UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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	**20-4840562**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
70 Center Street, Chicopee, Massachusetts	**01013**

(Address of principal executive offices) **(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 x No ¨

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 x

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

As of October 31, 2007, there were 7,439,368 shares of the Registrant s Common Stock outstanding.

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CHICOPEE BANCORP, INC.

FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars In Thousands)

	September 30, 2007 (Unaudited)	December 31, 2006
Assets		
Cash and due from banks	$ 7,986	$ 8,816
Short-term investments	3,058	1,132
Federal funds sold	8,647	1,580
Total cash and cash equivalents	19,691	11,528
Securities available-for-sale, at fair value	8,328	7,861
Securities held-to-maturity, at cost (fair value $35,629 and $37,099 at September 30, 2007 and December 31, 2006, respectively)	35,890	37,411
Federal Home Loan Bank stock, at cost	1,583	1,574
Loans, net of allowance for loan losses ($3,079 at September 30, 2007 and $2,908 at December 31, 2006)	375,137	368,968
Cash surrender value of life insurance	11,556	11,200
Premises and equipment, net	6,819	7,003
Accrued interest and dividend receivable	2,088	1,901
Deferred income tax asset	1,596	1,538
Other assets	951	1,061
Total assets	$ 463,639	$ 450,045
Liabilities and Stockholders Equity		
Deposits		
Non-interest-bearing	$ 29,409	$ 29,088
Interest-bearing	294,693	282,483
Total deposits	324,102	311,571
Securities sold under agreements to repurchase	17,937	12,712
Advances from Federal Home Loan Bank	13,446	15,256
Mortgagors escrow accounts	1,405	997
Accrued expenses and other liabilities	936	1,063
Total liabilities	357,826	341,599
Stockholders equity		
Common stock (no par value, 20,000,000 shares authorized, 7,439,368 shares issued at September 30, 2007 and December 31, 2006)	72,479	72,479
Treasury stock, at cost (25,000 shares at September 30, 2007 and no shares at December 31, 2006)	(347)	
Additional paid-in-capital	401	144
Unearned compensation (restricted stock awards)	(4,152)	

Unearned compensation (Employee Stock Ownership Plan)	(5,431)	(5,654)
Retained earnings	42,310	40,817
Accumulated other comprehensive income	553	660
Total stockholders equity	105,813	108,446
Total liabilities and stockholders equity	$ 463,639	$ 450,045

See accompanying notes to unaudited consolidated financial statements.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except for Number of Shares and Per Share Amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Interest and dividend income:				
Loans, including fees	$ 5,926	$ 5,130	$ 17,542	$ 14,706
Interest and dividends on securities	500	536	1,475	1,281
Other interest-earning assets	126	296	532	539
Total interest and dividend income	6,552	5,962	19,549	16,526
Interest expense:				
Deposits	2,778	2,033	8,130	5,499
Securities sold under agreements to repurchase	93	86	242	196
Other borrowed funds	139	165	430	877
Total interest expense	3,010	2,284	8,802	6,572
Net interest income	3,542	3,678	10,747	9,954
Provision for loan losses		75	214	335
Net interest income, after provision for loan losses	3,542	3,603	10,533	9,619
Non-interest income:				
Service charges, fees and commissions	446	365	1,378	1,146
Loan sales and servicing, net of amortization	(2)	2	(4)	119
Net gain on sales of securities available-for-sale	126	13	714	31
Total non-interest income	570	380	2,088	1,296
Non-interest expenses:				
Salaries and employee benefits	2,250	1,757	6,044	4,985
Occupancy expenses	227	266	777	807
Furniture and equipment	241	231	707	672
Data processing	189	184	553	527
Stationery, supplies and postage	78	75	256	236
Charitable foundation contributions		5,511		5,511
Other non-interest expense	679	647	2,078	1,818
Total non-interest expenses	3,664	8,671	10,415	14,556
Income (loss) before income taxes	448	(4,688)	2,206	(3,641)
Income tax expense (benefit)	100	(1,057)	713	(737)
Net income (loss)	$ 348	($ 3,631)	$ 1,493	($ 2,904)

Earnings per share:							
Basic	$	0.05	NA	$	0.23		NA
Diluted	$	0.05	NA	$	0.23		NA
Adjusted weighted average shares outstanding:							
Basic		6,573,685	NA		6,575,486		NA
Diluted		6,577,656	NA		6,580,718		NA

