

CHICOPEE BANCORP, INC.  
Form 10-Q  
August 14, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended June 30, 2006

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

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**Chicopee Bancorp, Inc.**

(Exact name of registrant as specified in its charter)

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Massachusetts  
(State or other jurisdiction of

incorporation or organization)

20-4840562  
(I.R.S. Employer

Identification No.)

70 Center Street, Chicopee, Massachusetts

01013

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(Address of principal executive offices)

(413) 594-6692

(Zip Code)

(Registrant's telephone number, including area code)

N/A

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-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 August 1, 2006, there were 7,439,368 shares of the registrant's common stock outstanding

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**CHICOPEE BANCORP, INC.**

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

Chicopee Bancorp, Inc., a Massachusetts corporation, was formed on March 14, 2006 by Chicopee Savings Bank to become the holding company for the Bank upon completion of the Bank's conversion from a mutual savings bank to a stock savings bank. The conversion of the Bank was completed on July 19, 2006. At June 30, 2006, the Company had no assets and conducted no operations, and, therefore, the information presented in this report is for the Bank.

## CHICOPEE SAVINGS BANK AND SUBSIDIARIES

## Consolidated Statements of Financial Condition

(Unaudited)

	June 30,	December 31,
	2006	2005
	(Dollars in thousands)	
<b>ASSETS</b>		
Cash and due from banks	\$ 11,876	\$ 10,003
Short-term investments	4,066	4,181
Federal funds sold	35,250	3,402
<b>Total cash and cash equivalents</b>	<b>51,192</b>	<b>17,586</b>
Securities available-for-sale, at fair value	4,670	4,934
Securities held-to-maturity, at cost (fair value \$27,677 and \$29,109 at June 30, 2006 and December 31, 2005, respectively)	28,295	29,472
Federal Home Loan Bank stock, at cost	2,589	2,447
Loans receivable, net of allowance for loan losses of \$2,811 at June 30, 2006; and \$2,605 at December 31, 2005	329,566	315,649
Cash surrender value of life insurance	11,002	10,801
Premises and equipment, net	7,190	7,079
Accrued interest and dividend receivable	1,524	1,341
Deferred income tax asset	649	987
Other assets	1,818	1,053
<b>Total assets</b>	<b>\$ 438,495</b>	<b>\$ 391,349</b>
<b>LIABILITIES AND SURPLUS</b>		
Deposits		
Non-interest-bearing	\$ 32,866	\$ 27,912
Interest-bearing	270,004	267,111
<b>Total deposits</b>	<b>302,870</b>	<b>295,023</b>
Securities sold under agreement to repurchase	14,459	20,163
Advances from Federal Home Loan Bank	17,029	29,417
Mortgagors' escrow accounts	897	971
Accrued expenses and other liabilities	59,048	2,334
<b>Total liabilities</b>	<b>394,303</b>	<b>347,908</b>

Commitments and contingencies

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Surplus		
Undivided profits	44,078	43,351
Accumulated other comprehensive income		
Net unrealized appreciation on securities available-for-sale, net of deferred income taxes	114	90
<b>Total surplus</b>	<b>44,192</b>	<b>43,441</b>
Total liabilities and surplus	\$ 438,495	\$ 391,349

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

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## CHICOPEE SAVINGS BANK AND SUBSIDIARIES

## Consolidated Statements of Income

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
(Dollars in thousands)				
<b>Interest Income</b>				
Loans	\$ 4,879	\$ 4,213	\$ 9,576	\$ 8,257
Investment securities	385	277	745	568
Other interest-earning assets	152	79	243	120
<b>Total interest and dividend income</b>	<b>5,416</b>	<b>4,569</b>	<b>10,564</b>	<b>8,945</b>
<b>Interest Expense</b>				
Deposits	1,804	1,472	3,466	2,747
Securities sold under agreements to repurchase	48	36	110	74
Other borrowed funds	354	146	712	265
<b>Total interest expense</b>	<b>2,206</b>	<b>1,654</b>	<b>4,288</b>	<b>3,086</b>
<b>Net interest income</b>	<b>3,210</b>	<b>2,915</b>	<b>6,276</b>	<b>5,859</b>
Provision for loan losses	110	30	260	60
<b>Net interest income after provision for loan losses</b>	<b>3,100</b>	<b>2,885</b>	<b>6,016</b>	<b>5,799</b>
<b>Noninterest income</b>				
Service charges, fees and commissions	391	322	781	657
Loan sales and servicing	44	17	117	27
Net gain on sales of securities available-for-sale	11	39	18	90
<b>Total noninterest income</b>	<b>446</b>	<b>378</b>	<b>916</b>	<b>774</b>
<b>Noninterest expenses</b>				
Salaries and employee benefits	1,628	1,529	3,228	3,018
Occupancy expenses	262	229	541	488
Furniture and equipment	223	209	441	433
Data processing	163	137	343	273
Stationery, supplies and postage	85	89	161	180
Other noninterest expense	628	569	1,171	1,102
<b>Total noninterest expenses</b>	<b>2,989</b>	<b>2,762</b>	<b>5,885</b>	<b>5,494</b>
<b>Income before income taxes</b>	<b>557</b>	<b>501</b>	<b>1,047</b>	<b>1,079</b>
Income tax expense	168	154	320	338
<b>Net income</b>	<b>\$ 389</b>	<b>\$ 347</b>	<b>\$ 727</b>	<b>\$ 741</b>

