CHICOPEE BANCORP, INC.
Form 10-Q
May 09, 2013

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

FORM 10-Q

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

For the quarterly period ended March 31, 2013

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [X] No [ ]

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

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

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

As of May 3, 2013, there were 5,428,585 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)

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Cash and due from banks	$9,138	$11,073
Federal funds sold	2,197	3,372
Interest-bearing deposits with the Federal Reserve Bank of Boston	20,833	25,163
Total cash and cash equivalents	32,168	39,608
Available-for-sale securities, at fair value	634	621
Held-to-maturity securities, at cost (fair value $66,647 and $67,108 at March 31, 2013 and December 31, 2012, respectively)	59,896	59,568
Federal Home Loan Bank stock, at cost	3,914	4,277
Loans, net of allowance for loan losses ($4,325 at March 31, 2013 and $4,364 at December 31, 2012)	456,644	465,211
Loans held for sale	2,224	—
Other real estate owned	485	572
Mortgage servicing rights	425	368
Bank owned life insurance	13,899	13,807
Premises and equipment, net	9,357	9,459
Accrued interest and dividends receivable	1,695	1,567
Deferred income tax asset	3,248	3,252
FDIC prepaid insurance	476	467
Other assets	1,207	1,205
Total assets	$586,272	$599,982
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Demand deposits	$72,371	$75,407
NOW accounts	39,431	36,711
Savings accounts	49,833	48,882
Money market deposit accounts	113,070	127,730
Certificates of deposit	176,377	177,447
Total deposits	451,082	466,177
Securities sold under agreements to repurchase	12,721	9,763
Advances from Federal Home Loan Bank	31,013	33,332
Accrued expenses and other liabilities	803	741
Total liabilities	495,619	510,013
COMMITMENTS AND CONTINGENCIES		
Stockholders' equity		
Common stock (no par value, 20,000,000 shares authorized, 7,439,368 shares issued at March 31, 2013 and December 31, 2012)	72,479	72,479

Treasury stock, at cost (2,010,783 shares at March 31, 2013 and December 31, 2012)	(26,567)	(26,567)
Additional paid-in-capital	3,119	3,044
Unearned compensation (restricted stock awards)	(17)	(18)
Unearned compensation (Employee Stock Ownership Plan)	(3,794)	(3,868)
Retained earnings	45,399	44,873
Accumulated other comprehensive income	34	26
Total stockholders' equity	90,653	89,969
Total liabilities and stockholders' equity	$586,272	$599,982

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 March 31,	
	2013	2012
Interest and dividend income:		
Loans, including fees	$5,456	$5,685
Interest and dividends on securities	424	414
Other interest-earning assets	14	19
Total interest and dividend income	5,894	6,118
Interest expense:		
Deposits	958	1,146
Securities sold under agreements to repurchase	3	5
Other borrowed funds	189	365
Total interest expense	1,150	1,516
Net interest income	4,744	4,602
(Reduction of) provision for loan losses	(70)	7
Net interest income after (reduction of) provision for loan losses	4,814	4,595
Non-interest income:		
Service charges, fees and commissions	502	540
Loan sales and servicing, net	264	153
Net loss on sale of other real estate owned	(40)	(108)
Income from bank owned life insurance	92	96
Other non-interest income	24	—
Total non-interest income	842	681
Non-interest expenses:		
Salaries and employee benefits	2,533	2,771
Occupancy expenses	425	395
Furniture and equipment	204	209
FDIC insurance assessment	68	94
Data processing	312	262
Professional fees	217	165
Advertising	147	149
Stationery, supplies and postage	76	108
Other non-interest expense	652	677
Total non-interest expenses	4,634	4,830
Income before income taxes	1,022	446
Income tax expense	225	49
Net income	$797	$397
Earnings per share:		
Basic	$0.16	$0.08

Diluted	$0.16	$0.08
Adjusted weighted average shares outstanding:		
Basic	5,040,230	5,070,119
Diluted	5,040,676	5,119,446

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2013	2012
Net income	$797	$397
Other comprehensive income, net of tax		
Unrealized holding gains arising during period on investment securities available-for-sale	12	12
Tax effect	(4)	(4)
Other comprehensive income, net of tax	8	8
Comprehensive income	$805	$405

See accompanying notes to unaudited consolidated financial statements.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2013 and 2012
(Dollars In Thousands)
(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Unearned Compensation (restricted stock awards)	Unearned Compensation (Employee Stock Ownership Plan)	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2012	$72,479	$(26,567)	$3,044	$ (18)	$ (3,868)	$44,873	$ 26	$89,969
Comprehensive income:								
Net income	—	—	—	—	—	797	—	797
Change in net unrealized loss on securities available-for-sale (net of deferred income taxes of $4)	—	—	—	—	—	—	8	8
Total comprehensive income								805
Stock option expense (net of income tax benefit of $1)	—	—	28	—	—	—	—	28
Change in unearned compensation:								
Restricted stock award expense	—	—	—	1	—	—	—	1
Common stock held by ESOP committed to be released	—	—	47	—	74	—	—	121
Cash dividends declared ($0.05 per share)	—	—	—	—	—	(271)	—	(271)
Balance at March 31, 2013	$72,479	$(26,567)	$3,119	$ (17)	$ (3,794)	$45,399	$ 34	$90,653
Balance at December 31, 2011	$72,479	$(22,190)	$2,800	$ (546)	$ (4,166)	$42,408	$ (3)	$90,782
Comprehensive income:								
Net income	—	—	—	—	—	397	—	397

Change in net unrealized loss on securities available-for-sale (net of deferred income taxes of $4)	—	—	—	—	—	—	8	8
Total comprehensive income								405
Stock option expense (net of income tax benefit of $22)	—	—	108	—	—	—	—	108
Treasury stock purchased (128,589 shares)	—	(1,849)	—	—	—	—	—	(1,849)
Change in unearned compensation:								
Restricted stock award expense	—	—	—	192	—	—	—	192
Common stock held by ESOP committed to be released	—	—	31	—	74	—	—	105
Balance at March 31, 2012	$72,479	$(24,039)	$2,939	$ (354)	$ (4,092)	$42,805	$ 5	$89,743

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:	(In Thousands)	
Net income	$797	$397
Adjustments to reconcile net income to net cash (used) provided by operating activities:		
Depreciation and amortization	230	235
(Reductions of) provision for loan losses	(70)	7
Increase in cash surrender value of life insurance	(92)	(96)
Realized gains on sales of mortgage loans	(90)	(54)
(Increase) decrease in other assets	(17)	46
Increase in accrued interest and dividends receivable	(128)	(36)
(Increase) decrease in FDIC prepaid insurance	(9)	94
Net change in loans originated for resale	(2,224)	31
Net loss on sales of other real estate owned	40	108
Decrease (increase) in other liabilities	62	(97)
Change in unearned compensation	122	297
Stock option expense	28	108
Net cash (used) provided by operating activities	(1,351)	1,040
Cash flows from investing activities:		
Additions to premises and equipment	(82)	(163)
Loan originations and principal collections, net	8,637	(6,182)
Proceeds from sales of other real estate owned	48	—
Purchases of held-to-maturity securities	(9,444)	(3,004)
Maturities of held-to-maturity securities	8,711	14,009
Proceeds from principal paydowns of held-to-maturity securities	406	496
Proceeds from sale of FHLB stock	362	213
Net cash provided by investing activities	8,638	5,369
Cash flows from financing activities:		
Net decrease in deposits	(15,095)	(4,760)
Net increase (decrease) in securities sold under agreements to repurchase	2,958	(2,457)
Payments on long-term FHLB advances	(2,319)	(2,891)
Stock purchased for treasury	—	(1,849)
Cash dividends paid on common stock	(271)	—
Net cash used by financing activities	(14,727)	(11,957)
Net decrease in cash and cash equivalents	(7,440)	(5,548)
Cash and cash equivalents at beginning of period	39,608	61,122
Cash and cash equivalents at end of period	$32,168	$55,574
Supplemental cash flow information:		

Interest paid on deposits	$958	$1,146
Interest paid on borrowings	242	398
Income taxes paid	7	—
Transfers from loans to other real estate owned	—	97

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
March 31, 2013 and 2012

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 March 31, 2013 and for the periods ended March 31, 2013 and 2012 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, 2012 included in the Company's Annual Report on Form 10-K.