NA- Not Applicable

See accompanying notes to unaudited consolidated financial statements.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Nine Months Ended September 30, 2007 and 2006

(Dollars In Thousands)

(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Unearned Compensation (restricted stock awards)	Unearned Compensation (ESOP)	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						1,493		1,493
Change in net unrealized gain on securities available-for-sale, net of tax							(107)	(107)
Total comprehensive income								1,386
Purchase of common stock for funding of restricted stock awards				(4,365)				(4,365)
Treasury stock purchased (25,000 shares)		(347)						(347)
Change in unearned compensation			257	213	223			693
Balance at September 30, 2007	$ 72,479	$ (347)	$ 401	$ (4,152)	$ (5,431)	$ 42,310	$ 553	$ 105,813
Balance at December 31, 2005	$	$	$	$	$	$ 43,351	$ 90	$ 43,441
Comprehensive loss:								
Net loss						(2,904)		(2,904)
Change in net unrealized gain on securities available-for-sale, net of tax							256	256
Total comprehensive loss								(2,648)
Issuance of common stock for initial public offering net of expenses of $1,900	66,968							66,968
Issuance of common stock to Chicopee Savings Bank Charitable Foundation	5,511							5,511
Stock purchased for ESOP					(5,951)			(5,951)
Change in unearned compensation			68		148			216
Balance at September 30, 2006	$ 72,479	$	$ 68	$	$ (5,803)	$ 40,447	$ 346	$ 107,537

See accompanying notes to unaudited consolidated financial statements.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2007	2006
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 1,493	($ 2,904)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	589	542
Provision for impairment loss in investments		50
Provision for loan losses	214	335
Increase in cash surrender value of life insurance	(356)	(297)
Realized gains on investment securities, net	(714)	(31)
Realized losses on disposal of property and equipment	4	
Net gains on sales of loans and other real estate owned		(14)
Deferred income taxes		(1,274)
Decrease in other assets	113	377
Increase in accrued interest receivable	(188)	(391)
Decrease in other liabilities	(126)	(651)
Change in unearned compensation	693	216
Net cash provided (used) by operating activities	1,722	(4,042)
Cash flows from investing activities:		
Additions to premises and equipment	(374)	(600)
Loan originations and principal collections, net	(6,383)	(27,035)
Proceeds from sales of securities available-for-sale	4,094	5,304
Purchases of securities available-for-sale	(4,021)	(6,192)
Purchases of securities held-to-maturity	(65,588)	(54,210)
Maturities of securities held-to-maturity	67,073	50,964
Net cash used by investing activities	(5,199)	(31,769)
Cash flows from financing activities:		
Net increase in deposits	12,530	7,035
Net increase (decrease) in securities sold under agreements to repurchase	5,225	(3,039)
Payments on long-term FHLB advances	(1,811)	(2,910)
Net decrease in other short-term borrowings		(10,520)
Issuance of common stock for the initial public offering, net of expenses		72,479
Stock purchased for ESOP		(5,951)
Stock purchased for treasury	(347)	
Stock purchased for restricted stock awards	(4,365)	
Net decrease in escrow funds held	408	376
Net cash provided by financing activities	11,640	57,470
Net increase in cash and cash equivalents	8,163	21,659
Cash and cash equivalents at beginning of period	11,528	17,586

Cash and cash equivalents at end of period	$	19,691	$	39,245
Supplemental cash flow information:				
Interest paid on deposits	$	8,130	$	5,499
Interest paid on borrowings		672		1,073
Income taxes paid		815		857

See accompanying notes to unaudited consolidated financial statements.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

At and for the Nine Months Ended September 30, 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 s conversion from a mutual savings bank to a stock savings bank. The conversion of the Bank was completed on July 19, 2006. The accounts of the Bank include both of its wholly-owned subsidiaries. The Consolidated Financial Statements of the Company as of September 30, 2007 and for the periods ended September 30, 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 Annual Report on Form 10-K.

The results for the three and nine months 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 adjusted weighted-average number of common shares outstanding during the period. The adjusted outstanding common shares equals the gross number of common shares issued less treasury shares, unallocated shares of the Chicopee Savings Bank Employee Stock Ownership Plan (ESOP) and nonvested restricted stock awards under the 2007 Equity Incentive Plan. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares to be issued include any shares in a stock-based compensation plan.