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

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## CHICOPEE SAVINGS BANK AND SUBSIDIARIES

## Consolidated Statement of Changes in Surplus (Unaudited)

Six Months Ended June 30, 2006

	<b>Undivided</b>	<b>Net Unrealized Appreciation on Securities</b>	<b>Total</b>
<b>(Dollars in thousands)</b>	<b>Profits</b>	<b>Available-for-Sale</b>	
Balance at December 31, 2005	\$ 43,351	\$ 90	\$ 43,441
Net Income	727		727
Change in net unrealized appreciation on securities available-for-sale, net of deferred income taxes		24	24
Total comprehensive income	727	24	751
Balance at June 30, 2006	\$ 44,078	\$ 114	\$ 44,192

## Consolidated Statement of Changes in Surplus (Unaudited)

Six Months Ended June 30, 2005

	<b>Undivided</b>	<b>Net Unrealized (Depreciation) Appreciation on Securities</b>	<b>Total</b>
<b>(Dollars in thousands)</b>	<b>Profits</b>	<b>Available-for-Sale</b>	
Balance at December 31, 2004	\$ 41,935	\$ 222	\$ 42,157
Net Income	741		741
Change in net unrealized appreciation on securities available-for-sale, net of deferred income taxes		(169)	(169)
Total comprehensive income	741	(169)	572
Balance at June 30, 2005	\$ 42,676	\$ 53	\$ 42,729

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





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## CHICOPEE SAVINGS BANK AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended	
	June 30, 2006	2005
(Dollars in thousands)		
<b>Cash flows from operating activities:</b>		
Net income	\$ 727	\$ 741
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	359	355
Net (accretion) amortization of investment securities	25	(60)
Provision for loan losses	260	60
Increase in cash surrender value of life insurance	(201)	(192)
Realized gains on investment securities, net	(18)	(90)
Net gains on sales of loans and other real estate owned	(14)	(1)
Deferred income taxes	1	(334)
Decrease (increase) in other assets	(440)	231
Increase in accrued interest receivable	(183)	(97)
Increase (decrease) in other liabilities	(695)	160
Net cash from operating activities	(179)	773
<b>Cash flows from investing activities:</b>		
Additions to premises and equipment	(471)	(1,022)
Loan originations and principal collections, net	(14,163)	(16,750)
Purchase of securities available-for-sale	(1,034)	(1,305)
Proceeds from sales of securities available-for-sale	1,210	998
Purchase of securities held-to-maturity	(21,438)	(8,920)
Maturities of securities held-to-maturity	22,591	5,186
Net cash used by investing activities	(13,305)	(21,813)
<b>Cash flows from financing activities:</b>		
Net increase in deposits	7,847	16,591
Net increase (decrease) in securities sold under agreements to repurchase	(5,704)	5,983
Advances from long-term FHLB advances	0	10,000
Payments on long-term FHLB advances	(1,869)	(6,483)
Net increase (decrease) in other short-term borrowings	(10,520)	6,000
Cash proceeds from the subscription phase of the initial public offering	57,410	
Net decrease in escrow funds held	(74)	(190)
Net cash (used) provided by financing activities	47,090	31,901
Net increase in cash and cash equivalents	33,606	10,861
Cash and cash equivalents, <b>Beginning of period</b>	17,586	22,419
Cash and cash equivalents, <b>End of period</b>	\$ 51,192	\$ 33,280

Supplementary cash flow information:

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Interest paid on deposits and borrowed funds	\$ 4,288	\$ 3,086
Income taxes paid	\$ 638	\$ 363

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

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**CHICOPEE SAVINGS BANK AND SUBSIDIARIES**

**Notes to the Unaudited Financial Statements**

**June 30, 2006**

**(1) Basis of Presentation**

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for the six-month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the entire year or any other interim period. For additional information, refer to the financial statements and footnotes thereto of Chicopee Savings Bank (the Bank or Chicopee Savings Bank ) included in Chicopee Bancorp, Inc. s (the Company or Chicopee Bancorp ) prospectus, dated May 15, 2006.

The consolidated financial statements at June 30, 2006 and December 31, 2005 and for the three and six months ended June 30, 2006 and June 30, 2005 include the accounts of the Bank and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

**(2) Plan of Conversion**

Chicopee Bancorp was organized as a Massachusetts corporation at the direction of the Bank in connection with the conversion of the Bank. The conversion of the Bank was completed on July 19, 2006. In the conversion, Chicopee Bancorp sold 6,888,304 shares of common stock to the public and contributed 551,061 shares to the Chicopee Savings Bank Charitable Foundation.

