

CHICOPEE BANCORP, INC.
Form 10-Q
May 15, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2007

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)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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Indicate by check mark whether the registrant is an accelerated filer. (See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act).

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Yes No

As of May 10, 2007, there were 7,439,368 shares of the Registrant's Common Stock outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements (unaudited)****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(Dollars In Thousands)**

| | March 31, 2007 (Unaudited) | December 31, 2006 |
|---|---|------------------------------|
| Assets | | |
| Cash and due from banks | \$ 9,850 | \$ 8,816 |
| Short-term investments | 3,013 | 1,132 |
| Federal funds sold | 18,898 | 1,580 |
| Total cash and cash equivalents | 31,761 | 11,528 |
| Securities available-for-sale, at fair value | 7,517 | 7,861 |
| Securities held-to-maturity, at cost (fair value \$35,986 and \$37,099 at March 31, 2007 and December 31, 2006, respectively) | 36,219 | 37,411 |
| Federal Home Loan Bank stock, at cost | 1,517 | 1,574 |
| Loans, net of allowance for loan losses (\$2,995 at March 31, 2007 and \$2,908 at December 31, 2006) | 364,834 | 368,968 |
| Cash surrender value of life insurance | 11,296 | 11,200 |
| Premises and equipment, net | 6,834 | 7,003 |
| Accrued interest and dividend receivable | 1,750 | 1,901 |
| Deferred income tax asset | 1,654 | 1,538 |
| Other assets | 910 | 1,061 |
| Total assets | \$ 464,292 | \$ 450,045 |
| Liabilities and Stockholders' Equity | | |
| Deposits | | |
| Non-interest-bearing | \$ 29,120 | \$ 29,088 |
| Interest-bearing | 297,189 | 282,483 |
| Total deposits | 326,309 | 311,571 |
| Securities sold under agreements to repurchase | 11,708 | 12,712 |
| Advances from Federal Home Loan Bank | 14,760 | 15,256 |
| Mortgagors' escrow accounts | 1,373 | 997 |
| Accrued expenses and other liabilities | 1,242 | 1,063 |
| Total liabilities | 355,392 | 341,599 |
| Stockholders' equity | | |
| Common stock (no par value, 20,000,000 shares authorized, 7,439,368 shares issued and outstanding at March 31, 2007 and at December 31, 2006) | 72,479 | 72,479 |
| Additional paid-in-capital | 184 | 144 |
| Unearned compensation | (5,580) | (5,654) |
| Retained earnings | 41,372 | 40,817 |
| Accumulated other comprehensive income | 445 | 660 |

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| | | |
|--|------------|------------|
| Total stockholders' equity | 108,900 | 108,446 |
| Total liabilities and stockholders' equity | \$ 464,292 | \$ 450,045 |

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**CHICOPEE BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(In Thousands, Except for Per Share Amounts)****(Unaudited)**

| | Three Months Ended March 31, | |
|---|---|---------------|
| | 2007 | 2006 |
| Interest and dividend income: | | |
| Loans, including fees | \$ 5,727 | \$ 4,696 |
| Interest and dividends on securities | 460 | 360 |
| Other interest-earning assets | 188 | 92 |
| Total interest and dividend income | 6,375 | 5,148 |
| Interest expense: | | |
| Deposits | 2,628 | 1,662 |
| Securities sold under agreements to repurchase | 72 | 62 |
| Other borrowed funds | 147 | 357 |
| Total interest expense | 2,847 | 2,081 |
| Net interest income | 3,528 | 3,067 |
| Provision for loan losses | 101 | 150 |
| Net interest income, after provision for loan losses | 3,427 | 2,917 |
| Non-interest income: | | |
| Service charges, fees and commissions | 429 | 389 |
| Loan sales and servicing, net of amortization | (2) | 73 |
| Net gain on sales of securities available-for-sale | 296 | 8 |
| Total non-interest income | 723 | 470 |
| Non-interest expenses: | | |
| Salaries and employee benefits | 1,819 | 1,600 |
| Occupancy expenses | 291 | 280 |
| Furniture and equipment | 229 | 218 |
| Data processing | 183 | 180 |
| Stationery, supplies and postage | 93 | 76 |
| Other non-interest expense | 675 | 542 |
| Total non-interest expenses | 3,290 | 2,896 |
| Income before income taxes | 860 | 491 |
| Income tax expense | 305 | 152 |
| Net income | \$ 555 | \$ 339 |

Earnings per share:

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| | | |
|---|-----------|----|
| Basic | \$ 0.08 | NA |
| Diluted | \$ 0.08 | NA |
| Adjusted weighted average shares outstanding: | | |
| Basic | 6,881,194 | NA |
| Diluted | 6,881,194 | NA |

NA- Not Applicable

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**CHICOPEE BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY****Three Months Ended March 31, 2007 and 2006****(Dollars In Thousands)****(Unaudited)**

| | Common Stock | Additional Paid-in Capital | Unearned Compensation | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|---|-----------------|----------------------------------|--------------------------|----------------------|---|------------|
| Balance at December 31, 2006 | \$ 72,479 | \$ 144 | \$ (5,654) | \$ 40,817 | \$ 660 | \$ 108,446 |
| Comprehensive income: | | | | | | |
| Net income | | | | 555 | | 555 |
| Change in net unrealized gain on securities available-for-sale | | | | | (215) | (215) |
| Total comprehensive income | | | | | | 340 |
| Change in unearned compensation | | 40 | 74 | | | 114 |
| Balance at March 31, 2007 | \$ 72,479 | \$ 184 | \$ (5,580) | \$ 41,372 | \$ 445 | \$ 108,900 |
| Balance at December 31, 2005 | \$ | \$ | \$ | \$ 43,351 | \$ 90 | \$ 43,441 |
| Comprehensive income: | | | | | | |
| Net income | | | | 339 | | 339 |
| Change in net unrealized gain on securities available-for-sale | | | | | 100 | 100 |
| Total comprehensive income | | | | | | 439 |
| Balance at March 31, 2006 | \$ | \$ | \$ | \$ 43,690 | \$ 190 | \$ 43,880 |

See accompanying notes to unaudited consolidated financial statements.

