2015, the Company announced that the Board of Directors authorized an Eighth Stock Repurchase Program (the “Eighth Repurchase Program”) for the purchase of up to 260,000 shares, or approximately 5% of the Company’s outstanding common stock. During the six months ended June 30, 2016, the Company did not purchase any shares of Company stock. The following table provides information regarding the Company’s purchase of its equity securities during the three months ended June 30, 2016:

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
April 1-30, 2016	—	\$	—	260,000
May 1-31, 2016	—	—	—	260,000
June 1-30, 2016	—	—	—	260,000
Total	—	\$	—\$	—

The Company intends to purchase its shares from time to time at prevailing prices in the open market, in block transactions, in privately negotiated transactions, and under any plan that may be deployed in accordance with Rule 10b-5(1). The repurchased shares will be held by the Company as treasury stock and will be available for general corporate purposes. Pursuant to the Agreement and Plan of Merger between the Company and Westfield Financial dated April 4, 2016, the Company may not repurchase any shares of its common stock without the prior written consent of Westfield Financial.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

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Item 6. Exhibits.

- 2.1 Agreement and Plan of Merger dated April 4, 2016 (1)
- 3.1 Articles of Incorporation of Chicopee Bancorp, Inc. (2)
- 3.2 Bylaws of Chicopee Bancorp, Inc. (3)
- 4.0 Stock Certificate of Chicopee Bancorp, Inc. (2)
- 10.1 Form of Voting Agreement (1)
- 10.2 Employment Agreement between William J. Wagner and Westfield Financial, Inc. (1)
- 10.3 Employment Agreement between William J. Wagner and Westfield Bank (3)
- 10.4 Settlement Agreement by and among William J. Wagner and Westfield Financial, Inc., Westfield Bank, Chicopee Bancorp, Inc. and Chicopee Savings Bank (1)
- 10.5 Settlement Agreement by and among Russell J. Omer J. Wagner and Westfield Financial, Inc., Westfield Bank, Chicopee Bancorp, Inc. and Chicopee Savings Bank (1)
- 10.6 Settlement Agreement by and among Guida R. Sajdak and Westfield Financial, Inc., Westfield Bank, Chicopee Bancorp, Inc. and Chicopee Savings Bank (1)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32.0 Section 1350 Certification

The following financial information from Chicopee Bancorp Inc.'s Quarterly Report on Form 10-Q for the six months ended June 30, 2016, formatted in XBRL (Extensible Business Reporting Language) includes: (i) the Consolidated Statements of Financial Condition as of June 30, 2016 and December 31, 2015, (ii) the Consolidated Statements of Income for the three and six months ended June 30, 2016 and 2015, (iii) the Consolidated Statement of Comprehensive Income for the three and six months ended June 30, 2016 and 2015, (iv) the Consolidated Statements of Changes in Stockholders' Equity for each of the six months ended June 30, 2016 and 2015, (v) the Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015, and (vi) the Notes to Consolidated Financial Statements, tagged in summary and detail.

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- (1) Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on April 7, 2016.
 - (2) 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.
 - (3) 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: August 8, 2016 By: /s/ William J. Wagner
William J. Wagner
Chairman of the Board, President and
Chief Executive Officer
(principal executive officer)

Dated: August 8, 2016 /s/ Guida R. Sajdak
By: Guida R. Sajdak
Senior Vice President,
Chief Financial Officer and Treasurer
(principal financial and chief accounting officer)