CHICOPEE BANCORP, INC.
Form 10-K/A
July 22, 2013

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

FORM 10-K/A
AMENDMENT NO. 2

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

For the fiscal year ended December 31, 2012

OR

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

Commission File Number: 000-51996

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

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

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

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

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

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

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

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

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) YES X NO___

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

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

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

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

On June 30, 2012, the aggregate market value of the voting and non-voting common equity held by non-affiliates was $74,857,308.

The number of shares of Common Stock outstanding as of March 4, 2013 was 5,428,585.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for our Annual Meeting of Stockholders, to be held on May 29, 2013, are incorporated by reference in Part III of this Annual Report on Form 10-K.

Explanatory Note

This Amendment No. 2 to the Form 10-K of Chicopee Bancorp, Inc. is being filed solely to include the signature of Berry Dunn McNeil & Parker, LLC that was inadvertently omitted from the Report of Independent Registered Public Accounting Firm included with the initial filing of the Form 10-K.

Item 8. Financial Statements and Supplementary Data.

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

PART IV

Item 15. Exhibits and Financial Statements Schedules.

1. Financial Statements

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

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets at December 31, 2012 and 2011
- Consolidated Statements of Income for the Years Ended December 31, 2012, 2011 and 2010
- Consolidated Statements of Other Comprehensive Income for the Years Ended December 31, 2012, 2011 and 2010
- Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2012, 2011 and 2010
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010
- Notes to Consolidated Financial Statements

2. Financial Statement Schedules

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

3. Exhibits

No.	Description
3.1	Certificate of Incorporation of Chicopee Bancorp, Inc. (1)
3.2	Bylaws of Chicopee Bancorp, Inc. (2)
4.1	Stock Certificate of Chicopee Bancorp, Inc. (1)
10.1*	Amended and Restated Employment Agreement between William J. Wagner and Chicopee Bancorp, Inc. (3)
10.2*	Amended and Restated Employment Agreement between William J. Wagner and Chicopee Savings Bank (3)
10.3*	Form of Chicopee Savings Bank Employee Stock Ownership Plan (1)
10.4*	Form of Trust Agreement between Chicopee Savings Bank and the Trustee for Chicopee Savings Bank Employee Stock Ownership Plan Trust (1)
10.5*	Form of Loan Agreement (1)
10.6*	Amended and Restated Chicopee Savings Bank Employee Severance Compensation Plan (3)
10.7*	Amended and Restated Chicopee Savings Bank Supplemental Executive Retirement Plan (3)
10.8*	Form of Executive Supplemental Retirement Income Agreement between Chicopee Savings Bank and Russell J. Omer and William J. Wagner (1)
10.9*	Form of First Amendment to the Executive Supplemental Retirement Income Agreement between Chicopee Savings Bank and Russell J. Omer and William J. Wagner (3)
10.10*	First Amendment to Amended and Restated Employment Agreement between William J. Wagner and Chicopee Bancorp, Inc. (3)
10.11*	First Amendment to Amended and Restated Employment Agreement between William J. Wagner and Chicopee Savings Bank (3)
10.12*	Change in Control Agreement between Guida R. Sajdak and Chicopee Savings Bank (4)
10.13*	First Amendment to Change in Control Employment Agreement between Guida R. Sajdak and Chicopee Savings Bank (6)
10.14*	Employment Agreement between Russell J. Omer and Chicopee Bancorp, Inc. (4)
10.15*	Employment Agreement between Russell J. Omer and Chicopee Savings Bank (4)
10.16*	Chicopee Bancorp, Inc. 2007 Equity Incentive Plan (5)
21.0	List of Subsidiaries (7)
23.0	Consent of Berry Dunn McNeil & Parker, LLC
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.0	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

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*	Management contract or compensatory plan, contract or agreement.
(1)	Incorporated by reference in this document to the exhibits to the Company’s Registration Statement on Form S-1 (File No. 333-132512) and any amendments thereto, initially filed with the Securities and Exchange Commission on March 17, 2006.
(2)	Incorporated by reference in this document to the Company’s Current Report on Form 8-K filed on August 1, 2007 (File No. 000-51996).
(3)	Incorporated by reference in this document to the Company’s Annual Report on Form 10-K for the year ended December 31, 2009, filed on March 13, 2009 (File No. 000-51996).
(4)	Incorporated by reference to the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 22, 2010.
(5)	Incorporated herein by reference to Appendix A to the Company’s definitive proxy statement filed with the Securities and Exchange Commission on April 18, 2007 (File No. 000-51996).
(6)	Incorporated by reference to the Company's 8-K filed with the SEC on March 1, 2013.

(7) Incorporated by reference in this document to the Company's Annual Report on Form 10-K for the year ended December 31, 2012, filed on March 15, 2013 (File No. 000-51996).

SIGNATURES

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

By: /s/ William J. Wagner July 22, 2013
William J. Wagner
Chairman of the Board, President and Chief Executive Officer

Management's Annual Report on Internal Control over Financial Reporting

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

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

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

The Company's management assessed the effectiveness of internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Based on its assessment, management believes that, as of December 31, 2012, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm that audited the consolidated financial statements has issued an audit report on our assessment of, and the effective operation of, the Company's internal control over financial reporting as of December 31, 2012, a copy of which is included in this annual report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Stockholders and Board of Directors
Chicopee Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Chicopee Bancorp, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012. We have also audited Chicopee Bancorp, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Chicopee Bancorp, Inc.'s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

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

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

The Stockholders and Board of Directors
Chicopee Bancorp, Inc.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chicopee Bancorp, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the consolidated results of their operations and their consolidated cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with GAAP. Also, in our opinion, Chicopee Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Berry Dunn McNeil & Parker, LLC
Portland, Maine

March 15, 2013

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2012	2011
ASSETS	(In Thousands, except share data)	
Cash and due from banks	$11,073	$10,204
Federal funds sold	3,372	50,457
Interest-bearing deposits with the Federal Reserve Bank of Boston	25,163	461
Cash and cash equivalents	39,608	61,122
Securities available-for-sale, at fair value	621	613
Securities held-to-maturity, at cost (fair value $67,108 and $80,607 at December 31, 2012 and 2011, respectively)	59,568	73,852
Federal Home Loan Bank stock, at cost	4,277	4,489
Loans receivable, net of allowance for loan losses ($4,364 at December 31, 2012 and $4,576 at December 31, 2011)	465,211	443,471
Loans held for sale	—	1,635
Other real estate owned	572	913
Mortgage servicing rights	368	344
Bank owned life insurance	13,807	13,427
Premises and equipment, net	9,459	9,736
Accrued interest receivable	1,567	1,527
Deferred income tax asset	3,252	2,893
FDIC prepaid insurance	467	824
Other assets	1,205	1,460
Total assets	$599,982	$616,306
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Demand deposits	$75,407	$68,799
NOW accounts	36,711	26,747
Savings accounts	48,882	47,122
Money market deposit accounts	127,730	97,606
Certificates of deposit	177,447	213,103
Total deposits	466,177	453,377
Securities sold under agreements to repurchase	9,763	12,340
Advances from Federal Home Loan Bank	33,332	59,265
Accrued expenses and other liabilities	741	542
Total liabilities	510,013	525,524
Commitments and contingencies (Notes 10, 11, 12, 13, 14, 15, 16 and 17)		
Stockholders' equity		
Common stock (no par value, 20,000,000 shares authorized, 7,439,368 shares issued; 5,428,585 outstanding at December 31, 2012 and 5,736,303 outstanding at December 31, 2011)	72,479	72,479
Treasury stock, at cost (2,010,783 shares at December 31, 2012 and		

1,703,065 shares at December 31, 2011)	(26,567)	(22,190)
Additional paid-in capital	3,044	2,800
Unearned compensation (restricted stock awards)	(18)	(546)
Unearned compensation (Employee Stock Ownership Plan)	(3,868)	(4,166)
Retained earnings	44,873	42,408
Accumulated other comprehensive income (loss)	26	(3)
Total stockholders' equity	89,969	90,782
Total liabilities and stockholders' equity	$599,982	$616,306