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

| | Three Months Ended | |
|--|---------------------------|------------------|
| | March 31, | |
| | 2007 | 2006 |
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 555 | \$ 339 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 157 | 179 |
| Net amortization of investments | | 15 |
| Provision for loan losses | 101 | 150 |
| Increase in cash surrender value of life insurance | (96) | (104) |
| Realized gains on investment securities, net | (296) | (8) |
| Realized losses on disposal of property and equipment | 4 | |
| Net gains on sales of loans and other real estate owned | | (6) |
| Deferred income taxes | | 325 |
| (Increase) decrease in other assets | 151 | (269) |
| Decrease in accrued interest receivable | 151 | 14 |
| Increase (decrease) in other liabilities | 180 | (780) |
| Change in unearned compensation | 114 | |
| Net cash provided (used) by operating activities | 1,021 | (145) |
| Cash flows from investing activities: | | |
| Additions to premises and equipment | (17) | (265) |
| Loan originations and principal collections, net | 4,032 | (2,025) |
| Proceeds from sales of securities available-for-sale | 965 | 1,010 |
| Purchases of securities available-for-sale | (598) | (779) |
| Purchases of securities held-to-maturity | (25,817) | (19,041) |
| Maturities of securities held-to-maturity | 27,034 | 19,277 |
| Net cash provided (used) by investing activities | 5,599 | (1,823) |
| Cash flows from financing activities: | | |
| Net increase in deposits | 14,737 | 2,906 |
| Net decrease in securities sold under agreements to repurchase | (1,004) | (8,102) |
| Payments on long-term FHLB advances | (496) | (686) |
| Net increase in other short-term borrowings | | 4,484 |
| Net increase in escrow funds held | 376 | 471 |
| Net cash provided (used) by financing activities | 13,613 | (927) |
| Net increase (decrease) in cash and cash equivalents | 20,233 | (2,895) |
| Cash and cash equivalents at beginning of period | 11,528 | 17,586 |
| Cash and cash equivalents at end of period | \$ 31,761 | \$ 14,691 |
| Supplemental cash flow information: | | |
| Interest paid on deposits | \$ 2,628 | \$ 1,662 |

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| | | |
|--|-----|-----|
| Interest paid on borrowings | 219 | 419 |
| Income taxes paid | 15 | 41 |
| See accompanying notes to unaudited consolidated financial statements. | | |

Table of Contents**CHICOPEE BANCORP, INC. AND SUBSIDIARIES****Notes to Unaudited Consolidated Financial Statements****At and for the Three Months Ended March 31, 2007****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 by the Bank to become the holding company for the Bank upon completion of the Bank 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 all of its wholly-owned subsidiaries. The Consolidated Financial Statements of the Company as of March 31, 2007 and for the periods ended March 31, 2007 and 2006 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 footnotes thereto for the year ended December 31, 2006 included in the Company's Form 10-K.

The results for the three month interim periods covered hereby 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 weighted-average number of common shares outstanding during the period. The net outstanding common shares equals the gross number of common shares issued less unallocated shares of the Chicopee Savings Bank Employee Stock Ownership Plan (ESOP). Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares to be issued would include any shares in a stock-based compensation plan. As of March 31, 2007, the Company does not have a stock-based compensation plan.

Earnings per share is computed as follows:

| | Three Months Ended March 31, | |
|---|---------------------------------|--------|
| | 2007 | 2006 |
| Net income (in thousands) | \$ 555 | \$ 339 |
| Weighted average number of common shares outstanding | 7,439,368 | NA |
| Less: average number of unallocated ESOP shares | (558,174) | NA |
| Adjusted weighted average number of common shares outstanding | 6,881,194 | NA |
| Plus: potential shares that may be issued by the Company | | NA |
| Weighted average number of diluted shares outstanding | 6,881,194 | NA |
| Net income per share: | | |
| Basic | \$ 0.08 | NA |
| Diluted | \$ 0.08 | NA |

NA- Not applicable

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3. Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. Effective January 1, 2007, the Company adopted FIN 48. The implementation of FIN 48 did not have a material impact on the Company's financial statements.

The Company's income tax returns for the years ended December 31, 2004, 2005 and 2006 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 three month period ended March 31, 2007.

In March 2006, FASB issued Statement of Financial Accounting Standards (SFAS) No. 156, Accounting for Servicing of Financial Assets-an Amendment to FASB Statement No. 140. SFAS No. 156 requires mortgage servicing rights associated with loans originated and sold, where servicing is retained, to be initially capitalized at fair value and subsequently accounted for using either the fair value method or the amortization method. The Company is using the amortization method for subsequent reporting. Mortgage servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. 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. All assumptions are adjusted periodically to reflect current circumstances. SFAS No. 156 was effective January 1, 2007. Implementation of SFAS No. 156 did not have a material effect on the financial statements of the Company.

