CHICOPEE BANCORP, INC.
Form 10-Q
November 08, 2013

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

FORM 10-Q

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from __________________ to _________________

Commission File Number: 000-51996

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

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

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

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

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

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

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

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

As of November 1, 2013, there were 5,417,485 shares of the Registrant's Common Stock outstanding.

CHICOPEE BANCORP, INC.
FORM 10-Q
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PART I. FINANCIAL INFORMATION

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

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Cash and due from banks	$22,196	$11,073
Federal funds sold	2,126	3,372
Interest-bearing deposits with the Federal Reserve Bank of Boston	29,269	25,163
Total cash and cash equivalents	53,591	39,608
Available-for-sale securities, at fair value	631	621
Held-to-maturity securities, at cost (fair value $60,977 and $67,108 at September 30, 2013 and December 31, 2012, respectively)	55,119	59,568
Federal Home Loan Bank stock, at cost	3,914	4,277
Loans, net of allowance for loan losses ($4,439 at September 30, 2013 and $4,364 at December 31, 2012)	461,309	465,211
Loans held for sale	135	—
Other real estate owned (OREO)	501	572
Mortgage servicing rights	422	368
Bank owned life insurance	14,082	13,807
Premises and equipment, net	9,181	9,459
Accrued interest and dividends receivable	1,613	1,567
Deferred income tax asset	3,249	3,252
FDIC prepaid insurance	—	467
Other assets	1,125	1,205
Total assets	$604,872	$599,982
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Demand deposits	$102,818	$75,407
NOW accounts	39,932	36,711
Savings accounts	50,696	48,882
Money market deposit accounts	127,678	127,730
Certificates of deposit	163,390	177,447
Total deposits	484,514	466,177
Securities sold under agreements to repurchase	1,793	9,763
Advances from Federal Home Loan Bank	26,348	33,332
Accrued expenses and other liabilities	937	741
Total liabilities	513,592	510,013
Stockholders' equity		
Common stock (no par value, 20,000,000 shares authorized, 7,439,368 shares issued; 5,414,885 and 5,428,505 shares outstanding at September 30, 2013 and December 31, 2012)	72,479	72,479

Treasury stock, at cost (2,024,483 and 2,010,783 shares at September 30, 2013 and December 31, 2012)	(26,809)	(26,567)
Additional paid-in-capital	3,294	3,044
Unearned compensation (restricted stock awards)	(14)	(18)
Unearned compensation (Employee Stock Ownership Plan)	(3,645)	(3,868)
Retained earnings	45,942	44,873
Accumulated other comprehensive income	33	26
Total stockholders' equity	91,280	89,969
Total liabilities and stockholders' equity	$604,872	$599,982

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest and dividend income:				
Loans, including fees	$5,272	$5,660	$16,080	$17,017
Interest and dividends on securities	424	425	1,275	1,248
Other interest-earning assets	14	15	44	54
Total interest and dividend income	5,710	6,100	17,399	18,319
Interest expense:				
Deposits	899	1,107	2,823	3,380
Securities sold under agreements to repurchase	2	2	9	11
Other borrowed funds	168	264	537	982
Total interest expense	1,069	1,373	3,369	4,373
Net interest income	4,641	4,727	14,030	13,946
Provision for loan losses	212	169	270	240
Net interest income after provision for loan losses	4,429	4,558	13,760	13,706
Non-interest income:				
Service charges, fees and commissions	695	621	1,689	1,694
Loan sales and servicing, net	70	18	559	286
Net loss on sale of OREO	(93)	(112)	(154)	(220)
Income from bank owned life insurance	92	93	275	285
Other non-interest income	—	—	24	34
Total non-interest income	764	620	2,393	2,079
Non-interest expenses:				
Salaries and employee benefits	2,564	2,447	7,656	8,064
Occupancy expenses	390	367	1,169	1,127
Furniture and equipment	194	179	633	594
FDIC insurance assessment	53	89	179	272
Data processing	316	285	928	817
Professional fees	159	136	528	447
Advertising	164	141	456	440
Stationery, supplies and postage	62	70	212	249
Other non-interest expense	603	648	2,033	2,004
Total non-interest expenses	4,505	4,362	13,794	14,014
Income before income taxes	688	816	2,359	1,771
Income tax expense	115	193	476	300
Net income	$573	$623	$1,883	$1,471
Earnings per share:				
Basic	$0.11	$0.12	$0.37	$0.29