After the conversion, holders of withdrawable deposits in the Bank are not entitled to share in any residual assets upon liquidation of the Bank. However, under applicable regulations, the Bank, at the time of the conversion, established a liquidation account in an amount equal to its total equity as of the date of the latest statement of financial condition contained in the final prospectus relating to the conversion.

Costs incurred in connection with the offering will be recorded as a reduction of the proceeds from the offering. As of June 30, 2006, approximately \$1.7 million of conversion costs had been incurred and deferred. Net proceeds from the common stock offering amounted to approximately \$67.1 million.

**(3) Earnings per Share**

When presented, basic earnings per share are computed by dividing income available to common stockholders by the weighted average number of common stock outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Because the Company had not issued any shares of common stock as of June 30, 2006, per share earnings data is not meaningful for this quarter or prior comparative periods and is therefore not presented.

**(4) Recent Accounting Pronouncements**

In March 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 156, *Accounting for Servicing of Financial Assets*. This Statement amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS 156 requires companies to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract. The Statement requires all separately recognized servicing assets to be initially measured at fair value and it permits an entity to choose either the amortized cost method or fair value measurement method for subsequent measurement for each class of separately recognized servicing assets. This Statement is effective as of the beginning of an entity s first fiscal year after September 15, 2006 (January 1, 2007 for Chicopee Savings Bank). The Company does not anticipate that the adoption of SFAS 156 will have a material impact on its financial condition or results of operations.



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In July 2006, FASB issued Financial Accounting Standards Interpretation No. 48 ( FIN 48 ), *Accounting for Uncertainty in Income Taxes*. 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 and measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not expect FIN 48 to have a material effect on its financial condition and results of operations.

**(5) 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 consecutive three years of employment during the last ten years of credited service. The components of the net periodic benefit cost are:

	<b>Three Months Ended</b>	
	<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Dollars in thousands)</b>	
Service cost	\$ 89	\$ 73
Interest cost	90	74
Amortization of transition obligation	1	1
Expected return on assets	(93)	(82)
Recognized net actuarial loss	8	3
Net periodic benefit cost	95	69
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%
	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Dollars in thousands)</b>	
Service cost	\$ 179	\$ 147
Interest cost	180	148
Amortization of transition obligation	1	1
Expected return on assets	(186)	(164)
Recognized net actuarial loss	17	6
Net periodic benefit cost	191	138
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%

The Company's expected benefit payments for the third quarter of 2006 are \$2,500 and the expected benefit payments for all of 2006 are \$7,600. The expected contribution for 2006 is estimated to be \$359,000.

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### **Item 2. Management's Discussion and Analysis or Plan of Operation**

Management's discussion and analysis of the financial condition and results of operations at and for the six months ended June 30, 2006 and 2005 is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited financial statements and the notes and tables thereto, appearing in Part I, Item 1 of this document.

#### **Forward-Looking Statements**

This quarterly report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of Chicopee Bancorp and Chicopee Savings Bank. These forward-looking statements are generally identified by use of the words believe, expect, intend, anticipate, estimate, project or similar expressions.

Chicopee Bancorp and Chicopee Savings Bank'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 Chicopee Bancorp and its subsidiary include, but are not limited to, changes in interest rates, national and regional economic conditions, legislative and 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 and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in Chicopee Bancorp and Chicopee Savings Bank's market area, changes in real estate market values in Chicopee Bancorp and Chicopee Savings Bank's market area, changes in relevant accounting principles and guidelines and inability of third party service providers to perform.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, Chicopee Bancorp does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

#### **General**

Chicopee Bancorp, a Massachusetts corporation, was formed on March 14, 2006 by Chicopee Savings Bank to become the holding company for the Bank upon completion of the Bank's conversion from a mutual savings bank to a stock savings bank. The conversion was completed on July 19, 2006. At June 30, 2006, the Company had no assets and conducted no operations, and, therefore, the information presented in this report is for the Bank.

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 June 30, 2006, we operated out of our main office and six offices in Chicopee, West Springfield and Ludlow, Massachusetts.

**Table of Contents****Comparison of Financial Condition at June 30, 2006 and December 31, 2005**

**Overview.** Total assets increased by \$47.1 million during the period from December 31, 2005 to June 30, 2006, primarily due to receipt of subscription funds, held in escrow, for the Company's public offering. Loans receivable increased \$13.9 million, or 4.4%, during the six month period ending June 30, 2006. Commercial real estate, commercial loans, construction loans and consumer loans all increased during the period. Securities decreased \$1.4 million, or 4.1%, from December 31, 2005 to June 30, 2006 due to maturities.

Deposits increased \$7.8 million, or 2.7% during the six month period ended June 30, 2006 due to a certificate of deposit promotion and new commercial checking accounts. Advances from the Federal Home Loan Bank decreased \$12.4 million, or 42.1%, due to maturities.