In February 2007, FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which gives entities the option to measure eligible financial assets and financial liabilities at fair value on an instrument by instrument basis. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability. Subsequent changes in fair value must be recorded in earnings. SFAS No. 159 contains provisions to apply the fair value option to existing eligible financial instruments at the date of adoption. This statement is effective as of the beginning of an entity's first fiscal year after November 15, 2007, with provisions for early adoption. The Company is in the process of analyzing the impact of SFAS No. 159.

Table of Contents**4. Comprehensive Income or Loss**

Accounting principles generally require recognized revenue, expenses, gains, and losses to be included in net income or loss. Certain changes in assets and liabilities, such as the after-tax effect of unrealized gains and losses on securities available-for-sale, are not reflected in the statement of income, but the cumulative effect of such items from period-to-period is reflected as a separate component of the equity section of the statement of financial condition (accumulated other comprehensive income). Other comprehensive income or loss, along with net income or loss, comprises the Company's total comprehensive income or loss.

Comprehensive income is comprised of the following:

| | Three Months Ended | |
|--|-------------------------------|---------------|
| | March 31, | |
| | 2007 | 2006 |
| | (Dollars In Thousands) | |
| Net income | \$ 555 | \$ 339 |
| Other comprehensive income (loss), net of tax: | | |
| Unrealized holding gains (losses) on available-for-sale securities arising during the period | (35) | 162 |
| Reclassification adjustment for gain on sale of available-for-sale securities included in net income | (296) | (8) |
| Tax effect | 116 | (54) |
| Other comprehensive income (loss), net of tax | (215) | 100 |
| Total comprehensive income | \$ 340 | \$ 439 |

6. Defined Benefit Pension Plan

The Company sponsors a noncontributory defined benefit plan through its membership in the Savings Bank Employees Retirement Association (SBERA). Employees are eligible to join the Pension Plan after attaining age 21 and having been credited with one year of service. Eligible employees become vested in the Pension Plan after three years of service. The Pension Plan provides monthly benefits upon retirement based on compensation during the highest paid three consecutive years of employment during the last ten years of credited service. The components of the net periodic benefit cost are:

| | Three Months Ended | |
|--|-------------------------------|-------------|
| | March 31, | |
| | 2007 | 2006 |
| | (Dollars In Thousands) | |
| Service cost | \$ 89 | \$ 73 |
| Interest cost | 90 | 75 |
| Amortization of transition obligation | | 1 |
| Expected return on assets | (91) | (69) |
| Recognized net actuarial loss | 8 | 6 |
| Net periodic benefit cost | \$ 96 | \$ 86 |
| Weighted-average discount rate assumption used to determine benefit obligation | 5.75% | 5.75% |
| Weighted-average discount rate assumption used to determine net benefit cost | 5.75% | 5.75% |

As of November 14, 2006 the Board of Directors agreed to terminate the Pension Plan effective January 31, 2007. As of March 31, 2007, the Bank had an accrued liability of \$781,000 which will be equitably distributed to all eligible employees who are active when the plan terminates.

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

The following analysis discusses changes in the financial condition and results of operations of the Company at and for the three months ended March 31, 2007 and 2006, and should be read in conjunction with the Company's Unaudited Consolidated Financial Statements and the notes thereto, appearing in Part I, Item 1 of this document.

Forward-Looking Statements

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

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

General

Chicopee Savings Bank is a community-oriented financial institution dedicated to serving the financial services needs of consumers and businesses within its market area. We attract deposits from the general public and use such funds to originate primarily one- to four-family residential real estate loans, commercial real estate loans and commercial loans. To a lesser extent, we originate multi-family loans, construction loans and consumer loans. At March 31, 2007, we operated out of our main office and six offices in Chicopee, West Springfield and Ludlow, Massachusetts.

Comparison of Financial Condition at March 31, 2007 and December 31, 2006

The Company's assets expanded \$14.3 million, or 3.2%, to \$464.3 million at March 31, 2007 as compared to \$450.0 million at December 31, 2006, primarily as a result of an increase in federal funds sold of \$17.3 million. Total net loans decreased \$4.2 million, or 1.1%, to \$364.8 million at March 31, 2007 primarily as a result of one large commercial loan pay off.

The balance sheet expansion was funded primarily by an increase in deposits of \$14.7 million. Core deposits, which exclude certificates of deposit, increased \$10.6 million, or 8.8%, to \$130.6 million at March 31, 2007 from \$120.0 million at December 31, 2006 largely as a result of aggressive deposit pricing. Borrowings decreased \$496,000, or 3.3%, to \$14.8 million at March 31, 2007 due to principal payments. Certificates of deposit balances grew \$4.1 million, or 2.1%, to \$195.7 million at March 31, 2007 principally from special promotions.

Total stockholders' equity increased \$454,000, or 0.42%, to \$108.9 million at March 31, 2007 over December 31, 2006, resulting mainly from net income from the period.