Diluted	$0.11	$0.12	$0.37	$0.29
Adjusted weighted average shares outstanding:				
Basic	5,035,488	5,077,268	5,038,735	5,132,576
Diluted	5,138,815	5,102,842	5,125,438	5,158,479

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,	
	2013	2012
Net income	$573	$623
Other comprehensive income, net of tax		
Unrealized holding gains arising during period on investment securities available-for-sale	29	6
Tax effect	(10)	(2)
Other comprehensive income, net of tax	19	4
Comprehensive income	$592	$627

	Nine Months Ended September 30,	
	2013	2012
Net income	$1,883	$1,471
Other comprehensive income (loss), net of tax		
Unrealized holding gains (losses) arising during period on investment securities available-for-sale	10	(23)
Tax effect	(3)	8
Other comprehensive income (loss), net of tax	7	(15)
Comprehensive income	$1,890	$1,456

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 2013 and 2012
(Dollars In Thousands)
(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Unearned Compensation (restricted stock awards)	Unearned Compensation (Employee Stock Ownership Plan)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2012	$72,479	$(26,567)	$3,044	$ (18)	$ (3,868)	$44,873	$ 26	$89,969
Comprehensive income:								
Net income	—	—	—	—	—	1,883	—	1,883
Change in net unrealized loss on securities available-for-sale (net of deferred income taxes of $3)	—	—	—	—	—	—	7	7
Total comprehensive income								1,890
Stock option expense (net of income tax benefit of $3)	—	—	94	—	—	—	—	94
Treasury stock purchased (13,700 shares)	—	(242)	—	—	—	—	—	(242)
Change in unearned compensation:								
Restricted stock award expense	—	—	—	4	—	—	—	4
Common stock held by ESOP committed to be released	—	—	156	—	223	—	—	379
Cash dividends declared ($0.15 per share)	—	—	—	—	—	(814)	—	(814)
Balance at September 30, 2013	$72,479	$(26,809)	$3,294	$ (14)	$ (3,645)	$45,942	$ 33	$91,280
Balance at December 31, 2011	$72,479	$(22,190)	$2,800	$ (546)	$ (4,166)	$42,408	$ (3)	$90,782

Comprehensive income:								
Net income	—	—	—	—	—	1,471	—	1,471
Change in net unrealized loss on securities available-for-sale (net of deferred income taxes of $8)	—	—	—	—	—	—	(15)	(15)
Total comprehensive income								1,456
Stock option expense (net of income tax benefit of $51)	—	—	263	—	—	—	—	263
Treasury stock purchased (273,273 shares)	—	(3,883)	—	—	—	—	—	(3,996)
Stock options exercised	—	—	(53)	—	—	—	—	(53)
Change in unearned compensation:								
Restricted stock award expense	—	—	—	527	—	—	—	527
Common stock held by ESOP committed to be released	—	—	98	—	223	—	—	321
Balance at September 30, 2012	$72,479	$(26,073)	$2,995	$ (19)	$ (3,943)	$43,879	$ (18)	$89,300