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

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2012	2011	2010
	(In Thousands, except share data)		
Interest and dividend income:			
Loans, including fees	$22,649	$23,186	$23,537
Interest and dividends on securities	1,684	1,615	1,288
Other interest-earning assets	64	49	32
Total interest and dividend income	24,397	24,850	24,857
Interest expense:			
Deposits	4,412	5,198	5,930
Securities sold under agreements to repurchase	13	36	68
Other borrowed funds	1,202	1,668	2,018
Total interest expense	5,627	6,902	8,016
Net interest income	18,770	17,948	16,841
Provision for loan losses	442	842	1,223
Net interest income after provision for loan losses	18,328	17,106	15,618
Non-interest income:			
Service charges, fee and commissions	2,228	1,964	1,716
Loan sales and servicing, net	667	373	365
Net gain on sales of securities available-for-sale	—	12	158
Loss on sale of other real estate owned	(249)	(126)	(22)
Other than temporary impairment charge	(37)	—	(13)
Income from bank owned life insurance	380	395	422
Other non-interest income	34	32	—
Total non-interest income	3,023	2,650	2,626
Non-interest expenses:			
Salaries and employee benefits	10,429	10,895	10,407
Occupancy expenses	1,476	1,534	1,551
Furniture and equipment	798	728	702
FDIC insurance assessment	357	537	422
Data processing	1,119	1,166	1,207
Professional fees	550	547	577
Advertising	594	571	501
Stationery, supplies and postage	337	362	315
Other non-interest expense	2,645	2,394	2,327
Total non-interest expenses	18,305	18,734	18,009
Income before income tax expense (benefit)	3,046	1,022	235
Income tax expense (benefit)	581	(78)	(230)
Net income	$2,465	$1,100	$465
Earnings per share:			
Basic	$0.49	$0.21	$0.08

Diluted	$0.48	$0.21	$0.08
Adjusted weighted average common shares outstanding			
Basic	5,072,875	5,335,811	5,662,864
Diluted	5,088,233	5,360,749	5,668,596

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

CHICOPEE BANCORP, INC. AND SUBSIDARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2012	2011	2010
	(In Thousands)		
Net income	$2,465	$1,100	$465
Other comprehensive income (loss), net of tax			
Securities available-for-sale:			
Net unrealized holding gains (losses) arising during period	8	(37)	88
Other than temporary impairment charge realized in income	37	—	13
Reclassification adjustment for gains realized in net income	—	(12)	(158)
Tax effect	(16)	17	20
Total other comprehensive income (loss), net of tax	29	(32)	(37)
Total comprehensive income	$2,494	$1,068	$428

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

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2012, 2011, and 2010

	Common Stock	Treasury Stock	Additional Paid-in Capital	Unearned Compensation (Equity Incentive Plan)	Unearned Compensation (ESOP)	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
	(In Thousands, except number of shares)							
Balance at December 31, 2009	$72,479	$(13,951)	$1,765	$(2,269)	$(4,761)	$40,843	$66	$94,172
Comprehensive income:								
Net income	—	—	—	—	—	465	—	465
Change in net unrealized gain on securities available-for-sale (net of deferred income taxes of $20)	—	—	—	—	—	—	(37)	(37)
Total comprehensive income								428
Treasury stock purchased (367,052 shares)	—	(4,344)	—	—	—	—	—	(4,344)
Change in unearned compensation:								
Stock option expense (net of income tax benefit of $87)	—	—	432	—	—	—	—	432
Restricted stock award expense	—	—	—	838	—	—	—	838
Common stock held by ESOP committed to be released	—	—	58	—	298	—	—	356
Balance at December 31, 2010	$72,479	$(18,295)	$2,255	$(1,431)	$(4,463)	$41,308	$29	$91,882
Comprehensive income:								
Net income	—	—	—	—	—	1,100	—	1,100
Change in net unrealized gain on securities available-for-sale (net of deferred income taxes of $17)	—	—	—	—	—	—	(32)	(32)

Total comprehensive ==income								1,068
Treasury stock purchased (275,675 shares)	—	(3,895)	—	—	—	—	—	(3,895)
Stock options exercised	—	—	(6)	—	—	—	—	(6)
Change in unearned compensation:								
Stock option expense (net of income tax benefit of $89)	—	—	415	—	—	—	—	415
Restricted stock award expense	—	—	19	885	—	—	—	904
Common stock held by ESOP committed to be released	—	—	117	—	297	—	—	414
Balance at December 31, 2011	$72,479	$(22,190)	$2,800	$(546)	$(4,166)	$42,408	$(3)	$90,782
Comprehensive income:								
Net income	—	—	—	—	—	2,465	—	2,465
Change in net unrealized loss on securities available-for-sale (net of deferred income taxes of $16)	—	—	—	—	—	—	29	29
Total comprehensive income								2,494
Treasury stock purchased (307,718 shares)	—	(4,377)	—	—	—	—	—	(4,377)
Adjustment to treasury shares	—	—	—	32	—	—	—	32
Stock options exercised	—	—	(53)	—	—	—	—	(53)
Change in unearned compensation:								
Stock option expense (net of income tax benefit of $51)	—	—	278	—	—	—	—	278

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Restricted stock award expense	—	—	(113)	496	—	—	—	383
Common stock held by ESOP committed to be released	—	—	132	—	298	—	—	430
Balance at December 31, 2012	$72,479	$(26,567)	$3,044	$(18)	$(3,868)	$44,873	$26	$89,969

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

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2012	2011	2010
Cash flows from operating activities:	(In Thousands)		
Net income	$2,465	$1,100	$465
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	906	988	1,007
Provision for loan losses	442	842	1,223
Increase in cash surrender value of life insurance	(380)	(395)	(422)
Net realized gain on sales of securities available-for-sale	—	(12)	(158)
Other than temporary impairment charge	37	—	13
Realized gains on sales of mortgages	(187)	(180)	(169)
Net loss on sales and write downs of other real estate owned	249	126	22
Net change in loans originated for resale	1,635	253	(1,354)
Deferred income tax benefit	(375)	(408)	(337)
Decrease in FDIC prepaid insurance	357	537	422
Decrease in other assets	233	21	587
(Increase) decrease in accrued interest receivable	(40)	371	(268)
Increase (decrease) in other liabilities	199	242	(85)
Change in unearned compensation	1,091	1,733	1,626
Net cash provided by operating activities	6,632	5,218	2,572
Cash flows from investing activities:			
Additions to premises and equipment	(437)	(351)	(582)
Loan originations and principal collections, net	(22,821)	(15,301)	(7,479)
Proceeds from sales of other real estate owned	730	543	376
Proceeds from sales of securities available-for-sale	—	17	228
Purchases of securities available-for-sale	—	(304)	—
Purchases of securities held-to-maturity	(49,833)	(98,864)	(114,100)
Maturities of securities held-to-maturity	62,182	92,330	105,072
Proceeds from principal paydowns of securities held-to-maturity	1,928	2,404	2,309
Net purchase of FHLB stock	213	—	(183)
Net cash used in investing activities	(8,038)	(19,526)	(14,359)
Cash flows from financing activities:			
Net increase in deposits	12,800	61,440	26,439
Net decrease in securities sold under agreements to repurchase	(2,577)	(5,632)	(2,450)
Proceeds from long-term FHLB advances	—	—	24,500
Payments on long-term FHLB advances	(25,933)	(12,350)	(16,560)
Treasury stock purchased	(4,377)	(3,895)	(4,344)
Stock options exercised	(53)	(6)	—
Adjustment to treasury shares	32	—	—
Net cash (used) provided by financing activities	(20,108)	39,557	27,585
Net (decrease) increase in cash and cash equivalents	(21,514)	25,249	15,798
Cash and cash equivalents at beginning of year	61,122	35,873	20,075

Cash and cash equivalents at end of year	$39,608	$61,122	$35,873
Supplemental cash flow information:			
Interest paid on deposits	$4,412	$5,198	$5,930
Interest paid on borrowings	1,287	1,734	2,099
Income taxes paid	767	123	239
Transfers from loans to other real estate owned	639	1,318	566
Gain on acquisition of other real estate owned	34	32	—

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

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2012, 2011 and 2010
Nature of Business

Chicopee Bancorp, Inc. (the "Company"), a Massachusetts corporation, was formed on March 14, 2006 by Chicopee Savings Bank (the "Bank") to become the holding company for the Bank upon completion of the Bank's conversion from a mutual savings bank to a stock savings bank. The conversion of the Bank was completed on July 19, 2006.