Table of Contents**Lending Activities**

At March 31, 2007, the Company's net loan portfolio was \$364.8 million, or 78.6% of total assets. The following table sets forth the composition of the Company's loan portfolio in dollar amounts and as a percentage of the respective portfolio at the dates indicated.

| | March 31, 2007 | | December 31, 2006 | |
|---|------------------------|---------------------|-------------------|---------------------|
| | Amount | Percent of Total | Amount | Percent of Total |
| | (Dollars In Thousands) | | | |
| Real estate loans: | | | | |
| One- to four-family | \$ 143,626 | 39.1% | \$ 143,964 | 38.8% |
| Multi-family | 11,296 | 3.1% | 11,447 | 3.1% |
| Commercial | 98,754 | 26.9% | 102,819 | 27.7% |
| Construction | 44,620 | 12.2% | 41,713 | 11.2% |
| Total real estate loans | 298,296 | 81.3% | 299,943 | 80.8% |
| Consumer loans: | | | | |
| Home equity | 7,893 | 2.2% | 7,766 | 2.1% |
| Second mortgages | 14,117 | 3.8% | 13,386 | 3.6% |
| Other | 3,531 | 1.0% | 3,555 | 1.0% |
| Total consumer loans | 25,541 | 7.0% | 24,707 | 6.7% |
| Commercial loans | 43,120 | 11.8% | 46,348 | 12.5% |
| Total loans | 366,957 | 100.0% | 370,998 | 100.0% |
| Less: | | | | |
| Undisbursed portion of loans in process | 25 | | 21 | |
| Net deferred loan origination costs | 847 | | 857 | |
| Allowance for loan losses | (2,995) | | (2,908) | |
| Loans, net | \$ 364,834 | | \$ 368,968 | |

The Company's net loan portfolio decreased \$4.1 million, or 1.1%, during the first three months of 2007 primarily due to one large loan pay off within the commercial real estate portfolio.

Table of Contents**Non-performing Assets**

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

| | March 31, 2007 | December 31, 2006 |
|--|------------------------|----------------------|
| | (Dollars In Thousands) | |
| Nonaccrual loans: | | |
| Real estate mortgage | \$ 851 | \$ 1,460 |
| Construction | 197 | |
| Commercial | 136 | 243 |
| Consumer | 4 | 8 |
| Total | 1,188 | 1,711 |
| Real estate owned, net (1) | | |
| Total nonperforming assets | \$ 1,188 | \$ 1,711 |
| Total nonperforming loans as a percentage of total loans (2) (3) | 0.32% | 0.46% |
| Total nonperforming assets as a percentage of total assets (3) | 0.26% | 0.38% |

(1) REO balances are shown net of related loss allowances.

(2) Total loans includes loans, less unadvanced loan funds, plus net deferred loan costs.

(3) Nonperforming assets consist of nonperforming loans and REO. Nonperforming loans consist of all loans 90 days or more past due and other loans that have been identified by the Company as presenting uncertainty with respect to the collectibility of interest or principal.

Allowance for Loan Losses

Management prepares a loan loss analysis on a quarterly basis. The allowance for loan losses is maintained through the provision for loan losses, which is charged to operations. The allowance for loan losses is maintained at an amount that management considers appropriate to cover estimated losses in the loan portfolio based on management's on-going evaluation of the risks inherent in the loan portfolio, consideration of local and regional trends in delinquency and impaired loans, the amount of charge-offs and recoveries, the volume of loans, changes in risk selection, credit concentrations, existing loan-to-value ratios, national and regional economies and the real estate market in the Company's primary lending area. Management believes that the current allowance for loan losses is appropriate to cover losses inherent in the current loan portfolio. The Company's loan loss allowance determinations also incorporate factors and analyses which consider the principal loss associated with the loan. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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

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The allowance for loan losses is determined using a consistent, systematic methodology which analyzes the size and risk of the loan portfolio. In addition to evaluating the collectibility of specific loans when determining the allowance for loan losses, management also takes into consideration other factors such as changes in the mix and the volume of the loan portfolio, historic loss experience, amount of the delinquencies and loans adversely classified, and economic trends. The adequacy of the allowance for loan losses is assessed by the allocation process whereby specific loss allocations are made against certain adversely classified loans, and general loss allocations are made against segments of the loan portfolio which have similar attributes. The Bank's historical loss experience, industry trends, and the impact of the local and regional economy on the Bank's borrowers, were considered by management in determining the allowance for loan losses.

The following table sets forth activity in the Company's allowance for loan losses for the periods set forth.

| | At or for the Three Months Ended March 31, | |
|---|---|-------------|
| | 2007 | 2006 |
| | (Dollars In Thousands) | |
| Allowance for loan losses, beginning of period | \$ 2,908 | \$ 2,605 |
| Charged-off loans: | | |
| Real Estate | | |
| Commercial | | |
| Consumer | 14 | 3 |
| Total charged-off loans | 14 | 3 |
| Recoveries on loans previously charged-off: | | |
| Real estate | | |
| Commercial | | |
| Consumer | | |
| Total recoveries | | |
| Net loan charge-offs | 14 | 3 |
| Provision for loan losses | 101 | 150 |
| Allowance for loan losses, end of period | \$ 2,995 | \$ 2,752 |
| Net loan charge-offs to average loans, net | 0.02% | |
| Allowance for loan losses to total loans (1) | 0.82% | 0.86% |
| Allowance for loan losses to nonperforming loans and troubled debt restructurings (2) | 252.10% | 349.68% |
| Recoveries to charge-offs | | |

- (1) Total loans includes loans, less unadvanced loan funds, plus net deferred loan costs.
- (2) Nonperforming loans consist of all loans 90 days or more past due and other loans which have been identified by the Company as presenting uncertainty with respect to the collectibility of interest or principal.