The results for the three month interim period ended March 31, 2013 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 is computed as follows:

	Three Months Ended March 31,	
	2013	2012
Net income (in thousands)	$797	$397
Weighted average number of common shares issued	7,439,368	7,439,368
Less: average number of treasury shares	(2,010,783)	(1,897,395)
Less: average number of unallocated ESOP shares	(386,848)	(416,605)
Less: average number of dilutive restricted stock awards	(1,507)	(55,249)
Adjusted weighted average number of common shares outstanding	5,040,230	5,070,119
Plus: dilutive outstanding restricted stock awards	446	49,327
Plus: dilutive outstanding stock options	—	—
Weighted average number of diluted shares outstanding	5,040,676	5,119,446

Earnings per share:

Basic- common stock	$0.16	$0.08
Basic- unvested share-based payment awards	$0.16	$0.08
Diluted- common stock	$0.16	$0.08
Diluted- unvested share-based payment awards	$0.16	$0.08

There were 695,198 and 619,198 stock options that were not included in the calculation of diluted earnings per share for the three months ended March 31, 2013 and 2012, respectively, because their effect was anti-dilutive.

3. Equity Incentive Plan

Stock Options

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

The Company recognizes compensation expense over the vesting period, based on the grant-date fair value of the options granted. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for options granted during the year ended December 31, 2012, and the three months ended March 31, 2013:

	Three Months Ended March 31, 2013		Year Ended December 31, 2012	
Expected dividend yield	1.39	%	0.86	%
Weighted average expected term	6.5 years		6.5 years	
Weighted average expected volatility	24.06	%	23.27	%
Weighted average risk-free interest rate	1.25	%	1.40	%

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

A summary of options under the Plan as of March 31, 2013, and changes during the three months ended March 31, 2013, 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, 2012	595,198	$14.24	5.15	$983
Granted	100,000	16.55	9.82	—
Exercised	—	—	—	—
Forfeited or expired	—	—	—	—
Outstanding at March 31, 2013	695,198	$14.57	5.62	$1,619
Exercisable at March 31, 2013	534,598	$14.26	4.50	$1,411
Exercisable at March 31, 2012	429,357	$14.26	5.38	$102

The Company granted 100,000 stock options in the three months ended March 31, 2013 with a fair value of $3.59. The weighted-average grant-date fair value of options granted during 2012 was $3.32. The weighted average grant-date fair value of the options outstanding and exercisable at March 31, 2013 was $3.81 and $3.90, respectively. For the three months ended March 31, 2013 and 2012, share based compensation expense applicable to options granted under the Plan was $28,000 and $108,000 and the related tax benefit was $1,000 and $22,000, respectively. As of March 31, 2013, unrecognized stock-based compensation expense related to non-vested options amounted to $540,000. This amount is expected to be recognized over a period of 4.26 years.

Stock Awards

Under the Company's 2007 Equity Incentive Plan, the Company may grant stock awards to its directors, officers and employees for up to 297,574 shares of common stock. The stock awards vest 20% per year beginning on the first anniversary of the date of grant. The fair market value of the stock awards, based on the market price at the date of grant, is recorded as unearned compensation. Unearned compensation is amortized over the applicable vesting period. The weighted-average grant-date fair value of stock awards as of March 31, 2013 is $14.08. The Company recorded compensation cost related to stock awards of approximately $1,000 and $192,000 in the three months ended March 31, 2013 and 2012, respectively. Stock awards with a fair value of $854,000, have vested during the year ended December 31, 2012. No stock awards were granted prior to July 1, 2007. The Company granted 2,000 stock awards during the year ended December 31, 2011 with a grant price of $14.08. There were no awards granted by the company during the three months ended March 31, 2013. As of March 31, 2013, unrecognized stock-based compensation expense related to non-vested restricted stock awards amounted to $9,000. This amount is expected to be recognized over a period of 2.20 years.

A summary of the status of the Company's stock awards as of March 31, 2013, and changes during the three months ended March 31, 2013, is as follows:

Nonvested Shares	Number of Shares	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2012	1,600	$14.08
Granted	—	—
Vested	400	14.08
Forfeited	—	—
Outstanding at March 31, 2013	1,200	$14.08

4. Long-term Incentive Plan

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

A total of 150,000 phantom stock units will be available for awards under the Plan. The only awards that may be granted under the 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. The Plan year shall be January 1, 2013 to December 31, 2013. 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 Plan for the three months ended March 31, 2013, and 2012, was $4,000 and $13,000, respectively.

5. Recent Accounting Pronouncements (Applicable to the Company)

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities," amending Topic 210. The amendments require an entity to disclose both gross and net information about both instruments and transactions that are eligible for offset on the balance sheet and instruments and

transactions that are subject to an agreement similar to a master netting arrangement. This guidance is effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods, with retrospective disclosure for all comparative periods presented. The adoption of ASU 2011-11 did not have a material impact on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income". This ASU improves the reporting of reclassifications out of accumulated other comprehensive income. The amendments in the ASU seek to attain that objective by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (“GAAP”) to be reclassified in its

entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. This guidance is effective for reporting periods beginning after December 15, 2012, with early adoption permitted. The adoption of ASU 2013-02 not have a material effect on the Company's consolidated financial statements.

6. Investment Securities

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

	March 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities				
Marketable equity securities	$581	$53	$—	$634
Total available-for-sale securities	$581	$53	$—	$634
Held-to-maturity securities				
U.S. Treasury securities	$10,993	$2	$—	$10,995
Corporate and industrial revenue bonds	35,450	6,700	—	42,150
Certificates of deposit	12,473	5	—	12,478
Collateralized mortgage obligations	980	44	—	1,024
Total held-to-maturity securities	$59,896	$6,751	$—	$66,647
Non-marketable securities				
Federal Home Loan Bank stock	$3,914	$—	$—	$3,914
Banker's Bank stock	183	—	—	183
Total non-marketable securities	$4,097	$—	$—	$4,097

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities				
Marketable equity securities	$581	$40	$—	$621
Total available-for-sale securities	$581	$40	$—	$621
Held-to-maturity securities				
U.S. Treasury securities	$13,691	$2	$—	$13,693
Corporate and industrial revenue bonds	35,656	7,481	—	43,137
Certificates of deposit	9,041	4	—	9,045
Collateralized mortgage obligations	1,180	53	—	1,233
Total held-to-maturity securities	$59,568	$7,540	$—	$67,108
Non-marketable securities				
Federal Home Loan Bank stock	$4,277	$—	$—	$4,277
Banker's Bank stock	183	—	—	183
Total non-marketable securities	$4,460	$—	$—	$4,460

At March 31, 2013 and December 31, 2012, securities with an amortized cost of $11.5 million and $12.6 million, respectively, were pledged as collateral to support securities sold under agreements to repurchase.

The amortized cost and estimated fair value of debt securities by contractual maturity at March 31, 2013 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties. The collateralized mortgage obligations are allocated to maturity categories according to final maturity date.

	Held-to-maturity	
	Amortized Cost	Fair Value
	(In Thousands)	
Within 1 year	$23,466	$23,473
From 1 to 5 years	1,984	2,266
From 5 to 10 years	9,115	10,030
Over 10 years	25,331	30,878
	$59,896	$66,647

Unrealized Losses on Investment Securities

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

expectation of receipt of all principal and interest due.

As of March 31, 2013 management determined that there were no securities other-than-temporarily impaired. During the year ended December 31, 2012, management deemed that three equity securities issued by one company in the financial industry had other-than-temporary impairment for which a charge was recorded in the amount of $37,000. Management evaluated these securities according to the Company's OTTI policy and determined the declines in value to be other-than-temporary.

There were no continuous unrealized losses as of March 31, 2013 and December 31, 2012.

U.S. Treasury Securities
There were no unrealized losses within the U.S. Treasury securities portfolio at March 31, 2013 and December 31, 2012, respectively. The portfolio ended with an unrealized gain of $2,000 as of March 31, 2013 and December 31, 2012, respectively.

Collateralized Mortgage Obligations (“CMO”)
As of March 31, 2013 and December 31, 2012, there were no unrealized losses within the CMO portfolio. The portfolio ended with an unrealized gain of $44,000 and $53,000 as of March 31, 2013 and December 31, 2012, respectively.

As of March 31, 2013, the Company has nine CMO bonds, or 12 individual issues, with an aggregate book value of $980,000, which included one bond, with a FICO score less than 650. This risk is mitigated by loan-to-value ratios of less than 65%. Since the purchase of these bonds, interest payments have been current and the Company expects to receive all principal and interest due.

As of December 31, 2012, the Company had nine CMO bonds, or 12 individual issues, with an aggregate book value of $1.2 million, which included one bond, with a FICO score less than 650. This risk is mitigated by loan-to-value ratios of less than 65%. Since the purchase of these bonds, interest payments have been current and the Company expects to receive all principal and interest due.

Corporate and Industrial Revenue Bonds
As of March 31, 2013 and December 31, 2012, there were no unrealized losses within the corporate industrial revenue bond category. As of March 31, 2013, the Company had six tax-exempt industrial revenue bonds ("IRB"), with an aggregate book value of $35.5 million. These IRBs have a tax equivalent adjustment based on a tax rate of 41%. The portfolio ended with an unrealized gain of $6.7 million and $7.5 million as of March 31, 2013 and December 31, 2012, respectively.