Accrued expenses and other liabilities increased \$56.7 million from December 31, 2005 to June 30, 2006 primarily due to the funds collected during the subscription phase of the public offering.

Total equity increased \$751,000 or 1.7% at June 30, 2006 primarily as a result of earnings.

**Loans.** Our primary lending activity is the origination of loans secured by real estate. We originate one- to four-family residential loans, commercial real estate loans and commercial business loans. To a lesser extent, we originate multi-family, construction and consumer loans.

The following table sets forth the composition of our loan portfolio at the dates indicated.

	June 30, 2006		December 31, 2005	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Residential real estate:				
One- to four-family	\$ 117,285	35.4%	\$ 121,682	38.3%
Multi-family	11,726	3.5	11,142	3.5
Commercial real estate	114,485	34.6	110,164	34.7
Total real estate mortgage loans	243,496	73.5	242,988	76.5
Construction	26,330	7.9	17,753	5.6
Commercial	39,672	12.0	38,596	12.2
Consumer:				
Home equity lines of credit	8,636	2.6	7,918	2.5
Second mortgages	9,881	3.0	7,188	2.3
Other	3,250	1.0	3,000	.9
Total consumer loans	21,767	6.6	18,106	5.7
Total loans	331,265	100.0%	317,443	100.0%
Less:				
Deferred loan fees	802		811	
Undisbursed portion of loans in process	310			
Allowance for losses	2,811		2,605	
Loans, net	\$ 329,566		\$ 315,649	

Loans, net, increased \$13.9 million, or 4.4%, to \$329.6 million at June 30, 2006, compared to \$315.6 million at December 31, 2005. The increase was primarily the result of consumer and construction loan originations.



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**Nonperforming Assets.** The following table provides information with respect to our nonperforming assets at the dates indicated. We did not have any troubled debt restructurings or any accruing loans past due 90 days or more at the dates presented.

	June 30, 2006	December 31, 2005
	(Dollars in thousands)	
<b>Nonaccrual loans:</b>		
Real-estate mortgage	\$ 264	\$ 545
Construction	0	0
Commercial	51	183
Consumer	4	8
Total non performing loans	319	736
<b>Total nonperforming assets</b>	<b>\$ 319</b>	<b>\$ 736</b>
Total nonperforming loans to total loans	0.10%	0.23%
Total nonperforming loans to total assets	0.07%	0.19%
Total nonperforming assets to total assets	0.07%	0.19%

Nonaccrual loans decreased \$417,000 to \$319,000 at June 30, 2006, compared to \$736,000 at December 31, 2005. This decrease primarily resulted from a decrease in 90 day account delinquencies.

**Securities.** Our securities portfolio consists primarily of U.S. Government and federal agency securities and collateralized mortgage obligations.

The following table sets forth the amortized cost and fair value of our securities portfolio at the dates indicated.

	June 30, 2006		December 31, 2005	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
<b>Securities available-for-sale:</b>				
Marketable equity securities	\$ 4,495	\$ 4,670	\$ 4,796	\$ 4,934
<b>Total securities available-for-sale</b>	<b>4,495</b>	<b>4,670</b>	<b>4,796</b>	<b>4,934</b>
<b>Securities held-to-maturity:</b>				
U.S. Government and federal agency	18,900	18,760	19,497	19,376
Corporate and industrial revenue bonds	2,285	2,284	2,311	2,311
Collateralized mortgage obligations	7,110	6,633	7,664	7,422
Total securities held-to-maturity	28,295	27,677	29,472	29,109
<b>Total</b>	<b>\$ 32,790</b>	<b>\$ 32,347</b>	<b>\$ 34,268</b>	<b>\$ 34,043</b>

The amortized cost of the securities available-for-sale decreased \$301,000 or 6.3% between December 31, 2005 and June 30, 2006. The amortized cost of the securities held-to-maturity decreased \$1.2 million or 4.0%, between December 31, 2005 and June 30, 2006. The downward trend in the fair value of the securities both for available-for-sale and held-to-maturity reflects the market trend overall, and the decrease in available-for-sale securities is due primarily to sales during the period.

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**Deposits.** Our primary source of funds is our deposit accounts, which are comprised of demand deposits, NOW accounts, passbook accounts, money market deposit accounts and certificates of deposits.

The following table sets forth the balances of our deposit products at the dates indicated.

	June 30, 2006		December 31, 2005	
	Amount	%	Amount	%
	(Dollars in thousands)			
Demand deposits	\$ 32,866	10.9%	\$ 27,912	9.5%
NOW accounts	16,563	5.5	18,142	6.1
Passbook accounts	45,134	14.9	46,418	15.7
Money market deposit accounts	38,931	12.9	39,625	13.4
Certificates of deposit	169,376	55.8	162,926	55.3
Total	\$ 302,870	100.0%	\$ 295,023	100.0%

Total deposits increased to \$302.9 million during the six months ended June 30, 2006, an increase of \$7.9 million, or 2.7%. During the period demand deposits increased \$5.0 million or 17.8% due to increase in business checking balances and certificates of deposit increased by \$6.5 million, or 4.0% primarily from a special deposit promotion. The increase in deposits was used to fund loan demand.