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:	(In Thousands)	
Net income	$1,883	$1,471
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	721	748
Gain on disposal of premises and equipment	(24)	—
Provision for loan losses	270	240
Increase in cash surrender value of life insurance	(275)	(285)
Realized gains on sales of mortgage loans	(180)	(128)
Decrease in other assets	48	347
Increase in accrued interest and dividends receivable	(46)	(533)
Decrease in FDIC prepaid insurance	467	272
Net change in loans originated for resale	(135)	1,635
Net loss on sales of OREO	154	220
Decrease in other liabilities	197	182
Change in unearned compensation	383	735
Stock option expense	94	263
Net cash provided by operating activities	3,557	5,167
Cash flows from investing activities:		
Additions to premises and equipment	(268)	(491)
Loan originations and principal collections, net	3,150	(25,749)
Proceeds from sales of OREO	401	675
Purchases of held-to-maturity securities	(27,015)	(34,953)
Maturities of held-to-maturity securities	30,390	45,139
Proceeds from principal paydowns of held-to-maturity securities	1,079	1,337
Proceeds from sale of FHLB stock	362	213
Net cash provided (used) by investing activities	8,099	(13,829)
Cash flows from financing activities:		
Net increase in deposits	18,336	21,732
Net decrease in securities sold under agreements to repurchase	(7,969)	(5,132)
Payments on long-term FHLB advances	(6,984)	(23,630)
Treasury stock purchased	(242)	(3,883)
Cash dividends paid on common stock	(814)	—
Stock options exercised	—	(53)
Net cash provided (used) by financing activities	2,327	(10,966)
Net increase (decrease) in cash and cash equivalents	13,983	(19,628)
Cash and cash equivalents at beginning of year	39,608	61,122
Cash and cash equivalents at end of period	$53,591	$41,494

Supplemental cash flow information:		
Interest paid on deposits	$2,823	$3,380
Interest paid on borrowings	556	909
Income taxes paid	346	361
Transfers from loans to OREO	483	520
Gain on acquisition of OREO	—	34

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
September 30, 2013 and 2012

1. Basis of Presentation

Chicopee Bancorp, Inc. (the "Corporation") has no significant assets other than all of the outstanding shares of its wholly-owned subsidiaries, Chicopee Savings Bank (the "Bank") and Chicopee Funding Corporation (collectively, the "Company"). The Corporation was formed on March 14, 2006 and became the holding company for the Bank upon completion of the Bank's conversion from a mutual savings bank to a stock savings bank. The conversion of the Bank was completed on July 19, 2006. The accounts of the Bank include its wholly-owned subsidiaries and a 99% owned subsidiary. The consolidated financial statements of the Company as of September 30, 2013 and for the periods ended September 30, 2013 and 2012 included herein are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of the financial condition, results of operations, changes in stockholders' equity and cash flows, as of and for the periods covered herein, have been made. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2012 included in the Company's Annual Report on Form 10-K.

The results for the three and nine month interim periods ended September 30, 2013 are not necessarily indicative of the operating results for a full year.

2. Earnings Per Share

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

Earnings per share is computed as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (in thousands)	$573	$623	$1,883	$1,471
Weighted average number of common shares issued	7,439,368	7,439,368	7,439,368	7,439,368
Less: average number of treasury shares	(2,015,832)	(1,929,399)	(2,012,484)	(1,848,185)
Less: average number of unallocated ESOP shares	(386,848)	(416,605)	(386,848)	(416,605)
Less: average number of dilutive restricted stock awards	(1,200)	(16,096)	(1,301)	(42,002)
Adjusted weighted average number of common shares outstanding	5,035,488	5,077,268	5,038,735	5,132,576
Plus: dilutive outstanding restricted stock awards	377	12,872	370	25,419
Plus: dilutive outstanding stock options	102,950	12,702	86,333	484
Weighted average number of diluted shares outstanding	5,138,815	5,102,842	5,125,438	5,158,479

Earnings per share:				
Basic-common stock	$0.11	$0.12	$0.37	$0.29
Basic-unvested share-based payment awards	$0.11	$0.12	$0.37	$0.29
Diluted-common stock	$0.11	$0.12	$0.37	$0.29
Diluted-unvested share-based payment awards	$0.11	$0.12	$0.37	$0.29

There were 100,000 and 73,000 stock options that were not included in the calculation of diluted earnings per share for the three months ended September 30, 2013 and 2012, respectively, because the effect was anti-dilutive. There were 100,000 and 583,198 stock options that were not included in the calculation of diluted earnings per share for the nine months ended September 30, 2013 and 2012, respectively, because the effect was anti-dilutive.