As of December 31, 2012, the Company had six tax-exempt IRBs, with an aggregate book value of $35.7 million. These IRBs have a tax equivalent adjustment based on a tax rate of 41%.

Marketable Equity Securities
There were no unrealized losses within the marketable equity securities portfolio at March 31, 2013 and December 31, 2012. Management will continue to conduct, on at least a monthly basis, a review if its investment portfolio to determine if the value of any security has declined below its cost and whether such security is other-than-temporarily impaired.

Non-Marketable Securities
The Company is a member of the Federal Home Loan Bank (“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. As of March 31, 2013 and December 31, 2012, the Company’s investment in FHLB stock totaled $3.9 million and $4.3 million, or 39,141 and 42,765 shares, 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. However, in the first quarter of 2009 the FHLB announced a moratorium on such redemptions in order to preserve its capital in response to current market conditions and declining retained earnings. The minimum required shares are redeemable, subject to certain limitations, five years following termination of FHLB membership. The Company has no intention of terminating its FHLB membership. As of March 31, 2013 and December 31, 2012, the Company received $4,000, and $22,000, in dividend income from its FHLB stock investment, respectively. On February 22, 2012, the FHLB announced that the Board of Directors approved the repurchase of excess capital stock from its members. On March 11, 2013, the FHLB repurchased $362,000 of FHLB stock, representing 3,624 shares.

The Company periodically evaluates its investment in FHLB stock for impairment based on, among other factors, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through March 31, 2013. The Company will continue to monitor its investment in FHLB stock.

Banker’s Bank Northeast stock is carried at cost and is evaluated for impairment based on an estimate of the ultimate recovery to par value. As of March 31, 2013 and December 31, 2012, the Company’s investment in Banker’s Bank totaled $183,000.

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 respective portfolio.

	March 31, 2013		December 31, 2012	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars In Thousands)			
Real estate loans:				
Residential[1]	$113,441	24.7 %	$120,265	25.7 %
Home equity	31,751	6.9 %	31,731	6.8 %
Commercial	187,628	40.8 %	189,472	40.4 %
Total	332,820	72.4 %	341,468	72.9 %
Construction-residential	4,822	1.0 %	4,334	0.9 %
Construction-commercial	35,623	7.7 %	35,781	7.6 %
Total	40,445	8.7 %	40,115	8.5 %
Total real estate loans	373,265	81.1 %	381,583	81.4 %
Consumer loans	2,344	0.5 %	2,492	0.6 %
Commercial loans	84,472	18.4 %	84,583	18.0 %
Total loans	460,081	100.0 %	468,658	100.0 %
Deferred loan origination costs, net	888		917	
Allowance for loan losses	(4,325)		(4,364)	
Loans, net	$456,644		$465,211	

[1] Excludes loans held for sale of $2.2 million at March 31, 2013. There were no loans held for sale at December 31, 2012.

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 the 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 March 31, 2013 and December 31, 2012, the Company was servicing loans for participating lenders totaling $19.1 million and $19.3 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 unpaid principal balance of mortgages that are serviced for others was $93.5 million and $87.1 million at March 31, 2013 and December 31, 2012, respectively. Servicing rights will continue to be retained on all loans written and sold in the secondary market.

Credit Quality

To evaluate the risk in the loan portfolio, internal credit risk ratings are used for the following loan segments: commercial real estate, commercial construction and commercial. The risks evaluated in determining an adequate credit risk rating, include the financial strength of the borrower and the collateral securing the loan. All commercial real estate, commercial construction and commercial loans are rated from one through nine. Credit risk ratings one through five are considered pass ratings. Classified assets include credit risk ratings of special mention, substandard, doubtful and loss. At least quarterly, classified assets are reviewed by management 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.

The following describes the credit risk ratings:

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

Substandard. Assets that have one or more defined weakness 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.

Residential real estate and residential construction loans are categorized into pass and substandard risk ratings. Substandard residential loans are loans that are on nonaccrual status and are individually evaluated for impairment.

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

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

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

	Commercial Credit Risk Exposure			
	Commercial	Commercial Construction	Commercial Real Estate	Total
	(In Thousands)			
Pass	$77,422	$23,014	$176,890	$277,326
Special mention	6,152	8,340	6,966	21,458
Substandard	851	4,269	3,772	8,892
Doubtful	47	—	—	47
Loss	—	—	—	—
Total commercial loans	$84,472	$35,623	$187,628	$307,723

	Residential Credit Risk Exposure		
	Residential Real Estate	Residential Construction	Total
	(In Thousands)		
Pass	$110,960	$4,491	$115,451
Substandard (nonaccrual)	2,481	331	2,812
Total residential loans	$113,441	$4,822	$118,263

	Consumer Credit Risk Exposure		
	Consumer	Home Equity	Total
	(In Thousands)		

Performing	$2,287	$31,655	$33,942
Nonperforming (nonaccrual)	57	96	153
Total consumer loans	$2,344	$31,751	$34,095

The following table presents an analysis of total loans segregated by risk rating and segment as of December 31, 2012:

	Commercial Credit Risk Exposure			
	Commercial	Commercial Construction	Commercial Real Estate	Total
	(In Thousands)			
Pass	$75,656	$23,214	$178,337	$277,207
Special mention	8,006	8,164	7,529	23,699
Substandard	874	4,403	3,606	8,883
Doubtful	47	—	—	47
Loss	—	—	—	—
Total commercial loans	$84,583	$35,781	$189,472	$309,836

	Residential Credit Risk Exposure		
	Residential Real Estate	Residential Construction	Total
	(In Thousands)		
Pass	$117,678	$4,003	$121,681
Substandard (nonaccrual)	2,587	331	2,918
Total residential loans	$120,265	$4,334	$124,599

	Consumer Credit Risk Exposure		
	Consumer	Home Equity	Total
	(In Thousands)		
Performing	$2,468	$31,635	$34,103
Nonperforming (nonaccrual)	24	96	120
Total consumer loans	$2,492	$31,731	$34,223

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.

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

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

Risk Characteristics

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

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

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

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

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

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

Allocated Component

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan by loan basis for residential real estate, 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 considered for impairment include all loan segments of commercial and residential, as well as home equity loans. The segments 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 TDR’s 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 quarter ended March 31, 2013 the Company modified the allowance methodology related to the qualitative factors. No factors were changed in the modification. The charge off trends are a separate factor in the allowance methodology and are no longer included in the qualitative factors. In addition, the Company reviews the dollar amount of total delinquencies and adjusts for the amounts and trends in the 30-89 day category. The amount over 90 day delinquencies is then compared to the charge-off history. Trends in volume are analyzed to determine any significant changes and the risk associated with each sector and trend. These changes resulted in a reallocation of the allowance and did not have a material effect on the allowance for loan losses.

The following table presents the allowance for loan losses and select loan information as of and for the three month period ended March 31, 2013:

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial	Consumer Loans	Home Equity	Total
Allowance for loan losses	(In Thousands)							
Balance as of December 31, 2012	$536	$93	$1,966	$502	$1,099	$44	$124	$4,364
(Reduction of) provision for loan losses	8	(7)	(58)	(88)	64	7	4	(70)
Recoveries	—	—	—	—	36	3	—	39
Loans charged off	—	—	—	—	—	(8)	—	(8)
Balance as of March 31, 2013	$544	$86	$1,908	$414	$1,199	$46	$128	$4,325
Allowance for loan losses ending balance								
Collectively evaluated for impairment	$343	$55	$1,861	$414	$1,199	$46	$117	$4,035
Individually evaluated for impairment	201	31	47	—	—	—	11	290
	$544	$86	$1,908	$414	$1,199	$46	$128	$4,325
Total loans ending balance								
Collectively evaluated for impairment	$110,713	$4,491	$184,235	$31,354	$83,812	$2,344	$31,567	$448,516
Individually evaluated for impairment	2,728	331	3,393	4,269	660	—	184	11,565
	$113,441	$4,822	$187,628	$35,623	$84,472	$2,344	$31,751	$460,081

The following table presents the allowance for loan losses and select loan information as of and for the year ended December 31, 2012:

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial	Consumer Loans	Home Equity	Total
Allowance for loan losses	(In Thousands)							
Balance as of December 31, 2011	$549	$89	$1,891	$526	$1,343	$47	$131	$4,576
Provision for (reduction of) loan losses	84	4	140	(24)	158	52	28	442
Recoveries	1	—	—	—	4	19	—	24
Loans charged off	(98)	—	(65)	—	(406)	(74)	(35)	(678)
Balance as of December 31, 2012	$536	$93	$1,966	$502	$1,099	$44	$124	$4,364
Allowance for loan losses ending balance								
Collectively evaluated for impairment	$353	$62	$1,919	$502	$1,099	$44	$124	$4,103
Individually evaluated for impairment	183	31	47	—	—	—	—	261
	$536	$93	$1,966	$502	$1,099	$44	$124	$4,364
Total loans ending balance								
Collectively evaluated for impairment	$117,611	$4,003	$186,293	$31,378	$83,917	$2,492	$31,635	$457,329
Individually evaluated for impairment	2,654	331	3,179	4,403	666	—	96	11,329
	$120,265	$4,334	$189,472	$35,781	$84,583	$2,492	$31,731	$468,658

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The following table presents the allowance for loan losses and select loan information as of and for three month period ended March 31, 2012:

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial	Consumer Loans	Home Equity	Total
Allowance for loan losses	(In Thousands)							
Balance as of December 31, 2011	$549	$89	$1,891	$526	$1,343	$47	$131	$4,576
(Reduction of) provision for loan losses	(104)	14	26	46	6	15	4	7
Recoveries	—	—	—	—	—	6	—	6
Loans charged off	(69)	—	—	—	(48)	(24)	—	(141)
Balance as of March 31, 2012	$376	$103	$1,917	$572	$1,301	$44	$135	$4,448
Allowance for loan losses ending balance								
Collectively evaluated for impairment	$337	$88	$1,856	$572	$1,026	$44	$122	$4,045
Individually evaluated for impairment	39	15	61	—	275	—	13	403
	$376	$103	$1,917	$572	$1,301	$44	$135	$4,448
Total loans ending balance								
Collectively evaluated for impairment	$120,475	$5,508	$173,478	$35,757	$77,104	$2,507	$29,640	$444,469
Individually evaluated for impairment	1,934	331	4,335	213	1,458	—	343	8,614
	$122,409	$5,839	$177,813	$35,970	$78,562	$2,507	$29,983	$453,083

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Impairment

The following table presents a summary of information pertaining to impaired loans by segment as of and for the three month period ended March 31, 2013:

	Recorded Investment	Unpaid Balance	Average Recorded Investment	Related Allowance	Interest Income Recognized
	(In Thousands)				
Impaired loans without a valuation allowance:					
Residential real estate	$1,788	$1,788	$1,650	$—	$12
Residential construction	—	—	—	—	—
Commercial real estate	3,050	3,440	2,942	—	59
Commercial construction	4,269	4,269	4,336	—	50
Commercial	660	830	663	—	8
Consumer	—	—	—	—	—
Home equity	134	134	115	—	1
Total	$9,901	$10,461	$9,706	$—	$130
Impaired loans with a valuation allowance:					
Residential real estate	$940	$940	$1,041	$201	$4
Residential construction	331	331	331	31	—
Commercial real estate	343	343	344	47	6
Commercial construction	—	—	—	—	—
Commercial	—	—	—	—	—
Consumer	—	—	—	—	—
Home equity	50	50	25	11	1
Total	$1,664	$1,664	$1,741	$290	$11
Total impaired loans:					
Residential real estate	$2,728	$2,728	$2,691	$201	$16
Residential construction	331	331	331	31	—
Commercial real estate	3,393	3,783	3,286	47	65
Commercial construction	4,269	4,269	4,336	—	50
Commercial	660	830	663	—	8
Consumer	—	—	—	—	—
Home equity	184	184	140	11	2
Total	$11,565	$12,125	$11,447	$290	$141

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The following table presents a summary of information pertaining to impaired loans by segment as of and for the year ended December 31, 2012:

	Recorded Investment	Unpaid Balance	Average Recorded Investment	Related Allowance	Interest Income Recognized
	(In Thousands)				
Impaired loans without a valuation allowance:					
Residential real estate	$1,512	$1,512	$1,228	$—	$53
Residential construction	—	—	—	—	—
Commercial real estate	2,835	3,225	3,410	—	141
Commercial construction	4,403	4,403	2,691	—	131
Commercial	666	891	723	—	25
Consumer	—	—	—	—	—
Home equity	96	96	217	—	5
Total	$9,512	$10,127	$8,269	$—	$355
Impaired loans with a valuation allowance:					
Residential real estate	$1,142	$1,142	$722	$183	$48
Residential construction	331	331	265	31	—
Commercial real estate	344	344	422	47	20
Commercial construction	—	—	43	—	—
Commercial	—	—	623	—	—
Consumer	—	—	—	—	—
Home equity	—	—	34	—	—
Total	$1,817	$1,817	$2,109	$261	$68
Total impaired loans:					
Residential real estate	$2,654	$2,654	$1,950	$183	$101
Residential construction	331	331	265	31	—
Commercial real estate	3,179	3,569	3,832	47	161
Commercial construction	4,403	4,403	2,734	—	131
Commercial	666	891	1,346	—	25
Consumer	—	—	—	—	—
Home equity	96	96	251	—	5
Total	$11,329	$11,944	$10,378	$261	$423

As of March 31, 2012, the total average recorded investment of impaired loans was $9.2 million and interest income recognized on impaired loans was $97,000.

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 as of March 31, 2013:

	31-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Nonaccrual Loans
	(In Thousands)						
Residential real estate	$1,473	$292	$1,826	$3,591	$109,850	$113,441	$2,481
Residential construction	—	—	331	331	4,491	4,822	331
Commercial real estate	778	419	—	1,197	186,431	187,628	785
Commercial construction	—	—	—	—	35,623	35,623	—
Commercial	246	103	108	457	84,015	84,472	139
Consumer	35	1	34	70	2,274	2,344	57
Home equity	126	162	60	348	31,403	31,751	96
Total	$2,658	$977	$2,359	$5,994	$454,087	$460,081	$3,889

The following table presents an aging analysis of past due loans as of December 31, 2012:

	31-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Nonaccrual Loans
	(In Thousands)						
Residential real estate	$2,568	$160	$1,575	$4,303	$115,962	$120,265	$2,587
Residential construction	—	—	331	331	4,003	4,334	331
Commercial real estate	526	293	609	1,428	188,044	189,472	902
Commercial construction	—	—	—	—	35,781	35,781	—
Commercial	491	61	47	599	83,984	84,583	47
Consumer	57	—	1	58	2,434	2,492	24
Home equity	128	18	60	206	31,525	31,731	96
Total	$3,770	$532	$2,623	$6,925	$461,733	$468,658	$3,987

Troubled Debt Restructurings

There were no new troubled debt restructured during the three month period ended March 31, 2013.

The following is a summary of accruing and non-accruing TDR loans modified as TDRs by segment during the three month period
ended March 31, 2012:

	Number of Modifications	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Current Balance
	(In Thousands)			
Residential real estate	1	$118	$127	$127
Residential construction	—	—	—	—
Commercial real estate	—	—	—	—
Commercial construction	—	—	—	—
Commercial	1	67	67	67
Consumer	1	27	27	27
Home equity	1	38	38	38

Total	4	$250	$259	$259

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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. TDRs 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 will continue to be reported as a TDR until the loan is paid in full.

During the three month period ended March 31, 2012 there were four TDRs totaling $259,000 entered into with borrowers who were experiencing financial difficulty. The Company reviews TDRs on a loan by loan basis and applies specific reserves to loan balances in excess of collateral values if sufficient borrower cash flow cannot be identified. At March 31, 2012, the specific reserves related to TDRs were $15,000. The modifications granted did not result in a reduction of the recorded investment. TDRs granted in 2012 were primarily the result of concessions to reduce the interest rate or extension of the maturity date. At March 31, 2012, the Company had two troubled debt restructurings totaling $64,000 included in nonperforming loans. The two restructured loans continue to be reported on nonaccrual but have been performing as modified. For the three months ended March 31, 2012, the interest income recorded from the restructured loans amounted to approximately $4,000.

The Company reviews TDRs on a loan by loan basis and applies specific reserves to loan balances in excess of collateral values if sufficient borrower cash flow cannot be identified. The modifications granted did not result in a reduction of the recorded investment.

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, an analysis of the causes of the borrower's decline in performance and projections to assess repayment ability going forward.

During the three month periods ended March 31, 2013 and 2012, there were no TDRs that had been modified within the previous twelve month periods that had subsequently defaulted. TDR loans are considered defaulted at 90 days past due.

At March 31, 2013 and December 31, 2012, the Company was not committed to lend any additional funds to borrowers whose loans were nonperforming, impaired or restructured.

8. Fair Value Measurements

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. A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement (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 for the Company's financial instruments are set forth below.

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

Investment securities. The fair values of investment securities are estimated by independent providers. 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 restricted equity securities approximate fair values. As such, the Company classifies investments securities as Level 2.