Table of Contents**Investment Activities**

At March 31, 2007, the Company's investment securities portfolio amounted to \$43.7 million, or 9.4% of assets. The following table sets forth at the dates indicated information regarding the amortized cost and market values of the Company's investment securities.

| | March 31, 2007 | | December 31, 2006 | |
|---|----------------|------------|-------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| (In Thousands) | | | | |
| Securities available-for-sale: | | | | |
| Marketable equity securities | \$ 6,833 | \$ 7,517 | \$ 6,847 | \$ 7,861 |
| Total equity securities | 6,833 | 7,517 | 6,847 | 7,861 |
| Securities held-to-maturity: | | | | |
| Debt securities of government sponsored enterprises | 27,786 | 27,775 | 28,924 | 28,891 |
| Corporate and industrial revenue bonds | 1,710 | 1,710 | 1,710 | 1,710 |
| Collateralized mortgage obligations | 6,723 | 6,501 | 6,777 | 6,498 |
| Total securities held-to-maturity | 36,219 | 35,986 | 37,411 | 37,099 |
| Total | \$ 43,052 | \$ 43,503 | \$ 44,258 | \$ 44,960 |

(1) Does not include investments in FHLB-Boston stock totaling \$1.5 million at March 31, 2007 and \$1.6 million at December 31, 2006. Securities available-for-sale decreased \$344,000, or 4.4%, to \$7.5 million at March 31, 2007 primarily due to sale of stock, the proceeds from which were reinvested. Held-to-maturity securities decreased \$1.2 million or 3.2% to \$36.2 million due to maturities of held-to-maturity securities.

Deposits

The following table sets forth the Company's deposit accounts for the periods indicated.

| | March 31, 2007 | | December 31, 2006 | |
|-------------------------------|----------------|---------------------------|-------------------|---------------------------|
| | Balance | Percent of Total Deposits | Balance | Percent of Total Deposits |
| (Dollars In Thousands) | | | | |
| Demand deposits | \$ 29,120 | 8.92% | \$ 29,088 | 9.33% |
| NOW accounts | 16,258 | 4.98% | 16,350 | 5.25% |
| Passbook accounts | 47,667 | 14.61% | 40,467 | 12.99% |
| Money market deposit accounts | 37,549 | 11.51% | 34,083 | 10.94% |
| Certificates of deposit | 195,715 | 59.98% | 191,583 | 61.49% |
| Total deposits | \$ 326,309 | 100.00% | \$ 311,571 | 100.00% |

Deposits grew \$14.7 million, or 4.7%, to \$326.3 million at March 31, 2007 from \$311.6 million at December 31, 2006. The growth in passbook and money market deposit accounts reflects the success of sales and marketing efforts. Certificates of deposit balances increased \$4.1 million, or 2.2%, to \$195.7 million at March 31, 2007 largely due to special promotional rates.

Table of Contents**Borrowing**

The following sets forth information concerning our borrowings for the period indicated.

| | March 31, 2007 | December 31, 2006 |
|---|------------------------|----------------------|
| | (Dollars In Thousands) | |
| Maximum amount of advances outstanding at any month-end during the period: | | |
| FHLB Advances | \$ 15,010 | \$ 41,425 |
| Securities sold under agreements to repurchase | \$ 11,708 | \$ 21,294 |
| Other borrowings | \$ 100 | \$ 147 |
| Average advances outstanding during the period: | | |
| FHLB Advances | \$ 15,136 | \$ 25,037 |
| Securities sold under agreements to repurchase | \$ 10,856 | \$ 13,690 |
| Other borrowings | \$ 96 | \$ 126 |
| Weighted average interest rate during the period: | | |
| FHLB Advances | 3.89% | 4.16% |
| Securities sold under agreements to repurchase | 2.50% | 2.00% |
| Other borrowings | 7.00% | 7.00% |
| Balance outstanding at end of period: | | |
| FHLB Advances | \$ 14,760 | \$ 15,256 |
| Securities sold under agreements to repurchase | \$ 11,708 | \$ 12,712 |
| Other borrowings | \$ 92 | \$ 104 |
| Weighted average interest rate at end of period: | | |
| FHLB Advances | 3.83% | 3.82% |
| Securities sold under agreements to repurchase | 2.50% | 2.50% |
| Other borrowings | 7.00% | 7.00% |

We utilize borrowings from a variety of sources to supplement our supply of funds for loans and investments.

Comparison of Operating Results for the Three Months Ended March 31, 2007 and 2006**General**

Net income increased \$216,000, to \$555,000 for the quarter ended March 31, 2007 compared to \$339,000 for the same quarter last year. The increase in net income for the first quarter 2007 was a result of an increase in interest income of \$1.2 million or 23.8%, primarily due to growth in average loans, partially offset by an increase in interest expense of \$766,000 or 36.8%, due to an increase in average interest-bearing liabilities.