As of June 30, 2007, the Company had an approved stock-based compensation plan which had no options outstanding. On July 26, 2007, the Company granted stock options and stock awards under the Company s 2007 Equity Incentive Plan. The total number of options granted under the plan is 743,936, at a fair value of $3.92 per option. The exercise price of each stock option is equivalent to the fair value of the stock at the date of grant of $14.29 per share. The total number of awards granted under the plan are 297,574 at a fair value of $14.29 per share. All options and awards will be expensed over their vesting period of 5 years.

Earnings per common share are not presented for the September 30, 2006 period as the Company s initial public offering was completed on July 19, 2006; therefore, per share results would not be meaningful.

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Earnings per share is computed as follows:

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Net income (loss) (in thousands)	$ 348	($ 3,631)	$ 1,493	($ 2,904)
Weighted average number of common shares issued	7,439,368	7,439,368	7,439,368	7,439,368
Less: average number of treasury shares	(2,717)		(916)	
Less: average number of unallocated ESOP shares	(565,392)	(595,149)	(565,392)	(595,149)
Less: average number of nonvested restricted stock awards	(297,574)		(297,574)	
Adjusted weighted average number of common shares outstanding	6,573,685	6,844,219	6,575,486	6,844,219
Plus: dilutive nonvested restricted stock awards	3,971		5,232	
Weighted average number of diluted shares outstanding	6,577,656	6,844,219	6,580,718	6,844,219
Net income per share:				
Basic	$ 0.05	NA	$ 0.23	NA
Diluted	$ 0.05	NA	$ 0.23	NA

NA- Not applicable

There were 743,936 stock options that were not included in the diluted earnings per share for the three and nine months ended September 30, 2007 because their effect is anti-dilutive.

3. Equity Incentive Plan

Stock Options

Under the Company s 2007 Equity Incentive Plan the Company may grant options to directors, officers and employees for up to 743,936 shares of common stock. Both incentive stock options and non-qualified stock options may be granted under the Plan. The exercise price for each option is equal to the market price of the Company s stock on the date of grant and the maximum term of each option is ten years. The vesting period is five years from the date of grant.

The Company recognizes compensation expense over the vesting period, based on the grant-date fair value of the options granted. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Nine Months Ended September 30, 2007
Expected dividend yield	2.00%
Expected term	6.5 years
Expected volatility	23.00%
Risk-free interest rate	5.08%

The expected volatility is based on historical volatility of a peer group of similar entities. The risk-free interest rate for the periods within the contractual life of the awards is based on the U.S. Treasury yield in effect at the time of grant. The expected life of 6.5 years is based on the simplified method calculations allowed for plain-vanilla share options granted prior to December 31, 2007. The dividend yield assumption is based on the Company s expectation of dividend payouts.

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A summary of options under the Plan as of September 30, 2007, and changes during the nine months ended September 30, 2007, is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2006		$		
Granted	743,936	14.29	9.80	
Exercised				
Forfeited or expired				
Outstanding at September 30, 2007	743,936	$ 14.29	9.80	$
Exercisable at September 30, 2007		$		$

The weighted-average grant-date fair value of options granted during the third quarter 2007 was $3.92. For the quarter ended September 30, 2007, share based compensation expense applicable to the plan was $146,000 and the related tax benefit was $50,000. No options vested during the nine months ended September 30, 2007 and no options were granted prior to July 1, 2007. As of September 30, 2007, unrecognized stock-based compensation expense related to nonvested options amounted to $2.8 million. This amount is expected to be recognized over a period of 4.75 years.

Stock Awards

Under the Company s 2007 Equity Incentive Plan, approved by the Company s stockholders at the annual meeting of Company stockholders on May 30, 2007, the Company may grant stock awards to its directors, officers and employees for up to 297,574 shares of common stock. The stock awards vest 20% per year. The fair market value of the stock awards, based on the market price at the date of grant, is recorded as unearned compensation. Unearned compensation is amortized over the applicable vesting period. The Company recorded compensation cost related to stock awards of approximately $213,000 and $72,000 of related tax benefit in the third quarter 2007. No stock awards were granted prior to July 1, 2007. As of September 30, 2007, unrecognized stock-based compensation expense related to nonvested restricted stock awards is expected to be recognized over a period of 4.75 years.