The Company provides a variety of financial services to individuals and businesses through its bank subsidiary Chicopee Savings Bank. The Bank is a Massachusetts state-chartered savings bank operating eight full service branch offices and our lending and operation center in Western Massachusetts. The Bank's primary source of revenue is earned by providing loans to small and middle-market businesses and to residential property homeowners. The Bank's primary deposit products are savings and term certificate accounts.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

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

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

Use of estimates

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

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

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

Significant group concentrations of credit risk

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

Cash and cash equivalents

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

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Securities

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

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

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

Other-than-temporary impairment (“OTTI”) of investment securities

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

Federal Home Loan Bank stock

As a member of the Federal Home Loan Bank of Boston ("FHLB"), the Company is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on its stock. The Company reviews its investment in FHLB stock for impairment based on the ultimate recoverability of the cost basis in the

FHLB stock. As of December 31, 2012, no impairment has been recognized.

Loans held for sale

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

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Loans

The Company grants residential real estate, commercial and consumer loans to customers. Residential real estate loans include residential loans secured by owner-occupied, first lien real estate and residential construction loans. Commercial loans include commercial real estate, commercial and industrial, commercial construction loans and residential investment loans. Consumer loans include second mortgages, home improvement loans, equity loans, automobile and, to a lesser extent, personal loans. For purposes of evaluating the risk in the loan portfolio, management identified the following loan classes, which are used in evaluating the adequacy of the allowance for loan losses: residential real estate, residential construction, commercial real estate, commercial construction, commercial and industrial, consumer and home equity loans.

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

Delinquency and nonaccrual

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

Loans charged off

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

Residential loans. In general, a charge-off will not be recommended until a potential shortfall can be determined when the Company has received an updated appraisal and title to the property. However, any outstanding loan balance in excess of the fair value of the property, less cost to sell, is classified as a loss in the allocation of loan loss reserves. This amount is recommended for charge- off, when the property is acquired and transferred on the balance sheet from loans to OREO.

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

Allowance for loan losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

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estimation of probable losses. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management’s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. There was no unallocated component of the allowance at December 31, 2012 and 2011.

There were no changes in the allowance for loan losses methodology during the year ended December 31, 2012.

Impairment

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

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

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

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

Loan servicing

The valuation of mortgage servicing rights (“MSR”) is a critical accounting policy, which requires significant estimates and assumptions. The Company often sells mortgage loans it originates and retains the ongoing servicing of such loans, receiving a fee for these services, generally 1% of the outstanding balance of the loan per annum. Servicing assets are recognized at fair value as separate assets when servicing rights are acquired through the sale of loans.

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

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Credit related financial instruments

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

Other real estate owned

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

Premises and equipment

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

Income taxes

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

Employee stock ownership plan (“ESOP”)

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

Equity Incentive Plan

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

Advertising

Advertising costs are expensed as incurred.

Earnings per common share

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

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and, therefore, are included in computing earnings per share pursuant to the two-class method. The two-class method determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings. The Company's stock options and stock awards

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receive non-forfeitable dividends at the same rate as common stock. There were no dividends paid in 2012, 2011, or 2010. The following table sets forth the computation of basic and diluted earnings per share under the two-class method:

	Years Ended December 31,		
	2012	2011	2010
Net income (in thousands)	$2,465	$1,100	$465
Weighted average number of common shares issued	7,439,368	7,439,368	7,439,368
Less: average number of treasury shares	(1,918,041)	(1,569,482)	(1,149,876)
Less: average number of unallocated ESOP shares	(416,605)	(446,363)	(476,121)
Less: average number of nonvested restricted stock awards	(31,847)	(87,712)	(150,507)
Adjusted weighted average number of common shares outstanding	5,072,875	5,335,811	5,662,864
Plus: dilutive nonvested restricted stock awards	15,358	24,938	5,732
Weighted average number of diluted shares outstanding	5,088,233	5,360,749	5,668,596
Net income per share:			
Basic- common stock	$0.49	$0.21	$0.08
Basic- unvested share-based payment awards	$0.49	$0.21	$0.08
Diluted- common stock	$0.48	$0.21	$0.08
Diluted- unvested share-based payment awards	$0.48	$0.21	$0.08

There were 595,198, 556,198, and 591,334 stock options for the years ended December 31, 2012, 2011, and 2010, which were excluded from the diluted earnings per share because their effect is anti-dilutive.

Segment reporting

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

Recent accounting pronouncements

In April 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2011-03, “Transfer and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements”. This ASU removes from the assessment of effective control the criterion relating to the transferor's ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. The guidance is effective for first interim and annual reporting periods ending after December 15, 2011. The adoption of this new guidance did not have a material effect on the Company's consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRs". This ASU clarifies how to measure fair value, but does not require additional fair value measurement and is not intended to affect current valuation practices outside of financial reporting. However, additional information and disclosure are required for transfers between Level 1 and Level 2, the sensitivity of a fair value measurement categorized as Level 3, and the categorization of items that are not measured at fair value by level of the fair value hierarchy. The guidance is effective during interim and annual reporting periods beginning after December 15, 2011. Other than expanded disclosures, the implementation of ASU No. 2011-04 did not have a material effect on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income". This ASU requires that all non-owner changes in shareholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Other than matters of presentation, the adoption of this new guidance did not have a material effect on the Company's consolidated financial statements.

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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 Company is evaluating the impact of ASU 2011-11 but does not expect that adoption of the ASU will 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. Other than matters of presentation, the Company believes the adoption of this new guidance will not have a material effect on the Company's consolidated financial statements.

Reclassifications

Certain amounts in the 2011 and 2010 financial statements have been reclassified to conform to the 2012 presentation.

2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Company is required to maintain average balances on hand or deposits with the Federal Reserve Bank of Boston. At December 31, 2012 and 2011, these reserve balances amounted to $3.9 million and $3.6 million, respectively, and are included in cash and due from banks.

3. SECURITIES

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

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities available-for-sale				
Marketable equity securities	$581	$40	$—	$621
Total securities available-for-sale	$581	$40	$—	$621
Securities held-to-maturity				

U.S. Treasury securities	$13,691	$2	$—	$13,693
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 securities held-to-maturity	$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

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	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities available-for-sale				
Marketable equity securities	$618	$28	$(33)	$613
Total securities available-for-sale	$618	$28	$(33)	$613
Securities held-to-maturity				
U.S. Treasury securities	$26,998	$1	$(1)	$26,998
Industrial revenue bonds	31,576	6,643	—	38,219
Certificates of deposit	13,206	7	—	13,213
Collateralized mortgage obligations	2,072	105	—	2,177
Total Securities held-to-maturity	$73,852	$6,756	$(1)	$80,607
Non-marketable securities				
Federal Home Loan Bank stock	$4,489	$—	$—	$4,489
Banker's Bank stock	183	—	—	183
Total non-marketable securities	$4,672	$—	$—	$4,672

At December 31, 2012 and 2011, securities with an amortized cost of $12.6 million and $25.5 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 December 31, 2012 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	$22,732	$22,738
From 1 to 5 years	1,984	2,297
From 5 to 10 years	9,349	10,427
Over 10 years	25,503	31,646
	$59,568	$67,108

Proceeds from sales of securities available-for-sale during the years ended December 31, 2011 and 2010 amounted to $17,000 and $228,000, respectively. Gross realized gains of $12,000 and $158,000 were realized during the years ended December 31, 2011 and 2010. There were no sales of securities available-for-sale during the year ended December 31, 2012. There were no gross realized losses for the years ended December 31, 2011 and 2010. The tax provision applicable to these net realized gains in 2011 and 2010 was $4,000 and $46,000, respectively.

Management conducts, at least on a monthly basis, a review of its investment portfolio including available-for-sale and held-to-maturity (“HTM”) securities to determine if the value of any security has declined below its cost or amortized cost and whether such decline is OTTI. Securities are evaluated individually based on guidelines established by FASB, 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 market 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

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

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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.

During the year ended December 31, 2012, management determined 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.

For the year ended December 31, 2011, management determined that there were no securities other-than-temporarily impaired.

During the year ended December 31, 2010, management determined that one equity security in the financial industry had other-than-temporary impairment for which a charge was recorded in the amount of $13,000.

Unrealized Losses on Investment Securities

The following table represents the fair value of investments with continuous unrealized losses for less than 12 months and those that have been in a continuous unrealized loss position for more than 12 months as of December 31, 2011:

	December 31, 2011 Less Than Twelve Months (In Thousands)		Twelve Months and Over		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Marketable equity securities	$221	$(33)	$—	$—	$221	$(33)
U.S. Treasury securities	13,998	(1)	—	—	13,998	(1)
Total temporarily impaired securities	$14,219	$(34)	$—	$—	$14,219	$(34)

There were no continuous unrealized losses for the year ended December 31, 2012.