**Borrowings.** We utilize borrowings from a variety of sources to supplement our supply of funds for loans and investments. FHLB advances decreased from \$29,417 at December 31, 2005 to \$17,029 at June 30, 2006 due to the cash generated by the public offering. The following sets forth information concerning our borrowings for the period indicated.

	Six Months Ended	Twelve Months Ended
	June 30, 2006	December 31, 2005
	(Dollars in thousands)	
Maximum amount of advances outstanding at any month-end during the period:		
FHLB Advances	\$ 41,425	\$ 29,417
Securities sold under agreements to repurchase	21,294	23,571
Other borrowings	147	191
Average advances outstanding during the period:		
FHLB Advances	\$ 33,681	\$ 20,844
Securities sold under agreements to repurchase	14,215	14,847
Other borrowings	138	171
Weighted average interest rate during the period:		
FHLB Advances	4.22%	3.27%
Securities sold under agreements to repurchase	1.50	1.50
Other borrowings	7.00	7.00
Balance outstanding at end of period:		
FHLB Advances	\$ 17,029	\$ 29,417
Securities sold under agreements to repurchase	14,459	20,163
Other borrowings	128	151
Weighted average interest rate at end of period:		
FHLB Advances	3.76%	3.90%
Securities sold under agreements to repurchase	1.50	1.50
Other borrowings	7.00	7.00

**Results of Operations for the Three Months Ended June 30, 2006 and 2005**

**Overview.** Net income increased \$42,000 for the three months ended June 30, 2006 compared to the three months ended June 30, 2005, primarily due to an increase in net interest income and noninterest income, partially offset by an increase in the provision for loan losses and

non- interest expense.

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**Net Interest Income.** The following table summarizes changes in interest income and expense for the three months ended June 30, 2006 and 2005.

	Three Months Ended		
	June 30,		
	2006	2005	%
	(Dollars in thousands)		
<b>Interest and dividend income:</b>			
Loans	\$ 4,879	\$ 4,213	15.8%
Investment securities	385	277	39.0
Other interest-earning assets	152	79	92.4
<b>Total interest and dividend income</b>	<b>\$ 5,416</b>	<b>\$ 4,569</b>	<b>18.5</b>
<b>Interest Expense:</b>			
Deposits	\$ 1,804	\$ 1,472	22.6
Securities sold under agreements to repurchase	48	36	33.3
Other borrowed funds	354	146	142.5
<b>Total interest expense</b>	<b>\$ 2,206</b>	<b>\$ 1,654</b>	<b>33.4</b>
<b>Net interest income</b>	<b>\$ 3,210</b>	<b>\$ 2,915</b>	<b>10.1</b>

The following table summarizes average balances and average yield and costs for the three months ended June 30, 2006 and 2005.

	Three Months Ended June 30,					
	2006			2005		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in thousands)					
<b>Interest-earning assets:</b>						
Loans	\$ 323,023	\$ 4,879	6.06%	\$ 288,699	\$ 4,213	5.85%
Investment securities	36,669	385	4.21	32,650	277	3.40
Other interest-earnings assets	11,463	152	5.32	8,097	79	3.91
<b>Total interest-earning assets</b>	<b>\$ 371,155</b>	<b>\$ 5,416</b>	<b>5.85</b>	<b>\$ 329,446</b>	<b>\$ 4,569</b>	<b>5.56</b>
<b>Interest-bearing liabilities:</b>						
NOW accounts	\$ 16,942	\$ 13	.31	\$ 17,751	\$ 14	.32
Passbook accounts	46,782	75	.64	48,781	79	.65
Money market deposit accounts	40,889	182	1.79	38,645	153	1.59
Certificates of deposit	163,487	1,534	3.76	161,712	1,226	3.04
<b>Total interest-bearing deposits</b>	<b>268,100</b>	<b>1,804</b>	<b>2.70</b>	<b>266,889</b>	<b>1,472</b>	<b>2.21</b>
FHLB advances	32,892	352	4.29	18,414	142	3.09
Securities sold under agreement to repurchase	12,631	48	1.52	10,365	36	1.39
Other borrowings	132	2	6.08	182	3	6.61
<b>Total interest-bearing borrowings</b>	<b>45,655</b>	<b>402</b>	<b>3.53</b>	<b>28,961</b>	<b>181</b>	<b>2.51</b>

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Total interest-bearing liabilities	\$ 313,755	\$ 2,206	2.82	\$ 295,850	\$ 1,653	2.24
Net interest income		\$ 3,210			\$ 2,915	
Net interest spread (1)		3.03%			3.32%	
Net interest-earning assets (2)		\$ 57,400			\$ 33,596	
Net interest margin (3)		3.47%			3.55%	

(1) Net interest spread represents the difference between yield on total average interest-earning assets and the cost of total average interest-bearing liabilities.