A summary of the status of the Company s stock awards as of September 30, 2007, and changes during the nine months ended September 30, 2007, is as follows:

Nonvested Shares	Shares	Weighted Average Grant-Date Fair Value
Balance at beginning at December 31, 2006		$
Granted	297,574	14.29
Vested		
Forfeited		
Balance at September 30, 2007	297,574	$ 14.29

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4. 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 December 31, 2005 income tax return was audited and there were no changes. 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 nine month period ended September 30, 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 September, 2006 FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement will be effective January 1, 2008 and early application is encouraged. This Statement does not require any new fair value measurements and the Company does not expect application of this Statement will have a material effect on its financial condition and results of operations.

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.

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5. 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 operations, 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 (loss) is comprised of the following:

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006
	(Dollars In Thousands)	
Net income (loss)	$ 348	$ (3,631)
Other comprehensive income (loss), net of tax:		
Unrealized holding gains on available-for-sale securities arising during the period	98	370
Reclassification adjustment for gain on sale of available-for-sale securities included in net income	(126)	(13)
Tax effect	10	(125)
Other comprehensive income (loss), net of tax	(18)	232
Total comprehensive income (loss)	$ 330	$ (3,399)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
	(Dollars In Thousands)	
Net income (loss)	$ 1,493	$ (2,904)
Other comprehensive income (loss), net of tax:		
Unrealized holding gains on available-for-sale securities arising during the period	549	425
Reclassification adjustment for gain on sale of available-for-sale securities included in net income	(714)	(31)
Tax effect	58	(138)
Other comprehensive income (loss), net of tax	(107)	256
Total comprehensive income (loss)	$ 1,386	$ (2,648)

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6. Defined Benefit Pension Plan

Prior to January 31, 2007, the Company sponsored a noncontributory defined benefit plan through its membership in the Savings Bank Employees Retirement Association (SBERA).

As of January 31, 2007, the Company terminated the Pension Plan. As of September 30, 2007, the Bank had an accrued liability of $781,000 which will be equitably distributed to all eligible employees who were active when the plan terminated.

The components of the net periodic benefit cost are:

	Three Months Ended September 30,	
	2007	2006
	(Dollars In Thousands)	
Service cost	$	$ 89
Interest cost	72	90
Amortization of transition obligation		1
Expected return on assets	(72)	(93)
Recognized net actuarial loss		8
Net periodic benefit cost	$	$ 95
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%

	Nine Months Ended September 30,	
	2007	2006
	(Dollars In Thousands)	
Service cost	$	$ 268
Interest cost	215	271
Amortization of transition obligation		2
Expected return on assets	(215)	(279)
Recognized net actuarial loss		25
Net periodic benefit cost	$	$ 287
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%

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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 and nine months ended September 30, 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 September 30, 2007, we operated out of our main office and six offices in Chicopee, West Springfield and Ludlow, Massachusetts.

Comparison of Financial Condition at September 30, 2007 and December 31, 2006

The Company s assets grew $13.6 million, or 3.0%, to $463.6 million at September 30, 2007 as compared to $450.0 million at December 31, 2006, primarily as a result of an increase in federal funds sold of $7.1 million as well as an increase in loans of $6.2 million. The increase in federal funds sold was primarily due to an increase in deposits of $12.5 million partially offset by the loan growth. Total net loans increased to $375.1 million from $369.0 million as of December 31, 2006, with one-to-four family loans increasing $6.2 million, or 4.3%, and consumer loans increasing $2.2 million, or 8.9%, which was offset by decreases in commercial real estate loans of $1.2 million or 1.2% and commercial loans of $1.5 million or 3.2%.

The balance sheet expansion was funded primarily by an increase in deposits of $12.5 million. Core deposits, which exclude certificates of deposit, increased $3.5 million, or 3.0%, to $123.5 million at September 30, 2007 from $120.0 million at December 31, 2006 largely as a result of competitive deposit pricing. Borrowings decreased $1.8 million, or 11.9%, to $13.4 million at September 30, 2007 due to principal payments. Certificates of deposit balances grew $9.0 million, or 4.0%, to $200.6 million at September 30, 2007 principally from special promotions.

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Total stockholders equity decreased $2.6 million, or 2.4%, to $105.8 million at September 30, 2007 from December 31, 2006, resulting mainly from the purchase of 297,574 shares of the Company s common stock to fund the trust which will be used to fund restricted stock awards under the Company s 2007 Equity Incentive Plan, at a cost of $4.4 million as well as the purchase of 25,000 shares of the Company s common stock through the Company s stock repurchase program, at a cost of $347,000. Partially offsetting the decrease was net income during the period.

Lending Activities

At September 30, 2007, the Company s net loan portfolio was $375.1 million, or 80.9% 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.