Available-for-sale securities. The fair value of debt available-for-sale securities is reported utilizing prices provided by an independent pricing service based on recent trading activity and other observable information including, but not limited to, dealer
quotes, market spreads, cash flows, market interest rate curves, market consensus prepayment speeds, credit information, and the
bond’s terms and conditions. The fair value of equity available-for-sale securities is calculated using a discounted cash flow analysis using observable information including, but not limited to, cash flows, risk-adjusted discount rates and market spreads.
The fair value of debt and equity securities is classified as Level 1.

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 above would be indicative of the value negotiated in an actual sale. As such, the Company classifies loans as level 3, except for impaired loans. 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. As such, the Company classifies impaired loans as Level 2.

Loans held for sale. Loans held for sale are recorded at the lower of carrying value or market 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. Real estate acquired through foreclosure is recorded at fair value. The fair value of other real estate owned is based on property appraisals and an analysis of similar properties currently available. As such, the Company records other real estate owned as nonrecurring Level 2.

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

Accrued interest 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 receivable 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, premise and equipment, and other real estate owned. 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 that were measured at fair value as of March 31, 2013 and December 31, 2012 on a recurring basis are summarized below:

	Fair Value Measurements Using			
	March 31, 2013	Readily Available Market Prices (Level 1)	Observable Market Data (Level 2)	Determined Fair Value (Level 3)
Assets (market approach)	(Dollars In Thousands)			
Available-for-sale securities				
Equity securities by industry type:				
Financial	$634	$634	$—	$—
Total equity securities	$634	$634	$—	$—

	Fair Value Measurements Using			
	December 31, 2012	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	$621	$621	$—	$—
Total equity securities	$621	$621	$—	$—

Assets measured at fair value on a nonrecurring basis as of March 31, 2013 and December 31, 2012 are summarized below:

	Fair Value Measurements Using			
	March 31, 2013	Readily Available Market Prices (Level 1)	Observable Market Data (Level 2)	Determined Fair Value (Level 3)
	(Dollars In Thousands)			
Assets				
Impaired loans with a valuation allowance, net	$1,374	$—	$1,374	$—
Other real estate owned	485	—	485	—
Loans held for sale	2,224	—	2,224	—
Mortgage servicing rights	87	—	87	—

	Fair Value Measurements Using			
	December 31, 2012	Readily Available Market Prices (Level 1)	Observable Market Data (Level 2)	Determined Fair Value (Level 3)
	(Dollars In Thousands)			
Assets				

Impaired loans with a valuation allowance, net	$1,556	$—	$1,556	$—
Other real estate owned	572	—	572	—
Mortgage servicing rights	147	—	147	—

Impaired loans are presented net of their related specific reserve of $290,000 and $261,000 as of March 31, 2013 and December 31, 2012, respectively.

Fair Value of Financial Instruments.

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

		Fair Value Measurements Using		
	Carrying Amount at March 31, 2013	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	$32,168	$32,168	$—	$—
Available-for-sale securities	634	634	—	—
Held-to-maturity securities	59,896	—	66,647	—
FHLB stock	3,914	—	3,914	—
Residential real estate	112,897	—	—	106,844
Residential construction	4,736	—	—	4,722
Commercial real estate	185,720	—	—	180,921
Commercial construction	35,209	—	—	35,615
Commercial	83,273	—	—	83,752
Consumer	2,298	—	—	2,506
Home equity	31,623	—	—	31,800
Total loans	455,756	—	—	446,160
Loans held for sale	2,224	—	2,224	—
Accrued interest receivable	1,695	—	1,695	—
Mortgage servicing rights	425	—	559	—
Financial liabilities:				
Deposits	$451,082	$—	$452,002	$—
Securities sold under agreements to repurchase	12,721	—	12,721	—
FHLB long term advances	31,013	—	32,543	—
Accrued interest payable	114	—	114	—

	Carrying Amount at December 31, 2012	Fair Value Measurements 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	$39,608	$41,494	$—	$—
Available-for-sale securities	621	590	—	—
Held-to-maturity securities	59,568	—	69,834	—
FHLB stock	4,277	—	4,277	—
Residential real estate	119,729	—	—	115,593
Residential construction	4,241	—	—	4,217
Commercial real estate	187,506	—	—	185,687
Commercial construction	35,279	—	—	35,708
Commercial	83,484	—	—	83,670
Consumer	2,448	—	—	2,649
Home equity	31,607	—	—	31,832
Total loans	464,294	—	—	459,356
Accrued interest receivable	1,567	—	1,567	—
Mortgage servicing rights	368	—	444	—
Financial liabilities:				
Deposits	$466,177	$—	$468,966	$—
Securities sold under agreements to repurchase	9,763	—	9,763	—
FHLB long term advances	33,332	—	35,105	—
Accrued interest payable	60	—	60	—

9. Other Comprehensive Income Reconciliation

The following table illustrates changes in the balances of each component of accumulated other comprehensive income for the three month period ended March 31, 2013:

	Unrealized Gain on Available-for-Sale Securities (Dollars in Thousands)
Beginning balance	$26
Current-period change	8
Ending balance	$34

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The following table illustrates changes in the balances of each component of accumulated other comprehensive income for the three month period ended March 31, 2012:

	Unrealized Gain on Available-for-Sale Securities (Dollars in Thousands)
Beginning balance	$(3)
Current-period change	8
Ending balance	$5

10. Common Stock

On June 1, 2012, the Company announced that the Board of Directors authorized a Seventh Stock Repurchase Program for the purchase of up to 272,000 shares, or approximately 5%, of the Company's then outstanding common stock. During the first quarter of 2013, the Company did not repurchase any shares of Company stock. As of March 31, 2013, a total of 249,346 shares were authorized to be repurchased under the current stock repurchase programs. 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 repurchased shares will be held by the Company as treasury stock and will be available for general corporate purposes.

11. Subsequent Events

Subsequent events represent events or transactions occurring after the balance sheet 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 25, 2013, the Company announced a cash dividend of $0.05 per share of its common stock to stockholders of record as of the close of business on May 6, 2013, payable on or about June 7, 2013,

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 the Company at March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012, 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 2012 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 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 March 31, 2013, we operated out of our main office, lending and operations center, and eight branch offices located in Chicopee, Ludlow, South Hadley, Ware, and West Springfield. All of our offices are located in western Massachusetts.

CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of the Company's financial condition is based on the consolidated financial statements which are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of such financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, Management evaluates its estimates, including those related to the allowance for loan losses, other-than-temporary impairment of securities, the valuation of mortgage servicing rights, and the valuation of other real estate owned. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis in making judgments about the carrying values of assets that are not readily apparent from other sources. Actual results could differ from the amount derived from Management's estimates and assumptions under different assumptions or conditions. Additional accounting policies are more fully described in Note 1 in the "Notes to

Consolidated Financial Statements” presented in our 2012 Annual Report on Form 10-K. A brief description of our current accounting policies involving significant management judgment follows.

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

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

Mortgage Servicing Rights. The valuation of mortgage servicing rights is a critical accounting policy which requires significant estimates and assumptions. The Company often sells mortgage loans it originates and retains the ongoing servicing of such loans, receiving a fee for these services, generally 1% of the outstanding balance of the loan per annum. Mortgage servicing rights are recognized when they are acquired through the sale of loans, and are reported in other assets. They are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Management uses an independent firm which specializes in the valuation of mortgage servicing rights to determine the fair value. The Company uses the amortization method for financial reporting. The most important assumption is the anticipated loan prepayment rate, and increases in prepayment speeds result in lower valuations of mortgage servicing rights. Management evaluates for impairment based upon the fair value of the rights, which can vary depending upon current interest rates and prepayment expectations, as compared to amortized cost. The use of different assumptions could produce a different valuation. All of the assumptions are based on standards the Company believes would be utilized by market participants in valuing mortgage servicing rights and are consistently derived and/or benchmarked against independent public sources.

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

Comparison of Financial Condition at March 31, 2013 and December 31, 2012

Total assets decreased $13.7 million, or 2.3%, from $600.0 million at December 31, 2012 to $586.3 million at March 31, 2013. The decrease in total assets was primarily due to a decrease in cash and cash equivalents of $7.4 million, or 18.8%, and a decrease in net loans of $8.6 million, or 1.8%, from $465.2 million, or 77.5% of total assets at December 31, 2012 to $456.6 million, or 77.9% of total assets at March 31, 2013. These decreases were partially offset by the increase in loans held for sale of $2.2 million, or 100.0%, at March 31, 2013.

