

CHICOPEE BANCORP, INC.

Form 10-K

March 13, 2009

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended December 31, 2008

OR

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

Commission File Number: 000-51996

**CHICOPEE BANCORP, INC.**

(Exact name of registrant as specified in its charter)

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

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

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

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

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

None

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12(b)-2 of the Exchange Act). YES  NO

On June 30, 2008, the aggregate market value of the voting and non-voting common equity held by non-affiliates was \$81,888,977.

The number of shares of Common Stock outstanding as of March 4, 2009 is 6,461,753.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2009 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K.

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**PART I**

**Item 1. Business.**  
**General**

Chicopee Bancorp, Inc. (the Company or Chicopee Bancorp ), a Massachusetts corporation, was formed on March 14, 2006 by Chicopee Savings Bank (the Bank or 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 and the Company's initial public offering. The conversion and the offering were completed on July 19, 2006.

The Bank, a Massachusetts stock savings bank, was organized in 1845 under the name Cabot Savings Bank and adopted its present name in 1854. The Bank's principal business consists of the acceptance of retail deposits from the general public and the investment of those deposits, together with funds generated from borrowings, retail operations, investment management and insurance services, into a broad line of lending products including one- to four-family, multi-family, commercial real estate, commercial business, construction and development and consumer loans, including home equity lines of credit and automobile loans. The Bank generally originates loans for investment. The Bank also purchases one- to four-family residential loans from time to time and invests in mortgage-backed securities and other permissible investments. The Bank's revenues are derived from the generation of interest and fees on loans, interest and dividends on investment securities and fees from its retail banking operation, and investment management. The Bank's primary sources of funds are deposits, principal and interest payments on loans and investments, advances from the Federal Home Loan Bank (the FHLB ) and proceeds from loan sales.

**Available Information**

The Company's website is [www.chicopeesavings.com](http://www.chicopeesavings.com). The Company makes available free of charge, on or through its website, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission. Information on the Company's website shall not be considered part of this Form 10-K.

**Market Area**

The Company is headquartered in Chicopee, Massachusetts. The Company's primary lending and deposit market areas include Hampden and Hampshire Counties in western Massachusetts. The city of Chicopee is a largely urban city and is located in the Pioneer Valley near the intersection of U.S. Interstates 90 (the Massachusetts Turnpike) and 91. Interstate 90 is the major east-west highway that crosses Massachusetts. Interstate 91 is the major north-south highway that runs directly through the heart of New England. Chicopee is located approximately 90 miles west of Boston, Massachusetts, 80 miles southeast of Albany, New York and 30 miles north of Hartford, Connecticut. Located in the region known as New England's knowledge corridor, the Bank benefits from a concentration of more than 120,000 students at 32 higher education institutions. Additional economic support is gained from the presence of large employers such as Westover Air Reserve Base, Bay State Health Systems, the University of Massachusetts at Amherst, Big Y Supermarkets, MassMutual Financial Group, Top-Flite Golf Company, and Dow Jones & Co. Other economic activity is provided by the social service agencies and significant tourist attractions such as the Basketball Hall of Fame and Six Flags New England.

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### **Competition**

We face significant competition for the attraction of deposits and origination of loans. Our most direct competition for deposits has historically come from the several financial institutions and credit unions operating in our market area and, to a lesser extent, from other financial service companies such as brokerage firms and insurance companies. We also face competition for investors' funds from money market funds, mutual funds and other corporate and government securities. At June 30, 2008, which is the most recent date for which data is available from the Federal Deposit Insurance Corporation, we held approximately 4.30% of the deposits in Hampden County, which was the 8<sup>th</sup> largest market share out of the 21 banks and thrifts with offices in Hampden County. This data does not include deposits held by one of our primary competitors, credit unions, which, as tax-exempt organizations, are able to offer higher rates on deposits than banks. There are also 18 credit unions headquartered in Hampden County, some of the larger of which are headquartered in Chicopee, Massachusetts. In addition, banks owned by large super-regional bank holding companies such as Bank of America Corporation, Sovereign Bancorp, Inc., Citizens Financial Group and TD Banknorth, Inc. also operate in our market area. These institutions are significantly larger than us and, therefore, have greater resources.

Our competition for loans comes primarily from financial institutions in our market areas, and, to a lesser extent, from other financial service providers such as mortgage companies and mortgage brokers. Competition for loans also comes from the increasing number of non-depository financial service companies entering the mortgage market such as insurance companies, securities companies and specialty finance companies.

We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Technological advances, for example, have lowered the barriers to market entry, allowed banks and other lenders to expand their geographic reach by providing services over the Internet and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. Changes in federal laws permit affiliation among banks, securities firms and insurance companies, which promotes a competitive environment in the financial services industry. Competition for deposits and the origination of loans could limit our future growth.

### **Lending Activities**

**General.** The largest segment of our loan portfolio is one- to four-family residential real estate loans. The other significant segments of our loan portfolio are commercial real estate loans, multi-family loans, construction loans, commercial business loans and consumer loans. We originate loans primarily for investment purposes.

**One- to Four-Family Loans.** At December 31, 2008 approximately 39.4% of our loans were mortgage loans to enable borrowers to purchase or refinance existing homes, most of which serve as the primary residence of the owner. We offer fixed-rate and adjustable-rate loans with terms up to 30 years. Borrower demand for adjustable-rate loans versus fixed-rate loans is a function of the level of interest rates, the expectations of changes in the level of interest rates, and the difference between the interest rates and loan fees offered for fixed-rate mortgage loans and the initial period interest rates and loan fees for adjustable-rate loans. The relative amount of fixed-rate mortgage loans and adjustable-rate mortgage loans that can be originated at any time is largely determined by the demand for each in a competitive environment. The loan fees, interest rates and other provisions of mortgage loans are determined by the demand for each in a competitive environment.

We offer fixed-rate one- to four-family loans with terms between 10 and 30 years. Management establishes the loan interest rates based on market conditions. Interest rates and payments on our adjustable-rate mortgage loans generally adjust annually after an initial fixed period that ranges from one to 10 years. Interest rates and payments on our adjustable-rate loans generally are adjusted to a rate typically equal to 2.75 percentage points above the one-year constant maturity Treasury index. The maximum amount by which the interest rate on our adjustable-rate mortgage loans may be increased or decreased is generally 2 percentage points per adjustment period and the lifetime interest rate cap is generally 6 percentage points over the initial interest rate of the loan. We also offer adjustable-rate mortgage loans that adjust every three years after an initial three-year fixed period and adjustable-rate mortgage loans that adjust every five years after an initial six-year fixed period. Interest rates and payments on these adjustable-rate loans generally are adjusted to a rate typically equal to 2.75% and 2.50% above the three- and five-year constant maturity Treasury index, respectively.

Adjustable rate mortgage loans help decrease the risk associated with changes in market interest rates by periodically repricing. However, upward adjustment of interest rates is limited by the maximum periodic and lifetime interest rate adjustments permitted by our loan documents. In addition, adjustable rate mortgage loans may increase credit risk because, as interest rates increase, interest payments on adjustable rate loans increase, which increases the potential for defaults by our borrowers. See *Loan Underwriting Risks* below. At December 31, 2008, \$120.8 million, or 73.2%, of our one- to four-family residential loans contractually due after December 31, 2009 had adjustable rates of interest.



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While one- to four-family residential real estate loans are normally originated with up to 30-year terms, such loans typically remain outstanding for substantially shorter periods because borrowers often prepay their loans in full upon sale of the property pledged as security or upon refinancing the original loan. Therefore, average loan maturity is a function of, among other factors, the level of purchase and sale activity in the real estate market, prevailing interest rates and the interest rates payable on outstanding loans.

We generally do not make conventional loans with loan-to-value ratios exceeding 95% at the time the loan is originated. Conventional loans with loan-to-value ratios in excess of 80% generally require private mortgage insurance or additional collateral. We require all properties securing mortgage loans to be appraised by a board-approved independent appraiser. We generally require title insurance on all first mortgage loans. Borrowers must obtain hazard insurance, and flood insurance for loans on properties located in a flood zone, before closing the loan.

In an effort to provide financing for first-time buyers, we offer 30-year fixed-rate residential mortgage loans through the Massachusetts Housing Finance Agency (MHFA) First Time Home Buyer Program. In addition, we offer adjustable-rate mortgage loans to municipal employees through the Massachusetts Housing Finance Agency Municipal Employee Mortgage Program. We offer mortgage loans through these programs to qualified individuals and originate the loans using underwriting guidelines as set forth by MHFA.

**Commercial Real Estate and Multi-Family Loans.** The second largest segment of our loan portfolio is fixed- and adjustable-rate mortgage loans secured by commercial real estate and multi-family real estate. Our commercial real estate and multi-family loans are generally secured by apartment buildings and properties used for business purposes such as office buildings, industrial facilities and retail facilities. We intend to continue to grow our commercial real estate loan portfolio. In addition to originating these loans, we also participate in loans with other financial institutions located primarily in Massachusetts.

We originate a variety of fixed- and adjustable-rate commercial real estate and multi-family loans for terms up to 20 years. Interest rates and payments on our adjustable-rate loans adjust every one to ten years and generally are adjusted to a rate equal to 2.0% to 3.0% above the corresponding U.S. Treasury rate or FHLB rate. Most of our adjustable-rate commercial real estate and multi-family loans adjust every five years. There are no adjustment period or lifetime interest rate caps. Loan amounts generally do not exceed 80% of the property's appraised value at the time the loan is originated.

At December 31, 2008, our largest multi-family real estate loan was for \$1.6 million and was secured by two commercial apartment buildings located in Springfield, Massachusetts. At December 31, 2008, our largest commercial real estate loan was for \$5.0 million and was secured by a Walgreens in Worcester, MA. Both of these loans were performing according to their original terms at December 31, 2008.

At December 31, 2008, our exposure to commercial real estate and commercial business loan participations purchased and sold totaled \$18.0 million and \$12.3 million, respectively. The properties securing these loans are located primarily in Massachusetts.

We also originate land loans primarily to local contractors and developers for making improvements on approved building lots. Such loans are generally written with a maximum 75% loan-to-value ratio based upon the appraised value or purchase price, whichever is less, for a term of up to three years. Interest rates on our land loans are fixed for three years. At December 31, 2008, we had twelve land loans totaling \$1.4 million.

**Construction Loans.** We originate fixed-rate and adjustable-rate loans to individuals and builders to finance the construction of residential dwellings. We also make construction loans for commercial development projects, including apartment buildings, small industrial buildings and retail and office buildings. Our construction loans generally provide for the payment of interest only during the construction phase, which is usually 12 months. At the end of the construction phase, the loan generally converts to a permanent mortgage loan. Loans generally can be made with a maximum loan to value ratio of 80% at the time the loan is originated. Before making a commitment to fund a construction loan, we require an appraisal of the property by an independent licensed appraiser. We also will require an inspection of the property before disbursement of funds during the term of the construction loan.

At December 31, 2008, our largest outstanding residential construction loan was for \$594,000, of which \$534,000 was outstanding. At December 31, 2008, our largest outstanding commercial construction loan was for a \$5.0 million, of which \$4.5 million was outstanding. This loan is for the development of an assisted-care facility. These loans were performing in accordance with their original terms at December 31, 2008.



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**Commercial Loans.** We make commercial business loans primarily in our market area to a variety of professionals, sole proprietorships and small businesses. Commercial lending products include term loans, revolving lines of credit and letters of credit loans. Commercial loans and lines of credit are made with either variable or fixed rates of interest. Variable rates are based on the prime rate as published in *The Wall Street Journal*, plus a margin. Fixed-rate business loans are generally indexed to a corresponding U.S. Treasury rate, plus margin, or FHLB, plus margin. The Company generally does not make unsecured commercial loans.

When making commercial loans, we consider the financial statements of the borrower, our lending history with the borrower, the debt service capabilities of the borrower, the projected cash flows of the business and the value of the collateral, primarily accounts receivable, inventory and equipment, and are supported by personal guarantees. Depending on the collateral used to secure the loans, commercial loans are made in amounts of up to 80% of the value of the collateral securing the loan. The collateral securing commercial loans may depreciate over time, may be difficult to appraise and may fluctuate in value. See *Loan Underwriting Risks* below.

At December 31, 2008, our largest commercial term loan was a \$2.8 million loan secured by real estate in West Springfield, Massachusetts. Our largest commercial relationship at December 31, 2008 was \$13.3 million. This relationship included a commercial line of credit loan for \$10.0 million, of which \$2.8 million was outstanding at December 31, 2008. All of these loans are secured by assets of the borrower and were performing according to their original terms at December 31, 2008.

**Consumer Loans.** We offer a variety of consumer loans, primarily home equity loans and lines of credit, and, to a much lesser extent, loans secured by automobiles and recreational vehicles and pools and spas and home improvement loans.

The procedures for underwriting consumer loans include an assessment of the applicant's payment history on other debts and ability to meet existing obligations and payments on the proposed loan. Although the applicant's creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount.

We generally offer home equity loans with a maximum combined loan to value ratio of 80% and home equity lines of credit with a maximum combined loan to value ratio of 80%. Home equity lines of credit have adjustable rates of interest that are indexed to the prime rate as reported in *The Wall Street Journal*. Home equity loans have fixed interest rates and terms that range from five to 15 years.

We offer automobile and recreational vehicle loans secured by new and used vehicles. These loans have fixed interest rates and generally have terms up to six years for new automobiles, five years for used automobiles and four years for recreational vehicles. We also offer fixed-rate pool and spa loans up to \$10,000 for terms up to five years.

We offer home improvement loans in amounts up to \$5,000. These loans have fixed interest rates and terms up to five years.

## **Loan Underwriting Risks**

**Adjustable-Rate Loans.** While we anticipate that adjustable-rate loans will better offset the potential adverse effects of an increase in interest rates as compared to fixed-rate mortgages, the increased mortgage payments required of adjustable-rate loan borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate mortgage loans help make our loan portfolio more responsive to changes in interest rates, the extent of this interest sensitivity is limited by the annual and lifetime interest rate adjustment limits.

**Commercial Real Estate and Multi-Family Loans.** Loans secured by commercial real estate and multi-family real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in commercial real estate and multi-family lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy. To monitor cash flows on income properties, we generally require borrowers and loan guarantors, if any, to provide annual financial statements and/or tax returns on commercial real estate and multi-family loans. In reaching a decision on whether to make a commercial real estate and multi-family loan, we consider

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the net operating income of the property, the borrower's expertise, credit history and profitability and the value of the underlying property. We have generally required that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before debt service to debt service) of at least 1.20x; however, this ratio can be lower depending on the amount and type of collateral. Environmental surveys and inspections are obtained when circumstances suggest the possibility of the presence of hazardous materials.

We underwrite all loan participations to our own underwriting standards. In addition, we also consider the financial strength and reputation of the lead lender. To monitor cash flows on loan participations, we require the lead lender to provide annual financial statements for the borrower. Generally, we also conduct an annual internal loan review for loan participations.

**Construction Loans.** Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the building. If the estimate of value proves to be inaccurate, we may be confronted, at or before the maturity of the loan, with a building having a value which is insufficient to assure full repayment. If we are forced to foreclose on a building before or at completion due to a default, there can be no assurance that we will be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs.

**Commercial Loans.** Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income, and which are secured by real property the value of which tends to be more easily ascertainable, commercial loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

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

**Loan Originations, Purchases, and Sales.** Loan originations come from a number of sources. The primary sources of loan originations are existing customers, walk-in traffic, advertising and referrals from customers. We advertise on television, on the radio and in newspapers that are widely circulated in Hampden and Hampshire Counties, both in Massachusetts. Accordingly, because our rates are competitive, we attract loans from throughout Hampden and Hampshire Counties. We occasionally purchase participation interests in loans to supplement our origination efforts.

We generally originate loans for our portfolio; however, we generally sell, prior to funding, to the secondary market all newly originated conforming fixed-rate, 10- to 30-year one- to four-family residential real estate loans. Our decision to sell loans is based on prevailing market interest rate conditions and interest rate risk management. Generally, loans are sold to the Massachusetts Housing Finance Agency and Freddie Mac with loan servicing retained. In addition, we sell participation interests in commercial real estate loans to local financial institutions, primarily on the portion of loans that exceed our borrowing limits.

**Loan Approval Procedures and Authority.** Our lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by our board of directors and management. Our board of directors has granted loan approval authority to certain officers up to prescribed limits, depending on the officer's experience, the type of loan and whether the loan is secured or unsecured. Loans in excess of the Senior Lending Officer limits (\$500,000 for real estate loans, \$250,000 and \$50,000 for secured and unsecured consumer loans, respectively, and \$200,000 for secured and unsecured commercial business loans, respectively) must be authorized by the President and the Senior Lending Officer up to 1.5 times the Senior Lending Officer lending limits. All other extensions of credit exceeding such limitations require the approval of the executive committee, a committee of the Board of Directors of the Bank.

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**Loans to One Borrower.** The maximum amount that we may lend to one borrower and the borrower's related entities generally is limited, by statute, to 20% of our stated capital and reserves. At December 31, 2008, our general regulatory limit on loans to one borrower was \$15.9 million. At December 31, 2008, our general internal limit on loans to one borrower was \$8.0 million, unless approved in excess of this amount by the executive committee. On December 31, 2008, our largest lending relationship, as approved by the executive committee, was a \$15.1 million commercial real estate loan relationship, secured by assets of the borrower. The loans that comprise this relationship were performing in accordance with their original terms at December 31, 2008.

**Loan Commitments.** We issue commitments for fixed- and adjustable-rate mortgage loans conditioned upon the occurrence of certain events. Commitments to originate mortgage loans are legally binding agreements to lend to our customers. Generally, our mortgage loan commitments expire after 30 days.

## **Investment Activities**

We have legal authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various government sponsored enterprises and municipal governments, deposits at the Federal Home Loan Bank of Boston and certificates of deposit of federally insured institutions. We also are required to maintain an investment in Federal Home Loan Bank of Boston stock. While we have the authority under applicable law to invest in derivative securities, our investment policy does not permit us to do so and we had no investments in derivative securities at December 31, 2008.

At December 31, 2008, our investment portfolio consisted primarily of short-term U.S. Government and government sponsored enterprise securities, U.S. treasury securities, investment-grade marketable equity securities, collateralized mortgage obligations, and investment-grade corporate and industrial revenue bonds.

Our investment objectives are to provide and maintain liquidity, to establish an acceptable level of interest rate and credit risk, to provide an alternate source of low-risk investments when demand for loans is weak and to generate a favorable return. The Board of Directors of the Bank has the overall responsibility for approval of our investment policy. The Treasurer is responsible for the implementation of the investment policy. Individual investment transactions are reviewed and approved by our executive committee monthly while portfolio composition and performance are reviewed at least annually by the Board of Directors of the Bank.

Our Treasurer is responsible for ensuring that the investment policy is followed and that all securities are considered prudent for investment. The Treasurer is authorized to execute transactions up to \$3.0 million. All transactions exceeding \$3.0 million, up to \$4.0 million maximum, must also be approved by the President and Chief Executive Officer.

## **Deposit Activities and Other Sources of Funds**

**General.** Deposits, borrowings and loan repayments are the major sources of our funds for lending and other investment purposes. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and money market conditions.

**Deposits.** Substantially all of our depositors are residents of the Commonwealth of Massachusetts. Deposits are attracted, by advertising and through our website, from within our market areas through the offering of a broad selection of deposit instruments, including non-interest-bearing demand accounts (such as checking accounts), interest-bearing accounts (such as NOW and money market deposit accounts), regular savings accounts (such as passbook accounts) and certificates of deposit. At December 31, 2008, \$24.3 million, or 7.3% of our total deposits, were municipal deposits. At December 31, 2008, we did not utilize brokered deposits. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, our liquidity needs, profitability to us, matching deposit and loan products and customer preferences and concerns. We generally review our deposit mix and pricing weekly. Our current strategy is to offer competitive rates and to be at the middle end of the market for rates on all types of deposit products depending on our needs for funds and rates on borrowings.

**Borrowed Funds.** We may utilize advances from the Federal Home Loan Bank of Boston to supplement our supply of investable funds. The Federal Home Loan Bank functions as a central reserve bank providing credit for its member financial institutions. As a member, we are required to own capital stock in the Federal Home Loan Bank and are authorized to apply for advances on the security of such stock and certain of our whole first mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided



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certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the Federal Home Loan Bank's assessment of the institution's creditworthiness.

Securities sold under agreements to repurchase are customer deposits that are invested overnight in mortgage-related securities. The customers, predominantly commercial customers, set a predetermined balance and deposits in excess of that amount are transferred into the repurchase account from each customer's checking account. The next banking day, the funds are recredited to their individual checking account along with interest earned at market rates. These types of accounts are often referred to as sweep accounts.

### **Financial Services**

We have a partnership with a third-party registered broker-dealer, Linsco/Private Ledger. Through Linsco/Private Ledger, we offer customers a range of non-deposit investment products, including mutual funds, debt, equity and government securities, retirement accounts, insurance products and fixed and variable annuities. We receive a portion of the commissions generated by Linsco/Private Ledger from sales to customers. For the years ended December 31, 2008, 2007 and 2006, we received fees of \$396,000, \$356,000 and \$217,000, respectively, through our relationship with Linsco/Private Ledger.

### **Subsidiary Activities**

Chicopee Bancorp, Inc. has two wholly-owned subsidiaries: Chicopee Savings Bank and Chicopee Funding Corporation.

**Chicopee Funding Corporation.** Chicopee Funding Corporation was incorporated in Massachusetts in 2006. Chicopee Funding Corporation was formed to lend funds of \$5.95 million to the Chicopee Savings Bank Employee Stock Ownership Plan Trust, which was used to purchase 8%, or 595,149 shares, of the common stock issued in the Company's initial public offering.

The following are descriptions of Chicopee Savings Bank's wholly-owned subsidiaries:

**CSB Colts, Inc.** CSB Colts, Inc. was formed in 2003 as a Massachusetts corporation to engage in buying, selling and holding securities on its own behalf. At December 31, 2008, CSB Colts had total assets of \$5.2 million consisting primarily of industrial revenue bonds. CSB Colts' net income for the year ended December 31, 2008 was \$237,000. As a Massachusetts securities corporation, the income earned on CSB Colts' investment securities is subject to a lower state tax rate than that assessed on income earned on investment securities maintained at Chicopee Savings Bank.

**CSB Investment Corp.** CSB Investment Corp. was formed in 2003 as a Massachusetts corporation to engage in buying, selling and holding securities on its own behalf. At December 31, 2008, CSB Investment had total assets of \$20.0 million consisting primarily of U.S. Government and government sponsored enterprise securities, marketable equity securities, and collateralized mortgage obligations. CSB Investment's net income for the year ended December 31, 2008 was \$415,000. As a Massachusetts securities corporation, the income earned on CSB Investment's investment securities is subject to a lower state tax rate than that assessed on income earned on investment securities maintained at Chicopee Savings Bank.

**Cabot Realty L.L.C.** Cabot Realty L.L.C. was formed as a Massachusetts limited liability company to hold other real estate owned. Cabot Realty is currently active and at December 31, 2008, had total assets of \$499,000 consisting of cash and cash equivalents of \$230,000 and other real estate owned of \$269,000. Cabot Management Corporation, a wholly owned subsidiary of Chicopee Savings Bank, has a 1% membership interest in, and Chicopee Savings Bank has a 99% membership interest in, Cabot Realty.

**Cabot Management Corporation.** Cabot Management Corporation was formed in 1979 as a Massachusetts corporation to acquire and manage interests in real property and to acquire, construct, rehabilitate, lease, finance and dispose of housing facilities. Cabot Management is currently inactive and at December 31, 2008 had total assets of \$17,000.

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### **Personnel**

As of December 31, 2008, we had approximately 129 full-time employees and 8 part-time employees, none of whom is represented by a collective bargaining unit. We believe we have a good relationship with our employees.

### **Regulation and Supervision**

#### **General**

Chicopee Savings Bank is currently a Massachusetts-chartered stock savings bank and is the wholly-owned subsidiary of Chicopee Bancorp, a Massachusetts corporation and registered bank holding company. Chicopee Savings Bank's deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation and by the Depositors Insurance Fund of Massachusetts for amounts in excess of the Federal Deposit Insurance Corporation insurance limits. Chicopee Savings Bank is subject to extensive regulation by the Massachusetts Commissioner of Banks, as its chartering agency, and by the Federal Deposit Insurance Corporation, as its deposit insurer. Chicopee Savings Bank is required to file reports with, and is periodically examined by, the Federal Deposit Insurance Corporation and the Massachusetts Commissioner of Banks concerning its activities and financial condition and must obtain regulatory approvals prior to entering into certain transactions, including, but not limited to, mergers with or acquisitions of other financial institutions. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of depositors and, for purposes of the Federal Deposit Insurance Corporation, the protection of the insurance fund. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulatory requirements and policies, whether by the Massachusetts legislature, the Massachusetts Commission of Banks, the Federal Deposit Insurance Corporation or Congress, could have a material adverse impact on the Chicopee Bancorp, Chicopee Savings Bank and their operations. Chicopee Bancorp is regulated as a bank holding company by the Federal Reserve Board.