	September 30, 2007		December 31, 2006	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars In Thousands)			
Real estate loans:				
One- to four-family	$ 150,165	39.8%	$ 143,964	38.8%
Multi-family	11,279	3.0%	11,447	3.1%
Commercial	101,631	26.9%	102,819	27.7%
Construction	42,144	11.2%	41,713	11.2%
Total real estate loans	305,219	80.9%	299,943	80.8%
Consumer loans:				
Home equity	6,616	1.8%	7,766	2.1%
Second mortgages	16,086	4.3%	13,386	3.6%
Other	4,202	1.1%	3,555	1.0%
Total consumer loans	26,904	7.2%	24,707	6.7%
Commercial loans	44,885	11.9%	46,348	12.5%
Total loans	377,008	100.0%	370,998	100.0%
Undisbursed portion of loans in process	328		21	
Net deferred loan origination costs	880		857	
Allowance for loan losses	(3,079)		(2,908)	
Loans, net	$ 375,137		$ 368,968	

The Company s net loan portfolio increased $6.2 million, or 1.7%, during the first nine months of 2007 primarily due to strong real estate lending.

Non-performing Assets

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

	2007	2006
	(Dollars In Thousands)	
Nonaccrual loans:		
Real estate mortgage	$ 493	$ 1,460
Construction	1,734	
Commercial	35	243
Consumer	86	8
Total	2,348	1,711
Real estate owned, net		
Total nonperforming assets	$ 2,348	$ 1,711
Total nonperforming loans as a percentage of total loans (1) (2)	0.62%	0.46%
Total nonperforming assets as a percentage of total assets (2)	0.51%	0.38%

(1) Total loans includes loans, plus unadvanced loan funds in process, plus net deferred loan costs.

(2) 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 loss experience 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 Nine Months Ended September 30,	
	2007	2006
	(Dollars In Thousands)	
Allowance for loan losses, beginning of period	$ 2,908	$ 2,605
Charged-off loans:		
Real estate	24	47
Commercial	3	77
Consumer	18	3
Total charged-off loans	45	127
Recoveries on loans previously charged-off:		
Real estate		
Commercial	2	1
Consumer		
Total recoveries	2	1
Net loan charge-offs	43	126
Provision for loan losses	214	335
Allowance for loan losses, end of period	$ 3,079	$ 2,814
Net loan charge-offs to average loans, net	0.02%	0.05%
Allowance for loan losses to total loans (1)	0.81%	0.82%
Allowance for loan losses to nonperforming loans (2)	131.13%	409.01%
Recoveries to charge-offs	4.44%	0.79%

(1) Total loans includes loans, plus unadvanced loan funds in process, 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.

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Investment Activities

At September 30, 2007, the Company s investment securities portfolio amounted to $44.2 million, or 9.5% 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.

	September 30, 2007		December 31, 2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Securities available-for-sale:				
Marketable equity securities	$ 7,479	$ 8,328	$ 6,847	$ 7,861
Total equity securities	7,479	8,328	6,847	7,861
Securities held-to-maturity:				
Debt securities of government sponsored enterprises	24,833	24,833	28,924	28,891
Corporate and industrial revenue bonds	4,520	4,520	1,710	1,710
Collateralized mortgage obligations	6,537	6,276	6,777	6,498
Total securities held-to-maturity	35,890	35,629	37,411	37,099
Total	$ 43,369	$ 43,957	$ 44,258	$ 44,960

(1) Does not include investments in FHLB-Boston stock totaling $1.6 million at September 30, 2007 and December 31, 2006.

Fair market value of securities available-for-sale increased $467,000, or 5.9%, to $8.3 million at September 30, 2007 primarily due to favorable market conditions. Held-to-maturity securities decreased $1.5 million or 4.1% to $35.9 million due to maturities of held-to-maturity securities.

Deposits

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

	September 30, 2007		December 31, 2006	
	Balance	Percent of Total Deposits	Balance	Percent of Total Deposits
	(Dollars In Thousands)			
Demand deposits	$ 29,409	9.07%	$ 29,088	9.33%
NOW accounts	14,798	4.57%	16,350	5.25%
Passbook accounts	40,787	12.59%	40,467	12.99%
Money market deposit accounts	38,548	11.89%	34,083	10.94%
Certificates of deposit	200,560	61.88%	191,583	61.49%
Total deposits	$ 324,102	100.00%	$ 311,571	100.00%