The significant components of the $8.6 million, or 1.8%, decrease in net loans was a $6.8 million, or 5.7%, decrease in one-to-four-family residential real estate loans, and a decrease of $1.8 million, or 1.0%, in commercial real estate

loans. These decreases were partially offset by an increase in construction loans of $330,000, or 0.8%. The increase in construction loans was due to the $488,000, or 11.3%, increase in the residential construction portfolio. The decrease in one-to-four-family residential real estate loans was primarily due to prepayments and refinancing activity attributed to the historically low interest rates. 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. During the first three months of 2013, the Company sold $12.0 million in low coupon residential real estate loans and currently services $93.5 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 investment securities portfolio, including held-to-maturity and available-for-sale securities, increased $341,000, or 0.6%, to $60.5 million at March 31, 2013 from $60.2 million at December 31, 2012. The increase in investments was primarily due to a $3.4 million, or 38.0%, increase in certificates of deposit and an increase of $13,000, or 2.1%, in available-for-sale securities. These increases were partially offset by a $206,000, or 0.6%, decrease in tax-exempt industrial revenue bonds from $35.7 million at

December 31, 2012 to $35.5 million at March 31, 2013, a decrease in U.S. Treasuries of $2.7 million, or 19.7%, and a decrease in CMOs of $200,000, 16.9%.

Total deposits decreased $15.1 million, or 3.2%, from $466.2 million at December 31, 2012 to $451.1 million at March 31, 2013. Core deposits, which we consider to include all deposits except for certificates of deposit, decreased $14.0 million, or 4.9%, from $288.7 million at December 31, 2012 to $274.7 million at March 31, 2013. Demand deposits decreased $3.0 million, or 4.0%, to $72.4 million, money market accounts decreased $14.7 million, or 11.5%, to $113.1 million, NOW accounts increased $2.7 million, or 7.4%, to $39.4 million, and savings accounts increased $1.0 million, or 1.9%, to $49.8 million. Certificates of deposit decreased $1.1 million, or 0.6%, from $177.4 million at December 31, 2012 to $176.4 million at March 31, 2013. The decrease of 4.9% in core deposits was mostly due to fluctuations in commercial accounts related to business activity. We continue to focus on allowing high cost deposits to mature and be replaced with low cost relationship based core deposits.

Stockholders' equity was $90.7 million, or 15.5% of total assets, at March 31, 2013 compared to $90.0 million, or 15.0% of total assets, at December 31, 2012. The Company's stockholders' equity increased primarily as a result of $797,000 in net income, an increase of $75,000, or 1.9%, in stock-based compensation and an increase of $75,000, or 2.5%, in additional paid-in-capital, partially offset by the $271,000 cash dividend paid on March 8, 2013.

Allowance for Loan Losses

	At or for the Three Months Ended March 31,	
	2013	2012
	(Dollars In Thousands)	
Allowance for loan losses at December 31	$4,364	$4,576
Charged-off loans:		
Residential real estate	—	(69)
Construction	—	—
Commercial real estate	—	—
Commercial	—	(48)
Home equity	—	—
Consumer	(8)	(24)
Total charged-off loans	(8)	(141)
Recoveries on loans previously charged-off:		
Residential real estate	—	—
Construction	—	—
Commercial real estate	—	—
Commercial	36	—
Home equity	—	—
Consumer	3	6
Total recoveries	39	6
Net loan recoveries (charge-offs)	31	(135)
(Reductions of) provision for loan losses	(70)	7
Allowance for loan losses, end of period	$4,325	$4,448
Ratios:		
Net loan (recoveries)/charge-offs to total average loans	(0.01)%	0.03%
Allowance for loan losses to total loans (1)	0.94%	0.98%
Allowance for loan losses to nonperforming loans (2)	111.20%	118.87%
Recoveries to charge-offs	3.71%	4.26%

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

(2) Nonperforming assets consist of nonperforming loans and other real estate owned. 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.

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

General valuation allowance on the remainder of the loan portfolio. The Company establishes a general allowance for loans that are not delinquent to recognize the probable losses associated with lending activities. This general valuation allowance is determined by segregating the loans by loan category and assigning percentages to each category. The percentages are adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. These significant factors include: levels and historical trends in delinquencies, impaired loans, nonaccrual loans, charge-offs, recoveries, and classified assets; trends in the volume and terms of loans; effects of any change in underwriting, policies, procedures, and practices; experience, ability, and depth of management and staff; national and local economic trends and conditions; trends and conditions in the industries in which borrowers operate; 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 March 31, 2013, the allowance for loan losses represented 0.94% of total loans and 111.20% of nonperforming loans. The allowance for loan losses decreased $39,000, or 0.9%, from $4.4 million at December 31, 2012 to $4.3 million at March 31, 2013, due to a reduction for loan losses of $70,000 offset by net recoveries of $31,000.
The reduction for loan losses was $70,000 for the three months ended March 31, 2013 compared to a provision of $7,000 for the three months ended March 31, 2012, a decrease of $77,000. Non-performing loans increased $147,000, or 3.9%, from $3.7 million, or 0.83% of total loans, at March 31, 2012, to $3.9 million, or 0.85% of total loans, at March 31, 2013. Total non-performing assets decreased $269,000, or 5.8%, from $4.6 million, or 0.77% of total assets, at March 31, 2012 to $4.4 million, or 0.75% of total assets, at March 31, 2013. The allowance for loan losses as a percentage of total loans decreased from 0.98% at March 31, 2012 to 0.94% at March 31, 2013 and the allowance for loan losses as a percentage of non-performing loans decreased from 118.87%at March 31, 2012 to 111.20% at March 31, 2013.

Nonperforming Assets

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

	March 31, 2013	December 31, 2012
	(Dollars In Thousands)	
Nonaccrual loans:		
Residential real estate	$2,481	$2,587
Construction	331	331
Commercial real estate	785	902
Commercial	139	47
Home equity	96	96
Consumer	57	24
Total nonaccrual loans	3,889	3,987
Other real estate owned	485	572
Total nonperforming assets	$4,374	$4,559
Ratios:		
Total nonperforming loans as a percentage of total loans (1)	0.85 %	0.85 %
Total nonperforming assets as a percentage of total assets (2)	0.75 %	0.76 %

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

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

(3) Loans are placed on nonaccrual status either when reasonable doubt exists as to the timely collection of principal and interest or when a loan becomes 90 days past due unless an evaluation clearly indicates that the loan is well-secured and in the process of collection. At March 31, 2013, there were no loans that were over 90 days delinquent and still accruing interest.

As of March 31, 2013, nonperforming loans decreased $98,000, or 2.5%, to $3.9 million compared to $4.0 million as of December 31, 2012. The decrease in nonperforming loans is primarily due to the decrease in nonperforming residential real estate loans of $106,000, or 4.1%, and a $117,000, or 13.0%, decrease in nonperforming commercial real estate loans. These decreases were partially offset by an increase of $92,000, or 195.7%, in nonperforming commercial and industrial loans, and a $33,000, or 137.5%, increase in nonperforming consumer loans. Loans that are less than 90 days past due and were previously on nonaccrual continue to be on nonaccrual status until the borrower can demonstrate their ability to make payments according to their loan terms. The following loan segments were not accruing interest as of March 31, 2013: 18 residential real estate loans with an outstanding balance of $2.5 million, one construction loan with an outstanding balance of $331,000, five commercial real estate loans with an outstanding balance of $785,000, eight commercial loans with an outstanding balance of $139,000, two consumer loans with an outstanding balance of $57,000 and two home equity loans with an outstanding balance of $96,000.

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Deposits

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

	March 31, 2013		December 31, 2012	
	Balance	Percent of Total Deposits	Balance	Percent of Total Deposits
	(Dollars In Thousands)			
Demand deposits	$72,371	16.0 %	$75,407	61.1 %
NOW accounts	39,431	8.7 %	36,711	7.9 %
Savings accounts	49,833	11.1 %	48,882	10.5 %
Money market deposit accounts	113,070	25.1 %	127,730	27.4 %
Total transaction accounts	274,705	60.9 %	288,730	61.9 %
Certificates of deposit	176,377	39.1 %	177,447	38.1 %
Total deposits	$451,082	100.0 %	$466,177	100.0 %

Total deposits decreased $15.1 million, or 3.2%, from $466.2 million at December 31, 2012 to $451.1 million at March 31, 2013. Core deposits, which are considered to include all deposits except for certificates of deposit, decreased $14.0 million, or 4.9%, from $288.7 million at December 31, 2012 to $274.7 million at March 31, 2013. Demand deposits decreased $3.0 million, or 4.0%, to $72.4 million, money market accounts decreased $14.7 million, or 11.5%, to $113.1 million, NOW accounts increased $2.7 million, or 7.4%, to $39.4 million, and savings accounts increased $1.0 million, or 1.9%, to $49.8 million. Certificates of deposit decreased $1.1 million, or 0.6%, from $177.4 million at December 31, 2012 to $176.4 million at March 31, 2013. The decrease of 4.9% in core deposits was mostly due to fluctuations in commercial accounts related to business activity. The Company continues to focus on allowing high cost deposits to mature and be replaced with low cost relationship based core deposits.