Certain regulatory requirements applicable to Chicopee Savings Bank and to Chicopee Bancorp are referred to below or elsewhere herein. The description of statutory provisions and regulations applicable to savings banks and their holding companies set forth below and elsewhere in this document does not purport to be a complete description of such statutes and regulations and their effects on Chicopee Savings Bank and Chicopee Bancorp and is qualified in its entirety by reference to the actual laws and regulations.

#### **Massachusetts Banking Laws and Supervision**

**General.** As a Massachusetts-chartered savings bank, Chicopee Savings Bank is subject to supervision, regulation and examination by the Massachusetts Commissioner of Banks and to various Massachusetts statutes and regulations which govern, among other things, investment powers, lending and deposit-taking activities, borrowings, maintenance of surplus and reserve accounts, distribution of earnings and payment of dividends. In addition, Chicopee Savings Bank is subject to Massachusetts consumer protection and civil rights laws and regulations. The approval of the Massachusetts Commissioner of Banks or the Board of Bank Incorporation is required for a Massachusetts-chartered bank to establish or close branches, merge with other financial institutions, organize a holding company, issue stock and undertake certain other activities.

In response to Massachusetts laws enacted in the last few years, the Massachusetts Commissioner of Banks adopted rules that generally allow Massachusetts banks to engage in activities permissible for federally chartered banks or banks chartered by another state. The Commissioner also has adopted procedures reducing regulatory burdens and expense and expediting branching by well-capitalized and well-managed banks.

**Dividends.** A Massachusetts stock bank may declare from net profits cash dividends not more frequently than quarterly and non-cash dividends at any time. No dividends may be declared, credited or paid if the bank's capital stock is impaired. The approval of the Massachusetts Commissioner of Banks is required if the total of all dividends declared in any calendar year exceeds the total of its net profits for that year combined with its retained net profits of the preceding two years. Net profits for this purpose means the remainder of all earnings from current operations plus actual recoveries on loans and investments and other assets after deducting from the total thereof all current operating expenses, actual losses, accrued dividends on preferred stock, if any, and all federal and state taxes.

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***Loans to One Borrower Limitations.*** Massachusetts banking law grants broad lending authority. However, with certain limited exceptions, total obligations of one borrower to a bank may not exceed 20.0% of the total of the bank's capital, which is defined under Massachusetts law as the sum of the bank's capital stock, surplus account and undivided profits.

***Loans to a Bank's Insiders.*** The Massachusetts banking laws prohibit any executive officer, director or trustee from borrowing, otherwise becoming indebted, or becoming liable for a loan or other extension of credit by such bank to any other person, except for any of the following loans or extensions of credit: (i) loans or extension of credit, secured or unsecured, to an officer of the bank in an amount not exceeding \$100,000; (ii) loans or extensions of credit intended or secured for educational purposes to an officer of the bank in an amount not exceeding \$200,000; (iii) loans or extensions of credit secured by a mortgage on residential real estate to be occupied in whole or in part by the officer to whom the loan or extension of credit is made, in an amount not exceeding \$750,000; and (iv) loans or extensions of credit to a director or trustee of the bank who is not also an officer of the bank in an amount permissible under the bank's loan to one borrower limit.

The loans listed above require approval of the majority of the members of Chicopee Savings Bank's Board of Directors, excluding any member involved in the loan or extension of credit. No such loan or extension of credit may be granted with an interest rate or other terms that are preferential in comparison to loans granted to persons not affiliated with the savings bank.

***Investment Activities.*** In general, Massachusetts-chartered savings banks may invest in preferred and common stock of any corporation organized under the laws of the United States or any state provided such investments do not involve control of any corporation and do not, in the aggregate, exceed 4.0% of the bank's deposits. Massachusetts-chartered savings banks may in addition invest an amount equal to 1.0% of their deposits in stocks of Massachusetts corporations or companies with substantial employment in Massachusetts which have pledged to the Massachusetts Commissioner of Banks that such monies will be used for further development within the Commonwealth. However, these powers are constrained by federal law. See *Federal Regulations Investment Activities* for federal restrictions on equity investments.

***Regulatory Enforcement Authority.*** Any Massachusetts bank that does not operate in accordance with the regulations, policies and directives of the Massachusetts Commissioner of Banks may be subject to sanctions for non-compliance, including seizure of the property and business of the bank and suspension or revocation of its charter. The Massachusetts Commissioner of Banks may under certain circumstances suspend or remove officers or directors who have violated the law, conducted the bank's business in a manner which is unsafe, unsound or contrary to the depositors interests or been negligent in the performance of their duties. In addition, upon finding that a bank has engaged in an unfair or deceptive act or practice, the Massachusetts Commissioner of Banks may issue an order to cease and desist and impose a fine on the bank concerned. Finally, Massachusetts consumer protection and civil rights statutes applicable to Chicopee Savings Bank permit private individual and class action law suits and provide for the rescission of consumer transactions, including loans, and the recovery of statutory and punitive damage and attorney's fees in the case of certain violations of those statutes.

***Depositors Insurance Fund.*** All Massachusetts-chartered savings banks are required to be members of the Depositors Insurance Fund, a corporation that insures savings bank deposits in excess of federal deposit insurance coverage. The Depositors Insurance Fund is authorized to charge savings banks an annual assessment of up to 1/50th of 1.0% of a savings bank's deposit balances in excess of amounts insured by the Federal Deposit Insurance Corporation.

Massachusetts has other statutes or regulations that are similar to the federal provisions discussed below.

## **Federal Regulations**

***Capital Requirements*** Under Federal Deposit Insurance Corporation's regulations, federally insured state-chartered banks that are not members of the Federal Reserve System (state non-member banks), such as Chicopee Savings Bank, are required to comply with minimum leverage capital requirements. For an institution determined by the Federal Deposit Insurance Corporation to not be anticipating or experiencing significant growth and to be, in general, a strong banking organization rated composite 1 under Uniform Financial Institutions Ranking System established by the Federal Financial Institutions Examination Council, the minimum capital leverage requirement is a ratio of Tier 1 capital to total assets of 3.0%. For all other institutions, the minimum leverage capital ratio is not less than 4.0%. Tier 1 capital is the sum of common stockholder's equity, noncumulative perpetual preferred stock (including any related surplus) and minority investments in certain subsidiaries, less intangible assets (except for certain servicing rights and credit card relationships) and certain other specified items.

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The Federal Deposit Insurance Corporation regulations require state non-member banks to maintain certain levels of regulatory capital in relation to regulatory risk-weighted assets. The ratio of regulatory capital to regulatory risk-weighted assets is referred to as a bank's risk-based capital ratio. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet items (including recourse obligations, direct credit substitutes and residual interests) to four risk-weighted categories ranging from 0.0% to 100.0%, with higher levels of capital being required for the categories perceived as representing greater risk. For example, under the Federal Deposit Insurance Corporation's risk-weighting system, cash and securities backed by the full faith and credit of the U.S. government are given a 0.0% risk weight, loans secured by one- to four-family residential properties generally have a 50.0% risk weight, and commercial loans have a risk weighting of 100.0%.

State non-member banks must maintain a minimum ratio of total capital to risk-weighted assets of at least 8.0%, of which at least one-half must be Tier 1 capital. Total capital consists of Tier 1 capital plus Tier 2 or supplementary capital items, which include allowances for loan losses in an amount of up to 1.25% of risk-weighted assets, cumulative preferred stock and certain other capital instruments, and a portion of the net unrealized gain on equity securities. The includable amount of Tier 2 capital cannot exceed the amount of the institution's Tier 1 capital. Banks that engage in specified levels of trading activities are subject to adjustments in their risk based capital calculation to ensure the maintenance of sufficient capital to support market risk.

The Federal Deposit Insurance Corporation Improvement Act required each federal banking agency to revise its risk-based capital standards for insured institutions to ensure that those standards take adequate account of interest-rate risk, concentration of credit risk, and the risk of nontraditional activities, as well as to reflect the actual performance and expected risk of loss on multi-family residential loans. The Federal Deposit Insurance Corporation, along with the other federal banking agencies, has adopted a regulation providing that the agencies will take into account the exposure of a bank's capital and economic value to changes in interest rate risk in assessing a bank's capital adequacy. The Federal Deposit Insurance Corporation also has authority to establish individual minimum capital requirements in appropriate cases upon determination that an institution's capital level is, or is likely to become, inadequate in light of the particular circumstances.

***U.S. Treasury's TARP Capital Purchase Program.*** On October 3, 2008, Congress passed the Emergency Economic Stabilization Act of 2008, which provides the United States Secretary of the Treasury with broad authority to implement certain actions to help restore stability and liquidity to U.S. markets. One of the provisions resulting from the Act is the Treasury Capital Purchase Program ( CPP ), which provides direct equity investment in perpetual preferred stock (or, in the case of S-Corporations, investment in debt securities) by the Treasury in qualified financial institutions. The program is voluntary and requires an institution to comply with a number of restrictions and provisions, including limits on executive compensation, stock redemptions and declaration of dividends. The CPP provides for a minimum investment of 1 percent of Total Risk-Weighted Assets, with a maximum investment equal to the lesser of 3 percent of Total Risk-Weighted Assets or \$25 billion. Participation in the program is not automatic and is subject to approval by the Treasury. Chicopee Savings Bank has elected not to participate in the CPP.

***Standards for Safety and Soundness*** As required by statute, the federal banking agencies adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness to implement safety and soundness standards. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit system, credit underwriting, loan documentation, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. Most recently, the agencies have established standards for safeguarding customer information. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard.

### **Investment Activities**

Since the enactment of Federal Deposit Insurance Corporation Improvement Act, all state-chartered Federal Deposit Insurance Corporation-insured banks, including savings banks, have generally been limited in their investment activities to principal and equity investments of the type and in the amount authorized for national banks, notwithstanding state law. The Federal Deposit Insurance Corporation Improvement Act and the Federal Deposit Insurance Corporation regulations permit exceptions to these limitations. For example, state chartered banks may, with Federal Deposit Insurance Corporation approval, continue to exercise state authority to invest in common or preferred stocks listed on a national securities exchange or the Nasdaq Global Market and in the shares of an investment company registered under the Investment Company Act of 1940, as amended. The maximum permissible



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investment is 100.0% of Tier 1 Capital, as specified by the Federal Deposit Insurance Corporation's regulations, or the maximum amount permitted by Massachusetts law, whichever is less. Chicopee Savings Bank received approval from the Federal Deposit Insurance Corporation to retain and acquire such equity instruments equal to the lesser of 100% of Chicopee Savings Bank's Tier 1 capital or the maximum permissible amount specified by Massachusetts law. Any such grandfathered authority may be terminated upon the Federal Deposit Insurance Corporation's determination that such investments pose a safety and soundness risk or upon the occurrence of certain events such as the savings bank's conversion to a different charter. In addition, the Federal Deposit Insurance Corporation is authorized to permit such institutions to engage in state authorized activities or investments not permissible for national banks (other than non-subsiary equity investments) if they meet all applicable capital requirements and it is determined that such activities or investments do not pose a significant risk to the Bank Insurance Fund. The Federal Deposit Insurance Corporation has adopted regulations governing the procedures for institutions seeking approval to engage in such activities or investments. The Gramm-Leach-Bliley Act of 1999 specifies that a non-member bank may control a subsidiary that engages in activities as principal that would only be permitted for a national bank to conduct in a financial subsidiary if a bank meets specified conditions and deducts its investment in the subsidiary for regulatory capital purposes.

### **Prompt Corrective Regulatory Action**

Federal law requires, among other things, that federal bank regulatory authorities take prompt corrective action with respect to banks that do not meet minimum capital requirements. For these purposes, the law establishes five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

The Federal Deposit Insurance Corporation has adopted regulations to implement the prompt corrective action legislation. An institution is deemed to be well capitalized if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater and a leverage ratio of 5.0% or greater. An institution is adequately capitalized if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and generally a leverage ratio of 4.0% or greater. An institution is undercapitalized if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0%, or generally a leverage ratio of less than 4.0%. An institution is deemed to be significantly undercapitalized if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0%, or a leverage ratio of less than 3.0%. An institution is considered to be critically undercapitalized if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

Undercapitalized banks must adhere to growth, capital distribution (including dividend) and other limitations and are required to submit a capital restoration plan. A bank's compliance with such a plan is required to be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5.0% of the institution's total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an undercapitalized bank fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. Significantly undercapitalized banks must comply with one or more of a number of additional restrictions, including but not limited to an order by the Federal Deposit Insurance Corporation to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, cease receipt of deposits from correspondent banks or dismiss directors or officers, and restrictions on interest rates paid on deposits, compensation of executive officers and capital distributions by the parent holding company. Critically undercapitalized institutions are subject to additional measures including, subject to a narrow exception, the appointment of a receiver or conservator within 270 days after it obtains such status.

### **Transactions with Affiliates**

Transactions between banks and their related parties or affiliates are limited by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. In a holding company context, the parent bank holding company and any companies which are controlled by such parent holding company are affiliates of the bank. Generally, Sections 23A and 23B of the Federal Reserve Act and Regulation W (i) limit the extent to which the bank or its subsidiaries may engage in covered transactions with any one affiliate to an amount equal to 10.0% of such institution's capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20.0% of such institution's capital stock and surplus and (ii) require that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary as those provided to non-affiliates. The term covered transaction includes the making of loans, purchase of assets, issuance of a guarantee and other similar transactions. In addition, loans or other extensions of credit by the financial institution to the affiliate are required to be collateralized in accordance with the requirements set forth in Section 23A of the Federal Reserve Act.

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The Sarbanes-Oxley Act of 2002 generally prohibits loans by a company to its executive officers and directors. However, the law contains a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal banking laws assuming such loans are also permitted under the law of the institution's chartering state. Under such laws, the Bank's authority to extend credit to executive officers, directors and 10% shareholders (insiders), as well as entities such person's control, is limited. The law limits both the individual and aggregate amount of loans the Bank may make to insiders based, in part, on the Bank's capital position and requires certain board approval procedures to be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. Loans to executive officers are further limited by specific categories.

### **Enforcement**

The Federal Deposit Insurance Corporation has extensive enforcement authority over insured state savings banks, including Chicopee Savings Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease and desist orders and remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations and unsafe or unsound practices. The Federal Deposit Insurance Corporation has authority under federal law to appoint a conservator or receiver for an insured bank under limited circumstances. The Federal Deposit Insurance Corporation is required, with certain exceptions, to appoint a receiver or conservator for an insured state non-member bank if that bank was critically undercapitalized on average during the calendar quarter beginning 270 days after the date on which the institution became critically undercapitalized. The Federal Deposit Insurance Corporation may also appoint itself as conservator or receiver for an insured state non-member institution under specific circumstances on the basis of the institution's financial condition or upon the occurrence of other events, including: (1) insolvency; (2) substantial dissipation of assets or earnings through violations of law or unsafe or unsound practices; (3) existence of an unsafe or unsound condition to transact business; and (4) insufficient capital, or the incurring of losses that will deplete substantially all of the institution's capital with no reasonable prospect of replenishment without federal assistance.

### **Insurance of Deposit Accounts**

**Deposit Insurance Fund.** Chicopee Savings Bank is a member of the Deposit Insurance Fund, which is administered by the Federal Deposit Insurance Corporation (FDIC). Deposit accounts in Chicopee Savings Bank are insured by the FDIC, generally up to a maximum of \$100,000 per separately insured depositor and up to a maximum of \$250,000 for self-directed retirement accounts. However, the Emergency Economic Stabilization Act of 2008 increased the deposit insurance available on all deposit accounts to \$250,000, effective until December 31, 2009. In addition, as a Massachusetts-chartered savings bank, Chicopee Savings Bank is required to be member of the Massachusetts Depositors Insurance Fund, a corporation that insures savings bank deposits in excess of federal deposit insurance coverage.

The FDIC imposes an assessment against financial institutions for deposit insurance. This assessment is based on the risk category of the institution and currently ranges from 5 to 43 basis points of the institution's deposits. Federal law requires that the designated reserve ratio for the deposit insurance fund be established by the FDIC at 1.15% to 1.50% of estimated insured deposits. If this reserve ratio drops below 1.15% or the FDIC expects that it will do so within six months, the FDIC must, within 90 days, establish and implement a plan to restore the designated reserve ratio to 1.15% of estimated insured deposits within five years (absent extraordinary circumstances).

Recent bank failures coupled with deteriorating economic conditions have significantly reduced the deposit insurance fund's reserve ratio. As of June 30, 2008, the designated reserve ratio was 1.01% of estimated insured deposits at March 31, 2008. As a result of this reduced reserve ratio, on October 16, 2008, the FDIC published a proposed rule that would restore the reserve ratio to its required level of 1.15 percent within five years. On February 27, 2009, the FDIC took action to extend the restoration plan horizon to seven years.

The amended restoration plan was accompanied by a final rule that sets assessment rates and makes adjustments that improve how the assessment system differentiates for risk. Currently, most banks are in the best risk category and pay anywhere from 12 to 14 cents per \$100 of deposits for insurance. Under the final rule, banks in this category will pay initial base rates ranging from 12 to 16 cents per \$100 on an annual basis, beginning on April 1, 2009.

The FDIC also adopted an interim rule imposing an emergency special assessment of 20 basis points on the industry on June 30, 2009. The assessment is to be collected on September 30, 2009. The cost of this special assessment is anticipated to be up to approximately \$640,000. The interim rule would also permit the FDIC to impose an emergency special assessment after June 30, 2009, of up to 10 basis points if necessary to maintain public confidence in federal deposit insurance. While the interim rule imposing the special assessment is final, the FDIC has indicated a willingness to decrease the special assessment under certain circumstances concerning the overall financial health of the insurance fund. No determination has been made to date to decrease the amount of the special assessment.



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The Emergency Economic Stabilization Act of 2008 ( EESA ), temporarily raises the basic limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor until December 31, 2009. Additionally, the FDIC has implemented a temporary program to provide deposit insurance for the full amount of most non-interest bearing transaction accounts through December 31, 2009. The FDIC implemented the Temporary Liquidity Guarantee Program ( TLG Program ) on November 21, 2008. The TLG Program guarantees newly issued senior secured debt of banks, thrifts and certain holding companies. Although the Company had no outstanding debt guaranteed under the TLG program at December 31, 2008, the Company is eligible to issue guaranteed debt under the TLG program.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not know of any practice, condition or violation that might lead to termination of Chicopee Savings Bank s deposit insurance.

In addition to the FDIC assessments, the Financing Corporation ( FICO ) is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. For the quarter ended December 31, 2008, the annualized FICO assessment was equal to 1.10 basis points for each \$100 in domestic deposits maintained at an institution.

***FDIC Temporary Liquidity Guarantee Program.*** On October 14, 2008, the FDIC announced a new program the Temporary Liquidity Guarantee Program ( TLGP ). This program has two components. One guarantees newly issued senior unsecured debt of the participating organizations, up to certain limits established for each institution, issued between October 14, 2008 and June 30, 2009. On February 10, 2009, the FDIC stated that the June 30, 2009 deadline for issuing guaranteed debt would be extended to October 31, 2009, for an additional premium. The FDIC will pay the unpaid principal and interest on an FDIC-guaranteed debt instrument upon the uncured failure of the participating entity to make a timely payment of principal or interest in accordance with the terms of the instrument. The guarantee will remain in effect until June 30, 2012. In return for the FDIC s guarantee, participating institutions will pay the FDIC a fee based on the amount and maturity of the debt. Chicopee Savings Bank has opted not to participate in this component of the TLGP.

The other component of the program provides full FDIC insurance coverage for non-interest bearing transaction deposit accounts, regardless of dollar amount, until December 31, 2009. An annualized 10 basis point assessment on balances in noninterest-bearing transaction accounts that exceed the existing deposit insurance limit of \$250,000 will be assessed on a quarterly basis to insured depository institutions that have not opted out of this component of the TLGP. Because Chicopee Savings Bank s deposits in excess of FDIC limits are already insured under the Massachusetts Depositors Insurance Fund, Chicopee Savings Bank has opted not to participate in this component of the TLGP.

## **Privacy Regulations**

Pursuant to the Gramm-Leach-Bliley Act, the Federal Deposit Insurance Corporation has published final regulations implementing the privacy protection provisions of the Gramm-Leach-Bliley Act. The regulations generally require that Chicopee Savings Bank disclose its privacy policy, including identifying with whom it shares a customer s non-public personal information, to customers at the time of establishing the customer relationship and annually thereafter. In addition, Chicopee Savings Bank is required to provide its customers with the ability to opt-out of having their personal information shared with unaffiliated third parties and not to disclose account numbers or access codes to non-affiliated third parties for marketing purposes. Chicopee Savings Bank currently has a privacy protection policy in place and believes that such policy is in compliance with the regulations.

## **Community Reinvestment Act**

Under the Community Reinvestment Act, or CRA, as amended and as implemented by Federal Deposit Insurance Corporation regulations, a bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA does require the Federal Deposit Insurance

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Corporation, in connection with its examination of a bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution, including applications to acquire branches and other financial institutions. The CRA requires the Federal Deposit Insurance Corporation to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. Chicopee Savings Bank's latest Federal Deposit Insurance Corporation CRA rating was Satisfactory.

Massachusetts has its own statutory counterpart to the CRA which is also applicable to Chicopee Savings Bank. The Massachusetts version is generally similar to the CRA but utilizes a five-tiered descriptive rating system. Massachusetts law requires the Massachusetts Commissioner of Banks to consider, but not be limited to, a bank's record of performance under Massachusetts law in considering any application by the bank to establish a branch or other deposit-taking facility, to relocate an office or to merge or consolidate with or acquire the assets and assume the liabilities of any other banking institution. Chicopee Savings Bank's most recent rating under Massachusetts law was Satisfactory.

## **Federal Reserve System**

The Federal Reserve Board regulations require savings institutions to maintain non-interest earning reserves against their transaction accounts (primarily Negotiable Order of Withdrawal (NOW) and regular checking accounts). The regulations generally provide that reserves be maintained against aggregate transaction accounts as follows: a 3% reserve ratio is assessed on net transaction accounts up to and including \$44.4 million; a 10% reserve ratio is applied above \$44.4 million. The first \$10.3 million of otherwise reservable balances are exempted from the reserve requirements. The amounts are adjusted annually. Chicopee Savings Bank complies with the foregoing requirements.

## **Federal Home Loan Bank System**

Chicopee Savings Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks as of July 31, 2008. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. The Bank, as a member of the Federal Home Loan Bank, is required to acquire and hold shares of capital stock in that Federal Home Loan Bank. The Bank was in compliance with this requirement with an investment in Federal Home Loan Bank stock at December 31, 2008 of \$4.3 million.

The Federal Home Loan Banks are required to provide funds for the resolution of insolvent thrifts in the late 1980s and to contribute funds for affordable housing programs. These requirements could reduce the amount of dividends that the Federal Home Loan Banks pay to their members and could also result in the Federal Home Loan Banks imposing a higher rate of interest on advances to their members. If dividends were reduced, or interest on future Federal Home Loan Bank advances increased, the Bank's net interest income would likely also be reduced.

## **Holding Company Regulation**

Chicopee Bancorp is subject to examination, regulation, and periodic reporting under the Bank Holding Company Act of 1956, as amended, as administered by the Federal Reserve Board. Chicopee Bancorp is required to obtain the prior approval of the Federal Reserve Board to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior Federal Reserve Board approval would be required for Chicopee Bancorp to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after such acquisition, it would, directly or indirectly, own or control more than 5% of any class of voting shares of the bank or bank holding company. In addition to the approval of the Federal Reserve Board, before any bank acquisition can be completed, prior approval may also be required to be obtained from other agencies having supervisory jurisdiction over the bank to be acquired.

A bank holding company is generally prohibited from engaging in, or acquiring, direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the principal activities that the Federal Reserve Board has determined by regulation to be so closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing discount brokerage services; (iv) acting as fiduciary, investment or financial advisor; (v) leasing personal or real property; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings and loan association.