3. Equity Incentive Plan

Stock Options

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

The Company recognizes compensation expense over the vesting period, based on the grant-date fair value of the options granted. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for options granted during the year ended December 31, 2012, and the nine months ended September 30, 2013:

	Nine Months Ended September 30, 2013		Year Ended December 31, 2012	
Expected dividend yield	1.39	%	0.86	%
Weighted average expected term	6.50 years		6.50 years	
Weighted average expected volatility	24.06	%	23.27	%
Weighted average risk-free interest rate	1.25	%	1.40	%

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

A summary of options under the Plan as of September 30, 2013, and changes during the nine months ended September 30, 2013, is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000's)
Outstanding at December 31, 2012	595,198	$14.24	5.15	$983
Granted	100,000	16.55	9.32	—
Exercised	—	—	—	—
Forfeited or expired	—	—	—	—
Outstanding at September 30, 2013	695,198	$14.57	5.11	$2,112
Exercisable at September 30, 2013	534,598	$14.26	3.99	$1,790

Exercisable at September 30, 2012	517,598	$14.27	4.87	$92

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The Company granted 100,000 stock options during the nine months ended September 30, 2013 with a fair value of $3.59. The weighted-average grant-date fair value of options granted during 2012 was $3.32. The weighted-average grant-date fair value of the options outstanding and exercisable at September 30, 2013 was $3.81 and $3.90, respectively. For the nine months ended September 30, 2013 and 2012, share based compensation expense applicable to options granted under the Plan was $94,000 and $263,000 and the related tax benefit was $3,000 and $51,000, respectively. As of September 30, 2013, unrecognized stock-based compensation expense related to non-vested options amounted to $474,000. This amount is expected to be recognized over a period of 3.79 years.

Stock Awards

The Plan provides that, the Company may grant stock awards to its directors, officers and employees for up to 297,574 shares of common stock. The stock awards vest 20% per year beginning on the first anniversary of the date of grant. The fair market value of the stock awards, based on the market price at the date of grant, is recorded as unearned compensation. Unearned compensation is amortized over the applicable vesting period. The weighted-average grant-date fair value of stock awards as of September 30, 2013 is $14.08. The Company recorded compensation cost related to stock awards of approximately $4,000 and $527,000 in the nine months ended September 30, 2013 and 2012, respectively. Stock awards with a fair value of $854,000, vested during the year ended December 31, 2012. No stock awards were granted prior to July 1, 2007. The Company granted 2,000 stock awards during the year ended December 31, 2011 with a grant price of $14.08. There were no awards granted by the Company during the nine months ended September 30, 2013. As of September 30, 2013, unrecognized stock-based compensation expense related to non-vested restricted stock awards amounted to $14,000. This amount is expected to be recognized over a period of 2.44 years.

A summary of the status of the Company’s stock awards as of September 30, 2013, and changes during the nine months ended September 30, 2013, is as follows:

Nonvested Shares	Number of Shares	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2012	1,600	$ 14.08
Granted	—	—
Vested	400	14.08
Forfeited	—	—
Outstanding at September 30, 2013	1,200	$ 14.08

4. Long-term Incentive Plan

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

A total of 150,000 phantom stock units will be available for awards under the Phantom Stock Plan. The only awards that may be granted under the Phantom Stock Plan are Phantom Stock Units. A Phantom Stock Unit represents the right to receive a cash payment on the determination date equal to the book value of a share of the Company’s stock on the determination date. The settlement of a Phantom Stock Unit on the determination date shall be in cash. Unless the

Compensation Committee of the Board of Directors of the Company determines otherwise, the required period of service for full vesting will be three years. The Company's total expense under the Phantom Stock Plan for the three months ended September 30, 2013, and 2012, was $4,000 and $8,000, respectively. The Company’s total expense under the Phantom Stock Plan for the nine months ended September 30, 2013, and 2012, was $11,000 and $26,000, respectively.

5. Recent Accounting Pronouncements (Applicable to the Company)

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2011-11, “Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities,” amending Topic 210. The amendments require an entity to disclose both gross and net information about both instruments and transactions that are eligible for offset on the balance sheet and instruments and transactions that are subject to an agreement similar to a master netting arrangement. This guidance is effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods, with retrospective disclosure for all comparative periods presented. The adoption of ASU 2011-11 did not have a material impact on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income". This ASU improves the reporting of reclassifications out of accumulated other comprehensive income. The amendments in the ASU seek to attain that objective by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (“GAAP”) to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. This guidance is effective for reporting periods beginning after December 15, 2012, with early adoption permitted. The adoption of ASU 2013-02 did not have a material effect on the Company's consolidated financial statements.