Borrowings

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

	March 31, 2013	December 31, 2012
	(In Thousands)	
Maximum amount of borrowings outstanding at any month-end during the period:		
FHLB advances	$32,561	$58,308
Securities sold under agreements to repurchase	12,721	12,982
Average borrowings outstanding during the period:		
FHLB advances	$31,796	$46,907
Securities sold under agreements to repurchase	8,998	9,027
Weighted average interest rate during the period:		
FHLB advances	2.41 %	2.56 %
Securities sold under agreements to repurchase	0.12 %	0.14 %
Balance outstanding at end of period:		
FHLB advances	$31,013	$33,332
Securities sold under agreements to repurchase	12,721	9,763
Weighted average interest rate at end of period:		
FHLB advances	2.40 %	2.39 %
Securities sold under agreements to repurchase	0.12 %	0.12 %

The Company utilizes borrowings from a variety of sources to supplement our supply of funds for loans and investments. FHLB advances decreased $2.3 million, or 7.0%, from $33.3 million at December 31, 2012 to $31.0 million at March 31, 2013 due to payments on long-term advances of $2.3 million. Securities sold under agreements to repurchase increased $3.0 million, or 30.3%, to $12.7 million at March 31, 2013 primarily due to fluctuations in the balances of these accounts.

Comparison of Operating Results for the Three Months Ended March 31, 2013 and 2012

General

The Company reported pre-tax income of $1.0 million for the three months ended March 31, 2013, compared to $446,000 for the three months ended March 31, 2012. Net income for the three months ended March 31, 2013 was $797,000, or $0.16 basic earnings per share, as compared to net income of $397,000, or $0.08 basic earnings per share, for the same period in 2012. The increase in net income was a result of the increase in net interest income of $142,000, or 3.1%, a decrease in the provision for loan losses of $77,000, an increase in non-interest income of $161,000, or 23.6%, and a decrease in non-interest expense of $196,000, or 4.1%. These improvements were offset by an increase in income tax expense of $176,000 from $49,000 at March 31, 2012 to $225,000 at March 31, 2013.

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 March 31,					
	2013			2012		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
	(Dollars in Thousands)					
Interest-earning assets:						
Investments (1)	$63,993	$690	4.37 %	$74,524	$666	3.59 %
Loans:						
Residential real estate loans	144,851	1,570	4.40 %	149,946	1,832	4.91 %
Commercial real estate loans	201,900	2,636	5.29 %	189,733	2,657	5.63 %
Consumer loans	34,055	327	3.89 %	32,453	340	4.21 %
Commercial loans	82,179	923	4.56 %	77,559	856	4.44 %
Loans, net (2)	462,985	5,456	4.78 %	449,691	5,685	5.08 %
Other	24,313	14	0.23 %	40,534	19	0.19 %
Total interest-earning assets	551,291	6,160	4.53 %	564,749	6,370	4.54 %
Noninterest-earning assets	36,815			38,756		
Total assets	$588,106			$603,505		
Interest-bearing liabilities:						
Deposits:						
Money market accounts	$118,694	$87	0.30 %	$93,079	$77	0.33 %
Savings accounts (3)	49,183	13	0.11 %	47,871	13	0.11 %
NOW accounts	37,873	89	0.95 %	27,387	59	0.87 %
Certificates of deposit	178,064	769	1.75 %	210,395	997	1.91 %
Total interest-bearing deposits	383,814	958	1.01 %	378,732	1,146	1.22 %
FHLB advances	31,796	189	2.41 %	57,481	365	2.55 %
Securities sold under agreement to repurchase	8,998	3	0.12 %	10,564	5	0.19 %
Total interest-bearing borrowings	40,794	192	1.91 %	68,045	370	2.19 %
Total interest-bearing liabilities	424,608	1,150	1.10 %	446,777	1,516	1.36 %
Demand deposits	71,842			65,727		
Other noninterest-bearing liabilities	829			418		
Total liabilities	497,279			512,922		
Total stockholders' equity	90,827			90,583		
Total liabilities and stockholders' equity	$588,106			$603,505		
Net interest-earning assets	$126,683			$117,972		
Tax equivalent net interest income/ interest rate spread (4)		5,010	3.43 %		4,854	3.18 %
Tax equivalent net interest margin (net interest income as a percentage of interest-earning assets)			3.69 %			3.46 %
Ratio of interest-earning assets to interest-bearing liabilities			129.84 %			126.41 %
Less: tax equivalent adjustment (1)		(266)			(252)	
Net interest income as reported on income statement		$4,744			$4,602	

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

reported on the statement of income. See 'Explanation of Use of Non-GAAP Financial Measurements'.

(2) Loans, net excludes loans held for sale and the allowance for loan losses and includes nonperforming loans.

(3) Savings accounts include mortgagors' escrow deposits.

(4) Tax equivalent interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities. See 'Explanation of Use of Non-GAAP Financial Measurements'.

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

	Three Months Ended March 31, 2013 compared to 2012 Increase (Decrease) Due to		
	Volume	Rate	Net
	(Dollars in Thousands)		
Interest-earning assets:			
Investment securities (1)	$(105)	$129	$24
Loans:			
Residential real estate loans	(64)	(198)	(262)
Commercial real estate loans	154	(175)	(21)
Consumer loans	15	(28)	(13)
Commercial loans	46	21	67
Total loans	151	(380)	(229)
Other	(9)	4	(5)
Total interest-earning assets (2)	$37	$(247)	$(210)
Interest-bearing liabilities:			
Deposits:			
Money market accounts	$19	$(9)	$10
Savings accounts (2)	—	—	—
NOW accounts	24	6	30
Certificates of deposit	(149)	(79)	(228)
Total interest-bearing deposits	(106)	(82)	(188)
FHLB advances	(156)	(20)	(176)
Securities sold under agreement to repurchase	(1)	(1)	(2)
Total interest-bearing borrowings	(157)	(21)	(178)
Total interest-bearing liabilities	(263)	(103)	(366)
Increase in net interest income (3)	$300	$(144)	$156

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

Net interest income, on a tax equivalent basis, increased $156,000, or 3.2%, to $5.0 million for the three months ended March 31, 2013, primarily due to the decrease in the cost of interest bearing liabilities outweighing the decrease in the yield on average interesting-earning assets. Net interest margin, on a tax equivalent basis, increased 23 basis points from 3.46% for the three months ended March 31, 2012 to 3.69% for the three months ended March 31, 2013.

Interest and dividend income, on a tax equivalent basis, decreased $210,000, or 3.3%, to $6.2 million for the three months ended March 31, 2013. Average interest-earning assets decreased $13.5 million, or 2.4%, from $564.7 million at March 31, 2012 to $551.3 million at March 31, 2013. Average loans increased $13.3 million, or 3.0%, primarily due to strong commercial real estate and commercial and industrial loan originations. Average investment securities decreased $10.5 million, or 14.1%, for the period due to the maturities of U.S. Treasury securities and pay downs of collateralized mortgage obligations. Other interest earning

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assets decreased $16.2 million, or 40.0%. The yield on average interest-earning assets decreased one basis point to 4.53% for the three months ended March 31, 2013, primarily as a result of lower market rates of interest.

Total interest expense decreased $366,000, or 24.1%, to $1.2 million for the three months ended March 31, 2013 from $1.5 million for the three months ended March 31, 2012, due to lowering deposit costs by $188,000, or 16.4%, and a decrease in cost of borrowings of $178,000 or 48.1%. Average interest-bearing liabilities decreased $22.2 million, or 5.0%, to $424.6 million for the three months ended March 31, 2013 from $446.8 million for the three months ended March 31, 2012. Rates paid on average interest-bearing liabilities declined 26 basis points from 1.36% for the three months ended March 31, 2012 to 1.10% for the three months ended March 31, 2013. The lower interest rate environment and management's decision not to renew higher cost short term time deposits led to a decrease in rates paid for certificates of deposit of 16 basis points from 1.91% at March 31, 2012 to 1.75% at March 31, 2013.

Provision for Loan Losses

The provision for loan losses decreased $77,000, for the three months ended March 31, 2013 compared to the three months ended March 31, 2012. The allowance for loan losses as a percentage of total loans decreased from 0.98% at March 31, 2012 to 0.94% at March 31, 2013. Non-performing loans increased $147,000, or 3.9%, from $3.7 million, or 0.83% of total loans, at March 31, 2012, to $3.9 million, or 0.85% of total loans, at March 31, 2013.

Non-Interest Income

Non-interest income increased $161,000, or 23.6%, for the three months ended March 31, 2013 and was due to the $111,000, or 72.5%, increase in income from net loan sales and servicing, a decrease of $68,000, or 63.0%, in losses on the sale of OREO and an increase of $24,000 in other non-interest income. These improvements were partially offset by the decrease in income from customer service fees and commissions of $38,000, or 7.0%.