The Gramm-Leach-Bliley Act of 1999 authorizes a bank holding company that meets specified conditions, including being well capitalized and well managed, to opt to become a financial holding company and thereby engage in a broader array of financial activities than previously permitted. Such activities can include insurance underwriting and investment banking.



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Chicopee Bancorp is subject to the Federal Reserve Board's capital adequacy guidelines for bank holding companies (on a consolidated basis) substantially similar to those of the Federal Deposit Insurance Corporation for Chicopee Savings Bank.

A bank holding company is generally required to give the Federal Reserve Board prior written notice of any purchase or redemption of then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve Board order or directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. The Federal Reserve Board has adopted an exception to this approval requirement for well-capitalized bank holding companies that meet certain other conditions.

The Federal Reserve Board has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the Federal Reserve Board's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. The Federal Reserve Board's policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. Under the prompt corrective action laws, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of Chicopee Bancorp to pay dividends or otherwise engage in capital distributions.

Under the Federal Deposit Insurance Act, depository institutions are liable to the Federal Deposit Insurance Corporation for losses suffered or anticipated by the Federal Deposit Insurance Corporation in connection with the default of a commonly controlled depository institution or any assistance provided by the Federal Deposit Insurance Corporation to such an institution in danger of default. This law would have potential applicability if Chicopee Bancorp ever held as a separate subsidiary a depository institution in addition to Chicopee Savings Bank.

Chicopee Bancorp and Chicopee Savings Bank will be affected by the monetary and fiscal policies of various agencies of the United States Government, including the Federal Reserve System. In view of changing conditions in the national economy and in the money markets, it is impossible for management to accurately predict future changes in monetary policy or the effect of such changes on the business or financial condition of Chicopee Bancorp or Chicopee Savings Bank.

The status of Chicopee Bancorp as a registered bank holding company under the Bank Holding Company Act will not exempt it from certain federal and state laws and regulations applicable to corporations generally, including, without limitation, certain provisions of the federal securities laws.

**Massachusetts Holding Company Regulation.** Under the Massachusetts banking laws, a company owning or controlling two or more banking institutions, including a savings bank, is regulated as a bank holding company. The term "company" is defined by the Massachusetts banking laws similarly to the definition of "company" under the Bank Holding Company Act. Each Massachusetts bank holding company: (i) must obtain the approval of the Massachusetts Board of Bank Incorporation before engaging in certain transactions, such as the acquisition of more than 5% of the voting stock of another banking institution; (ii) must register, and file reports, with the Division; and (iii) is subject to examination by the Division. Chicopee Bancorp would become a Massachusetts bank holding company if it acquires a second banking institution and holds and operates it separately from Chicopee Savings Bank.

**Federal Securities Laws.** Our common stock is registered with the Securities and Exchange Commission under Section 12(b) of the Securities Exchange Act of 1934, as amended. We are subject to information, proxy solicitation, insider trading restrictions, and other requirements under the Exchange Act.

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**Executive Officers of the Registrant**

<b>Name</b>	<b>Principal Position</b>
William J. Wagner	President and Chief Executive Officer of Chicopee Bancorp and Chicopee Savings Bank
W. Guy Ormsby	Executive Vice President, Chief Financial Officer and Treasurer of Chicopee Bancorp and Executive Vice President and Treasurer of Chicopee Savings Bank
Maria J.C. Aigner	Senior Vice President of Chicopee Bancorp and Senior Vice President, Human Resources, of Chicopee Savings Bank
Alzira C. Costa	Senior Vice President of Chicopee Bancorp and Senior Vice President, Operations and Security, of Chicopee Savings Bank
Russell J. Omer	Executive Vice President of Chicopee Bancorp and Senior Vice President, Lending, of Chicopee Savings Bank

Below is information regarding our executive officers who are not also directors. Unless otherwise stated, each executive officer has held his or her position for at least the last five years. Ages presented are as of December 31, 2008.

*Maria J.C. Aigner* has served as Senior Vice President of Chicopee Bancorp since 2006 and Senior Vice President, Human Resources, of Chicopee Savings Bank since December 2004. Previously, Ms. Aigner served as Vice President, Human Resources. Ms. Aigner is the cousin of Alzira C. Costa, Senior Vice President, Operations and Security, of Chicopee Savings Bank. Age 53.

*Alzira C. Costa* has served as Senior Vice President of Chicopee Bancorp since 2006 and Senior Vice President, Operations and Security, of Chicopee Savings Bank since 1987. Ms. Costa is the cousin of Maria J.C. Aigner, Senior Vice President, Human Resources. Age 61.

*Russell J. Omer* has served as Executive Vice President of Chicopee Bancorp since December 2008, and Senior Vice President of Chicopee Bancorp since 2006, and Senior Vice President, Lending, since 1998. Age 58.

**Item 1A. Risk Factors.**

***Our increased emphasis on commercial and construction lending may expose us to increased lending risks.*** At December 31, 2008, our loan portfolio consisted of \$114.9 million, or 27.5%, of commercial real estate loans, \$54.3 million, or 13.0%, of commercial business loans and \$41.6 million, or 10.0%, of construction loans. We have grown these loan portfolios in recent years and intend to continue to emphasize these types of lending. These types of loans generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful operation of the property, the income stream of the borrowers and, for construction loans, the accuracy of the estimate of the property's value at completion of construction and the estimated cost of construction. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgage loans. Commercial business loans expose us to additional risks since they typically are made on the basis of the borrower's ability to make repayments from the cash flow of the borrower's business and are secured by non-real estate collateral that may depreciate over time. In addition, since such loans generally entail greater risk than one- to four-family residential mortgage loans, we may need to increase our allowance for loan losses in the future to account for the likely increase in probable incurred credit losses associated with the growth of such loans. Also, many of our commercial and construction borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan.

***The building of market share through our branching strategy could cause our expenses to increase faster than revenues.*** We intend to continue to build market share in Hampden County, Massachusetts through our branching strategy. In December 2008, we opened a new branch in South Hadley, Massachusetts, and in February



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2009 we opened a new branch in Ware, Massachusetts. We currently anticipate that we will establish one additional branch by the end of 2009, if market conditions are favorable. There are considerable costs involved in opening branches and new branches generally require a period of time to generate the necessary revenues to offset their costs, especially in areas in which we do not have an established presence. Accordingly, any new branch can be expected to negatively impact our earnings for some period of time until the branch reaches certain economies of scale. Our expenses could be further increased if we encounter delays in the opening of any of our new branches. Finally, we have no assurance our new branches will be successful even after they have been established.

**Changes in interest rate may hurt our profits and asset value.** Short-term market interest rates (which we use as a guide to price our deposits) and longer-term market interest rates (which we use as a guide to price our longer-term loans) have both decreased to historically low levels. This flattening of the market yield curve has had a negative impact on our interest rate spread and net interest margin, which has reduced our profitability. For the years ended December 31, 2008 and 2007, our average interest rate spread was 2.45%. If short-term interest rates rise, and if rates on our deposits reprice upwards faster than the rates on our long-term loans and investments, we would experience compression of our interest rate spread and net interest margin, which would have a negative effect on our profitability. However, the U.S. Federal Reserve decreased its target for the federal funds rate from 3.06% as of December 31, 2007 to 0.14% as of December 31, 2008. Decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce their borrowing costs. Under these circumstances, we are subject to reinvestment risk as we may have to redeploy such loan or securities proceeds into lower-yielding assets, which might also negatively impact our income.

At December 31, 2008, approximately \$289.4 million, or 79.6%, of our loans had adjustable rates. While we anticipate that adjustable-rate loans will better offset the potential adverse effects of an increase in interest rates as compared to fixed-rate mortgages, the increased mortgage payments required of adjustable-rate loan borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate mortgage loans help make our loan portfolio more responsive to changes in interest rates, the extent of this interest sensitivity is limited by the annual and lifetime interest rate adjustment limits. For further discussion of how changes in interest rates could impact us, see *Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management Interest Rate Risk Management*.

**Recent negative developments in the financial industry and the domestic and international credit markets may adversely affect our operations and results.** Negative developments in the latter half of 2007 and during 2008 in the global credit and securitization markets have resulted in uncertainty in the financial markets in general with the expectation of the general economic downturn continuing into 2009. Loan portfolio quality has deteriorated at many institutions. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. Bank and bank holding company stock prices have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets. Specifically, the Federal Deposit Insurance Corporation Quarterly Banking Profile has reported that noncurrent assets plus other real estate owned as a percentage of total loans and leases rose to 2.31% as of September 30, 2008 compared to 2.04% as of June 30, 2008 and is now at the highest level since the third quarter of 1993. For the year ended September 30, 2008, the Federal Deposit Insurance Corporation Quarterly Banking Profile has reported that return on average assets decreased to 0.05% compared to 0.92% for the year ended September 30, 2007. This is the second-lowest quarterly ROA reported by the industry in the past 18 years. These factors have contributed to the NASDAQ Bank Index declining 40.5% between December 31, 2007 and 2008.

In response to these developments, Congress adopted the Emergency Economic Stabilization Act of 2008, under which the U.S. Department of the Treasury has the authority to expend up to \$700 billion to assist in stabilizing and providing liquidity to the U.S. financial system. Although it was originally contemplated that these funds would be used primarily to purchase troubled assets under the Troubled Asset Relief Program, on October 14, 2008, the U.S. Department of the Treasury announced the Capital Purchase Program, under which it will purchase up to \$250 billion of non-voting senior preferred shares of certain qualified financial institutions in an attempt to encourage financial institutions to build capital to increase the flow of financing to businesses and consumers and to support the economy. In addition, Congress has temporarily increased Federal Deposit Insurance Corporation deposit insurance from \$100,000 to \$250,000 per depositor through December 31, 2009. The Federal Deposit Insurance Corporation has also announced the creation of the Temporary Liquidity Guarantee Program which is intended to strengthen confidence and encourage liquidity in financial institutions by temporarily guaranteeing newly issued senior unsecured debt of participating organizations and providing full coverage for noninterest-bearing transaction deposit accounts (such as business checking accounts, interest-bearing transaction accounts paying 50 basis points or less and lawyers' trust accounts), regardless of dollar amount until December 31, 2009.

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The potential exists for additional federal or state laws and regulations regarding lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be active in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement orders. Actions taken to date, as well as potential actions, may not have the beneficial effects that are intended, particularly with respect to the extreme levels of volatility and limited credit availability currently being experienced. In addition, new laws, regulations, and other regulatory changes will increase our Federal Deposit Insurance Corporation insurance premiums and may also increase our costs of regulatory compliance and of doing business, and otherwise affect our operations. New laws, regulations, and other regulatory changes, along with negative developments in the financial industry and the domestic and international credit markets, may significantly affect the markets in which we do business, the markets for and value of our loans and investments, and our ongoing operations, costs and profitability. Further, continued declines in the stock market in general, or for stock of financial institutions and their holding companies, could affect our stock performance.

***Lack of consumer confidence in financial institutions may decrease our level of deposits.*** Our level of deposits may be affected by lack of consumer confidence in financial institutions, which may cause depositors to withdraw deposits and invest the funds in investments perceived as being more secure. These consumer preferences may force us to pay higher interest rates to retain deposits and may constrain liquidity as we seek to meet funding needs caused by reduced deposit levels.

***Future legislative or regulatory actions responding to perceived financial and market problems could impair our rights against borrowers.*** There have been proposals made by members of Congress and others that would reduce the amount distressed borrowers are otherwise contractually obligated to pay under their mortgage loans and limit an institution's ability to foreclose on mortgage collateral. Were proposals such as these, or other proposals limiting our rights as a creditor, to be implemented, we could experience increased credit losses or increased expense in pursuing our remedies as a creditor.

***If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings will decrease.*** We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover probable incurred losses in our loan portfolio, resulting in additions to our allowance. While our allowance for loan losses was 0.79% of total loans at December 31, 2008, material additions to our allowance could materially decrease our net income. In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities might have a material adverse effect on our financial condition and results of operations.

***If our investment in the Federal Home Loan Bank of Boston is impaired, our earnings and stockholders' equity could decrease.*** We own common stock of the Federal Home Loan Bank of Boston (FHLB-Boston). We hold the FHLB-Boston common stock to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the FHLB-Boston's advance program. The aggregate cost and fair value of our FHLB-Boston common stock as of December 31, 2008 was \$4.3 million based on its par value. There is no market for our FHLB-Boston common stock.

Recent published reports indicate that certain member banks of the Federal Home Loan Bank System may be subject to accounting rules and asset quality risks that could result in materially lower regulatory capital levels. In an extreme situation, it is possible that the capitalization of a Federal Home Loan Bank, including the FHLB-Boston could be substantially diminished or reduced to zero. Consequently, we believe that there is a risk that our investment in FHLB-Boston common stock could be deemed other-than-temporarily impaired at some time in the future, and if this occurs, it would cause our earnings and stockholders' equity to decrease by the after-tax amount of the impairment charge.

***Strong competition within our market area could hurt our profits and slow growth.*** We face intense competition both in making loans and attracting deposits. This competition has made it more difficult for us to make new loans and attract deposits. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which reduces net interest income. As of June 30, 2008, we held 4.30% of the

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deposits in Hampden County, which was the 8<sup>th</sup> largest market share of deposits out of the 21 financial institutions in the county. This data does not include deposits held by one of our primary competitors, credit unions, which, as tax-exempt organizations, are able to offer higher rates on retail deposits than banks. There are 18 credit unions headquartered in Hampden County, some of the larger of which are headquartered in Chicopee, Massachusetts. Some of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our market area.

***A downturn in the local economy or a decline in real estate values could hurt our profits.*** Nearly all of our real estate loans are secured by real estate in Hampden County. As a result of this concentration, a downturn in the local economy could cause significant increases in non-performing loans, which would hurt our profits. Additionally, a decrease in asset quality could require additions to our allowance for loan losses through increased provisions for loan losses, which would hurt our profits. A decline in real estate values could cause some of our mortgage loans to become inadequately collateralized, which would expose us to a greater risk of loss. In addition, because we have a significant amount of commercial real estate loans, decreases in tenant occupancy may also have a negative effect on the ability of many of our borrowers to make timely repayments on their loans, which would have an adverse impact on our earnings.

***Our low return on equity may negatively affect our stock price.*** Net income divided by average equity, known as return on equity, is a ratio many investors use to compare the performance of a financial institution to its peers. Our return on equity was reduced due to the large amount of capital that we raised in our 2006 stock offering and to expenses we will incur in pursuing our growth strategies, the costs of being a public company and added expenses associated with our employee stock ownership plan and equity incentive plan. Until we can increase our net interest income and non-interest income, we expect our return on equity to be below that of our peers, which may negatively affect the value of our common stock. For the twelve months ended December 31, 2008, our return on equity was 0.02%.

***Expenses from operating as a public company and from new stock-based benefit plans will continue to adversely affect our profitability.*** Our non-interest expenses are impacted as a result of the financial, accounting, legal and various other additional expenses usually associated with operating as a public company. We also recognize additional annual employee compensation and benefit expenses stemming from the shares that are purchased or granted to employees and executives under new benefit plans. These additional expenses adversely affect our profitability. We recognize expenses for our employee stock ownership plan when shares are committed to be released to participants' accounts and recognize expenses for restricted stock awards and stock options over the vesting period of awards made to recipients.

**Item 1B. Unresolved Staff Comments.**

Not applicable.

**Item 2. Properties.**

We conduct our business through our main office in Chicopee, Massachusetts, seven full service branch offices and our lending and operation center. The net book value of our buildings and improvements was \$7.7 million at December 31, 2008.

**Item 3. Legal Proceedings.**

Periodically, we are involved in routine litigation incidental to our business, such as claims to enforce liens and contracts, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incidental to our business. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

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

None.



**Table of Contents****PART II****Item 5. Market for the Company's Common Equity and Related Stockholder Matters.**

On July 20, 2006, Chicopee Bancorp, Inc. common stock commenced trading on the Nasdaq Global Market ( Nasdaq ). Our common stock is listed on the Nasdaq under the symbol CBNK. The following table sets forth the high and low closing prices of the common stock for the years ended December 31, 2008 and 2007, as reported by NASDAQ. The Company did not pay any dividend during the years ended December 31, 2008 and 2007.

	High	Low		High	Low
<b>2008</b>			<b>2007</b>		
First Quarter	\$ 13.21	\$ 13.21	First Quarter	\$ 15.00	\$ 14.87
Second Quarter	12.85	12.75	Second Quarter	15.42	15.35
Third Quarter	13.49	13.11	Third Quarter	13.80	13.72
Fourth Quarter	11.95	11.65	Fourth Quarter	12.95	12.85

Chicopee Bancorp's ability to pay dividends is dependent on dividends received from Chicopee Savings Bank. For a discussion of restrictions on the payment of cash dividends by Chicopee Savings Bank, see *Business Regulation and Supervision Massachusetts Banking Laws and Supervision Dividends* in this Annual Report on Form 10-K.

**Stock Performance Graph**

The following graph compares the cumulative total shareholder return on Chicopee Bancorp common stock with the cumulative total return on the Nasdaq Index (U.S. Companies) and with the SNL Thrift <\$500M Index. The graph assumes \$100 was invested at the close of business on July 20, 2006.

- (a) As of December 31, 2008, the Company had approximately 801 holders of record of the Company's common stock.

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The following table provides information regarding the Company's purchase of its equity securities during the three months ended December 31, 2008.

<b>Period</b>	<b>(a) Total Number of Shares (or Units) Purchased</b>	<b>(b) Average Price Paid Per Share (or Unit)</b>	<b>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b>
October 1 - 31, 2008	5,500	\$ 13.27	217,277	117,723
November 1 - 30, 2008				117,723
December 1 - 31, 2008				117,723
<b>Total</b>	<b>5,500</b>	<b>\$ 13.27</b>	<b>217,277</b>	

- (1) On August 8, 2008 the Company announced that its Board of Directors authorized a stock repurchase program (the "Stock Repurchase Program") for the purchase of up to 335,000 shares of the Company's common stock or approximately 5% of its outstanding common stock. Any purchase of common stock under the Stock Repurchase Program will be made through open market purchase transactions from time to time or privately negotiated transactions. The amount and exact timing of any repurchases will depend on market conditions and other factors. Repurchased shares will be held in treasury. This plan will continue until it is completed or terminated by the Board of Directors.

**Table of Contents****Item 6. Selected Financial Data.**

We have derived the following selected consolidated financial and other data of the Company in part from our consolidated financial statements and notes appearing elsewhere in this Form 10-K.

	At December 31				
	2008	2007	2006	2005	2004
	(In Thousands)				
<b>Selected Financial Data:</b>					
Total assets	\$ 527,643	\$ 463,456	\$ 450,045	\$ 391,349	\$ 352,144
Cash and cash equivalents	23,073	23,521	11,528	17,586	22,419
Loans, net	416,261	379,868	368,968	315,649	281,389
Securities available-for-sale	5,451	7,864	7,861	4,934	5,103
Securities held-to-maturity	49,662	27,324	37,411	29,472	22,102
Deposits	333,448	324,971	311,571	295,023	280,769
Advances from the Federal Home Loan Bank	76,567	17,774	15,256	29,417	18,793
Total stockholders' equity	94,017	104,299	108,446	43,441	42,157
Nonperforming assets	3,185	1,014	1,711	736	656

	For the Years Ended December 31,				
	2008	2007	2006	2005	2004
	(In Thousands)				
<b>Selected Operating Data:</b>					
Interest and dividend income	\$ 25,557	\$ 26,105	\$ 22,759	\$ 18,832	\$ 16,508
Interest expense	11,189	11,783	9,207	6,930	5,527
Net interest and dividend income	14,368	14,322	13,552	11,902	10,981
Provision for loan losses	315	223	440	120	120
Net interest income after provision for loan losses	14,053	14,099	13,112	11,782	10,861
Non-interest income	2,227	2,721	1,631	1,492	2,359
Non-interest expense	15,882	14,202	17,854	11,087	10,388
Income (loss) before provision for income taxes	398	2,618	(3,111)	2,187	2,832
Income tax (benefit) expense	376	1,018	(577)	771	930
Net income (loss)	\$ 22	\$ 1,600	\$ (2,534)	\$ 1,416	\$ 1,902

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	At or For the Years Ended December 31,				
	2008	2007	2006	2005	2004
<b>Selected Operating Ratios and Other Data:</b>					
<b>Performance Ratios:</b>					
Average yield on interest-earning assets (1)	5.48%	6.09%	5.85%	5.47%	5.15%
Average rate paid on interest-bearing liabilities	3.03%	3.64%	2.96%	2.29%	1.95%
Average interest rate spread (2)	2.45%	2.45%	2.89%	3.18%	3.20%
Net interest margin (3)	3.10%	3.35%	3.49%	3.47%	3.44%
Ratio of interest-earning assets to interest-bearing liabilities	126.99%	133.14%	125.29%	113.98%	113.42%
Non-interest expenses as a percent of average assets	3.19%	3.10%	4.28%	2.99%	2.99%
Return on average assets	0.00%	0.35%	(0.61)%	0.38%	0.55%
Return on average equity	0.02%	1.48%	(3.57)%	3.30%	4.59%
Ratio of average equity to average assets	19.86%	23.60%	17.02%	11.58%	11.92%
Efficiency ratio (4)	94.42%	83.33%	117.18%	82.43%	77.30%
<b>Regulatory Capital Ratios:</b>					
Total capital to risk-weighted assets	23.60%	28.60%	28.70%	13.83%	14.90%
Tier 1 capital to risk-weighted assets	22.80%	27.70%	27.83%	13.03%	14.01%
Tier 1 capital to average assets	18.30%	22.70%	24.35%	11.27%	11.81%
<b>Asset Quality Ratios:</b>					
Nonperforming loans as a percent of total loans	0.69%	0.27%	0.46%	0.23%	0.23%
Nonperforming loans as a percent of total assets	0.55%	0.22%	0.38%	0.19%	0.19%
Allowance for loan losses as a percent of total loans	0.79%	0.80%	0.78%	0.82%	0.89%
Allowance for loan losses as a percent of nonperforming loans and troubled debt restructurings	114.30%	303.35%	169.96%	353.94%	382.93%
Net loans charged-off to average interest-earning loans	0.01%	0.01%	0.04%	0.01%	
<b>Other Data:</b>					
Banking offices at end of period	8	7	7	7	6

- (1) Municipal securities income and net interest income are presented on a tax equivalent basis using a tax rate of 41%. The tax equivalent adjustment is deducted from the tax equivalent net interest income to agree to the amount reported on the income statement.
- (2) Tax equivalent net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (3) Tax equivalent net interest margin represents tax equivalent net interest income divided by total average interest-earning assets.
- (4) The efficiency ratio represents the ratio of non-interest expenses divided by the sum of tax equivalent net interest income and non-interest income. This ratio excludes gains (losses) on investment securities, property, loans and other, net.



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### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion should be read in conjunction with the Selected Financial Data and the Company's Consolidated Financial Statements and notes thereto, each appearing elsewhere in this Annual Report on Form 10-K.

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

This Annual Report on Form 10-K 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.

By identifying these forward-looking statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in the forward-looking statements include, among others, those discussed under Risk Factors in Part I, Item 1A of this Annual Report on Form 10-K. 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.

#### **Overview**

**Income.** Our primary source of pre-tax income is net interest income. Net interest income is the difference between interest income, which is the income that we earn on our loans and securities, and interest expense, which is the interest that we pay on our deposits and borrowings. Other significant sources of pre-tax income are service charges fees and commissions, which include service charges on deposit accounts, brokerage fee income and other loan fees (including loan brokerage fees and late charges), income from bank-owned life insurance and income from loan sales and servicing. In addition, we recognize income or losses from the sale of securities available for sale in years that we have such sales.

**Allowance for Loan Losses.** The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, information about specific borrower situations, estimated collateral values, economic conditions, and other factors. Allocation of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

**Expenses.** The non-interest expenses we incur in operating our business consist of salaries and employee benefits expenses, occupancy expenses, furniture and equipment expenses, data processing expenses and various other miscellaneous expenses.

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### **Critical Accounting Policies**

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the following to be our critical accounting policies:

***Allowance for Loan Losses.*** The allowance for loan losses is the amount estimated by management as necessary to cover probable incurred credit losses in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impaired loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance on a monthly basis and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectibility of the loan portfolio. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loans and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, we do not separately identify individual consumer and residential loans for impairment evaluation.

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. In addition, our banking regulators, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings.

***Deferred Income Taxes.*** We use the asset and liability method of accounting for income taxes as prescribed in Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. A valuation allowance would result in additional income tax expense in the period, which would negatively affect earnings.