Analysis of Net Interest Income

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

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

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| | For the Three Months Ended March 31, | | | | | |
|---|--------------------------------------|----------|---|--------------------|----------|---------------------------|
| | 2007 | | | 2006 | | |
| | Average Balance | Interest | Average Yield/ Rate (Dollars In Thousands) | Average Balance | Interest | Average Yield/ Rate |
| Interest-earning assets: | | | | | | |
| Investment securities (1) | \$ 42,792 | \$ 474 | 4.49% | \$ 37,606 | \$ 372 | 4.01% |
| Loans: | | | | | | |
| Residential real estate loans | 159,561 | 2,203 | 5.60% | 143,913 | 1,925 | 5.42% |
| Commercial real estate loans | 141,129 | 2,305 | 6.62% | 118,666 | 1,828 | 6.25% |
| Consumer loans | 24,961 | 416 | 6.76% | 18,991 | 307 | 6.56% |
| Commercial loans | 43,281 | 803 | 7.52% | 37,097 | 637 | 6.96% |
| Loans, net | 368,932 | 5,727 | 6.30% | 318,667 | 4,697 | 5.98% |
| Other | 13,912 | 186 | 5.42% | 6,731 | 92 | 5.54% |
| Total interest-earning assets | 425,636 | 6,387 | 6.09% | 363,004 | 5,161 | 5.77% |
| Noninterest-earning assets | 27,798 | | | 25,673 | | |
| Total assets | \$ 453,434 | | | \$ 388,677 | | |
| Interest-bearing liabilities: | | | | | | |
| Deposits: | | | | | | |
| Money market accounts | \$ 38,655 | \$ 228 | 2.39% | \$ 40,003 | \$ 153 | 1.55% |
| Savings accounts (2) | 45,864 | 120 | 1.06% | 47,117 | 79 | 0.68% |
| NOW accounts | 16,057 | 13 | 0.33% | 17,206 | 13 | 0.31% |
| Certificates of deposit | 195,362 | 2,267 | 4.71% | 163,306 | 1,416 | 3.52% |
| Total interest-bearing deposits | 295,938 | 2,628 | 3.60% | 267,632 | 1,661 | 2.52% |
| FHLB advances | 15,136 | 145 | 3.89% | 34,696 | 355 | 4.15% |
| Securities sold under agreement to repurchase | 10,856 | 72 | 2.69% | 16,050 | 62 | 1.57% |
| Other borrowings | 96 | 2 | 8.45% | 144 | 3 | 8.45% |
| Total interest-bearing borrowings | 26,088 | 219 | 3.40% | 50,890 | 420 | 3.35% |
| Total interest-bearing liabilities | 322,026 | 2,847 | 3.59% | 318,522 | 2,081 | 2.65% |
| Demand deposits | 21,852 | | | 25,193 | | |
| Other noninterest-bearing liabilities | 401 | | | 1,149 | | |
| Total liabilities | 344,279 | | | 344,864 | | |
| Total stockholders' equity | 109,155 | | | 43,813 | | |
| Total liabilities and stockholders' equity | \$ 453,434 | | | \$ 388,677 | | |
| Net interest-earning assets | \$ 103,610 | | | \$ 44,482 | | |
| Tax equivalent net interest income/ interest rate spread (3) | | 3,540 | 2.50% | | 3,080 | 3.12% |
| Tax equivalent net interest income as a percentage of interest-earning assets (4) | | | 3.37% | | | 3.44% |
| Ratio of interest-earning assets to interest-bearing liabilities | | | 132.17% | | | 113.97% |

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| | | |
|---|----------|----------|
| Less: tax equivalent adjustment (1) | (12) | (13) |
| Net interest income as reported on income statement | \$ 3,528 | \$ 3,067 |

- (1) Municipal securities income and net interest income are presented on a tax equivalent basis using a tax rate of 41%. The tax equivalent adjustment is deducted from the tax equivalent net interest income to agree to the amount reported on the income statement.
- (2) Savings accounts include mortgagors' escrow deposits.
- (3) Tax equivalent net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (4) Tax equivalent net interest margin represents tax equivalent net interest income divided by total average interest-earning assets.

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

| | Three Months Ended March 31, 2007 compared to 2006 Increase (Decrease) | | |
|--|---|---|------------|
| | Volume | Due to Rate (In Thousands) | Net |
| Interest-earning assets: | | | |
| Investment securities (1) | \$ 54 | \$ 48 | \$ 102 |
| Loans: | | | |
| Residential real estate loans | 214 | 64 | 278 |
| Commercial real estate loans | 362 | 115 | 477 |
| Consumer loans | 99 | 10 | 109 |
| Commercial loans | 112 | 54 | 166 |
| Total loans | 787 | 243 | 1,030 |
| Other | 96 | (2) | 94 |
| Total interest-earning assets | \$ 937 | \$ 289 | \$ 1,226 |
| Interest-bearing liabilities: | | | |
| Deposits: | | | |
| Money market accounts | \$ (5) | \$ 80 | \$ 75 |
| Savings accounts (2) | (2) | 43 | 41 |
| NOW accounts | (1) | 1 | 0 |
| Certificates of deposit | 313 | 538 | 851 |
| Total deposits | 305 | 662 | 967 |
| FHLB advances | (188) | (22) | (210) |
| Securities sold under agreement to repurchase | (24) | 34 | 10 |
| Other borrowings | (1) | | (1) |
| Total interest-bearing borrowings | (213) | 12 | (201) |
| Total interest-bearing liabilities | 92 | 674 | 766 |
| Increase (decrease) in net interest income (3) | \$ 845 | \$ (385) | \$ 460 |

(1) The changes in state and municipal income are reflected on a tax equivalent basis using a tax rate of 41%.

(2) Includes interest on mortgagors' escrow deposits.

(3) The changes in net interest income are reflected on a tax equivalent basis and thus do not correspond to the income statement.

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Net interest income, increased \$461,000, or 15.0%, to \$3.5 million for the three months ended March 31, 2007 compared to \$3.1 million for the same period in 2006, mainly driven by growth in average interest-earning assets. Net interest margin decreased 7 basis points to 3.37% for the three months ended March 31, 2007 from the comparable period in 2006 primarily resulting from a higher cost of funds, partially mitigated by an increase in interest-earning assets.