U.S. Treasury Securities.
There were no unrealized losses within the U.S. Treasury securities category at December 31, 2012. At December 31, 2011, unrealized losses related to five U.S. Treasury securities of which all had losses for less than 12 months, totaling $1,000 and deemed immaterial.

Collateralized Mortgage Obligations (“CMO”).
As of December 31, 2012 and 2011, there were no unrealized losses within the CMO portfolio. The portfolio ended with an unrealized gain of $53,000 and $105,000 for the years ended December 31, 2012 and 2011, respectively.

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 of 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, 2011, the Company had 13 CMO bonds, or 17 individual issues, with an aggregate book value of $2.1 million, which included five bonds, or six individual issues, with a FICO score of 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.

Industrial Revenue Bonds.
As of December 31, 2012 and 2011, there were no unrealized losses within the industrial revenue bond category. As of December 31, 2012, the Company had six tax-exempt industrial revenue bonds ("IRB"), with an aggregate book value of $35.7 million. As of December 31, 2011, the Company had six IRBs, with an aggregate book value of $31.6 million . These IRBs have a tax equivalent adjustment based on a tax rate of 41%.

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Marketable Equity Securities.
As of December 31, 2012, there were no unrealized losses within the equity securities portfolio. The portfolio ended the year with a net unrealized gain of $40,000. As of December 31, 2011 unrealized losses within the marketable securities portfolio totaled $33,000 and related to three securities issued by one company in the financial industry.

Non-Marketable Securities.
The Company is a member of the FHLB, a cooperatively owned wholesale bank for housing and finance in the six New England States. Its mission is to support the residential mortgage and community development lending activities of its members, which include over 450 financial institutions across New England. As a requirement of membership in the FHLB, the Company must own a minimum required amount of FHLB stock, calculated periodically based primarily on the Company's level of borrowings from the FHLB. The Company uses the FHLB for much of its wholesale funding needs. As of December 31, 2012 and 2011, the Company's investment in FHLB stock totaled $4.3 million and $4.5 million, respectively.

FHLB stock is a non-marketable equity security and therefore is reported at cost, which equals par value. Shares held in excess of the minimum required amount are generally redeemable at par value. 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 December 31, 2012 and 2011, the Company received $22,000 and $13,000, 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 9, 2012, the FHLB repurchased $213,000 of FHLB stock, representing 42,765 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 December 31, 2012. 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 December 31, 2012 and 2011, the Company's investment in Banker's Bank totaled $183,000.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. LOANS

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

	December 31, 2012		December 31, 2011	
	Amount	Percent of Total	Amount	Percent of Total
	(In Thousands)			
Real estate loans:				
Residential real estate[1]	$120,265	25.7 %	$123,294	27.6 %
Home equity	31,731	6.8 %	29,790	6.7 %
Commercial	189,472	40.4 %	174,761	39.0 %
Total	341,468	72.9 %	327,845	73.3 %
Construction-residential	4,334	0.9 %	5,597	1.3 %
Construction-commercial	35,781	7.6 %	31,706	7.0 %
Total construction	40,115	8.5 %	37,303	8.3 %
Total real estate loans	381,583	81.4 %	365,148	81.6 %
Consumer loans	2,492	0.6 %	2,566	0.6 %
Commercial loans	84,583	18.0 %	79,412	17.8 %
Total loans	468,658	100.0 %	447,126	100.0 %
Deferred loan origination costs, net	917		921	
Allowance for loan losses	(4,364)		(4,576)	
Loans, net	$465,211		$443,471	

[1] Excludes loans held for sale of $1.6 million at December 31, 2011.

Risk characteristics

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

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

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

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

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Credit quality

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

The following describes the credit risk ratings for classified assets:

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

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

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

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

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.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents an analysis of total loans segregated by risk rating and class at 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

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents an analysis of total loans segregated by risk rating and class at December 31, 2011:

	Commercial Credit Risk Exposure			
	Commercial	Commercial Construction	Commercial Real Estate	Total
	(In Thousands)			
Pass	$74,699	$19,904	$165,168	$259,771
Special mention	2,855	11,586	5,622	20,063
Substandard	1,858	216	3,971	6,045
Doubtful	—	—	—	—
Loss	—	—	—	—
Total commercial loans	$79,412	$31,706	$174,761	$285,879

	Residential Credit Risk Exposure		
	Residential Real Estate	Residential Construction	Total
	(In Thousands)		
Pass	$121,072	$5,597	$126,669
Substandard (nonaccrual)	2,222	—	2,222
Total residential loans	$123,294	$5,597	$128,891

	Consumer Credit Risk Exposure		
	Consumer	Home Equity	Total
	(In Thousands)		
Performing	$2,487	$29,484	$31,971
Nonperforming (nonaccrual)	79	306	385
Total consumer loans	$2,566	$29,790	$32,356

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the allowance for loan losses and select loan information 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 (reduction) for 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

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the allowance for loan losses and select loan information as of December 31, 2011:

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial	Consumer Loans	Home Equity	Total
	(In Thousands)							
Allowance for loan losses								
Balance as of December 31, 2010	$513	$148	$1,783	$402	$1,429	$28	$128	4,431
Provision for loan losses	123	17	272	124	231	66	9	842
Recoveries	—	—	—	—	—	18	—	18
Loans charged off	(87)	(76)	(164)	—	(317)	(65)	(6)	(715)
Balance as of December 31, 2011	$549	$89	$1,891	$526	$1,343	$47	$131	$4,576
Allowance for loan losses ending balance								
Collectively evaluated for impairment	$366	$89	$1,811	$504	$1,026	$47	$118	$3,961
Individually evaluated for impairment	183	—	80	22	317	—	13	615
	$549	$89	$1,891	$526	$1,343	$47	$131	$4,576
Total loans ending balance								
Collectively evaluated for impairment	$121,072	$5,597	$170,855	$31,490	$77,749	$2,566	$29,484	$438,813
Individually evaluated for impairment	2,222	—	3,906	216	1,663	—	306	8,313
	$123,294	$5,597	$174,761	$31,706	$79,412	$2,566	$29,790	$447,126

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents a summary of information pertaining to impaired loans by class as of 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

Interest income recognized on impaired loans was $337,000 for the year ended December 31, 2010. No additional funds are committed to be advanced in connection with impaired loans.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents a summary of information pertaining to impaired loans by class as of December 31, 2011:

	Recorded Investment	Unpaid Balance	Average Recorded Investment	Related Allowance	Interest Income Recognized
	(In Thousands)				
Impaired loans without a valuation allowance:					
Residential real estate	$1,127	$1,127	$1,816	$—	$32
Residential construction	—	—	19	—	—
Commercial real estate	3,424	3,749	2,710	—	191
Commercial construction	—	—	600	—	—
Commercial	580	580	791	—	21
Consumer	—	—	—	—	—
Home equity	271	271	139	—	15
Total	$5,402	$5,727	$6,075	$—	$259
Impaired loans with a valuation allowance:					
Residential real estate	$1,095	$1,095	$688	$183	$39
Residential construction	—	—	97	—	—
Commercial real estate	482	482	792	80	25
Commercial construction	216	216	222	22	14
Commercial	1,083	1,083	2,085	317	52
Consumer	—	—	—	—	—
Home equity	35	35	14	13	2
Total	$2,911	$2,911	$3,898	$615	$132
Total impaired loans:					
Residential real estate	$2,222	$2,222	$2,504	$183	$71
Residential construction	—	—	116	—	—
Commercial real estate	3,906	4,231	3,502	80	216
Commercial construction	216	216	822	22	14
Commercial	1,663	1,663	2,876	317	73
Consumer	—	—	—	—	—
Home equity	306	306	153	13	17
Total	$8,313	$8,638	$9,973	$615	$391

The following table presents an aging analysis of past due and nonaccrual 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

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents an aging analysis of past due and nonaccrual loans as of December 31, 2011:

	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	$1,693	$179	$1,379	$3,251	$120,043	$123,294	$2,222
Residential construction	—	331	—	331	5,266	5,597	—
Commercial real estate	738	565	672	1,975	172,786	174,761	798
Commercial construction	—	—	—	—	31,706	31,706	—
Commercial	79	298	849	1,226	78,186	79,412	1,306
Consumer	83	27	74	184	2,382	2,566	79
Home equity	189	—	306	495	29,295	29,790	306
Total	$2,782	$1,400	$3,280	$7,462	$439,664	$447,126	$4,711

Any loan with a payment more than 30 days past due will be considered delinquent.