***Mortgage Servicing Rights.*** Mortgage servicing rights associated with loans originated and sold, where servicing is retained, are capitalized and included in other assets in the consolidated balance sheet. Mortgage servicing rights are amortized into non-interest income in proportion to, and over the period of, estimated future net servicing income of the underlying financial assets. Mortgage servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. The value of the capitalized servicing rights represents the present value of the future servicing fees arising from the right to service loans in the portfolio. Critical accounting policies for mortgage servicing rights relate to the initial valuation and subsequent impairment tests. The methodology used to determine the valuation of mortgage servicing rights requires the development and use of a number of estimates, including anticipated principal amortization and prepayments of that principal balance. Events that may significantly affect the estimates used are changes in interest rates, mortgage loan prepayment speeds and the payment performance of the underlying loans. The carrying value of the mortgage servicing rights is periodically reviewed for impairment based on a determination of fair value. Impairment, if any, is recognized through a valuation allowance and is recorded as a component of non-interest expense.



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**Other-Than-Temporary Impairment.** Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities, FASB Staff Position (FSP) 115-1 The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Benefits, and Staff Accounting Bulletin 59, Noncurrent Marketable Equity Securities, require companies to perform periodic reviews of individual securities in their investment portfolios to determine whether decline in the value of a security is other than temporary. A review of other-than-temporary impairment requires companies to make certain judgments regarding the materiality of the decline, its effect on the financial statements and the probability, extent and timing of a valuation recovery and the company's intent and ability to hold the security. Pursuant to these requirements, we assess valuation declines to determine the extent to which such changes are attributable to (1) fundamental factors specific to the issuer, such as financial condition, business prospects or other factors or (2) market-related factors, such as interest rates or equity market declines. Declines in the fair value of securities below their costs that are deemed to be other than temporary are recorded in earnings as realized losses.

## **Operating Strategy**

Our mission is to operate and grow a profitable community-oriented financial institution serving primarily retail customers and businesses in our market areas. We plan to continue our strategy of:

expanding our branch network and market area and upgrading our existing branches;

continuing to increase our commercial and construction relationships in our expanding market area;

increasing our deposit market share in our expanding market area;

continuing to increase our sale of non-deposit investment products;

improving operating efficiency and cost control; and

applying disciplined underwriting practices to maintain the high quality of our loan portfolio.

**Expanding our branch network and market area and upgrading our existing branches.** From our formation in 1845 until 2002, we operated solely out of our offices located in Chicopee, Massachusetts and focused our lending in Chicopee and the surrounding area. Recently, our management began to implement a growth strategy that expanded our presence into additional communities contiguous to Chicopee. In 2002, we opened a branch to the east of Chicopee in Ludlow, and in 2005 we opened a branch to the west of Chicopee in West Springfield. As a result of our efforts to expand our presence, at December 31, 2008, most of our loan portfolio was secured by property within Chicopee and its contiguous communities.

We intend to continue our geographic expansion outside of Chicopee by opening branches in communities contiguous to those currently served by Chicopee Savings Bank. In December 2008, we opened a full-service branch in South Hadley, Massachusetts. We opened another new full-service branch in Ware, Massachusetts in February 2009. We currently anticipate that we will establish one additional branch by the end of 2009, if market conditions are favorable. In connection with this expansion of our branch network, we currently expect to hire new employees, primarily retail investment and other branch personnel to support our expanded infrastructure. In addition to branching, we are focusing on upgrading existing facilities in an effort to better serve our customers. We are currently expanding our Memorial Drive branch facilities and providing a new ATM at this branch.

**Continuing to increase our commercial relationships in our expanding market area.** Since 1999 we have worked to increase our commercial relationships by diversifying our loan portfolio beyond residential mortgage loans and offering business deposit and checking products. In particular, since December 31, 2007, our commercial real estate and commercial business portfolio has increased \$20.3 million, or 13.6%, and at December 31, 2008 was 40.4% of our total loan portfolio. During this period, we have taken advantage of the significant growth in both residential and commercial real estate development in our market area. In addition, since December 31, 2007, our securities sold under agreements to repurchase, which are sweep accounts primarily for commercial customers, increased \$7.8 million, or 54.8%. Business deposit

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and checking accounts increased from \$27.2 million at December 31, 2007 to \$30.9 million at December 31, 2008, an increase of 13.8%. Finally, since 2007, we have increased the number of our commercial lenders and commercial lending support staff.

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***Increasing our deposit market share in our expanding market area.*** Retail deposits are our primary source of funds for investing and lending. By offering a variety of deposit products, special and tiered pricing, and superior customer service, we will seek to retain and expand existing customer relationships as well as attract new deposit customers. Personalized service and flexibility with regard to customer needs will continue to be augmented with a full array of delivery channels to maximize customer convenience. These include drive-up banking, ATMs, internet banking, automated bill payment and telephone banking. Through our continued focus on these deposit-gathering efforts in existing branch locations, couple with our plans for geographic expansion, we expect to increase the overall level of deposits and our market share in the markets we serve.

In addition, historically, one of our primary competitors for retail deposits in the Chicopee market area has been credit unions. Credit unions are formidable competitors since, as tax-exempt organizations, they are able to offer higher rates on retail deposits than banks. By expanding our market area beyond the immediate Chicopee market area, and beyond the market areas of our larger credit union competitors, we intend to increase our overall deposit market share of Hampden County.

***Continuing to increase our sale of non-deposit investment products.*** Our profits rely heavily on the spread between the interest earned on loans and securities and interest paid on deposits and borrowings. In order to decrease our reliance on interest rate spread income we have pursued initiatives to increase non-interest income. We offer non-deposit investment products, including mutual funds, annuities, pension plans, life insurance, long-term care and 529 college savings plans through a third party registered broker-dealer, Linsco/Private Ledger. This initiative generated \$396,000, \$356,000 and \$217,000 of non-interest income during the years ended December 31, 2008, 2007 and 2006, respectively. In connection with our expanding branch network, we intend to continue to increase our sale of non-deposit investment products by engaging one additional retail investment employee to serve customers of our anticipated branch expansion.

***Improving operating efficiency.*** Other than 2006, the year in which we completed our public offering, our operating efficiency has remained relatively steady for the past three years, with the ratio of non-interest expense to average total assets at 3.19% and 3.10% in 2008 and 2007, respectively. We recognize that our growth strategies have required greater investments in personnel, marketing, premises and equipment, and these investments have had a negative impact on our expense ratios over the short term. However, we believe our current staff of commercial lenders is capable of managing our commercial relationships in our anticipated expanding branch network. In addition, we have had an increase in operating expenses as a result of our public company status, including costs associated with the internal control requirements under Section 404 of the Sarbanes-Oxley Act of 2002, which have required us to perform a more in-depth review of our internal control procedures. Increased operating expenses due to our Equity Incentive Plan, initiated in 2007, have also had a significant impact on our expense ratios. We expect to incur these additional expenses for approximately three and a half more years. We also have had higher costs for auditing, accounting, legal and other miscellaneous holding company expenses as a result of being a public company. We will continue our efforts to monitor costs throughout the organization, and over the long term, as our assets grow, we will attempt to lower our ratio of non-interest expense to total average assets.

***Applying disciplined underwriting practices to maintain the high quality of our loan portfolio.*** We believe that high asset quality is a key to long-term financial success. We have sought to grow and diversify the loan portfolio, while maintaining a high level of asset quality and moderate credit risk, using underwriting standards that we believe are conservative and diligent monitoring and collection efforts. At December 31, 2008, our nonperforming loans (loans which are 90 or more days delinquent) were 0.69% of our total loan portfolio. Although we intend to continue our efforts to originate nonresidential real estate, commercial business and construction loans, we intend to continue our philosophy of managing large loan exposures through our conservative approach to lending.

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**Balance Sheet Analysis**

***Comparison of Financial Condition at December 31, 2008 and December 31, 2007***

Total assets rose \$64.2 million, or 13.8%, to \$527.6 million at December 31, 2008, from \$463.5 million at December 31, 2007. The growth in assets was primarily attributable to an increase in net loans of \$36.4 million and held-to-maturity securities of \$22.3 million. Net loans increased to \$416.3 million at December 31, 2008, from \$379.9 million at December 31, 2007, primarily reflecting origination volume totaling \$137.2 million in 2008. The Company's level of loan closings was a strong result of the decreasing interest rate environment. These factors were somewhat mitigated by normal amortization totaling approximately \$20.4 million and the sale of \$2.2 million of loans to MHFA and FHLMC. Loan payoffs and construction advances and line of credit pay downs also offset 2008 loan originations. The Company will continue to evaluate the sale of additional longer-term, lower coupon, fixed rate mortgages in 2009.

Asset growth was funded primarily through increased advances from the Federal Home Loan Bank of \$58.8 million and increased deposits of \$8.5 million. Total deposits grew to \$333.4 million at December 31, 2008 compared to \$325.0 million at December 31, 2007 reflecting increases in money market and non-interest-bearing demand accounts. The growth in deposits was mainly attributable to the increase in commercial relationships.

Total stockholders' equity decreased \$10.3 million, or 9.9%, to \$94.0 million at December 31, 2008 from \$104.3 million at December 31, 2007. This decrease was primarily due to the purchase of 787,615 shares of the Company's common stock through the Company's stock repurchase program, at a cost of \$10.4 million.

***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 size of our one- to four-family residential loan portfolio has increased during 2008 as new originations outpaced payoffs. In particular, as a result of the decreasing rate environment on our long-term fixed-rate loans, in 2008 we originated more adjustable-rate loans, which we retain in our portfolio, as opposed to long-term fixed-rate loans, for which we make a determination on a loan by loan basis of our intent to sell. The increase can also be attributed to consumers taking advantage of decreasing prices on real estate due to economic conditions. As a percentage of the total loan portfolio, one- to four-family residential loans have remained the largest segment of the portfolio.

Our commercial real estate portfolio increased during 2008 as a result of significant new development within parts of our market area and our increasing emphasis on this type of lending.

Multi-family loans have decreased slightly as we have grown other segments of the portfolio.

Commercial business loans increased during 2008 as a result of increased commercial business line usage, due to increased marketing efforts and offering a wider variety of services for commercial borrowers, such as additional business deposit and checking products.

Our construction loan portfolio increased slightly during 2008 due to advances on a commercial construction loan used for the construction of a warehouse building in Chicopee, MA. These advances were partially offset by pay downs on residential builder loans and condominiums.

Growth in the consumer loan portfolio is primarily attributable to increased marketing activities and competitive pricing on our home equity products.

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**Loan Portfolio Composition.** 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.

	2008		2007		At December 31, 2006		2005		2004	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
(Dollars In Thousands)										
<b>Real estate loans:</b>										
One- to four-family	\$ 165,072	39.44%	\$ 154,299	40.39%	\$ 143,964	38.80%	\$ 132,824	41.83%	\$ 119,190	42.30%
Multi-family	11,459	2.74%	11,674	3.06%	11,447	3.09%	11,142	3.51%	10,855	3.85%
Commercial	114,875	27.45%	103,051	26.97%	102,819	27.71%	93,953	29.60%	90,877	32.25%
Construction and development	41,629	9.95%	40,394	10.57%	41,713	11.24%	22,822	7.19%	14,292	5.07%
Total real estate loans	333,035	79.58%	309,418	80.99%	299,943	80.84%	260,741	82.13%	235,214	83.47%
<b>Consumer loans:</b>										
Home equity lines of credit	9,463	2.26%	6,882	1.80%	7,766	2.09%	7,918	2.50%	7,640	2.71%
Second mortgages	17,840	4.26%	15,938	4.17%	13,386	3.62%	7,188	2.26%	4,084	1.45%
Other	3,926	0.94%	3,995	1.05%	3,555	0.96%	3,000	0.95%	2,444	0.87%
Total consumer loans	31,229	7.46%	26,815	7.02%	24,707	6.67%	18,106	5.71%	14,168	5.03%
Commercial loans	54,255	12.96%	45,815	11.99%	46,348	12.49%	38,596	12.16%	32,399	11.50%
Total loans	418,519	100.00%	382,048	100.00%	370,998	100.00%	317,443	100.00%	281,781	100.00%
Undisbursed portion of loans in process	72				21				1,391	
Net deferred loan origination costs	1,003		896		857		811		729	
Allowance for loan losses	(3,333)		(3,076)		(2,908)		(2,605)		(2,512)	
Loans, net	\$ 416,261		\$ 379,868		\$ 368,968		\$ 315,649		\$ 281,389	

**Loan Maturity.** The following table sets forth certain information at December 31, 2008 regarding the dollar amount of loan principal repayments becoming due during the periods indicated. The table does not include any estimate of prepayments which significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown. Demand loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less.

	Real Estate Mortgage	Construction	Commercial (In Thousands)	Consumer	Total Loans
<b>Amounts due:</b>					
One year or less	\$ 1,312	\$ 23,988	\$ 29,354	\$ 342	\$ 54,996
More than one year to five years	8,925	14,862	16,413	5,447	45,647
More than five years	281,169	2,779	8,488	25,440	317,876



Total amount due	\$ 291,406	\$ 41,629	\$ 54,255	\$ 31,229	\$ 418,519
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The following table sets forth the dollar amount of all loans at December 31, 2008 that are due after December 31, 2009 that have either fixed interest rates or adjustable interest rates. The amounts shown below exclude unearned interest on consumer loans and deferred loan origination costs.

	Fixed	Adjustable	Total
	(In Thousands)		
Real estate loans	\$ 36,917	\$ 253,177	\$ 290,094
Construction		17,641	17,641
Commercial	15,652	9,249	24,901
Consumer	21,564	9,323	30,887
<b>Total loans</b>	<b>\$ 74,133</b>	<b>\$ 289,390</b>	<b>\$ 363,523</b>

**Securities.** Our securities portfolio consists primarily of U.S. Government sponsored enterprise securities and collateralized mortgage obligations. Total securities increased \$19.9 million, or 56.6%, in the year ended December 31, 2008, primarily due to the purchase of held-to-maturity securities. Total securities decreased \$10.1 million, or 22.3%, in the year ended December 31, 2007, primarily due to maturities of securities held-to-maturity. All of our collateralized mortgage obligations were issued by Fannie Mae or Freddie Mac.

The following table sets forth at the dates indicated information regarding the amortized cost and market values of the Company's investment securities.

	2008		At December 31, 2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)					
<b>Available-for-sale securities</b>						
Marketable equity securities	\$ 7,632	\$ 5,451	\$ 7,504	\$ 7,864	\$ 6,847	\$ 7,861
<b>Total available-for-sale securities</b>	<b>\$ 7,632</b>	<b>\$ 5,451</b>	<b>\$ 7,504</b>	<b>\$ 7,864</b>	<b>\$ 6,847</b>	<b>\$ 7,861</b>
<b>Held-to-maturity securities</b>						
Debt securities of U.S. Government sponsored enterprises	\$ 27,164	\$ 27,189	\$ 16,496	\$ 16,500	\$ 28,924	\$ 28,891
U.S. Treasury securities	11,997	12,000				
Corporate and industrial revenue bonds	4,060	4,060	4,303	4,303	1,710	1,710
Collateralized mortgage obligations	6,441	6,424	6,525	6,266	6,777	6,498
<b>Total held-to-maturity securities</b>	<b>\$ 49,662</b>	<b>\$ 49,673</b>	<b>\$ 27,324</b>	<b>\$ 27,069</b>	<b>\$ 37,411</b>	<b>\$ 37,099</b>
<b>Total securities</b>	<b>\$ 57,294</b>	<b>\$ 55,124</b>	<b>\$ 34,828</b>	<b>\$ 34,933</b>	<b>\$ 44,258</b>	<b>\$ 44,960</b>

(1) Does not include investments in FHLB-Boston stock totaling \$4.3 million at December 31, 2008, \$1.6 million at December 31, 2007 and \$1.6 million at December 31, 2006.

At December 31, 2008, our marketable equity securities had gross unrealized losses of approximately \$2.4 million. These investments are in highly traded stocks. Based on periodic analysis of the underlying corporations in this portfolio, we believe that no equity securities are other-than-temporarily impaired. See note 3 to the notes to consolidated financial statements.

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At December 31, 2008, we had no investments in a single company or entity (other than U.S. Government-sponsored enterprise securities) that had an aggregate book value in excess of 10% of our equity at December 31, 2008.

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The table below sets forth the stated maturities and weighted average yields of debt securities at December 31, 2008. Weighted average yields on tax-exempt securities are not presented on a tax equivalent basis because the impact would be insignificant.

	Less than One Year	More than One Year	More than Five	More than Ten		Total
	Carrying Value	Carrying Value	Carrying Value	Carrying Value		Carrying Value
	Average Yield	Average Yield	Average Yield	Average Yield		Average Yield
	(Dollars in Thousands)					
Held-to-maturity securities						
U.S. Government sponsored enterprise obligations	\$ 27,164	\$	\$	\$	\$ 27,164	1.11%
U.S. treasury securities	11,997				11,997	0.52%
Corporate and industrial revenue bonds	383			3,677	4,060	4.89%
Collateralized mortgage obligations			4,052	2,389	6,441	4.64%
Total held-to-maturity securities	\$ 39,544	\$	\$ 4,052	\$ 6,066	\$ 49,662	1.73%

**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 deposit. These deposits are provided primarily by individuals within our market areas. At December 31, 2008, we did not use brokered deposits as a source of funding. Deposits increased \$8.5 million, or 2.6%, for the year ended December 31, 2008. The increase in deposits consisted primarily of an increase in money market and demand deposits, partially offset by the decrease in certificates of deposits. The increase in money market and demand deposits was due primarily to the increase in commercial relationships. Deposits increased \$13.4 million, or 4.3%, for the year ended December 31, 2007, primarily due to increases in certificates of deposits and demand deposits. Deposits increased \$16.5 million, or 5.6%, for the year ended December 31, 2006 primarily as a result of an increase in certificates of deposit and demand deposits, partially offset by a decrease in money market deposit accounts.

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

	2008	December 31, 2007	2006
	(In Thousands)		
Demand	\$ 30,921	\$ 27,167	\$ 29,088
Savings	39,668	39,630	40,467
Money market	47,301	35,542	34,083
NOW	14,692	14,628	16,350
Certificates of deposit	200,866	208,004	191,583
Total deposits	\$ 333,448	\$ 324,971	\$ 311,571

The following table indicates the amount of jumbo certificates of deposit by time remaining until maturity as of December 31, 2008. Jumbo certificates of deposit require minimum deposits of \$100,000.

Maturity Period	Amount	Weighted Average Rate
	(Dollars in Thousands)	
Three months or less	\$ 24,687	2.80%
Over three through six months	11,082	3.12%

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Over six through 12 months	17,059	4.13%
Over 12 months	30,274	4.56%
<b>Total</b>	<b>\$ 83,102</b>	<b>3.76%</b>

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**Borrowings.** The Company utilizes borrowings from a variety of sources to supplement our supply of funds for loans and investments.

	Years Ended December 31,		
	2008	2007	2006
(Dollars in Thousands)			
<b>Maximum amount of advances outstanding at any month-end during the period:</b>			
FHLB Advances	\$ 76,567	\$ 17,774	\$ 41,425
Securities sold under agreements to repurchase	38,557	17,937	21,294
Other borrowings	50	100	147
<b>Average advances outstanding during the period:</b>			
FHLB Advances	\$ 45,872	\$ 14,515	\$ 25,037
Securities sold under agreements to repurchase	23,191	13,240	13,690
Other borrowings	25	77	126
<b>Weighted average interest rate during the period:</b>			
FHLB Advances	3.16%	3.90%	4.16%
Securities sold under agreements to repurchase	1.50%	2.60%	2.00%
Other borrowings	7.00%	7.00%	7.00%
<b>Balance outstanding at end of period:</b>			
FHLB Advances	\$ 76,567	\$ 17,774	\$ 15,256
Securities sold under agreements to repurchase	21,956	14,179	12,712
Other borrowings		54	104
<b>Weighted average interest rate at end of period:</b>			
FHLB Advances	2.24%	4.03%	3.82%
Securities sold under agreements to repurchase	1.25%	2.50%	2.50%
Other borrowings		7.00%	7.00%

Federal Home Loan Bank advances increased \$58.8 million, or 330.8%, for the year ended December 31, 2008. The increase in Federal Home Loan Bank advances during the period was used to fund loan growth. These advances mature in 2009 through 2018. Federal Home Loan Bank advances increased \$2.5 million, or 16.5%, for the year ended December 31, 2007, due to loan growth. Federal Home Loan Bank advances decreased \$14.2 million, or 48.1%, for the year ended December 31, 2006, due to principal payments.

Securities sold under agreements to repurchase increased \$7.8 million, or 54.8%, during the year ended December 31, 2008, due to the increase in commercial relationships. Securities sold under agreements to repurchase increased \$1.5 million, or 11.5%, during the year ended December 31, 2007, due to our marketing of commercial cash management products and decreased \$7.5 million, or 37.0%, during the year ended December 31, 2006, primarily due to a decrease in sweep balances maintained by commercial customers.

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In addition, at December 31, 2008 and 2007, we had the ability to borrow a total of \$3.0 million from a correspondent bank, none of which was borrowed at such date.

**Analysis of Net Interest Income**

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

**Average Balance Sheet.** The following table sets forth information relating to the Company for the years ended December 31, 2008, 2007 and 2006. The average yields and costs are derived by dividing interest income or interest expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The yields include fees which are considered adjustments to yields. Loan interest and yield data does not include any accrued interest from non-accruing loans.

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	For the Years Ended December 31,								
	2008			2007			2006		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
	(Dollars in Thousands)								
<b>Interest-earning assets: (1)</b>									
Investments	\$ 52,932	\$ 1,514	2.86%	\$ 43,346	\$ 2,019	4.66%	\$ 42,398	\$ 1,858	4.38%
Loans:									
Residential real estate loans	173,602	9,817	5.65%	163,325	8,973	5.49%	149,665	8,083	5.40%
Commercial real estate loans	149,300	9,466	6.34%	141,355	9,448	6.68%	125,975	7,917	6.28%
Consumer loans	29,135	1,724	5.92%	26,051	1,754	6.73%	21,412	1,438	6.72%
Commercial loans	50,349	2,892	5.74%	44,602	3,318	7.44%	38,072	2,781	7.30%
Loans, net	402,386	23,899	5.94%	375,333	23,493	6.26%	335,124	20,219	6.03%
Other	13,702	299	2.18%	12,076	701	5.80%	12,463	735	5.90%
Total interest-earning assets	469,020	25,712	5.48%	430,755	26,213	6.09%	389,985	22,812	5.85%
Noninterest-earning assets	29,078			26,877			26,895		
Total assets	\$ 498,098			\$ 457,632			\$ 416,880		
<b>Interest-bearing liabilities:</b>									
Deposits:									
Money market accounts	\$ 44,646	\$ 916	2.05%	\$ 38,048	\$ 1,037	2.73%	\$ 35,636	\$ 748	2.10%
Savings accounts (2)	39,864	266	0.67%	44,053	460	1.04%	64,495	300	0.47%
NOW accounts	14,705	61	0.41%	15,578	61	0.39%	15,532	54	0.35%
Certificates of deposit	201,026	8,148	4.05%	198,019	9,309	4.70%	156,748	6,786	4.33%
Total interest-bearing deposits	300,241	9,391	3.13%	295,698	10,867	3.68%	272,411	7,888	2.90%
FHLB advances	45,872	1,448	3.16%	14,515	566	3.90%	25,037	1,030	4.16%
Securities sold under agreement to repurchase	23,191	348	1.50%	13,240	345	2.60%	13,690	280	2.00%
Other borrowings	25	2	7.00%	77	5	7.00%	126	9	7.00%
Total interest-bearing borrowings	69,088	1,798	2.60%	27,832	916	3.29%	38,853	1,319	3.39%
Total interest-bearing liabilities	369,329	111,189	3.03%	323,530	11,783	3.64%	311,264	9,207	2.96%
Demand deposits	29,403			25,552			25,591		
Other noninterest-bearing liabilities	464			539			9,052		
Total liabilities	399,196			349,621			345,907		
Total stockholders equity	98,902			108,011			70,973		
Total liabilities and stockholders equity	\$ 498,098			\$ 457,632			\$ 416,880		
Net interest-earning assets	\$ 99,691			\$ 107,225			\$ 78,721		
Tax equivalent net interest income/interest rate spread (3)		14,523	2.45%		14,430	2.45%		13,605	2.89%
Tax equivalent net interest margin (4)			3.10%			3.35%			3.49%



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Ratio of interest-earning assets to interest-bearing liabilities	126.99%	133.14%	125.29%
Less: tax equivalent adjustment (1)	(155)	(108)	(53)
Net interest income as reported on income statement	\$ 14,368	\$ 14,322	\$ 13,552

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

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

	Year Ended December 31, 2008			Year Ended December 31, 2007		
	Compared to December 31, 2007			Compared to December 31, 2006		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
<b>Interest-earning assets:</b>						
Investment securities	\$ 383	\$ (888)	\$ (505)	\$ 42	\$ 119	\$ 161
<b>Loans:</b>						
Residential real estate loans	576	268	844	747	143	890
Commercial real estate loans	517	(499)	18	1,003	528	1,531
Consumer loans	196	(226)	(30)	313	3	316
Commercial loans	402	(828)	(426)	483	54	537
Total loans	1,691	(1,285)	406	2,546	728	3,274
Other	87	(489)	(402)	(22)	(12)	(34)
Total interest-earning assets	\$ 2,161	\$ (2,662)	\$ (501)	\$ 2,566	\$ 835	\$ 3,401
<b>Interest-bearing liabilities:</b>						
<b>Deposits:</b>						
Money market accounts	\$ 162	\$ (283)	\$ (121)	\$ 54	\$ 235	\$ 289
Savings accounts (1)	(40)	(154)	(194)	(119)	279	160
NOW accounts	(3)	3	0	0	7	7
Certificates of deposit	140	(1,301)	(1,161)	1,903	620	2,523
Total interest-bearing deposits	259	(1,735)	(1,476)	1,838	1,141	2,979
FHLB advances	1,012	(130)	882	(414)	(50)	(464)
Securities sold under agreement to repurchase	191	(188)	3	(9)	74	65
Other borrowings	(3)		(3)	(4)		(4)
Total interest-bearing borrowings	1,200	(318)	882	(427)	24	(403)
Total interest-bearing liabilities	1,459	(2,053)	(594)	1,411	1,165	2,576
Increase (decrease) in net interest income	\$ 702	\$ (609)	\$ 93	\$ 1,155	\$ (330)	\$ 825

(1) Includes interest on mortgagors' escrow deposits.