Interest and dividend income, on a tax equivalent basis, rose \$1.2 million, or 23.8%, to \$6.4 million for the three months ended March 31, 2007 compared to \$5.2 million for the same period last year, largely reflecting growth in average interest-earning assets. Average interest-earning assets totaled \$425.6 million for the three months ended March 31, 2007 compared to \$363.0 million for the same period last year, an increase of \$62.6 million, or 17.3%. Average loans increased \$50.3 million, or 15.8%, primarily due to strong originations. Average investment securities expanded \$5.2 million, or 13.8%, principally reflecting purchases of agencies. The yield on average interest-earning assets increased 32 basis points to 6.09% for the three months ended March 31, 2007, principally as a result of higher market rates of interest. The higher interest rate environment led to a decrease in the levels of loan prepayment and refinancing volume.

Total interest expense increased \$766,000, or 36.8%, to \$2.8 million for the three months ended March 31, 2007 from \$2.1 million for the same period in 2006, resulting primarily from increased rates paid on average interest-bearing liabilities. Average interest-bearing liabilities increased \$3.5 million, or 1.1%, to \$322.0 million for the three months ended March 31, 2007 from \$318.5 million for the comparable period in 2006 reflecting an increase in interest-bearing deposits and a decrease in FHLB advances. Rates paid on average interest-bearing liabilities rose 94 basis points to 3.59% for the first quarter of 2007, largely reflecting the higher market interest rates. The higher interest rate environment led to an increase in rates paid for new certificates of deposit as well as the repricing of a portion of the Company's outstanding certificates of deposit.

Provision for Loan Losses

The provision for loan losses decreased \$49,000 to \$101,000 in the first quarter of 2007 compared to \$150,000 for the same period in 2006 primarily due to a large commercial real estate loan pay off. In addition, management assessed the continued growth of the loan portfolio, particularly the increases in commercial real estate loans, construction loans and commercial business loans. The allowance for loan losses is maintained through provisions for loan losses.

Non-interest Income

Total non-interest income increased \$253,000, or 53.8%, to \$723,000 for the first quarter of 2007 compared to \$470,000 for the same period in 2006. Fee income increased \$40,000, or 10.3%, to \$429,000 in the first quarter of 2007 from \$389,000 for the comparable period in 2006 reflecting an increase in ATM fee income. Investment commissions totaled \$83,000 for the three months ended March 31, 2007 compared to \$68,000 in the first quarter of 2006, an increase of \$15,000, or 22.1%, mainly resulting from new customers gained as a result of successful business development efforts. Loan sales and servicing income declined \$75,000 or 102.7% to negative \$2,000 from \$73,000 for the same period in 2006. The Bank did not sell loans during the first quarter of 2007. The gain on sales of available-for-sale securities increased \$288,000 to \$296,000 due to sales of available-for-sale securities.

Non-interest Expenses

Non-interest expenses increased \$394,000, or 13.6%, to \$3.3 million for the three months ended March 31, 2007 compared to \$2.9 million in the first quarter of 2006. This was largely attributable to an increase in salaries and benefits expense of \$219,000, or 13.7%, to \$1.8 million for the first quarter of 2007 reflecting additional staffing costs to support the requirements of a public company, standard wage increases and increased benefit costs associated with the Bank's ESOP. Other non-interest expenses increased \$133,000 or 24.5%, to \$675,000 for the three month ended March 31, 2007 compared to \$542,000 for the same period in 2006. The increase was primarily attributable to an increase in legal fees of \$44,000 associated with being a public company as well as an increase in consulting cost of \$24,000 for costs associated with Sarbanes Oxley Act compliance.

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Income Taxes

The Company's income tax expense increased \$153,000, or 100.7%, to \$305,000 for the first quarter of 2007 compared to \$152,000 in 2006 due to an increase in income before taxes. The Company's combined federal and state effective tax rate was 35.5%, up slightly from 31.0% for the same period in 2006 due to an increase in taxable income.

Liquidity Management.

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of securities, borrowings from the Federal Home Loan Bank of Boston and securities sold under agreements to repurchase. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. Prepayment rates can have a significant impact on interest income. Because of the large percentage of loans we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that in turn affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe these assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual loan repayment activity.

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

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. At March 31, 2007, cash and cash equivalents totaled \$31.8 million. Total securities classified as available for sale were \$7.5 million at March 31, 2007. In addition, at March 31, 2007, we had the ability to borrow a total of approximately \$107.7 million from the Federal Home Loan Bank of Boston. On March 31, 2007, we had \$14.8 million of borrowings outstanding. Based on the current level of liquidity we do not anticipate any future Federal Home Loan Bank of Boston borrowings at this time.

At March 31, 2007, we had \$77.8 million in loan commitments outstanding, which consisted of \$7.6 million of commercial loan commitments, \$10.7 million of mortgage loan commitments, \$19.1 million in unadvanced construction loan commitments, \$7.5 million in unused home equity lines of credit and \$32.9 million in commercial lines of credit. Certificates of deposit due within one year of March 31, 2007 totaled \$126.0 million, or 64.4%, of our certificates of deposit. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before March 31, 2008. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Capital Management.

We are subject to various regulatory capital requirements administered by the Federal Deposit Insurance Corporation, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At March 31, 2007, the Bank exceeded all of its regulatory capital requirements. The Bank is considered well capitalized under regulatory guidelines. The Corporation is subject to the Federal Reserve Board's capital adequacy guidelines for bank holding companies (on a consolidated basis) substantially similar to those of the Federal Deposit Insurance Corporation. The Corporation exceeded these requirements at March 31, 2007.