(2) Net interest-earning assets less total interest-bearing liabilities.

(3) Net interest margin represents net interest income divided by total average earning assets.

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Net interest income increased \$294,000, or 10.1%, to \$3.2 million for the three months ended June 30, 2006, compared to the year earlier period primarily due to an increase in the average balance of interest-earning assets of \$41.7 million, combined with an increase in average yield on earning assets from 5.56% to 5.85%. The increase in the average balance of interest-earning assets and the average yield was primarily due the origination of commercial loans which have higher interest rates. During the same period the average balance of interest bearing liabilities increased by \$17.9 million primarily due advances from the Federal Home Loan Bank to fund the loan growth. The average cost of interest-bearing liabilities increased from 2.24% to 2.82% primarily as a result of the FHLB advances with higher interest rates due to the interest rate environment.

**Provision for Loan Losses.** The following table summarizes the activity in the allowance for loan losses provision for loan losses for the three months ended June 30, 2006 and 2005.

	Three Months Ended	
	June 30,	
	2006	2005
	(Dollars in thousands)	
Allowance at beginning of period	\$ 2,752	\$ 2,534
Provision for loan losses	110	30
<b>Charge-offs</b>		
Real estate mortgage	47	0
Construction	0	0
Commercial	5	6
Consumer	0	0
<b>Total charge-offs</b>	<b>52</b>	<b>6</b>
<b>Recoveries</b>		
Real estate mortgage	0	0
Construction	0	0
Commercial	1	2
Consumer	0	0
<b>Total recoveries</b>	<b>1</b>	<b>2</b>
<b>Net charge-offs</b>	<b>\$ 51</b>	<b>\$ 4</b>
Allowance at end of period	\$ 2,811	\$ 2,560

The provision for loan losses increased to \$110,000 in the three month period ended June 30, 2006 from \$30,000 for the year earlier period. Management assessed several factors in determining to make this level of addition to the allowance for loan losses. In particular, classified loans increased to \$8.8 million at June 30, 2006 from \$3.3 million at December 31, 2005, due primarily to the classification as special mention in June 2006 of a \$4.4 million loan relationship collateralized primarily by commercial real estate. In addition, management assessed the continued growth of the loan portfolio, particularly the increases in commercial real estate loans, consumer loans, construction loans and commercial business loans.

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.

The adequacy of 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 adequacy of 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 adequacy of the allowance for loan losses.

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**Noninterest Income.** The following table summarizes noninterest income for the three months ended June 30, 2006 and 2005.

	Three Months Ended		% Change
	2006	June 30, 2005	
	(Dollars in thousands)		
Service charges, fees and commissions	\$ 391	\$ 322	21.4%
Loan sales and servicing	44	17	158.8
Gain on securities available for sale	11	39	(71.8)
Total	\$ 446	\$ 378	18.0

During the three months ended June 30, 2006, service charges, fees and commissions increased primarily as a result of deposit volume. Loan sales and servicing increased primarily due to the capitalization of mortgage servicing rights in the 2006 period.

**Noninterest Expenses.** The following table summarizes non-interest expenses for the three months ended June 30, 2006 and 2005.

	Three Months Ended		% Change
	2006	June 30, 2005	
	(Dollars in thousands)		
Salaries and employee benefits	\$ 1,628	\$ 1,529	6.5 %
Occupancy expenses	262	229	14.4
Furniture and equipment	223	209	6.7
Data processing	163	137	19.0
Stationery, supplies and postage	85	89	(4.5)
Other noninterest expenses	628	569	10.4
Total	\$ 2,989	\$ 2,762	8.2

During the three months ended June 30, 2006, data processing expenses and occupancy expenses increased primarily as the result of deposit volume and utility costs increases respectively.

**Income Taxes.** Income tax expense for the three months ended June 30, 2006 was \$ 168,000 compared to \$154,000 for the three months ended June 30, 2005. Income taxes increased due to increase in taxable income.

**Results of Operations for the Six Months Ended June 30, 2006 and 2005**

**Overview.** Net income decreased \$14,000 for the six months ended June 30, 2006 compared to the six months ended June 30, 2005, primarily due to an increase in provision for loan loss, partially offset by an increase in net interest income and noninterest income.



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**Net Interest Income.** The following table summarizes changes in interest income and expense for the six months ended June 30, 2006 and 2005.

	Six Months Ended		
	June 30, 2006	2005	% Change
(Dollars in thousands)			
<b>Interest and dividend income:</b>			
Loans	\$ 9,576	\$ 8,257	16.0%
Investment securities	745	568	31.2
Other interest-earning assets	243	120	102.5
<b>Total interest and dividend income</b>	<b>\$ 10,564</b>	<b>\$ 8,945</b>	<b>18.1</b>
<b>Interest Expense:</b>			
Deposits	\$ 3,466	\$ 2,747	26.2
Securities sold under agreements to repurchase	110	74	48.7
Other borrowed funds	712	265	168.7
<b>Total interest expense</b>	<b>\$ 4,288</b>	<b>\$ 3,086</b>	<b>39.0</b>
<b>Net interest income</b>	<b>\$ 6,276</b>	<b>\$ 5,859</b>	<b>7.1</b>

The following table summarizes average balances and average yield and costs for the six months ended June 30, 2006 and 2005.