Nonaccrual loans were $4.0 million and $4.7 million at December 31, 2012 and 2011, respectively. As of December 31, 2012, nonaccrual loans exceed loans greater than 90 days past due by $1.4 million due to nonaccrual loans that have been paid down to less than 90 days delinquent, but are considered nonaccrual until the borrower becomes current with all past due payments. Interest foregone was $92,000, $551,000, and $170,000 for the years ended December 31, 2012, 2011, and 2010, respectively. There were no loans greater than ninety days past due and still accruing at December 31, 2012 and 2011.

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 it would not otherwise consider. TDR's 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.

The following is a summary of accruing and nonaccruing TDR loans by class for the year ended December 31, 2012:

	Number of Modifications	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Current Balance
	(In Thousands)			
Residential real estate	1	$118	$ 127	$125
Residential construction	—	—	—	—
Commercial real estate	3	661	698	696
Commercial construction	—	—	—	—
Commercial	2	212	212	60
Consumer	1	27	27	23
Home equity	1	38	38	37
Total	8	$1,056	$ 1,102	$941

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of accruing and nonaccruing TDR loans by class for the year ended December 31, 2011:

	Number of Modifications	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Current Balance
	(In Thousands)			
Residential real estate	1	$ 242	$ 255	$ 252
Residential construction	—	—	—	—
Commercial real estate	3	516	516	512
Commercial construction	—	—	—	—
Commercial	1	110	110	109
Consumer	—	—	—	—
Home equity	—	—	—	—
Total	5	$ 868	$ 881	$ 873

TDRs granted in 2012 and 2011 were primarily the result of concessions to reduce the interest rate or extension of the maturity date. The TDRs granted during 2012 and 2011 did not result in a reduction of the recorded investment. As of December 31, 2012, one commercial TDR and two commercial real estate TDRs were in default. During 2012, the Company charged off $106,000 related to one commercial TDR. No other loans were charged off after the TDR modification. The Company will continue to monitor these TDRs.

The Company reviews TDRs on a loan by loan basis and applies specific reserves to loan balances. The reserve balance is typically calculated using the present value of future cash flows or using the fair value of the collateral method if sufficient borrower cash flow cannot be identified.

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.

5. LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were $87.1 million and $80.7 million at December 31, 2012 and 2011, respectively. The risks inherent in the mortgage servicing assets relate primarily to changes in prepayments that result from changes in mortgage interest rates. Net gains realized on the sale of loans were $187,000, $180,000, and $169,000 for the years ended December 31, 2012, 2011 and 2010, respectively. The balance of capitalized servicing rights, net of valuation allowances, included in other assets at December 31, 2012, 2011, and 2010, was $368,000, $344,000 and $306,000, respectively. The fair values of these rights were $444,000, $360,000 and $455,000, respectively. At December 31, 2012 and 2011, the valuation allowance was $32,000 and $52,000, respectively.

Residential real estate mortgages are originated by the Company both for its portfolio and for sale into the secondary market. The Company may sell its loans to institutional investors such as the Federal Home Loan Mortgage

Corporation. Under loan sale and servicing agreements with the investor, the Company generally continues to service the residential real estate mortgages. The Company pays the investor an agreed-upon rate on the loan, which is less than the interest rate received from the borrower. The Company retains the difference as a fee for servicing the residential real estate mortgages. The Company capitalizes mortgage servicing rights at their fair value upon sale of the related loans, amortizes the asset over the estimated life of the serviced loan, and periodically assesses the asset for impairment. The significant assumptions used by a third party to estimate the fair value of capitalized servicing rights at December 31, 2012, include weighted average prepayment speed for the portfolio using the Public Securities Association Standard Prepayment Model (203 PSA), weighted average discount rate (8.12%), weighted average servicing fee (0.2508%), and net cost to service loans ($41.05 per loan). The estimated fair value of capitalized servicing rights may vary significantly in subsequent periods primarily due to changing market interest rates, and their effect on prepayment speeds and discount rates.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the activity in the balances of mortgage servicing rights follows:

	Years Ended December 31,		
	2012	2011	2010
	(In Thousands)		
Balance at the beginning of year	$344	$306	$297
Capitalized mortgage servicing rights	187	180	169
Change in valuation allowance	20	18	(37)
Amortization	(183)	(160)	(123)
Balance at the end of year	$368	$344	$306

6. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment is as follows:

	December 31,	
	2012	2011
	(In Thousands)	
Land	$1,529	$1,529
Buildings	9,752	9,663
Leasehold improvements	1,447	1,432
Furniture and equipment	5,665	5,383
Equipment	285	241
	18,678	18,248
Accumulated depreciation	(9,219)	(8,512)
Premises and equipment, net	$9,459	$9,736

Depreciation expense related to premises and equipment for the years ended December 31, 2012, 2011, and 2010 amounted to $714,000, $719,000 and $741,000, respectively.

7. DEPOSITS

A summary of deposit balances by type is as follows:

	December 31,	
	2012	2011
	(In Thousands)	
Demand deposits	$75,407	$68,799
NOW accounts	36,711	26,747
Savings accounts	48,882	47,122
Money market deposit accounts	127,730	97,606
Total non-certificate accounts	288,730	240,274
Certificate accounts less than $100,000	87,787	103,776
Certificate accounts $100,000 or more	89,660	109,327
Total certificate accounts	177,447	213,103
Total deposits	$466,177	$453,377

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of certificate accounts by maturity is as follows:

	December 31, 2012 (In Thousands)		December 31, 2011	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
2012	$—	—	$108,162	1.21%
2013	91,224	1.33%	34,016	2.85%
2014	40,292	2.40%	33,342	2.71%
2015	23,770	2.58%	21,184	2.82%
2016	16,925	1.93%	16,399	1.98%
2017	5,236	1.38%	—	—
	$177,447	1.80%	$213,103	1.93%

8. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase ("repurchase agreements") are funds borrowed from customers on an overnight basis that are secured by securities and are summarized as follows:

	Years Ended December 31, 2012 (In Thousands)	2011
Balance at end of year	$9,763	$12,340
Average amount outstanding during the year	9,027	17,554
Interest expense incurred during the year	13	36
Maximum amount outstanding at any month-end	12,982	24,560
Weighted average interest rate during the year	0.14%	0.21%
Weighted average interest rate on end of year balances	0.12%	0.18%

At December 31, 2012 and 2011, securities with a carrying value of $12.6 million and $25.5 million, respectively, were pledged to secure repurchase agreements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. ADVANCES FROM FEDERAL HOME LOAN BANK

Advances from the FHLB consist of the following:

		December 31, 2012			December 31, 2011		
		Amount	Weighted Average Rate		Amount	Weighted Average Rate	
		(In Thousands)					
Fixed-rate FHLB advances maturing:							
2012	(a)	$—	—	%	$16,811	2.63	%
2013	(a)	—	—		1,927	2.23	%
2014	(a)	8,746	2.24	%	18,317	2.31	%
2015	(a)	9,045	1.94	%	10,096	2.12	%
2016	(a)	4,031	2.39	%	3,663	2.55	%
2017	(a)	6,510	2.23	%	3,451	2.57	%
2018		5,000	3.69	%	5,000	3.69	%
Total FHLB advances		$33,332	2.39	%	$59,265	2.51	%

(a) Includes amortizing advances requiring monthly principal and interest payments.

FHLB advances are secured primarily by a blanket lien on qualified one- to four-family first mortgages, certain pledged commercial real estate loans and the Company’s holding of FHLB stock. At December 31, 2012 and 2011, the Company was in compliance with the FHLB collateral requirements. At December 31, 2012, the Company pledged $151.3 million of collateral to the FHLB.

At December 31, 2012, the Company had the ability to borrow an additional $57.6 million based on the collateral pledged to the FHLB. In addition, the Company is able to pledge additional collateral to increase the advance availability with the FHLB.

The Company utilizes advances from the FHLB primarily in connection with funding growth in the balance sheet and to manage interest rate risk. At December 31, 2012, all of the Company’s outstanding FHLB advances were at fixed interest rates ranging from 1.27% to 3.69%.

At December 31, 2011, all of the Company's outstanding FHLB advances were at fixed interest rates ranging from 0.70% to 3.69%. The weighted average rate for all FHLB advances at December 31, 2012 and 2011, was 2.39%, and 2.51%, respectively.