Non-Interest Expenses

Non-interest expense decreased $196,000, or 4.1%, for the three months ended March 31, 2013 compared to the three months ended March 31, 2012. The 4.1% decrease in non-interest expense was a result of the $238,000, or 8.6%, decrease in salaries and benefits due to employee benefit expenses related to the initial public offering being fully expensed in the third quarter of 2012. Stationery, supplies and postage decreased $32,000, or 29.6%, FDIC insurance expense decreased $26,000, or 27.7%, and other non-interest expense decreased $25,000, or 3.7%. These decreases were offset by an increase in professional fees of $52,000, or 31.5%, an increase in data processing of $50,000, or 19.1%, and an increase in occupancy expense of $30,000, or 7.6%.

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 March 31,					
	2013			2012		
	(Dollars in Thousands)					
	Interest	Average Yield		Interest	Average Yield	
Investment securities (no tax adjustment)	$424	2.69	%	$414	2.23	%
Tax equivalent adjustment (1)	266			252		
Investment securities (tax equivalent basis)	$690	4.37	%	$666	3.59	%
Net interest income (no tax adjustment)	$4,744			$4,602		
Tax equivalent adjustment (1)	266			252		
Net interest income (tax equivalent basis)	$5,010			$4,854		
Interest rate spread (no tax adjustment)		3.24	%		3.00	%
Net interest margin (no tax adjustment)		3.49	%		3.28	%

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

Liquidity Management

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities, borrowings from the FHLB and securities sold under agreements to repurchase. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. Prepayment rates can have a significant impact on interest income. Because of the large percentage of loans we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that, in turn, affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe these assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual loan repayment activity. Our short-term securities are primarily consisted of U.S. Treasury and government agencies, which we use primarily for the 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 March 31, 2013, total cash and cash equivalents totaled $28.8 million, net of reserve requirements. Securities classified as available-for-sale whose market value exceeds our cost, which provides additional sources of liquidity, totaled $418,000 at March 31, 2013. Other liquid assets as of March 31, 2013 included: U.S. Treasury securities and collateralized mortgage obligations, net of pledged securities, totaling $513,000, and certificates of deposit of $12.5 million. At March 31, 2013, the Company had an (under) over collateralized securities pledging position of $1.3 million.

In addition, at March 31, 2013, we had the ability to borrow a total of approximately $58.3 million from the FHLB, subject to pledging requirements. On March 31, 2013, we had $31.0 million of such borrowings outstanding. The Company’s unused borrowing capacity with the Federal Reserve Bank of Boston was approximately $46.5 million at March 31, 2013. 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 March 31, 2013 totaled $104.6 million, or 59.3%, 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 March 31, 2014. 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, 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 March 31, 2013, 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 March 31, 2013.

The Company's and Bank's actual capital amounts and ratios as of March 31, 2013 and December 31, 2012 are presented in the following table:

	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 March 31, 2013									
Total Capital to Risk Weighted Assets									
Company	$93,544	19.3	%	$38,760	8.0	%	N/A	N/A	
Bank	$82,113	17.0	%	$38,703	8.0	%	$48,739	10.0	%
Tier 1 Capital to Risk Weighted Assets									
Company	$89,195	18.4	%	$19,380	4.0	%	N/A	N/A	
Bank	$77,764	16.1	%	$19,352	4.0	%	$29,027	6.0	%
Tier 1 Capital to Average Assets									
Company	$89,195	15.2	%	$23,467	4.0	%	N/A	N/A	
Bank	$77,764	13.3	%	$23,434	4.0	%	$29,292	5.0	%

	Actual			Minimum for Capital Adequacy Purposes			Minimum to be Well Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
	(Dollars In Thousands)								
As of December 31, 2012									
Total Capital to Risk Weighted Assets									
Company	$94,030	19.3	%	$38,990	8.0	%	N/A	N/A	
Bank	$84,728	17.4	%	$38,932	8.0	%	$48,665	10.0	%
Tier 1 Capital to Risk Weighted Assets									
Company	$89,648	18.4	%	$19,495	4.0	%	N/A	N/A	
Bank	$80,346	16.5	%	$19,466	4.0	%	$29,199	6.0	%

Tier 1 Capital to Average Assets									
Company	$89,648	15.0	%	$23,839	4.0	%	N/A	N/A	
Bank	$80,346	13.5	%	$23,800	4.0	%	$29,749	5.0	%

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Restrictions on Dividends

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

On January 24, 2013 the Company declared a cash dividend of $0.05 per share payable on March 8, 2013. No other dividends have been paid from the Company as of March 31, 2013.

Off-Balance Sheet Arrangements

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

Credit-Related Financial Instruments

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

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

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

	March 31, 2013	December 31, 2012
Commitments to grant loans	$26,171	$18,081
Unfunded commitments for construction loans	7,777	8,831
Unfunded commitments under lines of credit	75,571	76,760
Standby letters of credit	1,419	1,449

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.

"Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", requires certain disclosures and liability recognition for the fair value at issuance of guarantees that fall within its scope. 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 $1.4 million at March 31, 2013 and $1.4 million at December 31, 2012, 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 March 31, 2013 and December 31, 2012 was not significant.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Qualitative Aspects of Market Risk

We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Our strategy for managing interest rate risk emphasizes: adjusting the maturities of borrowings; adjusting the investment portfolio mix and duration; increasing our focus on shorter-term, adjustable-rate commercial and multi-family lending; selling fixed-rate mortgage loans; and periodically selling available-for-sale securities. We currently do not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments.

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

Quantitative Aspects of Market Risk

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

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

risk that pricing margins will change adversely over time due to competition or other factors.

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

The table below sets forth an approximation of our exposure as a percentage of estimated net interest income for the next 12 month period using interest income simulation. The simulation uses projected repricing of assets and liabilities at September 30, 2012 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 March 31, 2013 through March 31, 2014 under varying assumptions:

Changes in Interest Rates (Basis Points)	Percentage Change in Estimated Net Interest Income over Twelve Months
Up 500 - 24 months	9.0%
Up 400 - 24 months	7.0%
Up 300 - 12 months	11.0%
Up 200 - 12 months	16.0%
Up 100 - 12 months	8.0%
Base	—%
Down 100 - 12 months	(0.5)%

As indicted in the table above, the results of a 100 and 200 basis instantaneous increase in interest rates is estimated to increase net interest income over a 12-month time horizon by 8.0% and 16.0%, respectively. A 300 basis point gradual increase over 12-months is estimated to increase net interest income by 11.0%. A 400 and 500 basis point increase in market interest rates over a 24-month time horizon is estimated to increase net interest income by 7.0% and 9.0% in the first twelve months. A 100 basis point gradual decrease over a 12-month time horizon is estimated to decrease net interest income by 0.5%.

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 quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect our business, financial condition or future results. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations. At March 31, 2013, the risk factors for the Company have not changed materially from those reported in our 2012 Annual Report on Form 10-K. However, the risks described in our 2012 Annual Report on Form 10-K are not the only risks that we face.

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

On June 1, 2012, the Company announced that the Board of Directors authorized a Seventh Stock Repurchase Program (the "Seventh Stock Repurchase Program") for the purchase of up to 272,000, or 5%, of the shares of the Company's outstanding common stock. During the three months ended March 31, 2013, the Company did not repurchase any shares of Company stock. A summary of the plan is as follows:

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
January 1-31, 2013	—	$—	22,654	249,346
February 1-28, 2013	—	—	22,654	249,346
March 1-31, 2013	—	—	22,654	249,346
Total	—	$—		

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

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

3.1	Articles of Incorporation of Chicopee Bancorp, Inc. (1)
3.2	Bylaws of Chicopee Bancorp, Inc. (2)
4.0	Stock Certificate of Chicopee Bancorp, Inc. (1)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.0	Section 1350 Certification
101.0	The following financial information from Chicopee Bancorp Inc.'s Quarterly Report on Form 10-Q for the three months ended March 31, 2013, formatted in XBRL (Extensible Business Reporting Language) includes: (i) the Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012, (ii) the Consolidated Statements of Income for each of the three month periods ended March 31, 2013 and 2012, (iii) the Consolidated Statement of Comprehensive Income for each of the three month periods ended March 31, 2013 and 2012, (iv) the Consolidated Changes in Stockholders' Equity for each of the three month periods ended March 31, 2013 and 2012, (v) the Consolidated Statements of Cash Flows for each of the three month periods ended March 31, 2013 and 2012, and (vi) the Notes to Consolidated Financial Statements, tagged in summary and detail. (3)

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

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

(3) This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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: May 9, 2013

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

Dated: May 9, 2013

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