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### **Results of Operations.**

#### ***Comparison of Operating Results for the Years Ended December 31, 2008 and December 31, 2007***

**General.** For the year ended December 31, 2008, the Company reported net income of \$22,000 compared to net income of \$1.6 million for the year ended December 31, 2007.

**Net Interest Income.** Net interest income, on a tax equivalent basis, totaled \$14.5 million for the year ended December 31, 2008, an increase of \$93,000, or 0.64%, from \$14.4 million for the same period in 2007. The increase reflects growth in average earning assets of \$38.3 million, or 8.9%, which exceeded the effect of \$45.8 million of increased interest bearing liabilities and a constant interest rate spread. Net interest margin, on a tax equivalent basis, decreased 25 basis points to 3.10% for the year ended December 31, 2008 from 3.35% for the same period in 2007, primarily attributable to the declining interest rate environment.

**Interest and Dividend Income.** Interest and dividend income, on a tax equivalent basis, decreased \$501,000, or 1.9%, to \$25.7 million for the year ended December 31, 2008 from \$26.2 million in 2007, largely reflecting the decrease in interest rates earned. Average interest-earning assets totaled \$469.0 million for the year ended December 31, 2008 compared to \$430.8 million for the same period last year, representing an increase of \$38.3 million, or 8.9%. Average loans increased \$27.1 million, or 7.2%, primarily due to strong origination partially mitigated by amortization. Average investment securities increased \$9.6 million, or 22.1%, mainly attributable to additional purchases of held-to-maturity securities. The tax equivalent yield on interest-earning assets decreased 61 basis points to 5.48% for the year ended December 31, 2008 from 6.09% for the year ended December 31, 2007, largely attributable to lower market rates of interest for 2008.

**Interest Expense.** Total interest expense decreased \$594,000, or 5.0%, to \$11.2 million for the year ended December 31, 2008 from \$11.8 million in 2007, resulting primarily from lower rates paid on interest-bearing liabilities. Average interest-bearing liabilities totaled \$369.3 million for the year ended December 31, 2008, representing an increase of \$45.8 million, or 14.2%, from \$323.5 million for the same period in 2007, mainly due to an increase in interest-bearing borrowings. Average interest-bearing deposits grew \$4.5 million, or 1.5%, to \$300.2 million for the year ended December 31, 2008, primarily attributable to increased balances in money market accounts. Average money market accounts increased \$6.6 million, or 17.3%, to \$44.6 million for the year ended December 31, 2008, due to the increase in commercial relationships. Average certificate of deposit balances increased \$3.0 million, or 1.5%, to \$201.0 million for the year ended December 31, 2008. Average borrowings increased \$41.3 million, or 148.2%, to \$69.1 million for the year ended December 31, 2008, due to the increase in loans. The rate paid on interest-bearing liabilities decreased 61 basis points to 3.03% for the year ended December 31, 2008 from 3.64% in 2007, reflecting the lower interest rate environment.

**Provision for Loan Losses.** The Company's provision for loan losses increased by \$92,000 to \$315,000 for the year ended December 31, 2008 from \$223,000 for the same period in 2007. The increase was primarily due to the increase in loan balances, in particular the increase in commercial real estate loans, and the increase in non-accrual loans.

The allowance for loan losses was \$3.3 million, or 0.79% of total loans, as of December 31, 2008, as compared to \$3.1 million, or 0.80% of total loans, as of December 31, 2007. An analysis of the changes in the allowance for loan losses is presented under **Risk Management Analysis and Determination of the Allowance for Loan Losses**.

**Non-interest Income.** Total non-interest income decreased \$494,000, or 18.2%, to \$2.2 million for the year ended December 31, 2008 compared to \$2.7 million for the same period in 2007. The 2008 results included net losses from the sales of available-for-sale securities of \$57,000, compared to net gains of \$835,000 in 2007, a decrease in income of \$892,000 or 106.8%. Fee income increased \$404,000, or 21.3%, to \$2.3 million for the year ended December 31, 2008 from \$1.9 million for the comparable period in 2007 reflecting expansion in deposit balances and transaction volume.

**Non-interest Expenses.** Non-interest expenses increased \$1.7 million, or 11.8%, to \$15.9 million for the year ended December 31, 2008 from \$14.2 million for the same period in 2007 largely attributable to the increase in Equity Incentive Plan expenses of \$630,000, the result of recording a full year of expense in 2008 compared to only half a year in 2007. In addition, the increase in non-interest expense for the year is associated with the costs of temporarily outsourcing the Company's IT and Sarbanes Oxley internal audit functions, which was the primary reason for the increase in audit expenses of \$194,000, and expenses associated with the development of two new branches, including additional salaries and employee benefit expense of \$478,000.

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**Income Taxes.** The Company's income tax expense decreased \$642,000 to a tax expense of \$376,000 for the year ended December 31, 2008 compared to \$1.0 million in 2007 mainly attributable to the decrease in income before income taxes of \$2.2 million. As of December 31, 2008, a valuation allowance of \$1.3 million has been established against deferred tax assets related to the uncertain utilization of the charitable contribution carry forward created primarily by the donation to the Foundation as part of the conversion. Of the \$1.3 million valuation allowance, \$300,000 was applied in the second half of 2008. The judgment applied by management considers the likelihood that sufficient taxable income will be realized within the carry forward period in light of our tax planning strategies and changes in the market conditions.

**Comparison of Operating Results for the Years Ended December 31, 2007 and December 31, 2006**

**General.** For the year ended December 31, 2007, the Company reported net income of \$1.6 million compared to a net loss of \$2.5 million for the year ended December 31, 2006. The net loss for the year ended December 31, 2006 was a result of the charitable contribution the Company made to the Chicopee Savings Bank Foundation of Company common stock in the amount of \$5.5 million in connection with the Company's initial public offering. The loss from the charitable contribution in 2006 was partially offset by an increase in net interest income after provision for loan losses of \$1.3 million or 11.3%, primarily due to growth in average loans, somewhat offset by higher provision for loan losses.

**Net Interest Income.** Net interest income, on a tax equivalent basis, totaled \$14.4 million for the year ended December 31, 2007, an increase of \$825,000, or 6.1%, from \$13.6 million for the same period in 2006, reflecting growth in average earning assets of \$40.8 million, or 10.5%, partially offset by higher cost of deposits. Net interest margin, on a tax equivalent basis, decreased 14 basis points to 3.35% for the year ended December 31, 2007 from 3.49% for the same period in 2006, primarily attributable to higher rates paid on deposits and an increase in higher cost certificate of deposits, offset by an increase in the tax equivalent yield on interest-earning assets.

**Interest and Dividend Income.** Interest and dividend income, on a tax equivalent basis, increased \$3.4 million, or 14.9%, to \$26.2 million for the year ended December 31, 2007 from \$22.8 million in 2006, largely reflecting growth in average interest-earning assets, partially mitigated by a higher tax equivalent yield on interest-earning assets. Average interest-earning assets totaled \$430.8 million for the year ended December 31, 2007 compared to \$390.0 million for the same period last year, representing an increase of \$40.8 million, or 10.5%. Average loans increased \$40.2 million, or 12.0%, primarily due to strong origination partially mitigated by amortization. Average investment securities rose \$948,000, or 2.2%, mainly attributable to additional purchases of U.S. government sponsored securities, partially offset by principal payments. The tax equivalent yield on interest-earning assets increased 24 basis points to 6.09% for the year ended December 31, 2007, largely attributable to higher market rates of interest for the first three quarters of 2007.

**Interest Expense.** Total interest expense increased \$2.6 million, or 28.0%, to \$11.8 million for the year ended December 31, 2007 from \$9.2 million in 2006 resulting primarily from higher rates paid on interest-bearing liabilities. Average interest-bearing liabilities totaled \$323.5 million for the year ended December 31, 2007, representing an increase of \$12.2 million, or 3.9%, from \$311.3 million for the same period in 2006 due to an increase in interest-bearing deposits. Average interest-bearing deposits grew \$23.3 million, or 8.5%, to \$295.7 million for the year ended December 31, 2007, primarily attributable to increased balances in certificate of deposit accounts, promotional activities, and competitive pricing. Average certificate of deposit balances rose \$41.3 million, or 26.3%, to \$198.0 million for the year ended December 31, 2007 due in large part to special promotions. Average borrowings decreased \$11.0 million, or 28.4%, to \$27.8 million for the year ended December 31, 2007 due to principal repayments. The rate paid on interest-bearing liabilities increased 68 basis points to 3.64% for the year ended December 31, 2007 from 2.96% in 2006, reflecting the higher interest rate environment.

**Provision for Loan Losses.** The Company's provision for loan losses decreased by \$217,000 to \$223,000 for the year ended December 31, 2007 from \$440,000 for the same period in 2006. The primary factors contributing to the lower provision in 2007 are a decrease of \$697,000 in non-performing loans in 2007 as well as higher asset quality.

The allowance for loan losses was \$3.1 million or 0.80% of total loans as of December 31, 2007, as compared to \$2.9 million or 0.78% of total loans as of December 31, 2006. An analysis of the changes in the allowance for loan losses is presented under **Risk Management Analysis and Determination of the Allowance for Loan Losses**.

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**Non-interest Income.** Total non-interest income increased \$1.1 million, or 66.8%, to \$2.7 million for the year ended December 31, 2007 compared to \$1.6 million for the same period in 2006. The 2007 results included gains from the sales of available-for-sale securities of \$835,000, compared to \$25,000 in 2006, an increase of \$810,000 or 3240.0%. Fee income increased \$404,000, or 27.1%, to \$1.9 million for the year ended December 31, 2007 from \$1.5 million for the comparable period in 2006 reflecting expansion in deposit balances and transaction volume. In addition, investment commissions totaled \$356,000 for the year ended December 31, 2007 compared to \$217,000 in 2006, an increase of \$139,000, or 64.1%, mainly resulting from new customers gained as a result of successful business development efforts.

**Non-interest Expenses.** Non-interest expenses decreased \$3.7 million, or 20.5%, to \$14.2 million for the year ended December 31, 2007 from \$17.9 million for the same period in 2006 largely attributable to the establishment and funding of the Chicopee Savings Bank Charitable Foundation with 551,064 shares of the Company's common stock resulting in a charitable contribution expense of \$5.5 million during the third quarter 2006, partially offset by growth in salaries and benefits expense. Salaries and benefits expense increased \$1.6 million, or 23.5%, to \$8.4 million in 2007 mainly as a result of additional staffing costs to support the requirements of a public company, increased benefit costs associated with the Company's implementation of the Bank's Employee Stock Ownership Plan and the Company's Equity Incentive Plan.

**Income Taxes.** The Company's income tax expense increased \$1.6 million to a tax expense of \$1.0 million for the year ended December 31, 2007 compared to a tax benefit of \$577,000 in 2006 mainly attributable to the tax benefit received from the Company's common stock contribution to the Foundation. As of December 30, 2007 a valuation allowance of \$1.0 million has been established against deferred tax assets related to the uncertain utilization of the charitable contribution carry forward created primarily by the donation to the Foundation as part of the conversion. The judgment applied by management considers the likelihood that sufficient taxable income will be realized within the carry forward period in light of our tax planning strategies and changes in the market conditions.

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**Explanation of Use of Non-GAAP Financial Measurements.** We believe that it is common practice in the banking industry to present interest income and related yield information on tax exempt securities on a tax-equivalent basis and that such information is useful to investors because it facilitates comparisons among financial institutions. However, the adjustment of interest income and yields on tax exempt securities to a tax-equivalent amount may be considered to include non-GAAP financial information. A reconciliation to GAAP is provided below.

	For the Years Ended December 31,					
	2008		2007		2006	
	(Dollars in Thousands)					
	Interest	Average Yield	Interest	Average Yield	Interest	Average Yield
Investment securities (non-tax adjustment)	\$ 1,359	2.57%	\$ 1,911	4.41%	\$ 1,805	4.26%
Tax equivalent adjustment (1)	155		108		53	
Investment securities (tax equivalent basis)	\$ 1,514	2.86%	\$ 2,019	4.66%	\$ 1,858	4.38%
Net interest income (non-tax adjustment)	\$ 14,368		\$ 14,322		\$ 13,552	
Tax equivalent adjustment (1)	155		108		53	
Net interest income (tax equivalent basis)	\$ 14,523		\$ 14,430		\$ 13,605	
Interest rate spread (no tax adjustment)		2.42%		2.42%		2.88%
Net interest margin (no tax adjustment)		3.06%		3.32%		3.48%

(1) The tax equivalent adjustment is based on a tax rate of 41% for all periods presented.

**Risk Management**

**Overview.** Managing risk is an essential part of successfully managing a financial institution. Our most prominent risk exposures are credit risk, interest rate risk and market risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or investment when it is due. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates. Market risk arises from fluctuations in interest rates that may result in changes in the values of financial instruments, such as available-for-sale securities, that are accounted for on a mark-to-market basis. Other risks that we face are operational risks, liquidity risks and reputation risk. Operational risks include risks related to fraud, regulatory compliance, processing errors, and technology and disaster recovery. Liquidity risk is the possible inability to fund obligations to depositors, lenders or borrowers. Reputation risk is the risk that negative publicity or press, whether true or not, could cause a decline in our customer base or revenue.

**Credit Risk Management.** Our strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans. Our strategy also emphasizes the origination of one- to four-family mortgage loans, which typically have lower default rates than other types of loans and are secured by collateral that generally tends to appreciate in value.

When a borrower fails to make a required loan payment, we take a number of steps to attempt to have the borrower cure the delinquency and restore the loan to current status. Generally, when the loan becomes 15 days past due, a late charge notice is generated and sent to the borrower and phone calls are made. If payment is not then received by the 45th day of delinquency, we will attempt to contact the borrower by telephone. If no successful workout can be achieved, after a loan becomes 90 days delinquent, we may commence foreclosure and/or other legal proceedings. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan generally is sold at foreclosure. We may consider loan workout arrangements with certain borrowers under certain circumstances.

Management reports to the executive committee monthly regarding the amount of loans delinquent. All loans that are delinquent greater than 90 days, loans that are in foreclosure, and all foreclosed and repossessed property that we own are reported in greater detail to the executive committee monthly.



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**Analysis of Nonperforming and Classified Assets.** We consider repossessed assets and loans that are 90 days or more past due to be nonperforming assets. Loans are generally placed on non-accrual status when they become 90 days delinquent, at which time the accrual of interest ceases and the allowance for any uncollectible accrued interest is established and charged against operations. Typically, payments received on a non-accrual loan are applied to the outstanding principal and interest as determined at the time of collection of the loan.

Real estate that we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as foreclosed assets until it is sold. When property is acquired, it is initially recorded at the lower of its cost, or market price, less estimated selling expenses. Holding costs and declines in fair value after acquisition of the property result in charges against income.

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.

	2008	At December 31,			
		2007	2006	2005	2004
		(Dollars in Thousands)			
<b>Non-accrual loans:</b>					
Real estate	\$ 2,595	\$ 779	\$ 1,460	\$ 545	\$ 632
Construction	97	167			
Commercial	139	63	243	183	5
Consumer	85	5	8	8	19
<b>Total</b>	<b>\$ 2,916</b>	<b>\$ 1,014</b>	<b>\$ 1,711</b>	<b>\$ 736</b>	<b>\$ 656</b>
Real estate owned	269				
<b>Total nonperforming assets</b>	<b>\$ 3,185</b>	<b>\$ 1,014</b>	<b>\$ 1,711</b>	<b>\$ 736</b>	<b>\$ 656</b>
Total nonperforming loans as a percentage of total loans (1)	0.69%	0.27%	0.46%	0.23%	0.23%
Total nonperforming assets as a percentage of total assets (2)	0.60%	0.22%	0.38%	0.19%	0.19%

(1) Total loans include loans, undisbursed portion of loans in process, plus net deferred loan costs.

(2) Nonperforming assets consist of nonperforming loans and real estate owned. 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.

There were twenty residential real estate loans and two commercial real estate loans that were not accruing interest as of December 31, 2008, with a combined collateral value of \$4.6 million. There was one residential construction loan not accruing interest as of December 31, 2008, with a collateral value of \$145,000. There were four commercial loans not accruing interest as of December 31, 2008, with a combined collateral value of \$682,000. There were four consumer loans not accruing interest as of December 31, 2008, with a combined collateral value of \$187,000. Collateral values were sufficient to cover the loan balances of non-accrual loans.

Interest income that would have been recorded for the year ended December 31, 2008 had nonperforming loans been current according to their original terms amounted to \$126,000. Interest income recognized on impaired loans for the year ended December 31, 2008 was \$169,000.

Regulators have adopted various regulations and practices regarding problem assets of financial institutions. Under such regulations, federal and state examiners have authority to identify problem assets during



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examinations and, if appropriate, require them to be classified. We perform an internal analysis of our loan portfolio and assets to classify such loans and assets similar to the manner in which such loans and assets are classified by the federal banking regulators. In addition, we regularly analyze the losses inherent in our loan portfolio and our nonperforming loans to determine the appropriate level of the allowance for loan losses. There are four classifications for problem assets: loss, doubtful, substandard and special mention. An asset classified as loss is normally fully charged-off. Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Non-accruing loans are normally classified as substandard. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. Assets that do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated special mention.

The following table shows the aggregate amounts of our classified assets at the dates indicated. We did not have any assets classified as doubtful at the dates presented.

	2008	December 31, 2007	2006
	(Dollars in Thousands)		
Special mention assets	\$ 12,109	\$ 8,015	\$ 6,339
Substandard assets	4,439	3,761	3,754
Loss assets	37		
 Total classified assets	 \$ 16,585	 \$ 11,776	 \$ 10,093

The increase in classified assets of \$4.8 million is primarily due to one loan relationship, with two commercial real estate loans totaling \$4.5 million, which were added to classified assets in 2008. Other than disclosed in the above tables, there are no other loans at December 31, 2008 that management has serious doubts about the ability of the borrowers to comply with the present loan repayment terms.

**Analysis and Determination of the Allowance for Loan Losses.** The allowance for loan losses is a valuation allowance for probable credit losses in the loan portfolio. We evaluate the need to establish allowances against losses on loans on a monthly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Our methodology for assessing the appropriateness of the allowance for loan losses consists of: (1) a specific allowance on identified problem loans; and (2) a general valuation allowance on the remainder of the loan portfolio. Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available for the entire portfolio.

**Specific Allowance Required for Identified Problem Loans.** We establish an allowance on certain identified problem loans based on such factors as: (1) the strength of the customer's personal or business cash flows; (2) the availability of other sources of repayment; (3) the amount due or past due; (4) the type and value of collateral; (5) the strength of our collateral position; (6) the estimated cost to sell the collateral; and (7) the borrower's effort to cure the delinquency.

**General Valuation Allowance on the Remainder of the Loan Portfolio.** We establish a general allowance for loans that are not delinquent to recognize the incurred losses associated with lending activities. This general valuation allowance is determined by segregating the loans by loan category and assigning percentages to each category. The percentages are adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. These significant factors may include changes in existing general economic and business conditions affecting our primary lending areas and the national economy, staff lending experience, recent loss experience in particular segments of the portfolio, specific reserve and classified asset trends, delinquency trends, risk rating trends and regulatory conditions. The applied loss factors are reevaluated monthly to ensure their relevance in the current economic environment.

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We identify loans that may need to be charged off as a loss by reviewing all delinquent loans, classified loans and other loans that management may have concerns about collectibility. For individually reviewed loans, the borrower's inability to make payments under the terms of the loan or a shortfall in collateral value would result in our allocating a portion of the allowance to the loan that was impaired.

At December 31, 2008, our allowance for loan losses represented 0.79% of total loans and 114.30% of nonperforming loans. The allowance for loan losses increased slightly from \$3.1 million at December 31, 2007 to \$3.3 million at December 31, 2008, due to a provision for loan losses of \$315,000, partially offset by net charge-offs of \$58,000. The provision for loan losses in the year ended December 31, 2008 reflects management's assessment of several factors. In particular, non-accrual loans increased to \$2.9 million at December 31, 2008 from \$1.0 million at December 31, 2007. Also, net charge-offs increased \$3,000 from December 31, 2007. 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.

At December 31, 2007, our allowance for loan losses represented 0.80% of total loans and 303.4% of nonperforming loans. The allowance for loan losses increased slightly from \$2.9 million at December 31, 2006 to \$3.1 million at December 31, 2007, due to a provision for loan losses of \$223,000, partially offset by net charge-offs of \$55,000. The provision for loan losses in the year ended December 31, 2007 reflects management's assessment of several factors. In particular, non-accrual loans decreased slightly to \$1.0 million at December 31, 2007 from \$1.7 million at December 31, 2006. We also had net charge-offs of \$55,000 for the year ended December 31, 2007, as compared to \$137,000 for the year ended December 31, 2006. In addition, management assessed the continued growth of the loan portfolio, particularly the increases in commercial real estate loans, construction loans and commercial business loans.

The following table sets forth the Company's percent of allowance for loan losses to total allowances and the percent of loans to total loans in each of the categories listed at the dates indicated.

	For Years Ended December 31,								
	2008			2007			2006		
	Amount	% of Allowance in each Category to Total	Percent of Loans in each Category to Total	Amount	% of Allowance in each Category to Total	Percent of Loans in each Category to Total	Amount	% of Allowance in each Category to Total	Percent of Loans in each Category to Total
	(Dollars in Thousands)								
Real estate-mortgage	\$ 1,675	50.26%	69.63%	\$ 1,542	50.13%	70.42%	\$ 1,467	50.44%	69.60%
Construction	624	18.72%	9.95%	603	19.60%	10.57%	626	21.53%	11.24%
Commercial	895	26.85%	12.96%	778	25.30%	11.99%	724	24.90%	12.49%
Consumer	139	4.17%	7.46%	125	4.06%	7.02%	91	3.13%	6.67%
Unallocated				28	0.91%				
Total allowance for loan losses	\$ 3,333	100.00%	100.00%	\$ 3,076	100.00%	100.00%	\$ 2,908	100.00%	100.00%

	For Years Ended December 31,					
	2005			2004		
	Amount	% of Allowance in each Category to Total	Percent of Loans in each Category to Total	Amount	% of Allowance in each Category to Total	Percent of Loans in each Category to Total
	(Dollars in Thousands)					
Real estate-mortgage	\$ 1,754	67.33%	74.94%	\$ 1,550	61.70%	78.40%
Construction			7.19%			5.07%
Commercial	580	22.26%	12.16%	749	29.82%	11.50%
Consumer	271	10.41%	5.71%	213	8.48%	5.03%
Unallocated						

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Total allowance for loan losses	\$ 2,605	100.00%	100.00%	\$ 2,512	100.00%	100.00%
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Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and our results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while we believe we have established our allowance for loan losses in conformity with U.S. generally accepted accounting principles, there can be no assurance that our banking regulators, in reviewing our loan portfolio, will not request us to increase our allowance for loan losses. Our banking regulators may require us to increase our allowance for loan losses based on judgments different from ours. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations.