6. Investment Securities

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

	September 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities				
Marketable equity securities	$581	$55	$(5)	$631
Total available-for-sale securities	$581	$55	$(5)	$631
Held-to-maturity securities				
U.S. Treasury securities	$10,997	$3	$—	$11,000
Corporate and industrial revenue bonds	35,034	5,804	—	40,838
Certificates of deposit	8,373	15	—	8,388
Collateralized mortgage obligations	715	36	—	751
Total held-to-maturity securities	$55,119	$5,858	$—	$60,977
Non-marketable securities				
Federal Home Loan Bank stock	$3,914	$—	$—	$3,914
Banker's Bank stock	183	—	—	183
Total non-marketable securities	$4,097	$—	$—	$4,097

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

At September 30, 2013 and December 31, 2012, securities with an amortized cost of $11.3 million and $12.6 million, respectively, were pledged as collateral to support securities sold under agreements to repurchase.

The amortized cost and estimated fair value of debt securities by contractual maturity at September 30, 2013 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties. The collateralized mortgage obligations are allocated to maturity categories according to final maturity date.

	Held-to-maturity Amortized Cost	Fair Value
	(In Thousands)	
Within 1 year	$19,370	$19,388
From 1 to 5 years	440	462
From 5 to 10 years	8,339	9,401
Over 10 years	26,970	31,726
	$55,119	$60,977

Unrealized Losses on Investment Securities

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

As of September 30, 2013 management determined that there were no securities other-than-temporarily impaired. During the year ended December 31, 2012, management deemed that three equity securities issued by one company in the financial industry had other-than-temporary impairment and a write down 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.

The following table presents the fair value of investments with continuous unrealized losses as of September 30, 2013:

	September 30, 2013					
	Less Than Twelve Months		Twelve Months and Over		Total	
	(In Thousands)					
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Marketable equity securities	$212	$(5)	$—	$—	$212	$(5)
Total temporarily impaired securities	$212	$(5)	$—	$—	$212	$(5)

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

U.S. Treasury Securities

There were no unrealized losses within the U.S. Treasury securities portfolio at September 30, 2013 and December 31, 2012, respectively. The portfolio ended with an unrealized gain of $3,000 and $2,000 as of September 30, 2013 and

December 31, 2012, respectively.

Collateralized Mortgage Obligations (“CMO”)
As of September 30, 2013 and December 31, 2012, there were no unrealized losses within the CMO portfolio. The portfolio ended with an unrealized gain of $36,000 and $53,000 as of September 30, 2013 and December 31, 2012, respectively.

As of September 30, 2013, the Company had seven CMO bonds, or nine individual issues, with an aggregate book value of $715,000, there were no bonds with a FICO score less than 650. Since the purchase of these bonds, interest payments have been current and the Company expects to receive all principal and interest due.

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

Corporate and Industrial Revenue Bonds
As of September 30, 2013 and December 31, 2012, there were no unrealized losses within the corporate industrial revenue bond category. As of September 30, 2013, the Company had six tax-exempt industrial revenue bonds ("IRB"), with an aggregate book value of $35.0 million. These IRBs have a tax equivalent adjustment based on a tax rate of 41%. The portfolio ended with unrealized gains of $5.8 million and $7.5 million as of September 30, 2013 and December 31, 2012, respectively.

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

Marketable Equity Securities
Unrealized losses within the marketable equity securities portfolio at September 30, 2013 related to three securities issued by one company in the financial industry. As of September 30, 2013, all unrealized losses were for less than 12 months. In reviewing these marketable securities for OTTI, it was determined that there was no impairment. Management will continue to conduct, on at least a monthly basis, a review if its investment portfolio to determine if the value of any security has declined below its cost and whether such security is other-than-temporarily impaired. There were no unrealized losses within the marketable equity securities portfolio at December 31, 2012.