On December 24, 2012, the Company restructured $6.7 million of FHLB advances. In executing this restructuring of FHLB advances, the Company incurred a prepayment penalty of $202,000, which was blended with the effective rate and will be amortized over the life of the restructured advances.

At December 31, 2012, the Company had an Ideal Way Line of Credit available with the FHLB of $2.0 million and an unsecured line of credit of $4.0 million with Banker’s Bank Northeast. The unsecured line of credit with Banker’s Bank Northeast. allows the Company to borrow up to $4.0 million. In addition, the Company’s unused borrowing capacity with the Federal Reserve Bank of Boston was $27.7 million at December 31, 2012. At December 31, 2012, there were no amounts outstanding under the three lines of credit.

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10. INCOME TAXES

Allocation of federal and state income taxes between current and deferred portions is as follows:

	Years Ended December 31,		
	2012	2011	2010
	(In Thousands)		
Current tax expense			
Federal	$726	$233	$92
State	230	97	15
	956	330	107
Deferred tax (benefit) expense			
Federal	(275)	1,350	(309)
State	(80)	(77)	(85)
	(355)	1,273	(394)
Change in valuation reserve	(20)	(1,681)	57
	(375)	(408)	(337)
Income tax expense (benefit)	$581	$(78)	$(230)

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows:

	Years Ended December 31,		
	2012	2011	2010
Statutory rate	34.0 %	34.0 %	34.0 %
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	3.2 %	1.3 %	3.7 %
Dividends received deduction	(0.2)%	(0.5)%	(1.8)%
Change in valuation allowance	(0.7)%	(164.5)%	24.2 %
Tax-exempt interest	(16.7)%	(44.8)%	(142.1)%
Bank owned life insurance	(4.2)%	(13.1)%	(60.9)%
Stock-based compensation	2.9 %	9.0 %	60.8 %
Expiration of contribution carryover	—	170.8 %	—
Other, net	0.8 %	(1.9)%	(15.8)%
Effective tax rate	19.1 %	(9.7)%	(97.9)%

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

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The tax effects of each type of income and expense item that gave rise to deferred taxes are as follows:

	December 31,	
	2012	2011
	(In Thousands)	
Gross deferred tax assets		
Charitable contribution carryfoward	$—	$20
Capital loss carryforward	67	67
Allowance for loan losses	1,873	1,957
Unrealized loss on securities available-for-sale	—	2
Employee benefit and stock-based compensation plans	838	906
Nonaccrual interest	280	29
OREO	157	—
Alternative minimum tax credit	519	511
Depreciation	25	—
Other	107	53
Gross deferred tax assets	3,866	3,545
Gross deferred tax liabilities		
Deferred loan costs	(373)	(368)
Mortgage servicing rights	(160)	(137)
Depreciation	—	(60)
Unrealized gain on securities available-for-sale	(14)	—
Gross deferred tax liabilities	(547)	(565)
Net deferred tax asset	3,319	2,980
Valuation allowance	(67)	(87)
Net deferred tax asset	$3,252	$2,893

The change in the valuation reserve applicable to the net deferred tax asset is as follows:

	Years Ended December 31,		
	2012	2011	2010
	(In Thousands)		
Balance at beginning of year	$87	$1,768	$1,711
Change generated by current year's operations	(20)	(1,681)	57
Balance at end of year	$67	$87	$1,768

In connection with its initial public offering, the Company donated common stock in the amount of $5.5 million to the Chicopee Savings Bank Charitable Foundation, which resulted in a tax benefit of $1.9 million. As of December 31, 2010 a valuation reserve of $1.8 million, had been established against deferred tax assets related to the uncertain utilization of the charitable contribution carryforward created primarily by the donation to the Chicopee Savings Bank Charitable Foundation as well as a capital loss carryforward. As of December 31, 2011, the contribution carryforward from 2006 expired and the associated deferred tax asset and related valuation reserve were reversed.

As of December 31, 2012, a valuation reserve of $67,000 has been established against the deferred tax asset related to the uncertain utilization of the capital loss carryforward.

The federal income tax reserve for loan losses at the Bank's base year is $3.9 million. If any portion of the reserve is used for purposes other than to absorb loan losses, approximately 150% of the amount actually used, limited to the amount of the reserve, would be subject to taxation in the fiscal year in which used. As the Bank intends to use the reserve solely to absorb loan losses, a deferred tax liability of approximately $1.4 million has not been provided.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company’s income tax returns for the years ended December 31, 2009, 2010, 2011, and 2012 are open to audit under the statute of limitations by the Internal Revenue Service. The Company’s policy is to record interest and penalties related to uncertain tax positions as part of its income tax expense. The Company has no penalties and interest recorded for the years ended December 31, 2012, 2011and 2010.

11. OFF-BALANCE-SHEET ACTIVITIES

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.

Credit-related financial instruments

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

	December 31,	
	2012	2011
	(In Thousands)	
Commitments to grant loans	$18,081	$16,957
Unfunded commitments for construction loans	8,831	18,665
Unfunded commitments under lines of credit	76,760	72,466
Standby letters of credit	1,449	1,139

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; an Interpretation of FASB Statements, 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, and $1.1 million at December 31, 2012 and 2011, 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 December 31, 2012 and 2011 was not material.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

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Lease commitments

Pursuant to the terms of non-cancelable lease agreements in effect at December 31, 2012, future minimum operating lease commitments pertaining to banking premises are as follows:

	(In Thousands)
2013	$448
2014	442
2015	442
2016	438
2017	462
Thereafter	3,376
	$5,608

The leases contain options to extend for periods from one to five years. Total rent expense, including common area charges for the years ended December 31, 2012, 2011, and 2010 approximated $484,000, $486,000, and $486,000, respectively.

12. OTHER COMMITMENTS AND CONTINGENCIES

Employment and change in control agreements

Chicopee Bancorp, Inc. has three-year employment agreements with its President and Chief Executive Officer and Executive Vice President of Lending and three-year change of control agreements with certain other executives. These agreements generally provide for a base salary and the continuation of certain benefits currently received. The Company employment agreements renew on a daily and annual basis, respectively. Under certain specified circumstances, the employment agreements require certain payments to be made for certain reasons other than cause, including a “change in control” as defined in the agreement. However, such employment may be terminated for cause, as defined, without incurring any continuing obligations.

Legal claims

Various legal claims arise from time to time in the ordinary course of business. In the opinion of management, the claims that existed at December 31, 2012 will have no material effect on the Company's consolidated financial statements.

13. MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Company and its bank subsidiary are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company’s consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2012 and 2011, that the Company and its bank subsidiary met all capital adequacy requirements to which they are subject.

As of December 31, 2012, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank’s category. Prompt corrective action provisions are not applicable to the Company.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's and Bank's actual capital amounts and ratios as of December 31, 2012 and 2011 are presented below.

	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 %
As of December 31, 2011:						
Total Capital to Risk Weighted Assets						
Company	$94,009	19.6 %	$38,362	8.0 %	N/A	N/A
Bank	$81,606	17.0 %	$38,291	8.0 %	$47,864	10.0 %
Tier 1 Capital to Risk Weighted Assets						
Company	$89,433	18.7 %	$19,181	4.0 %	N/A	N/A
Bank	$77,030	16.1 %	$19,146	4.0 %	$28,718	6.0 %
Tier 1 Capital to Average Assets						
Company	$89,433	14.8 %	$24,148	4.0 %	N/A	N/A
Bank	$77,030	12.8 %	$24,096	4.0 %	$30,120	5.0 %

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

	December 31,	
	2012	2011
	(In Thousands)	
Total equity determined under GAAP	$89,969	$90,782
Net unrealized (gain) loss on securities available-for-sale, net of tax	(26)	8
Disallowed mortgage servicing rights	(37)	(35)
Disallowed deferred tax assets	(258)	(1,322)
Tier 1 Capital	89,648	89,433
Allowable allowance for loan losses	4,364	4,576
Unrealized gain on available-for-sale equity securities, net of tax	18	—
Total regulatory capital	$94,030	$94,009

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

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14. COMMON STOCK REPURCHASE PROGRAM

On September 30, 2011, the Company announced that the Board of Directors approved the Sixth Stock Repurchase Program (the "Sixth Stock Repurchase Program") to repurchase up to 287,000 shares, or approximately 5% of the Company's outstanding shares of common stock, upon the completion of its Fifth Stock Repurchase Program approved on November 19, 2010.