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**Analysis of Loan Loss Experience.** The following table sets forth an analysis of the allowance for loan losses for the periods indicated.

	2008	At or for the Years Ended December 31,			2004
		2007	2006	2005	
	(Dollars in Thousands)				
Allowance for loan losses, beginning of period	\$ 3,076	\$ 2,908	\$ 2,605	\$ 2,512	\$ 2,404
Charged-off loans:					
Real estate-mortgage		25	47		
Construction					
Commercial		3	88	17	34
Consumer	71	37	4	14	3
Total charged-off loans	71	65	139	31	37
Recoveries on loans previously charged-off:					
Real estate					
Construction					
Commercial		10	2	1	25
Consumer	13			3	
Total recoveries	13	10	2	4	25
Net loans charged-off	58	55	137	27	12
Provision for loan losses	315	223	440	120	120
Allowance for loan losses, end of period	\$ 3,333	\$ 3,076	\$ 2,908	\$ 2,605	\$ 2,512
Net loans charged-off to average loans, net	0.01%	0.01%	0.04%	0.01%	
Allowance for loan losses to total loans (1)	0.79%	0.80%	0.78%	0.82%	0.89%
Allowance for loan losses to nonperforming loans (2)	114.30%	303.35%	169.96%	353.94%	382.93%
Net loans charged-off to allowance for loan losses	1.74%	1.79%	4.71%	1.04%	0.48%
Recoveries to charge-offs	18.31%	15.38%	1.44%	12.90%	67.57%

(1) Total loans include loans, less unadvanced loan funds, plus net deferred loan costs.

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

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

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



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

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

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

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 December 31, 2008 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 December 31, 2008 through December 31, 2009.

Increase (Decrease) in Market Interest Rates (Rate Shock)	Net Interest Income		
	\$ Amount (Dollars In Thousands)	\$ Change	% Change
300 bp	\$ 13,604	\$ 730	5.7%
200	\$ 13,449	\$ 575	4.5%
100	\$ 13,153	\$ 279	2.2%
	\$ 12,874		
(100)	\$ 12,464	\$(410)	-3.2%
(200)	\$ 12,076	\$(798)	-6.2%

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

**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.





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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 December 31, 2008, cash and cash equivalents totaled \$23.1 million. Securities classified as available for sale whose market value exceeds our cost, which provide additional sources of liquidity, totaled \$673,000 at December 31, 2008. Total securities classified as available for sale were \$5.5 million at December 31, 2008. Other liquid assets as of December 31, 2008 include: federal funds sold net of reserve requirements of \$949,000, U.S. government agencies net of pledged securities of \$3.8 million, and collateralized mortgage obligations of \$6.4 million. At December 31, 2008, we had the ability to borrow a total of approximately \$103.4 million from the Federal Home Loan Bank of Boston. In addition, at December 31, 2008 we had a \$4.9 million available line of credit with the FHLB and an unsecured line of credit of \$3.0 million with Bankers Bank, N.E. On December 31, 2008, we had \$76.6 million of borrowings outstanding. Future growth of our loan portfolio resulting from our expansion efforts may require us to borrow additional funds.

At December 31, 2008, we had \$76.5 million in loan commitments outstanding, which consisted of \$16.6 million of mortgage loan commitments, \$12.8 million in unadvanced construction loan commitments, \$44.6 million in unused lines of credit and \$2.5 million in standby letters of credit. Certificates of deposit due within one year of December 31, 2008 totaled \$129.1 million, or 64.3% of 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 December 31, 2009. 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.

The following table sets forth information relating to the Company's payments due under contractual obligations at December 31, 2008 (in thousands).

	Total	Payments due by period			
		Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years
Long-term debt	\$ 76,567	\$ 37,000	\$ 22,500	\$ 10,040	\$ 7,027
Operating lease obligations	6,965	417	804	728	5,016
Other long-term liabilities reflected on the Company's balance sheet under GAAP					
Total	\$ 83,532	\$ 37,417	\$ 23,304	\$ 10,768	\$ 12,043

Our primary investing activities are the origination and purchase of loans and the purchase of securities. Our primary financing activities consist of activity in deposit accounts and Federal Home Loan Bank advances. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive and to increase core deposit relationships. Occasionally, we offer promotional rates on certain deposit products to attract deposits.

**Capital Management.** We are subject to various regulatory capital requirements administered by the Federal Deposit Insurance Corporation, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2008, we exceeded all of our regulatory capital requirements. We are considered well capitalized under regulatory guidelines.

Our consolidated equity decreased by \$10.3 million to \$94.0 million during 2008, primarily a result of the purchase of 787,615 shares of the Company's common stock through the Company's stock repurchase program, at a cost of \$10.4 million. The capital from the offering significantly increased our liquidity and capital resources. Over

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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 operations are expected to be enhanced by the capital from the 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 has had an adverse impact on our return on equity. During 2007 and 2008 we repurchased approximately \$2.1 million, or 155,000 shares, of our stock and \$10.4 million, or 787,615 shares, respectively. In the future, we may also use other capital management tools such as cash dividends.

***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. For information about our loan commitments and unused lines of credit, see note 11 of the notes to the consolidated financial statements. We currently have no plans to engage in hedging activities in the future.

For the years ended December 31, 2008 and December 31, 2007, 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.

### **Impact of Inflation and Changing Prices.**

The financial statements and related financial data presented in this Form 10-K have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

### **Application of Critical Accounting Policies.**

Our financial statements reflect the selection and application of accounting policies that require management to make significant estimates and judgments. The information pertaining to the Company's significant accounting policies is incorporated herein by reference to Note 1 "Summary of Significant Accounting Policies" in the Notes to the Consolidated Financial Statements and in the discussion under "Critical Accounting Policies" contained in the Form 10-K.

### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

The information required by this item is incorporated herein by reference to the Section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report on Form 10-K.

### **Item 8. Financial Statements and Supplementary Data.**

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

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

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**Item 9A. 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 Controls Over Financial Reporting

Management's annual report on internal control over financial reporting is incorporated herein by reference to the Company's audited Consolidated Financial Statements in this 2008 Annual Report on Form 10-K.

(c) Changes to Internal Control Over Financial Reporting

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

**Item 9B. Other Information**

Not applicable.

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**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**  
**Directors**

For information relating to the directors of Chicopee Bancorp, the section captioned *Proposal 1 Election of Directors* in Chicopee Bancorp's Proxy Statement for the 2009 Annual Meeting of Stockholders is incorporated by reference.

**Executive Officers**

For information relating to officers of Chicopee Bancorp, the information contained under *Proposal 1 Election of Directors* in Chicopee Bancorp's Proxy Statement for the 2009 Annual Meeting of Stockholders and under Part I, Item 1, *Business Executive Officers of the Registrant* of this Annual Report on Form 10-K is incorporated by reference.

**Compliance with Section 16(a) of the Exchange Act**

For information regarding compliance with Section 16(a) of the Exchange Act, the section captioned *Section 16(a) Beneficial Ownership Compliance* in Chicopee Bancorp's Proxy Statement for the 2009 Annual Meeting of Stockholders is incorporated by reference.

**Disclosure of Code of Ethics**

A copy of the Code of Ethics and Business Conduct is available to stockholders on the Governance Documents portion of the Investors Relations section on Chicopee Bancorp's website at [www.chicopeesavings.com](http://www.chicopeesavings.com).

**Corporate Governance**

For information regarding the audit committee and its composition and the audit committee financial expert, the section captioned *Corporate Governance Committees of the Board of Directors Audit Committee* in Chicopee Bancorp's Proxy Statement for the 2009 Annual Meeting of Stockholders is incorporated by reference.

**Item 11. Executive Compensation.**  
**Executive Compensation**

For information regarding executive compensation, the sections captioned *Compensation Disclosure and Analysis*, *Executive Compensation* and *Director Compensation* in Chicopee Bancorp's Proxy Statement for the 2009 Annual Meeting of Stockholders is incorporated by reference.

**Corporate Governance**

For information regarding the compensation committee report, the section captioned *Compensation Committee Report* in Chicopee Bancorp's Proxy Statement for the 2009 Annual Meeting of Stockholders is incorporated by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters.**

- (a) Security Ownership of Certain Beneficial Owners Information required by this item is incorporated herein by reference to the section captioned *Stock Ownership* in Chicopee Bancorp's Proxy Statement for the 2009 Annual Meeting of Stockholders.

(b) Security Ownership of Management Information required by this item is incorporated herein by reference to the section captioned *Stock Ownership* in Chicopee Bancorp's Proxy Statement for the 2009 Annual Meeting of Stockholders.

(c) Changes in Control

Management of Chicopee Bancorp knows of no arrangements, including any pledge by any person of securities of Chicopee Bancorp, the operation of which may at a subsequent date result in a change in control of the registrant.

(d) Equity Compensation Plan Information

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The following table sets forth information as of December 31, 2008 about Company common stock that may be issued under the Chicopee Bancorp, Inc. 2007 Equity Incentive Plan. The plan was approved by the Company's stockholders.

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon the Exercise of Outstanding Options Warrants and Rights</b>	<b>Weighted-Average Exercise Price of Outstanding Options Warrants and Rights</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)</b>
Equity compensation plans approved by security holders	906,422	\$ 10.57	76,405
Equity compensation plans not approved by security holders	n/a	n/a	n/a
<b>Total</b>	<b>906,422</b>	<b>\$ 10.57</b>	<b>76,405</b>

**Item 13. Certain Relationships and Related Transaction, and Director Independence.**  
**Certain Relationships and Related Transactions**

For information regarding certain relationships and related transactions, the section captioned *Other Information Relating to Directors and Executive Officers-Transactions with Related Parties* in Chicopee Bancorp's Proxy Statement for the 2009 Annual Meeting of Stockholders is incorporated by reference.

**Director Independence**

For information regarding director independence, the section captioned *Corporate Governance Director Independence* in Chicopee Bancorp's Proxy Statement for the 2009 Annual Meeting of Stockholders is incorporated by reference.

**Item 14. Principal Accountant Fees and Services.**

For information regarding the principal accountant fees and expenses, the section captioned *Proposal 2 Ratification of Independent Registered Public Accounting Firm* in Chicopee Bancorp's Proxy Statement for the 2009 Annual Meeting of Stockholders is incorporated by reference.

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**PART IV**

**Item 15. Exhibits and Financial Statements Schedules.**

**1. Financial Statements**

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

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2008 and 2007

Consolidated Statements of Operations for the Years Ended December 31, 2008, 2007 and 2006

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2008, 2007 and 2006

Consolidated Statements of Cash Flows for the Years Ended December 31, 2008, 2007 and 2006

Notes to Consolidated Financial Statements

**2. Financial Statement Schedules**

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

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**3. Exhibits**

<b>No.</b>	<b>Description</b>
3.1	Certificate of Incorporation of Chicopee Bancorp, Inc. (1)
3.2	Bylaws of Chicopee Bancorp, Inc. (2)
4.1	Stock Certificate of Chicopee Bancorp, Inc. (1)
10.1*	Amended and Restated Employment Agreement between William J. Wagner and Chicopee Bancorp, Inc.
10.2*	Amended and Restated Employment Agreement between William J. Wagner and Chicopee Savings Bank
10.3*	Amended and Restated Employment Agreement between W. Guy Ormsby and Chicopee Bancorp, Inc.
10.4*	Amended and Restated Employment Agreement between W. Guy Ormsby and Chicopee Savings Bank
10.5*	Amended and Restated Change in Control Agreement between Russell J. Omer and Chicopee Savings Bank
10.6*	Amended and Restated Change in Control Agreement between Alzira C. Costa and Chicopee Savings Bank
10.7*	Amended and Restated Change in Control Agreement between Maria J.C. Aigner and Chicopee Savings
10.8*	Form of Chicopee Savings Bank Employee Stock Ownership Plan (1)
10.9*	Form of Trust Agreement between Chicopee Savings Bank and the Trustee for Chicopee Savings Bank Employee Stock Ownership Plan Trust (1)
10.10*	Form of Loan Agreement (1)
10.11*	Amended and Restated Chicopee Savings Bank Employee Severance Compensation Plan
10.12*	Amended and Restated Chicopee Savings Bank Supplemental Executive Retirement Plan
10.13*	Form of Executive Supplemental Retirement Income Agreement between Chicopee Savings Bank and Alzira C. Costa, Russell J. Omer, W. Guy Ormsby and William J. Wagner (1)
10.14	Form of First Amendment to the Executive Supplemental Retirement Income Agreement between Chicopee Savings Bank and Alzira C. Costa, Russell J. Omer, W. Guy Ormsby and William J. Wagner
10.15*	First Amendment to Amended and Restated Employment Agreement between William J. Wagner and Chicopee Bancorp, Inc.
10.16*	First Amendment to Amended and Restated Employment Agreement between William J. Wagner and Chicopee Savings Bank
10.17*	First Amendment to Amended and Restated Employment Agreement between W. Guy Ormsby and Chicopee Bancorp, Inc.
10.18*	First Amendment to Amended and Restated Employment Agreement between W. Guy Ormsby and Chicopee Savings Bank
21.0	List of Subsidiaries
23.0	Consent of Berry, Dunn, McNeil & Parker
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.0	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

\* Management contract or compensatory plan, contract or agreement.

(1) Incorporated by reference in this document to the exhibits to the Company's Registration Statement on Form S-1 (File No. 333-132512) and any amendments thereto, initially filed with the Securities and Exchange Commission on March 17, 2006.

(2)



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Incorporated by reference in this document to the Company's Current Report on Form 8-K filed on August 1, 2007 (File No. 000-51996).

**Table of Contents****SIGNATURES**

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

Chicopee Bancorp, Inc.

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

March 12, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

<b>Name</b>	<b>Title</b>	<b>Date</b>
/s/ William J. Wagner William J. Wagner	Chairman of the Board, President and Chief Executive Officer (principal executive officer)	March 12, 2009
/s/ W. Guy Ormsby W. Guy Ormsby	Executive Vice President, Chief Financial Officer and Treasurer (principal financial and chief accounting officer)	March 12, 2009
/s/ James P. Lynch James P. Lynch	Director	March 12, 2009
/s/ William D. Masse William D. Masse	Director	March 12, 2009
/s/ Arthur F. DuBois Arthur F. DuBois	Director	March 12, 2009
/s/ William J. Giokas William J. Giokas	Director	March 12, 2009
/s/ Francine Jasinski Hayward Francine Jasinski Hayward	Director	March 12, 2009
/s/ Edmund J. Mokal Edmund J. Mokal	Director	March 12, 2009
/s/ John P. Moylan John P. Moylan	Director	March 12, 2009
/s/ Gregg F. Orlen Gregg F. Orlen	Director	March 12, 2009

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/s/ Judith T. Tremble Judith T. Tremble	Director	March 12, 2009
/s/ Thomas J. Bardon Thomas J. Bardon	Director	March 12, 2009
/s/ James H. Bugbee James H. Bugbee	Director	March 12, 2009
/s/ Louis E. Dupuis Louis E. Dupuis	Director	March 12, 2009
/s/ Douglas K. Engebretson Douglas K. Engebretson	Director	March 12, 2009
/s/ Gary G. Fitzgerald Gary G. Fitzgerald	Director	March 12, 2009
/s/ Paul C. Picknelly Paul C. Picknelly	Director	March 12, 2009

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**Management Report on Internal Control over Financial Reporting**

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

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

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

The Company's management assessed the effectiveness of internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Based on its assessment, management believes that, as of December 31, 2008, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm that audited the consolidated financial statements has issued an audit report on our assessment of, and the effective operation of, the Company's internal control over financial reporting as of December 31, 2008, a copy of which is included in this annual report.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Stockholders and Board of Directors

Chicopee Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Chicopee Bancorp, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. We have also audited Chicopee Bancorp, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Chicopee Bancorp, Inc.'s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

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

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

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

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The Stockholders and Board of Directors

Chicopee Bancorp, Inc.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chicopee Bancorp, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Chicopee Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Portland, Maine  
March 6, 2009

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**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(In thousands, except share data)</b>	
<b>ASSETS</b>		
Cash and due from banks	\$ 21,070	\$ 5,226
Short-term investments	1,003	9,229
Federal funds sold	1,000	9,066
<b>Cash and cash equivalents</b>	<b>23,073</b>	<b>23,521</b>
Securities available-for-sale, at fair value	5,451	7,864
Securities held-to-maturity, at cost (fair value \$49,673 and \$27,069 at December 31, 2008 and 2007, respectively)	49,662	27,324
Federal Home Loan Bank stock, at cost	4,306	1,583
Loans receivable, net of allowance for loan losses (\$3,333 at December 31, 2008 and \$3,076 at December 31, 2007)	416,261	379,868
Cash surrender value of life insurance	12,144	11,675
Premises and equipment, net	10,677	7,033
Accrued interest and dividends receivable	1,577	1,752
Deferred income tax asset	2,434	1,911
Other assets	2,058	925
<b>Total assets</b>	<b>\$ 527,643</b>	<b>\$ 463,456</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Deposits</b>		
Noninterest-bearing	\$ 30,921	\$ 27,167
Interest-bearing	302,527	297,804
<b>Total deposits</b>	<b>333,448</b>	<b>324,971</b>
Securities sold under agreements to repurchase	21,956	14,179
Advances from Federal Home Loan Bank	76,567	17,774
Mortgagors' escrow accounts	1,112	1,103
Accrued expenses and other liabilities	543	1,130
<b>Total liabilities</b>	<b>433,626</b>	<b>359,157</b>
<b>Commitments and contingencies (notes 10, 11, 12, 13 and 17)</b>		
<b>Stockholders' equity</b>		
Common stock (no par value, 20,000,000 shares authorized, 7,439,368 shares issued at December 31, 2008 and December 31, 2007)	72,479	72,479
Treasury stock, at cost (942,615 shares at December 31, 2008 and 155,000 shares at December 31, 2007)	(12,483)	(2,108)
Additional paid-in capital	1,168	573
Unearned compensation (restricted stock awards)	(3,107)	(3,940)
Unearned compensation (Employee Stock Ownership Plan)	(5,059)	(5,356)
Retained earnings	42,439	42,417
Accumulated other comprehensive income (loss)	(1,420)	234

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Total stockholders' equity	94,017	104,299
Total liabilities and stockholders' equity	\$ 527,643	\$ 463,456

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

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**CHICOPEE BANCORP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Years Ended December 31,		
	2008	2007	2006
	(In thousands, except share data)		
<b>Interest and dividend income:</b>			
Loans	\$ 23,899	\$ 23,493	\$ 20,219
Investment securities	1,359	1,911	1,805
Other interest-earning assets	299	701	735
<b>Total interest and dividend income</b>	<b>25,557</b>	<b>26,105</b>	<b>22,759</b>
<b>Interest expense:</b>			
Deposits	9,391	10,867	7,888
Securities sold under agreements to repurchase	348	345	280
Other borrowed funds	1,450	571	1,039
<b>Total interest expense</b>	<b>11,189</b>	<b>11,783</b>	<b>9,207</b>
<b>Net interest income</b>	<b>14,368</b>	<b>14,322</b>	<b>13,552</b>
Provision for loan losses	315	223	440
<b>Net interest income, after provision for loan losses</b>	<b>14,053</b>	<b>14,099</b>	<b>13,112</b>
<b>Non-interest income:</b>			
Service charges, fee and commissions	2,297	1,893	1,489
Loan sales and servicing, net	(13)	(7)	117
Net (loss) gain on sales of securities available-for-sale	(57)	835	25
<b>Total non-interest income</b>	<b>2,227</b>	<b>2,721</b>	<b>1,631</b>
<b>Non-interest expenses:</b>			
Salaries and employee benefits	9,496	8,388	6,792
Occupancy expenses	1,152	1,015	1,065
Furniture and equipment	974	976	946
Data processing	907	746	700
Stationery, supplies and postage	399	356	302
Charitable foundation contribution			5,511
Other non-interest expense	2,954	2,721	2,538
<b>Total non-interest expenses</b>	<b>15,882</b>	<b>14,202</b>	<b>17,854</b>
<b>Income (loss) before income taxes</b>	<b>398</b>	<b>2,618</b>	<b>(3,111)</b>
Income tax expense (benefit)	376	1,018	(577)
<b>Net income (loss)</b>	<b>\$ 22</b>	<b>\$ 1,600</b>	<b>\$ (2,534)</b>
<b>Earnings (loss) per share:</b>			

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Basic	\$	\$	0.24	\$	(0.37)
Diluted	\$	\$	0.24	\$	(0.37)

Adjusted weighted average common shares outstanding since initial public offering:

Basic	5,986,141	6,722,067	6,844,222
Diluted	5,986,427	6,737,720	6,844,222

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

**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

Years Ended December 31, 2008, 2007 and 2006

	Common Stock	Treasury Stock	Additional Paid-in Capital	Unearned Compensation (restricted stock awards)	Unearned Compensation (ESOP)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	(In thousands, except number of shares)							
Balance at December 31, 2005	\$	\$	\$	\$	\$	\$ 43,351	\$ 90	\$ 43,441
Comprehensive loss:								
Net loss						(2,534)		(2,534)
Change in net unrealized gain on securities available-for-sale (net of deferred income taxes of \$306)							570	570
Total comprehensive loss								(1,964)
Issuance of common stock for initial public offering, (6,888,304 shares) net of expenses of \$1,900								
	66,968							66,968
Issuance of common stock to Chicopee Savings Bank Charitable Foundation (551,064 shares)								
	5,511							5,511
Stock purchase for ESOP (595,149 shares)								
					(5,951)			(5,951)
Common stock held by ESOP committed to be released								
			144		297			441
Balance at December 31, 2006	72,479		144		(5,654)	40,817	660	108,446
Comprehensive income:								
Net income						1,600		1,600
Change in net unrealized gain on securities available-for-sale (net of deferred income taxes of \$228)							(426)	(426)
Total comprehensive income								1,174

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Purchase of common stock for funding of restricted stock awards (297,574 shares)				(4,365)					(4,365)
Treasury stock purchased (155,000 shares)		(2,108)							(2,108)
Change in unearned compensation:									
Stock option expense			292						292
Restricted stock award expense				425					425
Common stock held by ESOP committed to be released			137		298				435
Balance at December 31, 2007	72,479	(2,108)	573	(3,940)	(5,356)	42,417	234		104,299
Comprehensive loss:									
Net income						22			22
Change in net unrealized gain on securities available-for-sale (net of deferred income taxes of \$886)							(1,654)		(1,654)
Total comprehensive loss									(1,632)
Treasury stock purchased (787,615 shares)		(10,375)							(10,375)
Change in unearned compensation:									
Stock option expense			514						514
Restricted stock award expense				833					833
Common stock held by ESOP committed to be released			81		297				378
Balance at December 31, 2008	\$ 72,479	\$ (12,483)	\$ 1,168	\$ (3,107)	\$ (5,059)	\$ 42,439	\$ (1,420)		\$ 94,017

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

**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31,		
	2008	2007	2006
	(In thousands)		
Cash flows from operating activities:			
Net income (loss)	\$ 22	\$ 1,600	\$ (2,534)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	824	762	779
Net (accretion) amortization of investments	95	(4)	9
Provision for loan losses	315	223	440
Increase in cash surrender value of life insurance	(469)	(476)	(399)
Realized losses (gains) on investment securities, net	57	(835)	(25)
Realized losses on disposal of property and equipment	1	4	
Net gains on sales of loans and other real estate owned			(14)
Deferred income tax expense (benefit)	363	(145)	(1,182)
Decrease (increase) in other assets	(864)	139	317
Decrease (increase) in accrued interest receivable	175	148	(559)
Increase (decrease) in other liabilities	(586)	67	(1,272)
Change in unearned compensation	1,725	1,152	441
Contribution of common stock to Charitable Foundation			5,511
<b>Net cash provided by operating activities</b>	<b>1,658</b>	<b>2,635</b>	<b>1,512</b>
Cash flows from investing activities:			
Additions to premises and equipment	(4,470)	(796)	(704)
Loan originations and principal collections, net	(36,977)	(11,123)	(53,744)
Proceeds from sales of securities available-for-sale	2,595	5,117	4,823
Purchases of securities available-for-sale	(2,780)	(4,947)	(6,849)
Purchases of securities held-to-maturity	(327,157)	(106,788)	(80,263)
Maturities of securities held-to-maturity	304,724	116,879	72,315
Net redemption (purchase) of FHLB stock	(2,723)		873
<b>Net cash used in investing activities</b>	<b>(66,788)</b>	<b>(1,658)</b>	<b>(63,549)</b>
Cash flows from financing activities:			
Net increase in deposits	8,478	13,399	16,548
Net increase (decrease) in securities sold under agreements to repurchase	7,777	1,467	(7,451)
Proceeds from long-term FHLB advances	52,000		
Payments on long-term FHLB advances	(3,207)	(2,483)	(4,161)
Net increase (decrease) in short-term advances	10,000	5,000	(10,000)
Issuance of common stock for initial public offering, net of costs			66,968
Stock purchased for ESOP			(5,951)
Stock purchased for treasury	(10,375)	(2,108)	
Stock purchased for restricted stock awards		(4,365)	
Net increase in escrow funds held	9	106	26
<b>Net cash provided by financing activities</b>	<b>64,682</b>	<b>11,016</b>	<b>55,979</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(448)</b>	<b>11,993</b>	<b>(6,058)</b>

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Cash and cash equivalents at beginning of year	23,521	11,528	17,586
Cash and cash equivalents at end of year	\$ 23,073	\$ 23,521	\$ 11,528
Supplemental cash flow information:			
Interest paid on deposits	\$ 9,391	\$ 10,867	\$ 7,888
Interest paid on borrowings	\$ 1,660	\$ 904	\$ 1,305
Income taxes paid	\$ 822	\$ 1,057	\$ 1,158

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

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**CHICOPEE BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2008, 2007 and 2006**

**(Dollars in Thousands, Except Per Share Amounts)**

**Nature of Business**

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

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of presentation and consolidation***

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

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

***Use of estimates***

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

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

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

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**CHICOPEE BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in Thousands, Except Per Share Amounts)**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Significant group concentrations of credit risk***

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

***Cash and cash equivalents***

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, due from banks, short-term investments with original maturities of ninety days or less and federal funds sold.