	Six Months Ended June 30,					
	2006			2005		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
(Dollars in thousands)						
<b>Interest-earning assets:</b>						
Loans	\$ 322,289	\$ 9,576	5.99%	\$ 291,235	\$ 8,257	5.72%
Investment securities	37,134	745	4.05	32,650	568	3.51
Other interest-earnings assets	9,109	243	5.38	8,097	120	2.99
<b>Total interest-earning assets</b>	<b>\$ 368,532</b>	<b>\$ 10,564</b>	<b>5.78</b>	<b>\$ 331,982</b>	<b>\$ 8,945</b>	<b>5.43</b>
<b>Interest-bearing liabilities:</b>						
NOW accounts	\$ 16,899	\$ 25	.30%	\$ 18,195	\$ 30	.33%
Passbook accounts	45,920	149	.65	49,211	158	.65
Money market deposit accounts	40,048	335	1.69	39,407	278	1.42
Certificates of deposit	164,151	2,957	3.63	154,569	2,281	2.98
<b>Total interest-bearing deposits</b>	<b>267,018</b>	<b>3,466</b>	<b>2.62</b>	<b>261,382</b>	<b>2,747</b>	<b>2.12</b>
FHLB advances	33,789	707	4.22	18,414	258	2.83
Securities sold under agreement to repurchase	14,331	110	1.50	10,365	74	1.50
Other borrowings	138	5	7.00	182	7	7.00

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Total interest-bearing borrowings	48,258	822	3.43	28,961	339	2.36
Total interest-bearing liabilities	\$ 315,276	\$ 4,288	2.74	\$ 290,343	\$ 3,086	2.14
Net interest income		\$ 6,276			\$ 5,859	
Net interest spread (1)		3.04%			3.29%	
Net interest-earning assets (2)		\$ 53,257			\$ 41,639	
Net interest margin (3)		3.43%			3.56%	

(1) Net interest spread represents the difference between yield on total average interest-earning assets and the cost of total average interest-bearing liabilities.

(2) Net interest-earning assets less total interest-bearing liabilities.

(3) Net interest margin represents net interest income divided by total average interest-earning assets.

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Net interest income increased \$417,000, or 7.1%, to \$6.3 million for the six months ended June 30, 2006, compared to the year earlier period primarily due to an increase in the average balance of interest-earning assets of \$36.6 million, combined with an increase in average yield on earning assets from 5.43 % to 5.78%. The increase in the average balance of interest-earning assets was primarily due to loan volume and the stock offering. The increase in the average yield was primarily the result of increase in market interest rates. During the same period the average balance of interest bearing liabilities increased by \$24.9 million primarily due to an increase of \$15.4 million in Federal Home Loan Bank advances and an increase of \$9.6 million in certificates of deposits. The average cost of interest bearing liabilities increased from 2.14% to 2.74% primarily as a result of market interest rates and a deposit shift to higher yielding accounts.

**Provision for Loan Losses.** The following table summarizes the activity in the allowance for loan losses provision for loan losses for the six months ended June 30, 2006 and 2005.

	Six Months Ended	
	June 30,	
	2006	2005
	(Dollars in thousands)	
Allowance at beginning of period	\$ 2,605	\$ 2,512
Provision for loan losses	260	60
Charge-offs		
Real estate mortgage	47	0
Construction	0	0
Commercial	5	6
Consumer	3	11
Total charge-offs	55	17
Recoveries		
Real estate mortgage	0	0
Construction	0	0
Commercial	1	0
Consumer	0	3
Total recoveries	1	3
Net charge-offs	\$ 54	\$ 14
Allowance at end of period	\$ 2,811	\$ 2,558

The provision for loan losses increased to \$260,000 in the six month period ended June 30, 2006 from \$60,000 for the year earlier period. Management assessed several factors in determining to make this level of addition to the allowance for loan losses. In particular, classified loans increased to \$8.2 million at June 30, 2006 from \$3.3 million at December 31, 2005, due primarily to the classification as special mention during the 2006 period of a \$4.4 million loan relationship collateralized primarily by commercial real estate. 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.

**Noninterest Income.** The following table summarizes noninterest income for the six months ended June 30, 2006 and 2005.

	Six Months Ended		
	June 30,		% Change
	2006	2005	
	(Dollars in thousands)		
Service charges, fees and commissions	\$ 781	\$ 657	18.9%

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Loan sales and servicing	117	27	333.3
Gain on securities available for sale	18	90	(80.0)
Total	\$ 916	\$ 774	18.4

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During the six months ended June 30, 2006, compared to the same period a year ago service charges, fees and commissions increased \$124,000 or 18.9% as a result of investment service commission and income from service charges on deposits as a result of increased deposit volume. Loan sales and servicing increased primarily due to the capitalization of mortgage servicing rights in the 2006 period.