Non-Marketable Securities
The Company is a member of the Federal Home Loan Bank (“FHLB”). The FHLB is a cooperatively owned wholesale bank for housing and finance in the six New England States. Its mission is to support the residential mortgage and community development lending activities of its members, which include over 450 financial institutions across New England. As a requirement of membership in the FHLB, the Company must own a minimum required amount of FHLB stock, calculated periodically based primarily on the Company’s level of borrowings from the FHLB. The Company uses the FHLB for much of its wholesale funding needs. As of September 30, 2013 and December 31, 2012, the Company’s investment in FHLB stock totaled $3.9 million and $4.3 million, or 39,141 and 42,765 shares, respectively.

FHLB stock is a non-marketable equity security and therefore is reported at cost, which equals par value. Shares held in excess of the minimum required amount are generally redeemable at par value. However, in the first quarter of 2009 the FHLB announced a moratorium on such redemptions in order to preserve its capital in response to current market conditions and declining retained earnings. The minimum required shares are redeemable, subject to certain limitations, five years following termination of FHLB membership. The Company has no intention of terminating its FHLB membership. As of September 30, 2013 and December 31, 2012, the Company received $12,000, and $22,000, in dividend income from its FHLB stock investment, respectively. On February 22, 2012, the FHLB announced that the Board of Directors approved the repurchase of excess capital stock from its members. On March 11, 2013, the FHLB repurchased $362,000 of FHLB stock, representing 3,624 shares.

The Company periodically evaluates its investment in FHLB stock for impairment based on, among other factors, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through September 30, 2013. The Company will continue to monitor its investment in FHLB stock.

Banker’s Bank Northeast stock is carried at cost and is evaluated for impairment based on an estimate of the ultimate recovery to par value. As of September 30, 2013 and December 31, 2012, the Company’s investment in Banker’s Bank totaled $183,000.

7. Loans and Allowance for Loan Losses

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

	September 30, 2013		December 31, 2012	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars In Thousands)			
Real estate loans:				
Residential[1]	$114,042	24.5 %	$120,265	25.7 %
Home equity	32,342	7.0 %	31,731	6.8 %
Commercial	186,536	40.1 %	189,472	40.4 %
Total	332,920	71.6 %	341,468	72.9 %
Construction-residential	5,192	1.1 %	4,334	0.9 %
Construction-commercial	34,154	7.3 %	35,781	7.6 %
Total	39,346	8.4 %	40,115	8.5 %
Total real estate loans	372,266	80.0 %	381,583	81.4 %
Consumer loans	2,419	0.6 %	2,492	0.6 %
Commercial and industrial loans	90,154	19.4 %	84,583	18.0 %
Total loans	464,839	100.0 %	468,658	100.0 %
Deferred loan origination costs, net	909		917	
Allowance for loan losses	(4,439)		(4,364)	
Loans, net	$461,309		$465,211	

1 Excludes loans held for sale of $135,000 at September 30, 2013. There were no loans held for sale at December 31, 2012.

The Company has transferred a portion of its originated commercial real estate and commercial loans to participating lenders. The amounts transferred have been accounted for as sales and therefore not included in the Company's consolidated statements of financial condition. The Company and participating lenders share proportionally, based on participating agreements, any gains or losses the may result from the borrowers lack of compliance with the terms of the loan. The Company continues to service the loans on behalf of the participating lenders. At September 30, 2013 and December 31, 2012, the Company was servicing loans for participating lenders totaling $20.6 million and $19.3 million, respectively.

In accordance with the Company's asset/liability management strategy and in an effort to reduce interest rate risk, the Company continues to sell fixed rate, low coupon residential real estate loans to the secondary market. The unpaid principal balance of mortgages that are serviced for others was $98.0 million and $87.1 million at September 30, 2013 and December 31, 2012, respectively. Servicing rights will continue to be retained on all loans written and sold in the secondary market.