On June 1, 2012, the Company announced that the Board of Directors authorized the Seventh Stock Repurchase Program (the "Seventh Stock Repurchase Program") for the purchase of up to 272,000 shares, or 5% of the Company's outstanding common stock. On October 11, 2012, the Company announced that the Sixth Stock Repurchase Program had been completed. As of December 31, 2012, under the Seventh Stock Repurchase Program, the Company has purchased 22,654 shares at an average price per share of $14.26.

As of December 31, 2012, the Company repurchased a total of 2.0 million shares of common stock at a total cost of $26.3 million, or an average price per share of $13.21.

The following table summarizes the Stock Repurchase plans as of the dates indicated:

Repurchase Plan	Approval Date	Completion Date	No. of Shares Approved	No. of Shares Purchased	Average Price per Share	Total Cost of the Plan
Initial Plan	August 16, 2007	March 3, 2008	371,968	371,968	$13.21	$4.9 million
Second Plan	March 4, 2008	August 8, 2008	353,370	353,370	$13.26	$4.7 million
Third Plan	August 8, 2008	November 25, 2009	335,000	335,000	$12.98	$4.3 million
Fourth Plan	February 26, 2010	November 23, 2010	318,952	318,952	$11.75	$3.7 million
Fifth Plan	November 19, 2010	November 3, 2011	303,004	303,004	$13.84	$4.2 million
Sixth Plan	September 30, 2011	October 11, 2012	287,000	287,000	$14.26	$4.1 million
Seventh Plan	June 1, 2012	—	272,000	22,654	$14.26	$323,000

15. EMPLOYEE BENEFIT PLANS

The Company provides a 401(k) defined contribution plan (the "401(k) Plan") for eligible employees. Each employee reaching the age of 21 and one year of service automatically becomes a participant in the 401(k) Plan. Employees may defer from 1%-75% of compensation subject to current federal tax laws. For participating employees, the Company makes matching contributions equal to 50% of a participant's contribution up to 2% of compensation. The Company also provides a guaranteed non-elective 3% Safe Harbor contribution to all eligible employees. The Company's total expense under the 401(k) Plan for the years ended December 31, 2012, 2011, and 2010, amounted to $259,000, $288,000, and $212,000, respectively.

The Company provides supplemental life insurance benefits to key officers. Amounts charged to expense for these benefits were $233,000, $309,000 and $360,000 for the years ended December 31, 2012, 2011, and 2010, respectively.

16. EMPLOYEE STOCK OWNERSHIP PLAN

The Company has established an ESOP for the benefit of each employee that has reached the age of 21 and has completed at least 1,000 hours of service in the previous twelve-month period. As part of the Bank's conversion from mutual to stock ownership, the Company invested in a subsidiary, Chicopee Funding Corporation. During 2007, Chicopee Funding Corporation used the proceeds from the investment to fund a loan to the Chicopee Savings Bank Employee Stock Ownership Plan Trust (the “Trust”), which used the proceeds from the loan to purchase 8%, or 595,149 shares, of the Company’s outstanding stock as part of the conversion from mutual to stock. The loan bears interest equal to 8.25% and provides for annual payments of principal and interest. Under the ESOP’s change in control provision, the Trust would be instructed to use proceeds from the sale of stock to pay off the outstanding ESOP loan balance and to distribute the remaining plan assets to current participants.

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At December 31, 2012, the remaining principal balance is payable as follows:

Years Ending December 31,	(In Thousands)
2013	$211
2014	229
2015	247
2016	268
2017	290
Thereafter	3,368
	$4,613

The Company has committed to make contributions to the ESOP sufficient to support the debt service of the loan. The loan is secured by the shares purchased by First Bankers Trust Company, which are held in a suspense account for allocation among the participants as the loan is paid. Shares of the Company's common stock purchased by the ESOP are held in a suspense account until released for allocation to participants. Shares released are allocated to each eligible participant based on the ratio of each participant's compensation, as defined in the ESOP, to the total compensation of all eligible plan participants. Total compensation expense applicable to the ESOP amounted to $430,000, $414,000, and $356,000 for the years ended December 31, 2012, 2011, and 2010, respectively.

Shares held by the ESOP include the following:

	December 31,		
	2012	2011	2010
Allocated	181,107	163,216	144,241
Unallocated	386,847	416,607	446,364
	567,954	579,823	590,605

The fair value of unallocated shares at December 31, 2012 was $6.1 million.

17. 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 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 2011:

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	Year Ended December 31, 2012		Year Ended December 31, 2011	
Expected dividend yield	0.86	%	0.86	%
Expected term	6.5 years		6.5 years	
Expected volatility	23.27	%	25.37	%
Risk-free interest rate	1.40	%	2.92	%

The expected volatility is based on historical volatility of the Company's stock and other factors. The risk-free interest rate for the periods within the contractual life of the options is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of 6.5 years is based on the simplified method calculations allowed for "plain-vanilla" share options granted. The dividend yield assumption is based on the Company's expectation of dividend payouts. A summary of options under the Plan as of December 31, 2012, and changes during the year then ended is as follows:

	Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000's)
Outstanding at December 31, 2010	591,334		$14.21	6.65	
Outstanding at December 31, 2011	556,198		14.23	5.74	25
Granted	63,000		14.20	9.05	
Exercised	(13,800	)	14.12	5.17	
Forfeited or expired	(10,200	)	13.89	7.12	
Outstanding at December 31, 2012	595,198		$14.24	5.15	$983
Exercisable at December 31, 2012	519,998		$14.26	4.62	$846
Exercisable at December 31, 2011	426,157		$14.26	5.61	$10
Exercisable at December 31, 2010	347,198		$14.25	6.60	$12

The Company granted 63,000 and 16,000 stock options during the years ended December 31, 2012 and 2011. The weighted-average grant-date fair value of options granted during 2012 and 2011 was $3.32, and $4.07, respectively. The weighted average grant-date fair value of the options outstanding and exercisable at December 31, 2012 was $3.85 and $3.91, respectively. For the years ended December 31, 2012 and 2011 share based compensation expense applicable to options granted under the Plan was $278,000 and $415,000 and the related tax benefit was $51,000 and $89,000, respectively. During the year ended December 31, 2012, 12,000 stock options with an exercise price of $14.29 per share, and 1,200 stock options with an exercise price of $12.41 and 600 stock options with an exercise price of $14.10 per share were exercised. As of December 31, 2012, unrecognized stock-based compensation expense related to non-vested options amounted to $209,000. This amount is expected to be recognized over a period of 3.77 years.

Stock Awards

Under the 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 December 31, 2012 is $14.08. The Company recorded compensation cost related to stock awards of approximately $496,000 and $150,000 of related tax benefit in the year ended December 31, 2012. The Company granted 2,000 stock awards during the year ended December 31, 2011 with a grant price of $14.08. Stock awards with a fair value of $854,000, $910,000 and $651,000 have vested during the years ended December 31, 2012, 2011 and 2010, respectively. As of December 31, 2012, unrecognized stock-based compensation expense related to non-vested restricted stock awards of $18,000 is expected to be recognized over a period of 3.19 years.

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A summary of the status of the Company’s stock awards as of December 31, 2012, and changes during the year then ended is as follows:

Nonvested Shares	Shares	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2011	55,346	$14.28
Granted	—	—
Vested	53,746	14.29
Forfeited or expired	—	—
Outstanding at December 31, 2012	1,600	$14.08

18. 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 January 1, 2012. The Plan was established 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 shareholders.

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, 2012 to December 31, 2012. 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 twelve months ended December 31, 2012 was $34,000.

19. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has granted loans to officers, directors and their affiliates. An analysis of the activity of these loans is as follows:

	Years Ended December 31,	
	2012	2011
	(In Thousands)	
Balance at beginning of year	$1,447	$1,584
Additions	101	119
Repayments	(323)	(226)
Change in related party status	(15)	(30)
Balance at end of year	$1,210	$1,447

Deposits from related parties held by the Company at December 31, 2012 and 2011 amounted to $3.4 million.

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20. RESTRICTIONS ON DIVIDENDS

Chicopee Bancorp, Inc. is subject to Massachusetts law, which prohibits distributions to stockholders if, after giving effect to the distribution, the corporation would not be able to pay its debts as they become due in the usual course of business or the corporation’s total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of stockholders whose preferential rights are superior to those receiving the distribution. In addition, the Federal Reserve Board has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the Federal Reserve Board’s policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization’s capital needs, asset quality and overall financial condition. The Federal Reserve Board’s policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. Under the prompt corrective action laws, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of Chicopee Bancorp to pay dividends or otherwise engage in capital distributions.