**Noninterest Expenses.** The following table summarizes non-interest expenses for the six months ended June 30, 2006 and 2005.

	Six Months Ended		
	June 30,		% Change
	2006	2005	
	(Dollars in thousands)		
Salaries and employee benefits	\$ 3,228	\$ 3,018	7.0 %
Occupancy expenses	541	488	10.9
Furniture and equipment	441	433	1.9
Data processing	343	273	25.6
Stationery, supplies and postage	161	180	(10.6)
Other noninterest expenses	1,171	1,102	6.3
<b>Total</b>	<b>\$ 5,885</b>	<b>\$ 5,494</b>	<b>7.1</b>

During the six months ended June 30, 2006, salaries and employee benefits and occupancy expenses increased as a result of additional staff hired to assist in the public offering and the increase in data processing cost of \$70,000 or 26% for the same period due to an increase in volume processing and a vendor price increase. The occupancy cost increase of \$53,000 for the six months ended June 30, 2006 from the same period 2005, resulted mainly from an increase in utility costs.

**Income Taxes.** Income tax expense for the six months ended June 30, 2006 was \$320,000 compared to \$338,000 for the six months ended June 30, 2005. The slight decrease of \$18,000 resulted from a decrease in pretax income of \$32,000.

**Liquidity and Capital Management**

**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 June 30, 2006, cash and cash equivalents totaled \$51.2 million. Securities classified as available for sale whose market value exceeds our cost, which provide additional sources of liquidity, totaled \$2.4 million at June 30, 2006. Total securities classified as available for sale were \$4.7 million at June 30, 2006. In addition, at June 30, 2006, we had the ability to borrow a total of approximately \$72.2 million from the Federal Home Loan Bank of Boston. On June 30, 2006, we had \$17 million of borrowings outstanding. Based on the current level of liquidity we do not anticipate any future FHLB borrowings at this time.

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At June 30, 2006, we had \$45.4 million in loan commitments outstanding, which consisted of \$8.2 million of mortgage loan commitments, \$10.2 million in unadvanced construction loan commitments, \$7.8 million in unused home equity lines of credit and \$19.2 million in commercial lines of credit. Certificates of deposit due within one year of June 30, 2006 totaled \$101.2 million, or 60%, of our certificates of deposit. If these maturing deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before June 30, 2006. 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.** As a mutual savings bank, we have managed our capital to maintain strong protection for depositors and creditors. 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 June 30, 2006, we exceeded all of our regulatory capital requirements. We are considered well capitalized under regulatory guidelines.

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.

**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 period ended June 30, 2006 and June 30, 2005, 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.

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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 Trustees 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 Trustees 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 Trustees of the Bank on a quarterly basis. Changes to these assumptions can significantly affect the results of the simulation. The simulation incorporates assumptions regarding the potential timing in the repricing of certain assets and liabilities when market rates change and the changes in spreads between different market rates. The simulation analysis incorporates management's current assessment of the risk that pricing margins will change adversely over time due to competition or other factors.

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

The table below sets forth an approximation of our exposure as a percentage of estimated net interest income for the next 12 month period using interest income simulation. The simulation uses projected repricing of assets and liabilities at June 30, 2006 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 June 30, 2006 through June 30, 2007.

Increase (Decrease)	Net Interest Income		
in Market Interest			
Rates (Rate Shock)	\$ Amount	\$ Change	% Change
(Dollars in thousands)			
300bp	\$ 17,738	\$ 1,427	8.7%
200	16,870	559	3.4
100	16,926	126	0.8
0	16,311		
(100)	16,425	(114)	(0.7)
(200)	16,013	(298)	(1.8)

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

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**Item 4. Controls and Procedures**

(a) Disclosure 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.

(b) Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are 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**

Chicopee Bancorp 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 its financial condition and results of operations.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the Risk Factors section in the Company's prospectus filed with the Securities and Exchange Commission on May 22, 2006, which could materially affect our business, financial condition or future results. The risks described in the prospectus 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**

Not applicable.

**Item 3. Defaults upon Senior Securities**

Not applicable.

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

Not applicable.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

Articles of Organization of Chicopee Bancorp, Inc. (1)

- 3.1 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 by reference into this document from the Exhibits filed with the Securities and Exchange Commission on the 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**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHICOPEE BANCORP, INC.

Dated: August 10, 2006

By: /s/ William J. Wagner

William J. Wagner  
President and Chief Executive Officer  
(principal executive officer)

Dated: August 10, 2006

By: /s/ W. Guy Ormsby  
W. Guy Ormsby  
Executive Vice President, Chief Financial Officer and Treasurer  
(principal financial and chief accounting officer)