The Company's due from bank accounts, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risk on cash and cash equivalents.

***Securities***

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

Purchase premiums and discounts are recognized in interest income over the period to call or maturity using a method which yields results that do not differ materially from those which would be recognized by use of the effective-yield method. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

***Loans held for sale***

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value, as determined by current investor yield requirements, in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Loans held for sale are not material at December 31, 2008 and 2007.



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**CHICOPEE BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in Thousands, Except Per Share Amounts)**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Loans***

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

Loans past due 30 days or more are considered delinquent. The accrual of interest on loans is discontinued when, in the judgment of management, the collectibility of the principal or interest becomes doubtful. It is the policy of the Company to discontinue the accrual of interest when principal or interest payments are delinquent ninety days or more.

All interest accrued, but not collected, for loans that are placed on nonaccrual or charged off is reversed against interest income. Interest recognized on these loans is limited to interest payments received until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

***Allowance for loan losses***

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

The allowance for loan losses is evaluated on a regular basis by management. Factors considered in evaluating the adequacy of the allowance include previous loss experience, current economic conditions and their effect on borrowers and the performance of individual loans in relation to contract terms. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either; doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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**CHICOPEE BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in Thousands, Except Per Share Amounts)**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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

***Loan servicing***

Servicing assets are recognized at fair value as separate assets when servicing rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rate in increments of 50 basis points and term primarily of 15 and 30 years. Fair value is based upon discounted cash flows using market-based assumptions. Projected prepayments on the portfolio are estimated using the Public Securities Association Standard Prepayment Model. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

***Credit related financial instruments***

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

***Other real estate owned***

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of carrying value or fair value at the date of foreclosure. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from other real estate owned.

***Premises and equipment***

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



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**CHICOPEE BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in Thousands, Except Per Share Amounts)**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Income taxes***

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

***Employee stock ownership plan ( ESOP )***

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

***Equity Incentive Plan***

The Company expenses compensation cost associated with share-based payment transactions, such as options and restricted stock awards, in the financial statements over the requisite service (vesting) period as required by Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment .

***Advertising***

Advertising costs are expensed as incurred.

**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*****Earnings (loss) per common share***

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

Earnings (loss) per share is computed as follows:

	Years Ended December 31,		
	2008	2007	2006
Net income (loss) (in thousands)	\$ 22	\$ 1,600	\$ (2,534)
Weighted average number of common shares issued	7,439,368	7,439,368	7,439,368
Less: average number of treasury shares	(649,241)	(23,096)	
Less: average number of unallocated ESOP shares	(535,635)	(565,392)	(595,146)
Less: average number of nonvested restricted stock awards	(268,351)	(128,813)	
Adjusted weighted average number of common shares outstanding	5,986,141	6,722,067	6,844,222
Plus: dilutive nonvested restricted stock awards	286	15,653	
Weighted average number of diluted shares outstanding	5,986,427	6,737,720	6,844,222
Net income (loss) per share:			
Basic	\$ 0.00	\$ 0.24	\$ (0.37)
Diluted	\$ 0.00	\$ 0.24	\$ (0.37)

There were 671,667 stock options for the year ended December 31, 2008, which were excluded from the diluted earnings per share because their effect is anti-dilutive.

**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*****Comprehensive income (loss)***

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income or loss. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the stockholders' equity section of the balance sheet, such items, along with net income or loss, are components of comprehensive income or loss.

The components of other comprehensive income (loss) and related tax effects are as follows:

	<b>Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Unrealized holding gains (losses) on available-for-sale securities arising during the year	\$ (2,597)	\$ 181	\$ 901
Reclassification adjustment for (gains) losses realized in income	57	(835)	(25)
<b>Net unrealized holding gains (losses)</b>	<b>(2,540)</b>	<b>(654)</b>	<b>876</b>
Tax effect	(886)	(228)	306
<b>Other comprehensive income (loss)</b>	<b>\$ (1,654)</b>	<b>\$ (426)</b>	<b>\$ 570</b>

The components of accumulated other comprehensive income (loss), included in stockholders' equity, are as follows:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Net unrealized gain (loss) on securities available-for-sale	\$ (2,180)	\$ 360
Tax effect	760	(126)
<b>Net-of-tax amount</b>	<b>\$ (1,420)</b>	<b>\$ 234</b>

***Segment reporting***

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

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**CHICOPEE BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in Thousands, Except Per Share Amounts)**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Recent accounting pronouncements***

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. Although this Statement does not require any new fair value measurements, it has expanded fair value disclosures. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, FASB issued FASB Staff Position (FSP) FAS No. 157-2, which delays by one year the effective date of SFAS No. 157 for certain types of nonfinancial assets and nonfinancial liabilities. In October 2008, the FASB issued FSP FAS No. 157-3, *Determining the Fair Value of a Financial Asset when the Market for that Asset is not Active*. FSP FAS No. 157-3 amended SFAS No. 157 by incorporating an example to illustrate key considerations in determining the fair value of a financial asset in an inactive market. The FSP was effective upon issuance. SFAS No. 157 and related FASB staff positions did not have a material impact on the Company's financial statements.

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 did not apply the fair value option to any financial instruments; therefore, SFAS No. 159 did not have a material effect on the Company's financial condition and results of operations.

In December 2007, FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*. SFAS No. 160 amended Accounting Research Bulletin No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The objective of SFAS No. 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. Management does not expect the application of this Statement will have a material effect on the financial statements of the Company.

In March 2008, FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of SFAS No. 133*. SFAS No. 161 is intended to enhance the current disclosure framework in SFAS No. 133. This Statement has the same scope as SFAS No. 133. SFAS No. 133 requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. The disclosures required by SFAS No. 161 better convey the purpose of derivative use in terms of the risk that the entity is intending to manage, the fair values of the derivative instruments and their gains and losses in a tabular format, as well as information about credit-risk-related contingent features. The Company does not hold derivative instruments as of December 31, 2008. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Management does not expect implementation of SFAS No. 161 to have a material impact on the financial statements of the Company.

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**CHICOPEE BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in Thousands, Except Per Share Amounts)**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)**

In May 2008, FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 identifies the source of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This Statement is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. Management does not expect implementation of SFAS No. 162 to have a material impact on the financial statements of the Company.

***Reclassifications***

Certain amounts in the 2007 and 2006 financial statements have been reclassified to conform to the 2008 presentation.



**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS**

The Company is required to maintain certain reserves of cash on hand or deposits with the Federal Reserve Bank. At December 31, 2008 and 2007, these reserve balances amounted to \$309 and \$793, respectively, and are included in cash and due from banks.

**3. SECURITIES**

The amortized cost and estimated fair value of securities, with gross unrealized gains and losses, follow:

	December 31, 2008			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<u>Securities available-for-sale</u>				
Marketable equity securities	\$ 7,632	\$ 189	\$ (2,370)	\$ 5,451
<b>Total securities available-for-sale</b>	<b>\$ 7,632</b>	<b>\$ 189</b>	<b>\$ (2,370)</b>	<b>\$ 5,451</b>
<u>Securities held-to-maturity</u>				
Debt securities of U.S. Government sponsored enterprises	\$ 27,164	\$ 25	\$	\$ 27,189
U.S. Treasury securities	11,997	3		12,000
Corporate and industrial revenue bonds	4,060			4,060
Collateralized mortgage obligations	6,441	12	(29)	6,424
<b>Total securities held-to-maturity</b>	<b>\$ 49,662</b>	<b>\$ 40</b>	<b>\$ (29)</b>	<b>\$ 49,673</b>

**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****SECURITIES (continued)**

	December 31, 2007			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<u>Securities available-for-sale</u>				
Marketable equity securities	\$ 7,504	\$ 811	\$ (451)	\$ 7,864
<b>Total securities available-for-sale</b>	<b>\$ 7,504</b>	<b>\$ 811</b>	<b>\$ (451)</b>	<b>\$ 7,864</b>
<u>Securities held-to-maturity</u>				
Debt securities of U.S. Government sponsored enterprises	\$ 16,496	\$ 4	\$	\$ 16,500
Corporate and industrial revenue bonds	4,303			4,303
Collateralized mortgage obligations	6,525		(259)	6,266
<b>Total securities held-to-maturity</b>	<b>\$ 27,324</b>	<b>\$ 4</b>	<b>\$ (259)</b>	<b>\$ 27,069</b>

At December 31, 2008 and 2007, securities with a carrying value of \$35.4 million and \$16.6 million, respectively, were pledged as collateral to support securities sold under agreements to repurchase.

The amortized cost and estimated fair value of debt securities by contractual maturity at December 31, 2008 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties. The collateralized mortgage obligations are allocated to maturity categories according to final maturity date.

	Held-to-Maturity	
	Amortized Cost	Fair Value
Within 1 year	\$ 39,544	\$ 39,573
From 1 to 5 years		
From 5 to 10 years	4,052	4,041
Over 10 years	6,066	6,059
	<b>\$ 49,662</b>	<b>\$ 49,673</b>

Proceeds from sales of securities available for sale during the years ended December 31, 2008, 2007 and 2006 amounted to \$2,595, \$5,117, and \$4,823, respectively. Gross realized gains of \$534, \$1,067, and \$260, and gross realized losses of \$591, \$232, and \$235, were realized during the years ended December 31, 2008, 2007 and 2006, respectively. The tax provision applicable to these net realized gains and losses amounted to \$19, \$291, and \$9, respectively.



**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****SECURITIES (continued)**

Information pertaining to securities with gross unrealized losses at December 31, 2008 and 2007 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	December 31, 2008					
	Less Than Twelve Months		Twelve Months and Over		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Marketable equity securities	\$ 1,486	\$ 3,204	\$ 884	\$ 1,391	\$ 2,370	\$ 4,595
Collateralized mortgage obligations			29	3,501	29	3,501
<b>Total temporarily impaired securities</b>	<b>\$ 1,486</b>	<b>\$ 3,204</b>	<b>\$ 913</b>	<b>\$ 4,892</b>	<b>\$ 2,399</b>	<b>\$ 8,096</b>

	December 31, 2007					
	Less Than Twelve Months		Twelve Months and Over		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Marketable equity securities	\$ 443	\$ 2,950	\$ 8	\$ 124	\$ 451	\$ 3,074
Collateralized mortgage obligations			259	6,233	259	6,233
<b>Total temporarily impaired securities</b>	<b>\$ 443</b>	<b>\$ 2,950</b>	<b>\$ 267</b>	<b>\$ 6,357</b>	<b>\$ 710</b>	<b>\$ 9,307</b>

Unrealized losses within the collateralized mortgage obligations category at December 31, 2008, relate to fifteen securities of which all had continuous losses for more than one year. Unrealized losses within the collateralized mortgage obligations category at December 31, 2007, relate to twenty-five securities of which all had continuous losses for more than one year. Management reviews these securities on a regular basis for other than temporary impairment and considers if the issuer is an agency sponsored by the U.S. Government and whether downgrades by rating agencies have occurred. The primary cause for unrealized losses within the debt securities categories is the impact movements in interest rates have had in comparison with the underlying yields on these securities. Since the unrealized losses are related to the interest rate environment and management has the ability to hold debt securities to maturity, or the foreseeable future, no declines are considered by management to be other than temporary.

**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****SECURITIES (concluded)**

Based on periodic analysis of underlying corporations in the marketable equity security portfolio, the Company believes that no equity securities are other-than-temporarily impaired. Unrealized losses within the marketable equity securities category at December 31, 2008 relate to one-hundred and eleven securities of which thirty-seven had continuous losses for more than one year. Unrealized loss as a percent of cost was 34.0%. Unrealized losses within the marketable equity securities category at December 31, 2007 relate to fifty-six securities of which two had continuous losses for more than one year. Unrealized loss as a percent of cost was 11.7%. Management actively monitors the financial condition, core earnings, earnings per share, and trends of investees, reviews industry analysis, and consults with portfolio analysts on an ongoing basis. Management assesses the valuation declines to determine the extent to which such changes are attributable to fundamental factors specific to the issuer, such as financial condition, business prospects, or other factors or if such changes are attributable to market-related factors, such as interest rates or equity market declines. Management determined the Company has the ability to retain the marketable equity securities to permit recovery in light of the fact that they are equity securities with no contractual provisions for return of principal.

**4. LOANS**

A summary of the balances of loans follows:

	December 31,	
	2008	2007
Residential 1-4 family	\$ 165,072	\$ 154,299
Residential multifamily	11,459	11,674
Commercial real estate	114,875	103,051
Construction	41,629	40,394
Consumer	31,229	26,815
Commercial	54,255	45,815
<b>Total loans</b>	<b>418,519</b>	<b>382,048</b>
Net deferred loan origination costs	1,003	896
Undisbursed portion of loans in process	72	
Allowance for loan losses	(3,333)	(3,076)
<b>Loans, net</b>	<b>\$ 416,261</b>	<b>\$ 379,868</b>

**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****LOANS (concluded)**

An analysis of the allowance for loan losses follows:

	<b>Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Balance at beginning of year	\$ 3,076	\$ 2,908	\$ 2,605
Provision for loan losses	315	223	440
Recoveries	13	10	2
Loans charged-off	(71)	(65)	(139)
<b>Balance at end of year</b>	<b>\$ 3,333</b>	<b>\$ 3,076</b>	<b>\$ 2,908</b>

The following is a summary of information pertaining to impaired loans:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Impaired loans without a valuation allowance	\$ 6,763	\$ 4,383
Impaired loans with a valuation allowance	216	225
<b>Total impaired loans</b>	<b>\$ 6,979</b>	<b>\$ 4,608</b>
 Valuation allowance related to impaired loans	 \$ 110	 \$ 110

	<b>Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Average recorded investment in impaired loans	\$ 4,812	\$ 5,437	\$ 2,640

Interest income recognized on impaired loans was \$169, \$192, and \$153 for the years ended December 31, 2008, 2007, and 2006. No additional funds are committed to be advanced in connection with impaired loans.

Nonaccrual loans were \$2,916 and \$1,014 at December 31, 2008 and 2007, respectively. Interest foregone was \$126, \$43, and \$48 for the years ended December 31, 2008, 2007, and 2006, respectively. There were no loans greater than ninety days past due and still accruing at December 31, 2008 and 2007.



**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****5. LOAN SERVICING**

Loans serviced for others are not included in the consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others were \$45,330 and \$48,165 at December 31, 2008 and 2007, respectively. The Company recorded net gain on sale of loans of \$22, \$3 and \$14 for the years ended December 31, 2008, 2007 and 2006, respectively.

The Company measures the impairment of servicing assets based on the difference between the carrying amount of the servicing rights and their current fair value. The balance of capitalized servicing rights included in other assets at December 31, 2008 and 2007 was \$75 and \$228, respectively. The significant assumptions used by management to estimate the fair value of capitalized servicing rights at December 31, 2008, include weighted average prepayment speed for the portfolio using the Public Securities Association Standard Prepayment Model (203 PSA), weighted average discount rate (8.45%), weighted average servicing fee (25.55 basis points), and net cost to service loans (\$44 per loan). The Company estimated the fair value of its servicing rights to be \$188 and \$441 at December 31, 2008 and 2007, respectively. There was no valuation allowance at December 31, 2008 and 2007. The estimated fair value of capitalized servicing rights may vary significantly in subsequent periods primarily due to changing market interest rates, and their effect on prepayment speeds and discount rates.

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

	Years Ended December 31,		
	2008	2007	2006
Balance at beginning of year	\$ 228	\$ 370	\$ 426
Capitalized mortgage servicing rights	22	3	98
Amortization	(175)	(145)	(154)
Balance at end of year	\$ 75	\$ 228	\$ 370



**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****6. PREMISES AND EQUIPMENT**

A summary of the cost and accumulated depreciation and amortization of premises and equipment and their estimated useful lives follows:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Banking premises:		
Land and improvements	\$ 1,529	\$ 1,529
Building	8,983	6,136
Furniture and equipment	4,743	3,914
Leasehold improvements	1,429	889
Computer software and equipment	1,316	1,144
	18,000	13,612
Less accumulated depreciation and amortization	(7,323)	(6,579)
	\$ 10,677	\$ 7,033

Depreciation and amortization expense for the years ended December 31, 2008, 2007 and 2006 amounted to \$824, \$762 and \$779, respectively.

**7. DEPOSITS**

A summary of deposit balances, by type, is as follows:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Non-interest-bearing demand	\$ 30,921	\$ 27,167
NOW	14,692	14,628
Money market	47,301	35,542
Regular savings	39,668	39,630
Total non-certificate accounts	132,582	116,967
Certificate accounts less than \$100,000	117,764	125,276
Certificate accounts of \$100,000 or more	83,102	82,728
Total certificate accounts	200,866	208,004
	\$ 333,448	\$ 324,971



**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****DEPOSITS (concluded)**

A summary of certificate accounts, by maturity, is as follows:

	December 31, 2008		December 31, 2007	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
2008	\$		\$ 144,163	4.61%
2009	129,144	3.12%	24,629	4.78%
2010	20,770	3.90%	12,720	4.38%
2011	26,582	4.96%	21,935	5.30%
2012	6,763	4.29%	4,557	4.58%
2013	17,607	3.84%		
	\$ 200,866	3.54%	\$ 208,004	4.69%

**8. REPURCHASE AGREEMENTS**

Securities sold under agreements to repurchase are summarized as follows:

	Years Ended December 31,		
	2008	2007	2006
Balance at year-end	\$ 21,956	\$ 14,179	\$ 12,712
Average amount outstanding during the year	23,191	13,240	13,690
Interest expense incurred during the year	348	345	280
Maximum amount outstanding at any month-end	38,557	17,937	21,294
Weighted average interest rate during the year	1.50%	2.60%	2.00%
Weighted average interest rate on year-end balances	1.25%	2.50%	2.50%

Securities sold under agreements to repurchase, which are classified as secured borrowings, generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The carrying value of the securities used as collateral for the repurchase agreements was \$35,358 at December 31, 2008.

**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****9. ADVANCES FROM FEDERAL HOME LOAN BANK**

Advances from the Federal Home Loan Bank of Boston (FHLB) consist of the following:

	December 31, 2008		December 31, 2007	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Fixed-rate FHLB advances maturing:				
2008	\$		\$ 5,000	4.52%
2009	37,000	0.78%		
2010	5,000	2.50%		
2011 (a)	17,500	3.69%	3,519	2.98%
2012 (a)	5,503	4.34%	6,891	4.34%
2013 (a)	4,537	3.55%		
2014 (a)	2,027	3.65%	2,364	3.65%
2018	5,000	3.69%		
Total FHLB advances	\$ 76,567	2.24%	\$ 17,774	4.03%

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

Pursuant to collateral agreements with the FHLB, advances are collateralized by all stock in the FHLB and qualifying first mortgages.

As a member of the FHLB, the Company, through its bank subsidiary, is eligible to borrow amounts up to the level of qualified collateral maintained.

The Company has a \$4,865 available line of credit with the FHLB at December 31, 2008, and an unsecured line of credit with Bankers Bank, N.E. that allows the Company to borrow up to \$3,000. There were no borrowings against either line of credit at December 31, 2008.

**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****10. INCOME TAXES**

In connection with its initial public offering, the Company donated common stock in the amount of \$5.5 million to the Chicopee Savings Bank Charitable Foundation, which resulted in a tax benefit of \$1,900. As of December 31, 2008, 2007 and 2006 a valuation reserve of \$1,300, \$1,000 and \$800, respectively, has been established against deferred tax assets related to the uncertain utilization of the charitable contribution carryforward created primarily by the donation to the Chicopee Savings Bank Charitable Foundation. The judgment applied by management considers the likelihood that sufficient taxable income will be realized within the carryforward period in light of its tax planning strategies and changes in the market conditions. The charitable contribution carryforward of \$5,174 at December 31, 2008 expires in 2011.

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

	<b>Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Current tax (benefit) expense:</b>			
Federal	\$ (14)	\$ 968	\$ 420
State	27	195	185
	13	1,163	605
<b>Deferred tax (benefit) expense:</b>			
Federal	(15)	(239)	(1,942)
State	78	(106)	(40)
	63	(345)	(1,982)
<b>Change in valuation reserve</b>	<b>300</b>	<b>200</b>	<b>800</b>
	363	(145)	(1,182)
<b>Income tax expense (benefit)</b>	<b>\$ 376</b>	<b>\$ 1,018</b>	<b>\$ (577)</b>

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

	<b>Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Statutory rate</b>	<b>34.0%</b>	<b>34.0%</b>	<b>34.0%</b>
<b>Increase (decrease) resulting from:</b>			
State taxes, net of federal tax benefit	16.5	2.2	(3.1)
Dividends received deduction	(9.6)	(1.3)	0.9
Change in valuation allowance	71.3	7.6	(25.7)
Tax-exempt interest	(18.1)	(2.0)	0.8
Bank owned life insurance	(37.9)	(5.7)	4.0
Stock-based compensation	17.3	2.7	
Other, net	21.0	1.4	7.6

Effective tax rates

94.5% 38.9% 18.5%

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**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****INCOME TAXES (continued)**

The components of the net deferred tax asset are as follows:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Deferred tax assets:		
Federal	\$ 3,971	\$ 3,136
State	427	471
	4,398	3,607
Valuation reserve on asset	(1,300)	(1,000)
	3,098	2,607
Deferred tax liabilities:		
Federal	(513)	(545)
State	(151)	(151)
	(664)	(696)
Net deferred tax asset	\$ 2,434	\$ 1,911

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

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Net unrealized loss (gain) on securities available-for-sale	\$ 760	\$ (126)
Charitable contribution carryforward	1,763	1,771
Depreciation	(120)	(131)
Deferred loan costs	11	(194)
Allowance for loan losses	1,331	1,258
Employee benefit plans		320
Other	(11)	13
	3,734	2,911
Valuation reserve	(1,300)	(1,000)

Net deferred tax asset

\$ 2,434

\$ 1,911

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**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****INCOME TAXES (concluded)**

A summary of the change in the net deferred tax asset is as follows:

	<b>Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Balance at beginning of year	\$ 1,911	\$ 1,538	\$ 662
Deferred tax (expense) benefit	(363)	145	1,182
Deferred tax effects of net unrealized (gain) loss on securities available-for-sale	886	228	(306)
Balance at end of year	\$ 2,434	\$ 1,911	\$ 1,538

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

	<b>Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Balance at beginning of year	\$ 1,000	\$ 800	\$ 800
Change generated by current year's operations	300	200	800
Balance at end of year	\$ 1,300	\$ 1,000	\$ 800

The federal income tax reserve for loan losses at the Bank's base year is \$3,609. If any portion of the reserve is used for purposes other than to absorb loan losses, approximately 150% of the amount actually used, limited to the amount of the reserve, would be subject to taxation in the fiscal year in which used. As the Bank intends to use the reserve solely to absorb loan losses, a deferred tax liability of approximately \$1,444 has not been provided.