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. The payment of dividends from the Bank to the Company may be additionally restricted if the payment of such dividends resulted in the Bank failing to meet regulatory capital requirements.

Capital at December 31, 2012 was sufficient to meet the requirements of regulatory authorities. To be rated “well-capitalized”, regulatory requirements call for a minimum leverage capital ratio of 5.0%, tier-one risk-based capital of 6.0%, and total risk-based capital of 10.0%. At December 31, 2012, the Company had leverage capital of 15.0%, tier-one risk-based capital of 18.4% and total risk-based capital of 19.3%, versus 14.8%, 18.7% and 19.6%, respectively, at December 31, 2011. The Company’s actual levels of capitalization were above the standards to be rated “well-capitalized” by regulatory authorities.

During 2012, a total of $2.0 million in dividends were declared from the Chicopee Funding Corporation ("CFC") to the Company. During the year ended December 31, 2011 there were no dividends paid from CFC to the Company. As of December 31, 2012, a total of $1.6 million in dividends were declared from the Bank to the Company. During the year ended December 31, 2011, there were no dividends from the Bank to the Company.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

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, securities available-for-sale 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.

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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.
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 mortgage 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.

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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 December 31, 2012 and 2011 on a recurring basis are summarized below:

	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)			
Securities available-for-sale				
Equity securities by industry type:				
Financial	$621	$621	$—	$—
Total equity securities	$621	$621	$—	$—

	Fair Value Measurements Using			
	December 31, 2011	Readily Available Market Prices (Level 1)	Observable Market Data (Level 2)	Determined Fair Value (Level 3)
Assets (market approach)	(Dollars In Thousands)			
Securities available-for-sale				
Equity securities by industry type:				
Financial	$613	$613	$—	$—

Total equity securities	$613	$613	$—	$—

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Assets measured at fair value on a nonrecurring basis as of December 31, 2012 and 2011 are summarized below:

	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	$—
OREO	572	—	572	—
Mortgage servicing rights	147	—	147	—

	Fair Value Measurements Using			
	December 31, 2011	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	$2,296	$—	$2,296	$—
OREO	913	—	913	—
Loans held for sale	1,635	—	1,635	—
Mortgage servicing rights	360	—	360	—

Impaired loans are presented net of their related specific reserve of $261,000 and $615,000 as of December 31, 2012 and 2011, 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.

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	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	$39,608	$—	$—
Securities available-for-sale	621	621	—	—
Securities held-to-maturity	59,568	—	67,108	—
FHLB stock	4,277	—	4,277	—
Residential real estate	120,265	—	—	116,129
Residential construction	4,334	—	—	4,310
Commercial real estate	189,472	—	—	187,653
Commercial construction	35,781	—	—	36,210
Commercial	84,583	—	—	84,769
Consumer	2,492	—	—	2,693
Home equity	31,731	—	—	31,956
Total loans	468,658	—	—	463,720
Accrued interest receivable	1,567	—	1,567	—
Mortgage servicing rights	368	—	444	—
Financial liabilities:				
Deposits	$466,177	$—	$468,966	$—
Securities sold under under agreements to repurchase	9,763	—	9,763	—
FHLB long term advances	33,332	—	35,105	—
Accrued interest payable	60	—	60	—

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	December 31, 2011	
	Carrying Amount	Fair Value
	(Dollars in Thousands)	
Financial assets:		
Cash and cash equivalents	$61,122	$61,122
Securities available-for-sale	613	613
Securities held-to-maturity	73,852	80,607
FHLB stock	4,489	4,489
Total loans	447,126	448,781
Loans held for sale	1,635	1,635
Accrued interest receivable	1,527	1,527
Mortgage servicing rights	344	360
Financial liabilities:		
Deposits	$453,377	$454,776
Securities sold under agreements to repurchase	12,340	12,340
FHLB long term advances	59,625	61,540
Accrued interest payable	132	132

22. QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

Following is the quarterly financial information of the Company for 2012 and 2011:

	2012				2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In Thousands)							
Interest and dividend income	$6,118	$6,102	$6,100	$6,077	$6,188	$6,281	$6,232	$6,149
Interest expense	1,516	1,484	1,373	1,254	1,822	1,792	1,714	1,574
Net interest and dividend income	4,602	4,618	4,727	4,823	4,366	4,489	4,518	4,575
Provision for loan losses	7	64	169	202	233	119	223	267
Net gain on sales of securities available-for-sale	—	—	—	—	12	—	—	—
Other than temporary impairment charge	—	—	—	(37)	—	—	—	—
Fees and other non-interest income	681	777	620	982	649	591	697	701
Non-interest expenses	4,830	4,822	4,362	4,291	4,746	4,673	4,661	4,654
Income tax expense (benefit)	49	57	193	282	5	(18)	(40)	(25)
Net income	$397	$452	$623	$993	$43	$306	$371	$380
Earnings per share:								
Basic	$0.08	$0.09	$0.12	$0.20	$0.01	$0.06	$0.07	$0.07
Diluted	$0.08	$0.09	$0.12	$0.19	$0.01	$0.06	$0.07	$0.07

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23. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

Financial information pertaining to Chicopee Bancorp, Inc. is as follows:

BALANCE SHEETS	December 31, 2012	2011
	(In Thousands)	
Assets		
Cash and cash equivalents	$3,182	$5,073
Investment in common stock of Chicopee Savings Bank	80,667	78,389
Investment in common stock of Chicopee Funding Corporation	4,631	6,272
Other assets	1,489	1,098
Total assets	$89,969	$90,832
Liabilities and Stockholders' Equity		
Total liabilities	$—	$50
Stockholders' equity	89,969	90,782
Total liabilities and stockholders' equity	$89,969	$90,832

STATEMENTS OF INCOME	Years Ended December 31, 2012	2011	2010
	(In Thousands)		
Interest income	$2,043	$33	$2,539
Dividend income from subsidiaries	1,565	—	8,000
Operating expenses	704	637	644
Income (loss) before income taxes and equity in undistributed net income of subsidiaries	2,904	(604)	9,895
Applicable income tax (benefit) expense	(44)	28	81
Income (loss) before equity in undistributed net income of subsidiaries	2,948	(632)	9,814
Equity in undistributed net income (loss) of Chicopee Savings Bank	1,157	1,317	(7,790)
Equity in undistributed net income (loss) of Chicopee Funding =Corporation	(1,640)	415	(1,559)
Net income	$2,465	$1,100	$465

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STATEMENTS OF CASH FLOWS	Years Ended December 31, 2012	2011	2010
	(In Thousands)		
Cash flows from operating activities:			
Net income	$2,465	$1,100	$465
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net (income) loss of Chicopee Savings Bank	(1,157)	(1,317)	7,790
Equity in undistributed net (income) loss of Chicopee Funding Corporation	1,640	(415)	1,559
(Increase) decrease in other assets	(391)	(79)	463
Increase (decrease) in other liabilities	(50)	38	—
Change in unearned compensation	1,091	1,727	1,626
Net cash provided by operating activities	3,598	1,054	11,903
Cash flows from investing activities:			
Investment in Chicopee Savings Bank	(1,091)	(1,727)	(1,626)
Net cash used in investing activities	(1,091)	(1,727)	(1,626)
Cash flows from financing activities			
Treasury stock purchased	(4,377)	(3,895)	(4,344)
Adjustment to treasury shares	32	—	—
Exercise of stock options	(53)	(6)	—
Net cash used in financing activities	(4,398)	(3,901)	(4,344)
Net (decrease) increase in cash and cash equivalents	(1,891)	(4,574)	5,933
Cash and cash equivalents at beginning of year	5,073	9,647	3,714
Cash and cash equivalents at end of year	$3,182	$5,073	$9,647

24. 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 stockholders 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.

Specifically, there are two types of subsequent events:

- Those comprising events or transactions providing additional evidence about conditions that existed at the balance sheet date, including estimates inherent in the financial statement preparation process (referred to as recognized subsequent events).
- Those comprising events that provide evidence about conditions not existing at the balance sheet date but, rather, that arose after such date (referred to as non-recognized subsequent events).

The Company is a Securities and Exchange Commission filer and management has evaluated subsequent events through the date that the financial statements were issued. On January 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 February 4, 2013, payable on or about March 8, 2013. On January 22, 2013 under the 2007 Equity Incentive Plan, the Company granted 100,000 stock options with a fair value of $3.59 to various employees.