Credit Quality

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

The following describes the credit risk ratings:

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

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

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

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

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

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

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

The following table presents an analysis of total loans segregated by risk rating and segment as of September 30, 2013:

	Commercial Credit Risk Exposure			
	Commercial and Industrial	Commercial Construction	Commercial Real Estate	Total
	(In Thousands)			
Pass	$82,533	$24,825	$172,657	$280,015
Special mention	4,977	5,507	6,878	17,362
Substandard	2,644	3,822	7,001	13,467
Doubtful	—	—	—	—
Loss	—	—	—	—
Total commercial loans	$90,154	$34,154	$186,536	$310,844

	Residential Credit Risk Exposure		
	Residential Real Estate	Residential Construction	Total
	(In Thousands)		
Performing	$111,645	$5,192	$116,837
Substandard (accruing)	245	—	245
Substandard (nonaccrual)	2,152	—	2,152
Total residential loans	$114,042	$5,192	$119,234

Consumer Credit Risk Exposure

	Consumer	Home Equity	Total
	(In Thousands)		
Performing	$2,396	$32,061	$34,457
Substandard (accruing)	—	50	50
Nonperforming (nonaccrual)	23	231	254
Total consumer loans	$2,419	$32,342	$34,761

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

	Commercial Credit Risk Exposure			
	Commercial and Industrial	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)		
Performing	$117,612	$4,003	$121,615
Substandard (accruing)	66	—	66
Substandard (nonaccrual)	2,587	331	2,918
Total residential loans	$120,265	$4,334	$124,599

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

Allowance for Loan Losses

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

General Component

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

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

Risk Characteristics

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

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

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

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

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

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

Allocated Component

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

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

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

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

During the nine months ended September 30, 2013 the Company modified the allowance methodology related to the qualitative factors. No quantitative factors were changed in the modification. The charge off trends are a separate factor in the allowance methodology and are no longer included in the qualitative factors. In addition, the Company reviews the dollar amount of total delinquencies and adjusts for the amounts and trends in the 30-89 day category. The amount over 90 day delinquencies is then compared to the charge-off history. Trends in volume are analyzed to determine any significant changes and the risk associated with each sector and trend. These changes resulted in a reallocation of the allowance and did not have a material effect on the allowance for loan losses.

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

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

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

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial and Industrial	Consumer Loans	Home Equity	Total
Allowance for loan losses	(In Thousands)							
Balance as of December 31, 2012	$536	$ 93	$ 1,966	$ 502	$ 1,099	$44	$124	$4,364
Provision for (reduction of) loan losses	198	44	(15)	(86)	101	16	12	270
Recoveries	1	—	11	—	37	11	—	60
Loans charged off	(113)	(62)	—	—	(47)	(33)	—	(255)
Balance as of September 30, 2013	$622	$ 75	$ 1,962	$ 416	$ 1,190	$38	$136	$4,439
Allowance for loan losses ending balance								
Collectively evaluated for	$391	$ 75	$ 1,858	$ 416	$ 1,134	$38	$122	$4,034

impairment								
Individually evaluated for impairment	231	—	104	—	56	—	14	405
	$622	$75	$1,962	$416	$1,190	$38	$136	$4,439
Total loans ending balance								
Collectively evaluated for impairment	$111,645	$5,192	$180,396	$30,331	$88,587	$2,419	$32,061	$450,631
Individually evaluated for impairment	2,397	—	6,140	3,823	1,567	—	281	14,208
	$114,042	$5,192	$186,536	$34,154	$90,154	$2,419	$32,342	$464,839

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

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

The following table presents the allowance for loan losses and select loan information as of and for three months ended September 30, 2012:

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial and Industrial	Consumer Loans	Home Equity	Total
Allowance for loan losses	(In Thousands)							
Balance as of June 30, 2012	$369	$94	$ 1,852	$ 589	$ 1,352	$ 46	$180	$4,482
	54	3	134	(39)	52	10	(45)	169

Provision for (reduction of) loan losses								
Recoveries	—	—	—	—	2	3	—	5
Loans charged off	—	—	(65)	—	(177)	(13)	—	(255)
Balance as of September 30, 2012	$423	$97	$ 1,921	$ 550	$ 1,229	$46	$135	$4,401

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The following table presents the allowance for loan losses and select loan information as of and for the nine months ended September 30, 2012:

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial and Industrial	Consumer Loans	Home Equity	Total
Allowance for loan losses	(In Thousands)							
Balance as of December 31, 2011	$549	$ 89	$ 1,891	$ 526	$ 1,343	$47	$131	$4,576
(Reduction of) provision for loan losses	(47)	8	95	24	109	47	4	240
Recoveries	1	—						