The Company's income tax returns for the years ended December 31, 2005, 2006 and 2007 are open to audit under the statute of limitations by the Internal Revenue Service. The December 31, 2006 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 years ended December 31, 2008 and 2007.

**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****11. OFF-BALANCE SHEET ACTIVITIES****Credit-related financial instruments**

The Company is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and various financial instruments with off-balance-sheet risk. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

**Credit-related financial instruments**

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

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Commitments to grant loans	\$ 16,614	\$ 21,588
Unfunded commitments for construction loans	12,837	13,911
Unfunded commitments under lines of credit	44,610	36,936
Standby letters of credit	2,456	3,167

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment, and real estate.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized, usually do not contain a specified maturity date, and may not be drawn upon to the total extent to which the Company is committed.

**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****OFF-BALANCE SHEET ACTIVITIES (concluded)**

FASB Interpretation No. 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others; an Interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34, requires certain disclosures and liability recognition for the fair value at issuance of guarantees that fall within its scope. The Company does not issue any guarantees that would require liability recognition or disclosure under FIN 45, other than its standby letters of credit. The Company has issued conditional commitments in the form of standby letters of credit to guarantee payment on behalf of a customer and guarantee the performance of a customer to a third party. Standby letters of credit generally arise in connection with lending relationships. The credit risk involved in issuing these instruments is essentially the same as that involved in extending loans to customers. Contingent obligations under standby letters of credit totaled \$2,456 and \$3,167 at December 31, 2008 and 2007, respectively, and represent the maximum potential future payments the Company could be required to make. Typically, these instruments have terms of 12 months or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements. Each customer is evaluated individually for creditworthiness under the same underwriting standards used for commitments to extend credit and on-balance sheet instruments. The Company's policies governing loan collateral apply to standby letters of credit at the time of credit extension. Loan-to-value ratios are generally consistent with loan-to-value requirements for other commercial loans secured by similar types of collateral. The fair value of the Company's standby letters of credit at December 31, 2008 and 2007 was insignificant.

**Lease commitments**

Pursuant to the terms of non-cancelable lease agreements in effect at December 31, 2008, future minimum operating lease commitments pertaining to banking premises are as follows:

2009	\$ 417
2010	403
2011	401
2012	353
2013	375
Thereafter	5,016
	<b>\$ 6,965</b>

The leases contain options to extend for periods from one to five years. Total rent expense for the years ended December 31, 2008, 2007, and 2006 approximated \$308, \$261, and \$246, respectively.

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**CHICOPEE BANCORP, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in Thousands, Except Per Share Amounts)**

**12. OTHER COMMITMENTS AND CONTINGENCIES**

**Employment and change in control agreements**

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

**Legal claims**

Various legal claims arise from time to time in the ordinary course of business. In the opinion of management, the claims that existed at December 31, 2008 will have no material effect on the Company's consolidated financial statements.

**13. MINIMUM REGULATORY CAPITAL REQUIREMENTS**

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2008 and 2007, that the Company and its bank subsidiary met all capital adequacy requirements to which they are subject.

As of December 31, 2008, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. Prompt corrective action provisions are not applicable to the Company.

**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****MINIMUM REGULATORY CAPITAL REQUIREMENTS (continued)**

The Company's and Bank's actual capital amounts and ratios as of December 31, 2008 and 2007 are also presented in the table.

	Actual		Minimum for Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2008:</b>						
Total Capital to Risk Weighted Assets						
Company	\$ 98,762	23.6%	\$ 33,492	8.0%	N/A	N/A
Bank	\$ 82,546	19.8%	\$ 33,340	8.0%	\$ 41,675	10.0%
Tier 1 Capital to Risk Weighted Assets						
Company	\$ 95,429	22.8%	\$ 16,746	4.0%	N/A	N/A
Bank	\$ 79,213	19.0%	\$ 16,670	4.0%	\$ 25,005	6.0%
Tier 1 Capital to Average Assets						
Company	\$ 95,429	18.3%	\$ 20,808	4.0%	N/A	N/A
Bank	\$ 79,213	15.3%	\$ 20,733	4.0%	\$ 25,916	5.0%
<b>As of December 31, 2007:</b>						
Total Capital to Risk Weighted Assets						
Company	\$ 107,281	28.6%	\$ 30,001	8.0%	N/A	N/A
Bank	\$ 82,391	22.0%	\$ 29,896	8.0%	\$ 37,369	10.0%
Tier 1 Capital to Risk Weighted Assets						
Company	\$ 104,042	27.7%	\$ 15,000	4.0%	N/A	N/A
Bank	\$ 79,152	21.2%	\$ 14,948	4.0%	\$ 22,422	6.0%
Tier 1 Capital to Average Assets						
Company	\$ 104,042	22.7%	\$ 18,305	4.0%	N/A	N/A
Bank	\$ 79,152	17.4%	\$ 18,220	4.0%	\$ 22,775	5.0%

**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****MINIMUM REGULATORY CAPITAL REQUIREMENTS (concluded)**

The following is a reconciliation of the Company's equity as disclosed in the balance sheet under U.S. generally accepted accounting principles to regulatory capital as disclosed in the table above.

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Total equity determined under generally accepted accounting principles	\$ 94,017	\$ 104,299
Net unrealized loss (gain) on securities available-for-sale, net of tax	1,420	(234)
Disallowed servicing rights	(8)	(23)
Tier 1 Capital	95,429	104,042
Allowable allowance for loan losses	3,333	3,076
Unrealized gain on available-for-sale equity securities, net of tax		163
Total regulatory capital	\$ 98,762	\$ 107,281

**14. COMMON STOCK REPURCHASE PROGRAM**

In 2007 and 2008, the Board of Directors authorized three stock repurchase programs (the "Stock Repurchase Programs") for the purchase of up to approximately 5% of its outstanding common stock. The first repurchase of 371,968 shares was completed in March 2008 at a total cost of approximately \$4.9 million or \$13.21 per share. The second repurchase of 353,370 shares was completed in August 2008 at a total cost of approximately \$4.7 million or \$13.26 per share. The third repurchase was approved in August 2008 for 335,000 shares. As of December 31, 2008, the Company has repurchased 217,277 shares of the 335,000 shares from the third buyback at a cost of \$2.9 million or \$13.26 per share. The third repurchase is expected to be completed in 2009. As of December 31, 2008, the Company repurchased a total of 942,615 shares of common stock at a total cost of \$12.5 million or \$13.24 per share during 2007 and 2008 for all three buybacks. Any purchase of common stock under the Stock Repurchase Programs will be made through open market purchase transactions from time to time or privately negotiated transactions. The amount and exact timing of any repurchases will depend on market conditions and other factors, at the discretion of management of the Company. Repurchased shares will be held in treasury.

**15. EMPLOYEE BENEFIT PLANS**

The Company has a 401(k) Plan whereby substantially all employees participate in the Plan. Employees may contribute a portion of their compensation subject to certain limits based on federal tax laws. The Company makes matching contributions equal to 25 percent of the first 6 percent of the participant's compensation contributed to the Plan. For the year ended December 31, 2008, the Company commenced contributions of 3% of compensation for all participating employees in addition to the match contribution. For the years ended December 31, 2008, 2007, and 2006, expenses attributable to the Plan amounted to \$233, \$196, and \$66, respectively.



**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****EMPLOYEE BENEFIT PLANS (continued)**

Prior to January 31, 2007, the Company sponsored a noncontributory defined benefit pension plan (the Pension 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 December 31, 2008, the Bank had no accrued liability. All funds from the Plan were distributed on July 16, 2008 to all eligible employees who were active when the plan terminated.

Pension cost for the Pension Plan is calculated using the projected unit credit method. The measurement date used to determine pension benefits is October 31. The following table sets forth information regarding the Pension Plan.

	<b>Plan Years Ended October 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of year	\$ 5,638	\$ 5,660
Actual return on plan assets	157	389
Contributions	781	
Benefits paid	(6,576)	(411)
Fair value of plan assets at end of year		5,638
<b>Change in benefit obligation:</b>		
Benefit obligation at beginning of year	6,419	6,441
Service cost		
Interest cost	157	389
Actuarial gain		
Benefits paid	(6,576)	(411)
Amendment		
Benefit obligation at end of year		6,419
Funded status and accrued benefit cost recognized in the balance sheet at October 31	\$	\$ (781)
Accumulated benefit obligation	\$	\$ 6,419



**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****EMPLOYEE BENEFIT PLANS (continued)**

Components of net periodic benefit cost follow:

	<b>Plan Years Ended October 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Service cost	\$	\$	\$ 358
Interest cost	157	389	362
Expected return on plan assets	(157)	(389)	(372)
Recognized net actuarial loss			33
Amortization of unrecognized transition obligation			3
Net periodic benefit cost	\$	\$	\$ 384
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Weighted average assumptions used to determine benefit cost were as follows:</b>			
Discount rate on benefit cost	4.79%	4.85%	5.75%
Rate of increase in compensation levels	N/A	N/A	4.50%
Expected long-term rate of return on plan assets	4.79%	4.85%	8.00%
<b>Weighted average assumptions used to determine the benefit obligation were as follows:</b>			
Discount rate on benefit obligations	N/A	4.85%	4.85%
Rate of increase in compensation levels	N/A	N/A	N/A

N/A = not applicable

**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****EMPLOYEE BENEFIT PLANS (concluded)**

All funds from the plan were distributed during 2008. The composition of the Company's Pension Plan assets at October 31, 2007, by asset category, is as follows:

Asset Category

Fixed income	100.0%
Domestic equity	
International equity	
	100.0%

SBERA offers a common and collective trust as the underlying investment structure for pension plans participating in SBERA. Historically, the target allocation mix for the common and collective trust portfolio calls for an equity-based investment deployment range from 55% to 75% of total portfolio assets. The remainder of the portfolio is allocated to fixed income. Upon the Company's decision to terminate the Plan, the funds were transferred to fixed income securities. The approximate investment allocation of the portfolio is shown in the table above.

The rate of return for 2008 and 2007 is based on money market rates expected to be earned until distribution. In 2006, the Company's assumption with respect to long-term rate of return is based on prevailing yields on high quality fixed income investments increased by a premium of 3% to 5% for equity investments.

In September 2006, FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* an amendment of FASB Statements No. 87, 88, 106, and 132(R). This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through comprehensive income of a business entity. There was no effect on the Company's other comprehensive income as a result of implementing SFAS No. 158 at December 31, 2006 because the funded status of the Company's postretirement plan was reflected in accrued expenses and other liabilities in the balance sheet prior to implementation and also through December 31, 2006.

The Company provides supplemental life insurance benefits to its key officers. Amounts charged to expense for these benefits were \$328, \$304 and \$280 for the years ended December 31, 2008, 2007 and 2006, respectively.

**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****16. EMPLOYEE STOCK OWNERSHIP PLAN**

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

At December 31, 2008, the remaining principal balance is payable as follows:

<b>Years Ending</b>	
<b>December 31,</b>	
2009	\$ 154
2010	166
2011	180
2012	195
2013	211
Thereafter	4,402
	<b>\$ 5,308</b>

The Bank has committed to make contributions to the ESOP sufficient to support the debt service of the loan. The loan is secured by the shares purchased by First Bankers Trust Company ( "Trustee" ), which are held in a suspense account for allocation among the participants as the loan is paid. Total compensation expense applicable to the ESOP amounted to \$378, \$435, and \$441 for the years ended December 31, 2008, 2007, and 2006, respectively.

Shares held by the ESOP include the following at December 31, 2008:

Allocated	88,017
Unallocated	505,878
	<b>593,895</b>

The fair value of unallocated shares at December 31, 2008 was \$6,020.

**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****17. EQUITY INCENTIVE PLAN****Stock Options**

Under the Company's 2007 Equity Incentive Plan, approved by the Company's stockholders at the annual meeting of the Company stockholders on May 30, 2007, the Company may grant options to directors, officers and employees for up to 743,936 shares of common stock. Both incentive stock options and non-qualified stock options may be granted under the Plan. The exercise price for each option is equal to the market price of the Company's stock on the date of grant and the maximum term of each option is ten years. The vesting period for all options granted as of December 31, 2008 and December 31, 2007 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:

	Years Ended December 31,	
	2008	2007
Expected dividend yield	2.00%	2.00%
Expected term	6.5 years	6.5 years
Expected volatility	24.52%	23.00%
Risk-free interest rate	1.99%	5.08%

The expected volatility is based on historical volatility of the Company in 2008 and of a peer group of similar entities in 2007. 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. The dividend yield assumption is based on the Company's expectation of dividend payouts. A summary of options under the Plan as of December 31, 2008, and changes during the year then ended is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000 \$)
Outstanding at December 31, 2007	693,267	\$ 14.29	9.50	
Granted	5,000	\$ 11.02	10.00	
Exercised		\$		
Forfeited or expired	26,600	\$ 14.29	9.50	
Outstanding at December 31, 2008	671,667	\$ 14.27	8.43	\$ 9,582
Exercisable at December 31, 2008	133,331	\$ 14.29	8.42	\$ 1,905
Exercisable at December 31, 2007		\$		\$

The Company granted an additional 5,000 stock options in the year ended December 31, 2008 with a fair value of \$2.37. The weighted average grant date fair value of options granted during 2008 and 2007 was \$3.91 and \$3.92, respectively. For the year ended December 31, 2008, share based compensation expense applicable to the plan was \$514 and the related tax benefit was \$104. For the year ended December 31, 2007, share

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based compensation expense applicable to the plan was \$291 and the related tax benefit was \$34. No options were exercised during the year ended December 31, 2007 and 2008. As of December 31, 2008, unrecognized stock-based compensation expense related to non-vested options amounted to \$1.9 million. This amount is expected to be recognized over a period of 3.58 years.

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**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****EQUITY INCENTIVE PLAN (concluded)****Stock Awards**

Under the Company's 2007 Equity Incentive Plan, the Company may grant stock awards to its directors, officers and employees for up to 297,574 shares of common stock. The vesting period for all stock awards granted as of December 31, 2007 is five years from the date of grant. The fair market value of the stock awards, based on the market price at the date of grant, is recorded as unearned compensation. Unearned compensation is recognized over the applicable vesting period. The Company recorded compensation cost related to stock awards of approximately \$833 and \$283 of related tax benefit in the year ended December 31, 2008. The Company recorded compensation cost related to stock awards of approximately \$425 and \$148 of related tax benefit in the year ended December 31, 2007. No stock awards were granted prior to July 1, 2007. The fair value of stock awards vested during 2008 was \$765. No stock awards vested in 2007. As of December 31, 2008, unrecognized stock-based compensation expense related to non-vested restricted stock awards of \$3.0 million is expected to be recognized over a period of 3.57 years.

A summary of the status of the Company's stock awards as of December 31, 2008, and changes during the year then ended is as follows:

<b>Nonvested Shares</b>	<b>Shares</b>	<b>Weighted Average Grant-Date Fair Value</b>
Outstanding at December 31, 2007	297,574	\$ 14.29
Granted		
Vested	58,683	\$ 14.29
Forfeited or expired	4,136	\$ 14.29
Outstanding at December 31, 2008	234,755	\$ 14.29

**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****18. OTHER NON-INTEREST EXPENSE**

The components of other non-interest expense which are in excess of 1% of total revenues (total interest and dividend income, and non-interest income) and not shown separately in the consolidated statements of operations are as follows for the years ended December 31:

	2008	2007	2006
Advertising	\$ 391	\$ 370	\$ 330

**19. RELATED PARTY TRANSACTIONS**

In the ordinary course of business, the Company has granted loans to officers, directors and their affiliates amounting to approximately \$3,142 and \$5,371 at December 31, 2008 and 2007, respectively.

An analysis of the activity of these loans is as follows:

	Years Ended December 31,	
	2008	2007
Balance at beginning of year	\$ 5,371	\$ 5,162
Additions	595	748
Repayments	(398)	(665)
Change in related party status	(2,426)	126
Balance at end of year	\$ 3,142	\$ 5,371

Deposits from related parties held by the Bank at December 31, 2008 and 2007 amounted to \$3,320 and \$7,526, respectively. Repurchase agreements from related parties at December 31, 2008 and 2007 amounted to \$0 and \$4,176, respectively.

**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****20. RESTRICTIONS ON DIVIDENDS**

Chicopee Bancorp, Inc. is subject to Massachusetts law, which prohibits distributions to stockholders if, after giving effect to the distribution, the corporation would not be able to pay its debts as they become due in the usual course of business or the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of stockholders whose preferential rights are superior to those receiving the distribution. Dividends from Chicopee Bancorp, Inc. may depend, in part, upon receipt of dividends from the Bank.

**21. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Effective January 1, 2008, the Company adopted SFAS No. 157, which provides a framework for measuring fair value under GAAP. The Company did not adopt SFAS No. 159.

In accordance with SFAS No. 157, the Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the observability of the assumptions used to determine fair value:

Level 1- Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury Notes and U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2- Valuations for assets and liabilities with inputs that are observable either directly or indirectly for substantially the full term or valuations obtained from third party pricing services based on quoted market prices for comparable assets or liabilities. Level 2 also included assets and liabilities traded in inactive markets.

Level 3- Valuations for assets and liabilities with inputs that are unobservable, which are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and are not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities.

Assets measured at fair value on a recurring basis are summarized below:

	December 31, 2008	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Securities available-for-sale	\$ 5,451	\$ 5,451	\$	\$



The valuation approach used to value the securities available-for-sale was the market approach.

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**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

Also, the Company may be required, from time to time, to measure certain other financial assets on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets as of December 31, 2008.

	December 31, 2008	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Impaired loans	\$ 106	\$	\$ 106	\$

In accordance with the provisions of SFAS No. 114, a valuation reserve of \$110,000 as of December 31, 2008 was included in the allowance for loan losses, for the above impaired loans. The amount of impaired loans represents the carrying value, net of the related allowance for loan losses on impaired loans for which adjustments are based on the appraised value of the collateral, which is based on the market approach of valuation.

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, excludes certain financial instruments and all non financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company. The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

**Cash and cash equivalents:** The carrying amounts of cash and short-term instruments approximate fair values.

**Securities:** Fair values for securities, excluding Federal Home Loan Bank stock, are based on quoted market prices. The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

**Loans receivable:** For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

**Deposit liabilities and mortgagors escrow accounts:** The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate

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their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregate expected monthly maturities on time deposits.

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**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****FAIR VALUE OF FINANCIAL INSTRUMENTS (concluded)**

Securities sold under agreements to repurchase: The carrying amounts of borrowings under repurchase agreements maturing within ninety days approximate their fair values.

Advances from Federal Home Loan Bank: The fair values of these borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Accrued interest and dividends: The carrying amounts of accrued interest and dividends approximate fair value.

Off-balance-sheet instruments: The Company's off-balance-sheet instruments consist of loan commitments. Fair values for loan commitments have not been presented as the future revenue derived from such financial instruments is not significant.

The carrying amounts and estimated fair values of the Company's financial instruments are as follows:

	December 31,		2007	
	2008			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 23,073	\$ 23,073	\$ 23,521	\$ 23,521
Securities available-for-sale	5,451	5,451	7,864	7,864
Securities held-to-maturity	49,662	49,673	27,324	27,069
Federal Home Loan Bank stock	4,306	4,306	1,583	1,583
Loans, net	416,261	423,355	379,868	387,434
Accrued interest and dividends receivable	1,577	1,577	1,752	1,752
<b>Financial liabilities:</b>				
Deposits	333,448	337,567	324,971	330,583
Mortgagors' escrow accounts	1,112	1,112	1,103	1,103
Repurchase agreements	21,956	21,956	14,179	14,179
Advances from Federal Home Loan Bank	76,567	78,297	17,774	19,408
Accrued interest payable	138	138	41	41

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Following is the quarterly financial information of the Company for 2008 and 2007:

	2008				2007			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest and dividend income	\$ 6,322	\$ 6,295	\$ 6,541	\$ 6,399	\$ 6,375	\$ 6,623	\$ 6,552	\$ 6,556
Interest expense	2,896	2,652	2,912	2,730	2,847	2,946	3,010	2,981
Net interest and dividend income	3,426	3,643	3,629	3,669	3,528	3,677	3,542	3,575
Provision for loan losses	10	262	34	9	101	113		9
Net (loss) gain on sales of securities available-for-sale	15	100	(148)	(24)	296	293	126	121
Fees and other non-interest income	538	578	601	568	427	503	444	512
Non-interest expenses	3,697	3,883	3,986	4,317	3,290	3,462	3,664	3,787
Income tax provision	84	48	218	26	305	308	100	305
Net income (loss)	\$ 188	\$ 128	\$ (156)	\$ (139)	\$ 555	\$ 590	\$ 348	\$ 107
Earnings (loss) per share:								
Basic	\$ 0.03	\$ 0.02	\$ (0.03)	\$ (0.02)	\$ 0.08	\$ 0.09	\$ 0.05	\$ 0.02
Diluted	\$ 0.03	\$ 0.02	\$ (0.03)	\$ (0.02)	\$ 0.08	\$ 0.09	\$ 0.05	\$ 0.02

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**Table of Contents****CHICOPEE BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Dollars in Thousands, Except Per Share Amounts)****23. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY**

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

	<b>December 31,</b>		
	<b>2008</b>	<b>2007</b>	
<b><u>BALANCE SHEETS</u></b>			
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 5,740	\$ 17,045	
Investment in common stock of Chicopee Savings Bank	79,982	79,409	
Investment in common stock of Chicopee Funding Corporation	6,969	6,562	
Other assets	1,483	1,340	
<b>Total assets</b>	<b>\$ 94,174</b>	<b>\$ 104,356</b>	
<b><u>Liabilities and Stockholders' Equity</u></b>			
Total liabilities	\$ 157	\$ 57	
Stockholders' equity	94,017	104,299	
<b>Total liabilities and stockholders' equity</b>	<b>\$ 94,174</b>	<b>\$ 104,356</b>	
	<b>Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b><u>STATEMENTS OF OPERATIONS</u></b>			
Interest income	\$ 261	\$ 885	\$
Non-interest income	2		\$ 232
Operating expenses	1,068	1,153	5,706
<b>Loss before income taxes and equity in undistributed net income of subsidiaries</b>	<b>(805)</b>	<b>(268)</b>	<b>(5,474)</b>
Applicable income tax expense (benefit)	81	230	(1,254)
<b>Loss before equity in undistributed net income of subsidiaries</b>	<b>(886)</b>	<b>(498)</b>	<b>(4,220)</b>
Equity in undistributed net income of Chicopee Savings Bank	501	1,686	1,487
Equity in undistributed net income of Chicopee Funding Corporation	407	412	199
<b>Net income (loss)</b>	<b>\$ 22</b>	<b>\$ 1,600</b>	<b>\$ (2,534)</b>

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	Years Ended December 31,		
	2008	2007	2006
<b>STATEMENTS OF CASH FLOWS</b>			
Cash flows from operating activities:			
Net income (loss)	\$ 22	\$ 1,600	\$ (2,534)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in undistributed net income of Chicopee Savings Bank	(501)	(1,686)	(1,487)
Equity in undistributed net income of Chicopee Funding Corporation	(407)	(412)	(199)
Deferred income tax expense (benefit)	300	(145)	(1,014)
Decrease (increase) in accrued interest receivable	1	69	(70)
Decrease (increase) in other assets	(350)	345	(506)
Increase in other liabilities	100	58	
Contribution of common stock to Charitable Foundation			5,511
Change in unearned compensation	1,725	1,152	441
<b>Net cash provided by operating activities</b>	<b>890</b>	<b>981</b>	<b>142</b>
Cash flows from investing activities:			
Investment in Chicopee Savings Bank	(1,725)	(7,653)	(24,998)
Initial investment in Chicopee Funding Corporation			(5,951)
Purchases of securities held-to-maturity	(731)	(5,983)	(28,103)
Maturities of securities held-to-maturity	636	10,983	23,083
<b>Net cash used in investing activities</b>	<b>(1,820)</b>	<b>(2,653)</b>	<b>(35,969)</b>
Cash flows from financing activities:			
Issuance of common stock for initial public offering net of costs			66,968
Stock purchased for ESOP			(5,951)
Stock purchased for treasury	(10,375)	(2,108)	
Stock purchased for restricted stock awards		(4,365)	
<b>Net cash provided by (used in) financing activities</b>	<b>(10,375)</b>	<b>(6,473)</b>	<b>61,017</b>
Net increase (decrease) in cash and cash equivalents	(11,305)	(8,145)	25,190
Cash and cash equivalents at beginning of year	17,045	25,190	
Cash and cash equivalents at end of year	\$ 5,740	\$ 17,045	\$ 25,190