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The Company's and Bank's actual capital amounts and ratios as of March 31, 2007 and December 31, 2006 are presented in the table.

| | Actual | | Minimum for Capital Adequacy Purposes | | Minimum to be Well Capitalized Under Prompt Corrective Action Provisions | |
|--|------------|-------|---------------------------------------|-------|--|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| (Dollars In Thousands) | | | | | | |
| As of March 31, 2007: | | | | | | |
| Total Capital to Risk Weighted Assets | | | | | | |
| Company | \$ 111,725 | 29.6% | \$ 36,272 | 8.0% | N/A | N/A |
| Bank | \$ 73,756 | 19.9% | \$ 29,708 | 8.0% | \$ 37,135 | 10.0% |
| Tier 1 Capital to Risk Weighted Assets | | | | | | |
| Company | \$ 108,422 | 28.7% | \$ 15,102 | 4.0% | N/A | N/A |
| Bank | \$ 70,453 | 19.0% | \$ 14,854 | 4.0% | \$ 22,281 | 6.0% |
| Tier 1 Capital to Average Assets | | | | | | |
| Company | \$ 108,422 | 23.9% | \$ 18,136 | 4.0% | N/A | N/A |
| Bank | \$ 70,453 | 15.8% | \$ 17,889 | 4.0% | \$ 22,362 | 5.0% |
| As of December 31, 2006: | | | | | | |
| Total Capital to Risk Weighted Assets | | | | | | |
| Company | \$ 111,113 | 28.7% | \$ 30,975 | 8.0% | N/A | N/A |
| Bank | \$ 73,164 | 19.2% | \$ 30,462 | 8.0% | \$ 38,078 | 10.0% |
| Tier 1 Capital to Risk Weighted Assets | | | | | | |
| Company | \$ 107,749 | 27.8% | \$ 15,487 | 4.0% | N/A | N/A |
| Bank | \$ 69,800 | 18.3% | \$ 15,231 | 4.0% | \$ 22,847 | 6.0% |
| Tier 1 Capital to Average Assets | | | | | | |
| Company | \$ 107,749 | 24.3% | \$ 17,701 | 4.0% | N/A | N/A |
| Bank | \$ 69,800 | 16.1% | \$ 17,385 | 4.0% | \$ 21,731 | 5.0% |

We also manage our capital for maximum stockholder benefit. The capital from our recently completed stock offering significantly increased our liquidity and capital resources. Over time, the initial level of liquidity will be reduced, as net proceeds from the stock offering are used for general corporate purposes, including the funding of lending activities. Our financial condition and results of operation are expected to be enhanced by the capital from the stock offering, resulting in increased net interest-earning assets and net income. However, the large increase in equity resulting from the capital raised in the offering will, initially, have an adverse impact on our return on equity. We may use capital management tools such as cash dividends and common stock repurchases. However, under Federal Deposit Insurance Corporation regulations, we will not be allowed to repurchase any shares during the first year following the offering, except that stock repurchases of no greater than 5% of outstanding capital stock may be made during this one-year period where compelling and valid business reasons are established to the satisfaction of the Federal Deposit Insurance Corporation.

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Off-Balance Sheet Arrangements

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

For the three month periods ended March 31, 2007 and March 31, 2006, we engaged in no off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures about Market Risk Qualitative Aspects of Market Risk.

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

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

Quantitative Aspects of Market Risk.

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

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

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

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The table below sets forth an approximation of our exposure as a percentage of estimated net interest income for the next 12 month period using interest income simulation. The simulation uses projected repricing of assets and liabilities at March 31, 2007 on the basis of contractual maturities, anticipated repayments and scheduled rate adjustments. Prepayment rates can have a significant impact on interest income simulation. Because of the large percentage of loans we hold, rising or falling interest rates have a significant impact on the prepayment speeds of our earning assets that in turn affect the rate sensitivity position. When interest rates rise, prepayments tend to slow. When interest rates fall, prepayments tend to rise. Our asset sensitivity would be reduced if prepayments slow and vice versa. While we believe such assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate future mortgage-backed security and loan repayment activity.

The following table reflects changes in estimated net interest income for the Bank at March 31, 2007 through March 31, 2008.

| Increase (Decrease) in Market interest Rates (Rate Shock) | Net Interest Income | | |
|---|------------------------|-----------|----------|
| | \$ Amount | \$ Change | % Change |
| | (Dollars In Thousands) | | |
| 300 bp | \$ 12,562 | (\$407) | -3.1% |
| 200 | \$ 12,362 | (\$607) | -4.7% |
| 100 | \$ 12,721 | (\$248) | -1.9% |
| | \$ 12,969 | | |
| (100) | \$ 13,192 | \$223 | 1.7% |
| (200) | \$ 13,501 | \$532 | 4.1% |

The basis points changes in rates in the above table are assumed to occur evenly over the following 12 months.

Item 4. Controls and Procedures

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

There has been no change in the Company's internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15 that occurred during the Company's last fiscal quarter that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1.A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

- 3.1 Articles of Incorporation of Chicopee Bancorp, Inc. (1)
- 3.2 Bylaws of Chicopee Bancorp, Inc. (1)
- 4.0 Stock Certificate of Chicopee Bancorp, Inc. (1)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32.0 Section 1350 Certification

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

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SIGNATURES

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

CHICOPEE BANCORP, INC.

Dated: May 10, 2007

By: /s/ William J. Wagner
William J. Wagner

Chairman of the Board, President and

Chief Executive Officer

(principal executive officer)

Dated: May 10, 2007

By: /s/ W. Guy Ormsby
W. Guy Ormsby

Executive Vice President,

Chief Financial Officer and Treasurer

(principal financial and chief accounting officer)